

# Unique Features of Credit Union Governance: Cultural and Behavioural Issues

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**Co. Dublin.**

**Scoil Ghnó Michael Smurfit UCD**  
**An Coláiste Ollscoile, Baile Átha Cliath**  
**An Charraig Dhubh**  
**Contae Átha Cliath**

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**RESEARCH**



# Overview

1.

- Unique features of credit unions

2.

- Unique features of credit union governance

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- Cultural issues

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- Behavioural issues

5.

- Concluding comment



# Overview

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# 1. Unique features of credit unions

1. Not-for-profits
2. Financial co-operatives
3. Member owned, member controlled
4. No shareholders
5. Operated by members for the benefit of all
6. Credit unions make money for customers ( $\equiv$  members), not shareholders
7. Volunteer boards of directors
8. Board members elected by CU members
9. Credit unions democratically controlled



# Overview

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- Unique features of credit union governance

3.

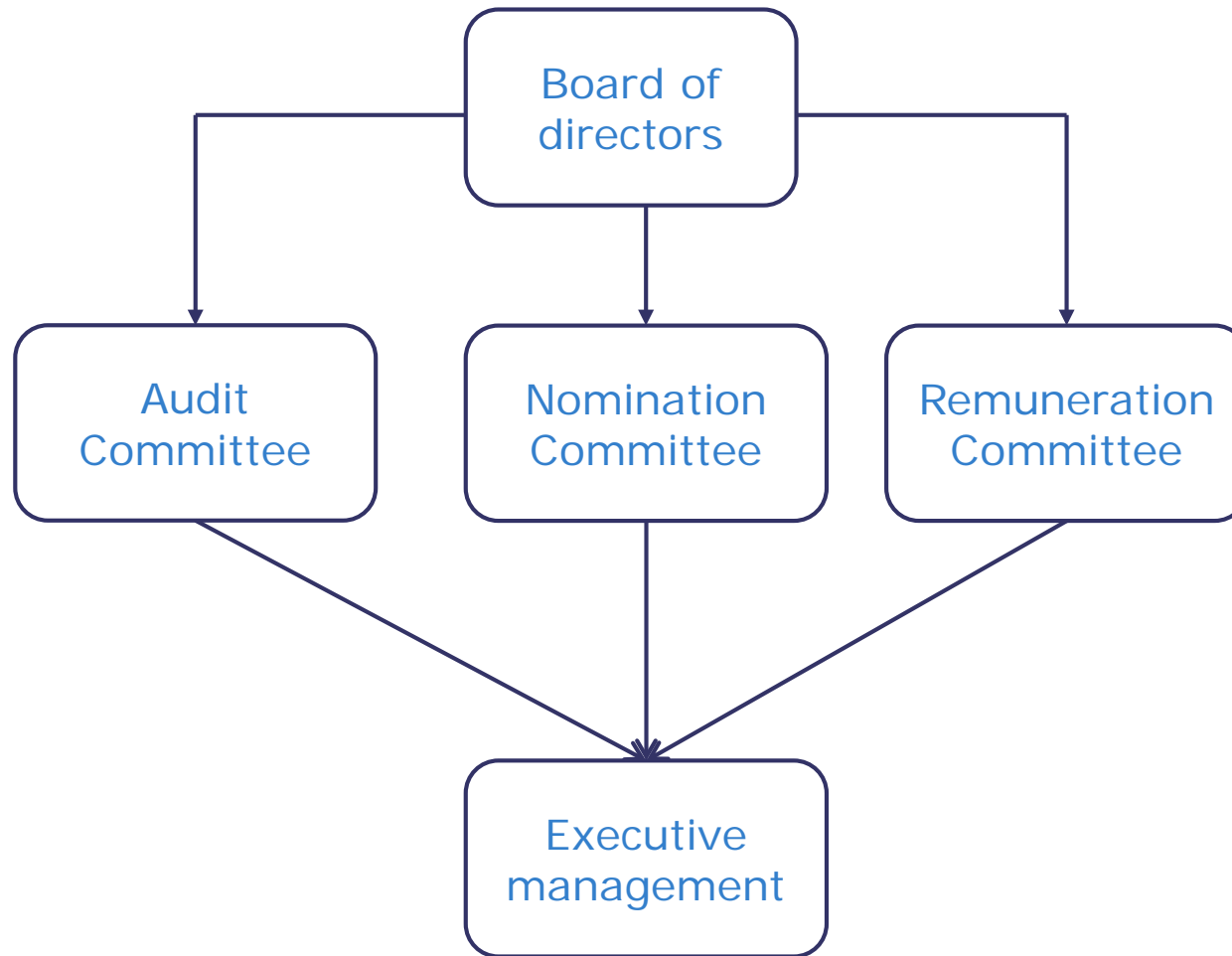
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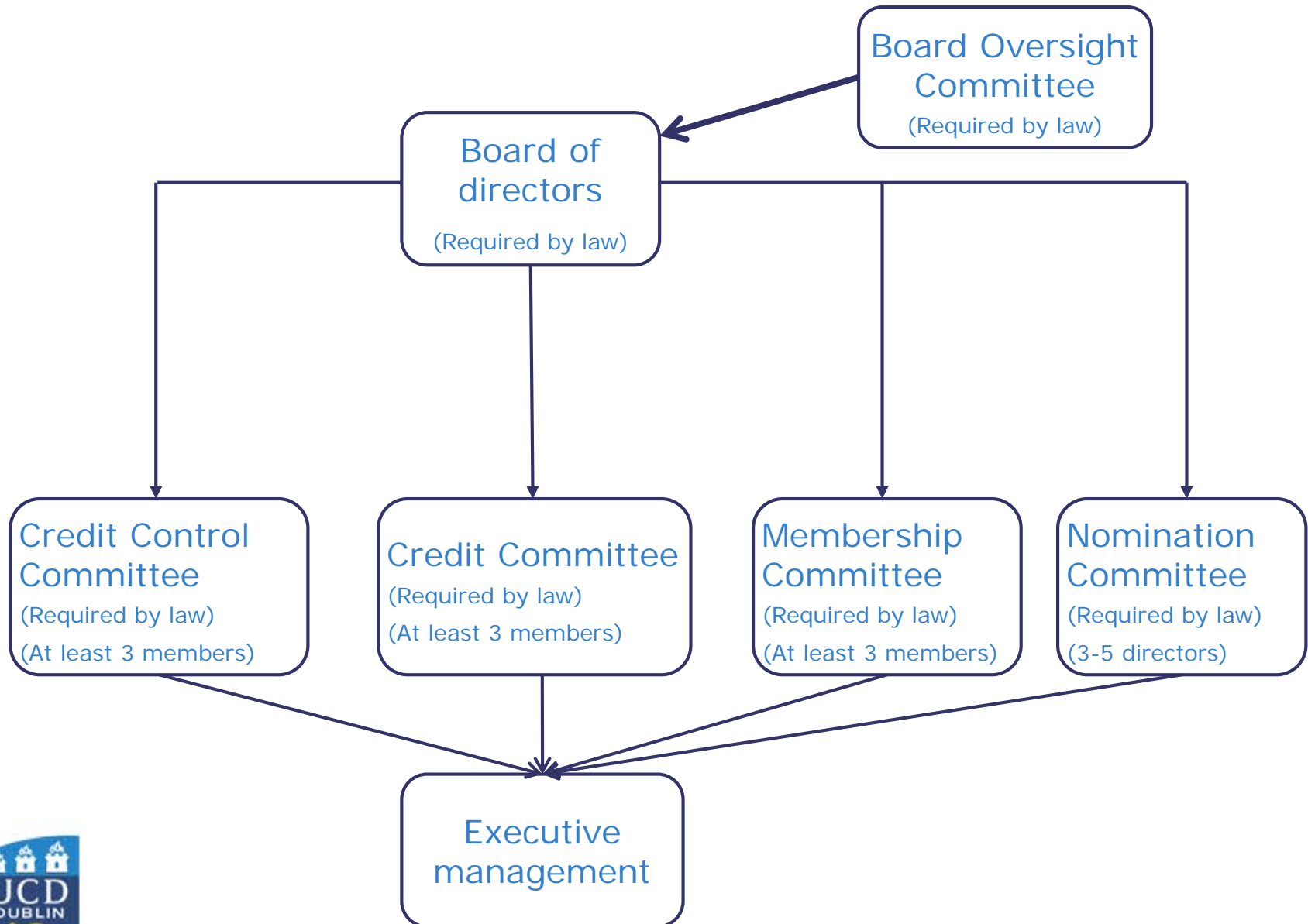
## 2. Unique features of credit union governance

