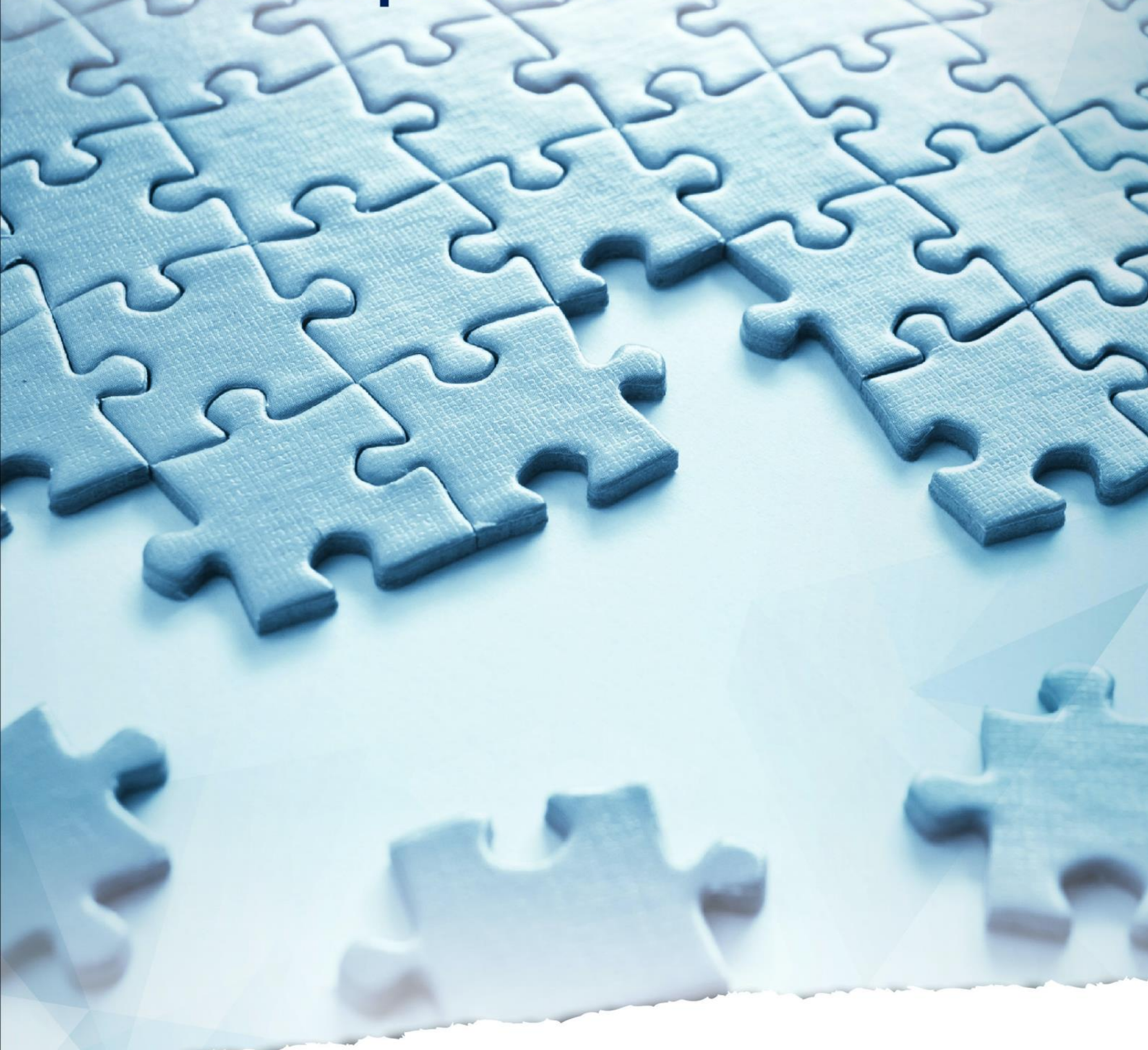
How Top Credit Union Boards Serve Their Members:

The US Experience



CFCFE

Centre for Community Finance Europe

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How Top Credit Union Boards Serve Their Members: The US Experience

By Lucy Harr

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The Centre for Community Finance Europe (CFCFE). CFCFE is a not-for-profit research organisation incorporated in 2016 in Dublin, Ireland. Its mission is to undertake high quality research, to lead on ideas and innovations, and to explore tested solutions related to credit unions, co-operative banks and similar not-for-profit providers of community-based financial services in Europe.