### Governance Architecture of a Listed Company



## 2. Unique features of credit union governance

### Governance Architecture Under Credit Union Act





# Overview

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### 3. Cultural issues



Bloomfield, Stephen (2013) *Theory and Practice of Corporate Governance: An Integrated Approach*, Cambridge University Press, Cambridge

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### 3. Cultural issues



### 3. Cultural issues

- Official policies specify what management wants to happen (“laws / rules on the books”)
- Corporate culture determines what ACTUALLY happens, and which rules are obeyed, bent or ignored (“laws / rules in practice”)

Committee of Sponsoring Organisations for the Treadway Commission (1992)  
*Internal Control - Integrated Framework*,  
American Institute of Certified Public Accountants, p. 19.)





### 3. Cultural issues

Collegiate

Passive, Disengaged, Resigned

Risk averse

Confused, lacks direction, leadership

Chaotic, over-trading

Clash of cultures

Secretive

Managerialist

Competitive

Likes risk

Materialistic

Aggressive







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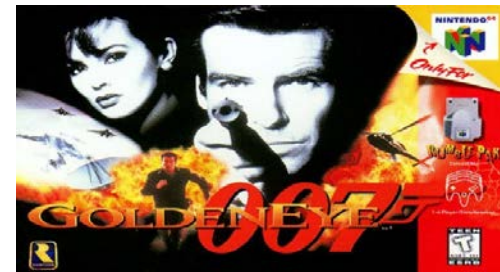
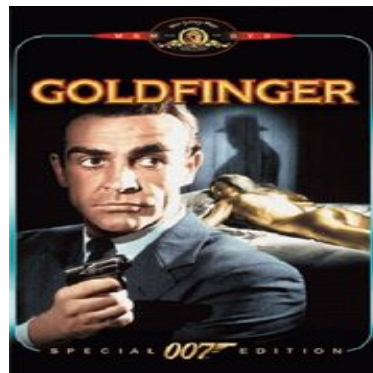
**What is missing from this list?**





### 3. Cultural issues

- CEO born in Ireland, raised in England, PhD Cambridge
- Sign on door “Authorised personnel only” – behind the door hush-hush projects – it was a broom cupboard!
- Conference rooms named after villains in James Bond movies – GoldenEye, Goldfinger, Dr No
- CEO drove quintessential Bond car – Aston Martin
- Stocked piranhas in office fish tank



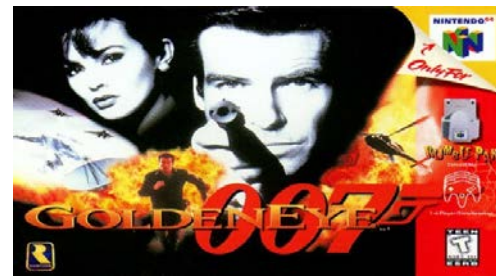
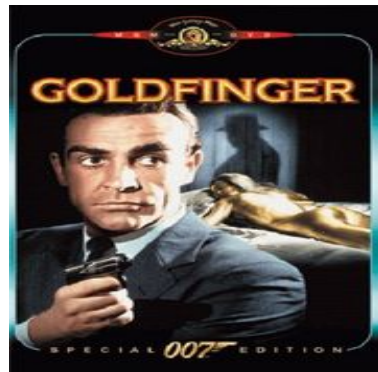
Ben Worthen, Paul Sonne, Justin Scheck  
Long before the H-P Deal, Autonomy's Red Flags  
WSJ, 27 November 2012

### 3. Cultural issues



#### Question:

How would you describe the culture of this organisation?

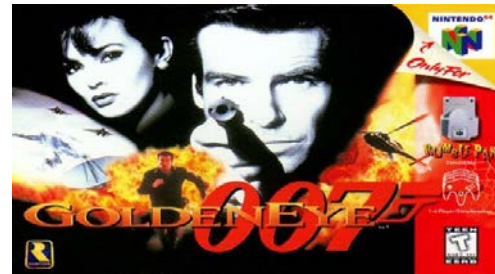
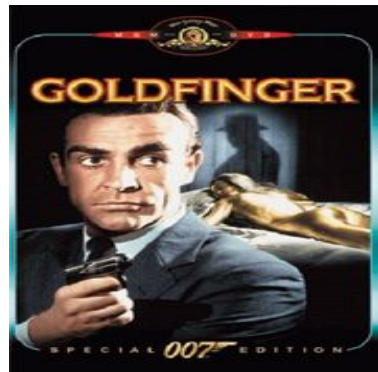


Ben Worthen, Paul Sonne, Justin Scheck  
Long before the H-P Deal, Autonomy's Red Flags  
*WSJ*, 27 November 2012

### 3. Cultural issues



Competitive  
Secretive  
Sense of humour  
Boyish  
Disconnect from  
reality/fantasist  
Likes risk



Ben Worthen, Paul Sonne, Justin Scheck  
Long before the H-P Deal, Autonomy's Red Flags  
*WSJ*, 27 November 2012



### 3. Cultural issues



Friendly, supportive, warm, trusting

Loyal

Unfriendly, cold

Polarising: in-group out-group polarisation, sneering

Competitive

Narcissistic

Hubristic

Domineering,  
aggressive, bullying





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**What is missing  
from this list?**



### 3. Cultural issues (communication in organisations)



Speaking up - Full, frank open communication

Guarded, superficial

Information overload/obfuscation

Weasel words

Silence

Whistleblowing



### 3. Cultural issues (communication in organisations)



Speaking up - Full, frank open communication

Guarded, superficial **What is missing from this list?**

Information overload/obfuscation

Weasel words

Silence

Whistleblowing



3. Cultural  
issues  
(communication  
in  
organisations)

“The Rock” TS Eliot

The Eagle soars in the summit of Heaven,  
The Hunter with his dogs pursues his circuit.  
O perpetual revolution of configured stars,  
O perpetual recurrence of determined seasons,  
O world of spring and autumn, birth and dying  
The endless cycle of idea and action,  
Endless invention, endless experiment,  
Brings knowledge of motion, but not of stillness;  
**Knowledge of speech, but not of silence;**  
Knowledge of words, and ignorance of the Word.  
All our knowledge brings us nearer to our  
ignorance,  
All our ignorance brings us nearer to death,  
But nearness to death no nearer to GOD.  
Where is the Life we have lost in living?  
Where is the wisdom we have lost in knowledge?  
Where is the knowledge we have lost in  
information?  
The cycles of Heaven in twenty centuries  
Bring us farther from GOD and nearer to the Dust.





### 3. Cultural issues (Communication in organisations)

Studies of disasters often show that problem not with processes but [that the processes] were ignored or over-ruled.

**“Busy  
fool”  
Learn to  
pick your  
battles**

Internal communications and behaviour of senior managers is critical in setting the tone



Lloyd's (2010) *Behaviour Bear, Bull or Lemming*, Lloyd's, London, p. 5.

### 3. Cultural issues (Communication in organisations)

God grant me the serenity  
to accept the things I cannot change;  
courage to change the things I can;  
and wisdom to know the difference.

(Source: Reinhold Niebuhr's "Serenity Prayer")

**OR**

What's everyone's problem is no one's problem

(Bystander theory)



### 3. Cultural issues (Communication in organisations)



#### **Question**

Who most influences culture in organisations?