CFCFE is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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Lucy Harr is a veteran writer, editor and public relations professional, who has dedicated most of her career to work in the credit union movement. She held a number of senior executive positions at Credit Union National Association, the primary national trade body for US credit unions. More recently, as an independent communicator, Lucy has authored and co-authored numerous books and articles on such credit union topics as lending, governance, public relations, community credit unions, and marketing to select employee groups. She has served on local and national boards of directors, including as secretary and as vice chair of Madison, Wisconsin-based Heartland Credit Union.

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Preface from the Chair of CFCFE

Over the 46 years that I have worked in the credit union movement, I have been consistently struck by how the success credit unions achieve in serving their members depends critically on the quality of their boards of directors. In working with credit unions in several countries, I have also been struck by the degree to which the boards of highly effective credit unions function in much the same way.

Likewise, the characteristics of board dysfunction that hold other credit unions back are very much the same everywhere. Those include the failure of directors to embrace continuous learning, to expect constant improvement, and to think strategically, anticipating the future needs of their members in ever-changing times.

For credit unions almost everywhere, volunteer directors were the actual unpaid staff during their formative years, and it was the directors who personally handled all the details on a day-to-day basis. As a consequence, the most challenging transition in a credit union's development comes at the point where its day-to-day success depends instead on the expert knowledge and specialist skills of its professional staff. This is when the board faces the challenge (change is always difficult) of leaving day-to-day details to the CEO and staff and transitioning into a new, higher level role of providing strategic oversight and assuring that staff keeps the interests of members paramount. It is at just this point that too many boards fail to make the essential transition, and the point at which their service to members starts dropping from excellent to ordinary.

A not uncommon view "over here" is that US and Canadian CUs are huge, and their experiences are not applicable to the British and Irish movements. In fact, however, 50% of the 5,200 US credit unions have total assets of less than US$32 million. On the other hand, Ireland has more credit unions with assets equating to over US$100 million than all but eight US states, all of which have populations many times larger.

Hence, we thought it might be helpful to our members in Ireland and Britain to share what has been learned from published research on credit union board effectiveness, most of which has focused on North America.

I've had the privilege of working with Lucy Harr for many years and know her to be an astute observer of credit unions, highly knowledgeable as to their operations and governance, and herself a volunteer truly committed to our not-for-profit ethos. We hope that the insights she provides in the following pages will be thought-provoking and an incentive for British and Irish directors to constructively debate how they might need to change to more effectively serve their memberships.

Ralph Swoboda, Chair, CFCFE

1. Introduction

Nineteenth century German co-operative pioneers Friedrich Wilhelm Raiffeisen and Hermann Schulze-Delitzsch may not have imagined the impact their work in alleviating poverty would eventually have in providing financial services to millions of consumers worldwide. But their founding principles of self-help, self-governance, and self-responsibility continue to be the hallmarks of financial cooperatives, even in an increasingly complicated world.

Central to ensuring these principles remain firmly in place is the board of directors. While credit union members usually interact with staff rather than directors for their financial transactions, it is the role of the board to ensure the credit union is fulfilling its mission of service to members.

But how best to perform that role? Neither a board that simply rubber stamps management's decisions nor one that is constantly "in the weeds," rooting through fine operational detail, is likely to be performing at a high level, enabling the credit union and its members to thrive.