#### **Question :**

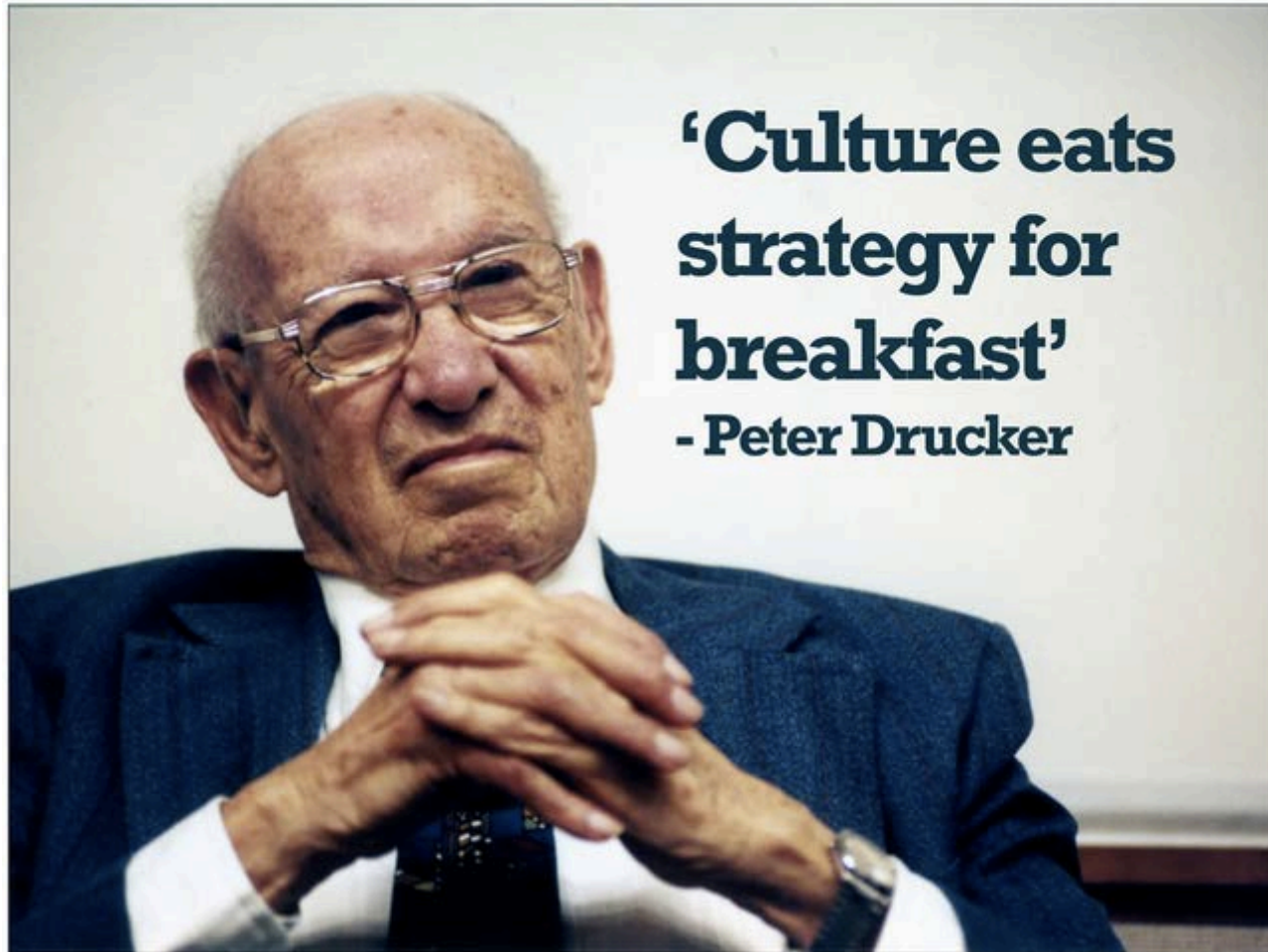
How do you change the culture of organisations?



#### **Question:**

Do boards have a role in the culture of organisations?

### 3. Cultural issues



### 3. Cultural issues



# Overview

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- Behavioural issues

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## 4. Behavioural issues

1. • Boards and board behaviour cannot be regulated
2. • Boards and board behaviour cannot be managed by structure and controls
3. • Behaviour is dynamic, evolves
4. • Depends on situation, strategic context and group dynamics
5. • Desires strongly influence behaviour
6. • Human beings are susceptible to social influence



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*. Annex 4: Psychological and Behavioural Elements in Board Performance, p. 137

## 4. Behavioural issues

*"Susceptibility to social influence is not a trait of those who lack will-power; it is hard-wired into all of us"*



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*. Annex 4: Psychological and Behavioural Elements in Board Performance, p. 137



## 4. Behavioural issues



### Question

What are the greatest influences on behaviour on boards?