According to c.myers, a Phoenix, Arizona-based consulting firm, "a high-functioning board is better equipped to respond effectively to the ever-changing external forces a credit union faces, enabling the credit union to more easily remain relevant to its target markets." That relevancy is what enables credit unions to best meet their members' evolving financial needs.[1]

To do so, Jeff Rendel, CEO of Rising Above Enterprises, a California-based consulting firm, recommends directors continue to grow in their understanding of the financial services business in order to provide the best financial and social return to the credit union's true owners: its members. "Focus on delivering the highest value to members," he related to *Credit Union Magazine,* published by the Credit Union National Association (the national trade body for US credit unions). "Think of members as investors in a business, and how you will increase the members' return on investment through pricing, technology, service, extras, and so on. That means thinking about next year, rather than last month. How is the credit union continuing to position itself for growth and excellence in delivery?"[2]

This paper considers how US credit union boards seek to excel in delivering value.[3]

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1 c.myers.com "Building Blocks of a High-Functioning Board," c notes, February 2013. Phoenix, Arizona USA

2 Rendel, "High Performing Boards," Credit Union Magazine, Spring 2020, Credit Union National Association. Madison Wisconsin USA

3 Many of the themes considered here are also evaluated in a British context in the report 'Credit Union Strategic Governance', authored by CFCFE's co-founders in 2017 and available at https://www.cfcfe.eu/wp-content/uploads/2018/03/Credit-Union-Strategic-Governance-2017.pdf

2. Thinking Ahead

Forward thinking is essential to success, because even with Google Maps, it's difficult, if not impossible, to reach your destination if your eyes stay focused on the rear-view mirror.

In surveying 750 commercial companies' board directors about where they spent their time and energy, combined with other data from their work and discussions with other directors and outside experts, Rusty O'Kelley III and P.J. Neal found that a forward thinking perspective characterized a group they dubbed "Gold Medal Boards."[4]

These boards identified themselves as operating in a highly effective manner and overseeing a high-performing company, defined as one outperforming relevant total shareholder return benchmarks for two or more years consecutively. According to the authors, the data around this group are clear. "Gold Medal Boards don't spend any more time on their work than other boards, but they spend their time in vastly different ways," they concluded.

Specifically, Gold Medal Boards were 10 percentage points more likely to list strategic planning or review as a top area (69% vs. 59% for the broader director population), 7 percentage points more likely to list oversight on major transactions (36% vs. 29%), and 6 percentage points more likely to list CEO and management succession planning (29% vs. 23%). These directors were also more likely than others to report engaging in enterprise risk review, in recruiting new directors, and in crisis management scenario planning.

O'Kelley and Neal point out it's not that these boards don't fulfil their review and compliance responsibilities – but these activities are not the board's mission. "The most successful boards not only know this, but they craft their work and interactions to reflect it," they write. "Gold Medal Boards spend their time in looking forward, not back. The full board needs to move beyond an agenda heavy on reviews of financial statements and audit reports and realize that the big picture is unlikely to be found in the rear view mirror."

Note TEAM Resources consultants Tim Harrington and Kevin Smith in "The Little Book of Credit Union Board Best Practices" [5] :

> *"It is true that boards have a fiduciary duty, and must provide oversight of the organization, and must pay attention to the financials, for example. But the*

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4 O'Kelley III and Neal, "Top Boards Do These 4 Things Differently" Harvard Business Review, February 2020, Cambridge, Massachusetts USA

5 Harrington and Smith, The Little Book of Board Best Practices, 2017, Team Resources, Tucson, Arizona USA

financials tell us what has happened and are information about what's behind us. It's rear-facing material. So best boards find ways to take care of this information quickly and efficiently (as with a dashboard) in order to save time for strategic items.

Ideally, a board would spend 80% of its time on strategic, forward-focused material, and only 20% on oversight and review. That's a significant challenge for credit unions, who came of age at a time when the board was literally running the credit union. Boards have evolved, but some of that "get your hands dirty" mentality remains. It's realistic to push for a 60/40 rule, with 60% of the time focusing on strategy. Even then, it requires some work and some discipline.

According to Matt Fullbrook and his colleague Hugh Arnold, senior executives can impact on board effectiveness just as much as directors. In a May 2020 webcast, they pointed out that when managers are asked what they wished their boards would do better, the number one behaviour cited was "stay out of the weeds."[6] Yet, management reports to the board focus on detailed descriptions of history – what happened since the prior meeting – rather than on the items that will encourage forward-thinking discussion and enhance decision making.

A 2020 report published by Credit Union Executives Society (CUES), notes that more than three quarters of survey respondents ranked the "ability to focus on the future" as the number one skill that added the most value in the boardroom.[7] That's because, as the report states, "it is critical for directors to anticipate looming risks and opportunities to lead the organization to adapt and change."

The report adds, "These skills also support their ability to execute one of their main governing responsibilities: to work in constructive partnership with the CEO/senior staff to develop, and then eventually approve, the credit union's strategic plan. A board's collective ability to focus on the future and ask good strategic questions is fundamental to its role and responsibilities in this regard. Sixty-six per cent of respondents identified 'independent mindedness,' as an important trait in the boardroom."[8]

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6 Matt Fullbrook is manager of the David & Sharon Johnston Centre for Corporate Governance Innovation at the University of Toronto's Rotman School of Management, where Hugh Arnold is an Adjunct Professor & Executive-in-Residence of Organizational Behaviour and HR Management

7 "The State Of Credit Union Governance 2020," Credit Union Executives Society et. al. Madison, Wisconsin USA. This report was a collaborative effort of CUES, Quantum Governance, L3C and the University of Toronto's David and Sharon Johnston Centre for Corporate Governance.

The CUES report draws on governance self-assessments of 116 credit unions in the US and Caribbean and an online survey conducted in September 2019 that brought responses from 320 directors and CEOs across 170 U.S. credit unions.

8 Ibid

However, in a 2018 Filene Research Institute study, Matt Fullbrook found that despite valuing board members who are independent thinkers, very few respondents had board members who freely spoke their minds.[9] In the report, *Formalizing the Art of Board Composition*, Fullbrook notes, “Instead, board culture often evolves into conflict-adverse groups that rarely engage at the level of strategy in difficult conversations about tough, big-picture topics....While boards recruit for hard skills, soft skills and strategic thinking are often what make boards effective.”

A high-functioning team is comprised of people who have solid and deep trust in each other and in the team's purpose -- they feel free to express feelings and ideas, according to Carl Wiese, co-author of *Collaboration Imperative Executive Strategies for Unlocking Your Organization's True Potential.*[10] Among the elements of a high-functioning team, he cites these characteristics:

- Everybody is working toward the same goals.
- Team members are clear on how to work together and how to accomplish tasks.
- Everyone understands both team and individual performance goals and knows what is expected.
- The team engages in extensive discussion, and everyone gets a chance to contribute -- even the introverts.
- Disagreement is viewed as a good thing and conflicts are managed. Criticism is constructive and is oriented toward problem solving and removing obstacles.
- Each team member carries his or her own weight and respects the team processes and other members.

The Phoenix, Arizona-based consulting firm c.myers offers this list of characteristics of a high-functioning board:

- Balancing the diverse needs of the credit union’s target market with the credit union’s long-term viability
- Thinks strategically as a team and is willing to ask and answer hard strategic questions and support the actions that must be taken
- Uses the credit union’s strategy (not emotion) as a decision filter

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[9] Fullbrook, M. “Formalizing the Art of Board Composition,” 2018, Filene Research Institute, Madison, Wisconsin USA

[10] Ricci and Wiese, *Collaboration Imperative Executive Strategies for Unlocking Your Organization's True Potential* 2011, Cisco Systems, San Jose, California USA

- Is collaborative and proactively fosters constructive communication with the CEO
- Is self-assessing
- Holds itself and individual members accountable
- Constantly recruits.[11]

3. Board Chair is Key

Any high functioning team needs an effective leader. Like a ship's captain, the board chair is at the helm, and being at the helm means knowing know where you are and where you're going. It means understanding the right-of-way rules and knowing the hazards and their warning signs. And, most importantly, it means having a crew working together to stay the course.