# 4. Behaviour of board chairmen



## Question

What do you think are the characteristics of a good chairman?



## Question

What do you think are the characteristics of a bad chairman?



Give examples of good and bad chairmen you have worked with

## 4. Behavioural issues

### Effective board chairmen

- Integrate the board's collective thinking
- Be empathetic and promote openness in board members
- Facilitate interaction
- Develop others
- Communicate complex messages succinctly
- Collaborate across boundaries
- Engage in continuous improvement, evaluating against internal and external benchmarks



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 137 - 138

## 4. Behavioural issues

### Levels at which chairman's behaviour has to operate

- Task
- Group
- Systemic

“[chairman's behaviour] is both the source and result of an ability to mobilise others to share a vision of an anticipated future state of affairs and a willingness to collaborate to bring it about”



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 140 - 141

## 4. Behavioural issues

### Transactional leadership

- Gets things done
- Sets expectations and goals
- Provides recognition and rewards
- Satisfies leaders' and followers' self-interest
- Fulfils contractual obligations
- Creates trust
- Establishes stable relationships, with mutual benefits for leaders and followers
- If desired behaviour is produced, contract reward will be paid
- Leader clarifies expectations, followers deliver, are rewarded.
- Positive/negative transactions are reward-based /coercion-based respectively



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 143

## 4. Behavioural issues

### Transformational leadership

- Engages followers, to get things done, and to become morally uplifted to be leaders
- Concerned with collective interests of the group, organisation, society, not self-interest
- Includes individualised consideration, intellectual stimulation, charismatic inspiring leadership
- Learns needs, abilities, aspirations of followers, and addresses them considerately. Followers can then become leaders



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 143

## 4. Behavioural issues

### Power versus authority

“As curriculum for...board membership might include...consideration of role and role boundaries; authority versus power and its implications in groups”



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 143

## 4. Behavioural issues

### Power

- Availability and redeployment of resources
- Power used without clear connection to task is abuse, of people, position, resources
- Having resources, being able to enact and implement one's own decisions
- Power is personal, has little to do with authority
- Personal power exercised in a punitive, dictatorial, rigid manner: **(i)** provokes submission, conformity → stable dynamics;  
**(ii)** provokes rage, rebellion, sabotage → instability, disintegration



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 143



## 4. Behavioural issues

### Authority

- Shared task, product of organisation and structure; derives from task to be done and hierarchical structure
- Exercised in the context of sanction, measured against the primary task of the organisation
- Giving or withholding sanction measured against what it is intended to achieve



Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.

Annex 4: Psychological and Behavioural Elements in Board Performance, p. 143

## 4. Behavioural issues

### Cognitive biases

Subconscious thoughts cloud judgements. Behavioural theory tells us there are many unintended filters which distort the way we think about risk. Being aware of these biases will lead to clearer thinking and a better management of risk.



Lloyd's (2010) *Behaviour Bear, Bull or Lemming*, Lloyd's, London, p.4

## 4. Behavioural issues

### Perceptions drive behaviour

- More attention is given to:
  - Events which people dread
  - Events which affect a lot of people
  - Unfamiliar events



Lloyd's (2010) *Behaviour Bear, Bull or Lemming*, Lloyd's, London, p.4

## 4. Behavioural issues

### Personality affects perceptions

- Impulsiveness (venturesomeness) leads to a reduced perception of risk
- Some people think they have a better than average ability to control risk
- Desires influence risk appetite
- Lack of observable downside increases belief in abilities to avoid danger
- Risks which confer benefits on people are ranked lower even when contrary evidence is available



Lloyd's (2010) *Behaviour Bear, Bull or Lemming*, Lloyd's, London, p.4

## 4. Behavioural issues

### Emotion is a driver of behaviour

- Positive feelings and anticipated benefits associated with risk diminish the perception of that risk
- Fear affects the ability to predict



Lloyd's (2010) *Behaviour Bear, Bull or Lemming*, Lloyd's, London, p.4

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- Concluding comment



## 5. Concluding comment



thank you!