Fullbrook believes the board chair is perhaps the most important position in the credit union. "The board chair is it is not an 'honorary' role," he told *Credit Union Magazine*, "and there should be very high expectations of the chair position."[12] He feels that credit union boards tend not to emphasize the importance of having an excellent chair, and many fail to have enough in-depth conversations about it.

According to the CUES State of Credit Union Governance 2020 report, no individual in the credit union has more potential to add value than the board chair. "Great chairs do much more than run great meetings (although they most certainly do that, too): They unlock the potential of each board member and build constructive relationships with key people both inside and outside your credit union. They make sure that board deliberations yield excellent decisions that have been considered from all angles."[13]

To determine best practices for board chairs, Professor Stanislav Shekshnia surveyed 200 board chairs from 31 countries in research for the French graduate business school INSEAD's Corporate Governance Centre. "An effective chair, the people in our study largely concurred, provides leadership not to the company but to the board, enabling it to function as the highest decision-making body in the organization," Shekshnia wrote in a summary of his research in the *Harvard Business Review*.[14] To be effective, chairs must recognize that they are not commanders, but facilitators. "Their role is to create the conditions under which the directors can have productive

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[11] c.myers.com "Building Blocks of a High-Functioning Board" c notes, Feb. 2013. Phoenix, AZ, USA

[12] Fullbrook, "High Performing Boards", Credit Union Magazine, Spring 2020, Credit Union National Association, Madison Wisconsin USA

[13] Ibid. State Of Credit Union Governance

[14] Shekshnia, "How to Be a Good Board Chair," Harvard Business Review, March/April 2018, Cambridge, Massachusetts USA

group discussions. Good chairs recognize that they are not first among equals. They are just the people responsible for making everyone on their boards a good director."

Shekshnia outlines eight principles in describing how to be a good chair:

1. Be a guide on the side, exercising restraint (never taking up more than 15% of air time), patience (not getting things done quickly, getting things done properly) and availability.
2. Practice teaming, not team building – ensuring equal airtime for all directors.
3. Own the prep work – the meeting is the tip of the iceberg.
4. Take committees seriously. Experienced chairs agree that work on committees is key to a board's success, Shekshnia's research found.
5. Remain impartial. "Though many newly minted chairs are eager to put their knowledge and experience to full use, the harsh reality is that collective productivity suffers when the person at the head of the table has strong views on a particular issue," Shekshnia notes.
6. Measure the inputs – human capital, agenda, materials, etc. – not the outputs.
7. Don't be the boss – the board is the boss. Shekshnia found some chairs come to see themselves as the CEO's boss. "Good chairs do not make this mistake. They always remember that they represent the board and keep the other directors informed about all new developments and insights."
8. Be a representative with shareholders, not a player: act as a director not a singular member. "If a CEO's boss is the board, the board's boss is the shareholders" [i.e. the owner-members of a credit union]," he points out. In public companies, the intent is to ensure equal and fair treatment of all shareholders, no matter how large their holdings. (For credit unions, the board must balance the needs of savers and borrowers.)

The CUES State of Credit Union Governance Report suggests boards should address the following questions:

- How well does your board chair job description reflect the importance of the role?
- In what ways does your chair term limit (or lack thereof) ensure that you have the right balance of historical continuity and renewal in the position?
- What opportunities has your board created to ensure that your chair receives candid feedback from board members and staff?
- What steps are you taking to identify the next chair and prepare that person

to be as successful as possible?[15]

4. Board Recruitment

According to the Filene 2018 Board Composition report, there is rarely a formalized process to recruit new board members. Instead, current board members, with an assist from the CEO and other senior executives, rely on their own social networks when recruiting: "Not surprisingly, this method leads to the recruitment of similar, like-minded board members, rather than the recruitment of more diverse individuals with differing experiences and expertise." To overcome this birds-of-a-feather phenomenon, the report recommends a thorough analysis of the nature of the position, development of standardised questions, and the use of formal rating scales. These structures, among others, have been shown to lead to better results, according to the report.[16]

So where do you find these forward-thinking and freely-speaking directors? And, once found, how are they convinced to join forces with your credit union? Fullbrook believes board member recruitment can be facilitated by credit unions' super power: to be able to deliver products and services to members without the need to prioritise profit at all costs. "Credit unions can use that super power to attract board members." he told *Credit Union Magazine.* "Show potential candidates how you're changing your members' lives."[17] In recruiting directors, Fullbrook would seek representatives from a diversity of professions and industries, evenly distributed in ages from 30 to 70, different races/ethnicities, people who know each other (but not too well), and be willing to serve for at least five years. He feels the entire geography of the membership should be represented, and candidates should have the personality traits that make people effective in groups, such as listening before talking, the willingness to change their minds and to challenge conventional wisdom. "Two should have the perfect profile to be an excellent board chair," he pointed out. According to Fullbrook, regularly ask questions on what gaps exist and use that to build a living skills matrix. "In other words, do the work! If the skills on your matrix haven't changed for 5+ years, it means the skills aren't sufficiently specific and/or you're not taking the exercise seriously."

The Governance Committee of Great Falls, Montana-based Embark Credit Union uses a skills matrix in its board recruitment efforts. According to President/CEO Debra Evans, the credit union began casting a wider net subsequent to expanding its field of membership. "Shortly after we gained a community charter, we broadened recruitment efforts," she says. Prior to its charter expansion, the credit union served

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[15] Ibid 2020 State of Credit Union Governance Report

[16] Ibid Formalizing the Art of Board Composition

[17] Ibid Credit Union Magazine

only teachers and educational employees, and all its directors were teachers. The credit union now has accountants, small business owners, social media experts, and a lawyer on its Board and its Supervisory Committee. Evans notes that even non-members (who become members), are now recruited.[18]

One successful recruitment strategy used by non-profits in the US is to contact community leaders and ask for help. Here's how it works: you are not asking these leaders to serve on your board; you are asking them to refer individuals who might be interested. Start with the job description, a skills matrix and then ask for three to five names. Approach the new nominees with the name of their nominator in your hand. It will make all the difference. You are drafting off a reference and this step will save you a great deal of time and energy.

Be specific about what you are asking prospects to do as board members, and ask if they are willing to learn more about the credit union. If so, refer them to your nomination committee for the interview or application process.

5. Bench Strength

For some credit unions, introducing the role of an associate director or a special advisor to the board provides a source of human capital. Such a programme can serve to recruit potential directors and help groom them for service through structured orientation and on-boarding as well as through first-hand experience. Boards also have found adding associate directors can augment their areas of expertise and offers an opportunity to gain a broader perspective.

In the U.S., it's advised that associate directors sign the same documents that board members do, for example, confidentiality, conflict of interest, code of ethics and code of conduct agreements. Governance policies should spell out what's expected, for example, attendance and participation in board meetings (but no voting powers nor attendance at sessions of the board that are closed to staff and other non-regular directors), committee assignments, attendance at appropriate conferences or seminars, and completion of the same educational courses assigned to the Board. Typically, associates serve one-year terms, allowing them to test drive the role of a board member. If it's a good fit, associate directors may be asked to fill vacancies, should one occur unexpectedly, or be part of a pool of candidates selected by a nomination committee to be placed on the ballot.

However, some may discover the time required for board service is not compatible with their schedules or their family obligations. Others may not adequately perform their duties and responsibilities, for example, failing to attend a meeting without an excused absence, not reading board materials, texting during meetings, or zoning

18 Conversation with author June 2020

out during a video conference call. Because, typically, associate directors serve at the discretion of the chair, removal for non-performance is less cumbersome than for individuals elected by the membership for a full-term.

6. Director Remuneration

If you're looking to spark debate, bring up the topic of director remuneration. According to TEAM Resources' Kevin Smith: "It's like throwing a hand grenade into a roundtable discussion."[19] "The issue can be heavily contested for and against," note Paul A Jones and Nick Money in their CFCFE report *The Remuneration of Credit Union Directors.*[20] Proponents argue that compensating board members helps ensure that high quality candidates can be recruited and retained, while opponents stress the traditional not-for-profit values of volunteerism, to assure a culture of service to members.

About two-thirds of the 5,200 credit unions in the U.S.A. are chartered (registered) under the Federal Credit Union Act, whereas the rest operate under the authority of the 46 states that have their own credit union legislation.

Credit unions holding a federal charter are prohibited from compensating directors save for one officer, traditionally the treasurer. Among state-chartered credit unions, it's a patchwork: In 12 states all directors can be paid, in four states the statutes are silent, and in Wisconsin only the boards' officers can be compensated. Many follow the federal model and allow for the treasurer to be paid.[21] In some cases, health and similar insurance protections are not considered compensation and can be offered to directors. Reimbursement for expenses and education, including travel to conferences, are commonly provided in most credit unions, both state and federally chartered.

Where allowed by U.S. state law, there is a wide range of remuneration practices. In Rhode Island, a US$2.3 billion asset credit union, pays its chair $51,000 and its directors $15,000. The chair of a similar-sized credit union in Pennsylvania is paid $41,000, and its directors, some $31,000, but one in Oregon pays its directors an average of $2,300.[22]

According to Jones and Money, unlike in the Republic of Ireland where remunerating directors is prohibited by law, credit unions in Britain have never been prevented by legislation from doing so, but very few do. Among their key conclusions:

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[19] Conversation with author May 2020

[20] Jones and Money, The Remuneration of Credit Union Directors, November 2018, Centre for Community Finance Europe

[21] Credit Union Directors and Compensation Summary of Statues, April 2019, Credit Union National Association, Washington, DC

[22] Guidestar.org

- There is a clear philosophical difference between paying a "going rate" for relevant skills, knowledge and experience to professional non-executive directors (directors) drawn from the marketplace, and the practice in many co-ops where remuneration is to recognise and respect the commitment of members taking on director responsibilities.
- A flat rate that is not determined by attendance or performance is the norm in the British mutual financial services organisations surveyed. However, this is often accompanied by rigorous recruitment practices and robust performance appraisal.
- Transparency to the membership, and potentially their active engagement in setting director remuneration rates, is important.

7. Term Limits

Although not as contentious a topic as director remuneration, term limits for board members also can provoke debate. Some credit unions use term limits or age limits to ensure board vacancies occur.

In a 2017 report on governance best practices written by Paul Jones, Nick Money and Ralph Swoboda for ABCUL, the authors found that some respondents argued that term limits "can lead to self-perpetuating boards becoming fossilised in time and can result in a lack of drive and commitment to seek out new competent and imaginative people to serve on the board."[23] They note, this, however, was a contested issue with others arguing strongly for the retention of directors on boards to assure continuity and to maximise past learning experience.

According to the report, one participating credit union had introduced terms of office whereby directors could be elected for a maximum of three terms of three years. Directors and the CEO from this credit union argued that this focused the board on prioritising succession planning and the renewal of directors. They also said that it had resulted in more experienced professional people volunteering to serve as directors, given that they knew that their expected commitment would be limited and not lifelong.

In a 2015 Filene Research Institute report, *Entrenched or Energetic: Improving Credit Union Board Renewal,* Fullbrook and his colleague Antonio Spizzirri found 18% of respondents had implemented term limits, 5%, age limits.[24] In the follow-on 2018 Filene report, *Formalizing the Art of Board Composition*, some 28% of its

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[23] Jones P A, Money N, Swoboda R (2017) Credit Union Strategic Governance, Liverpool John Moores University, p 123

[24] Fullbrook and Spizzirri, Entrenched or Energetic: Improving Credit Union Board Renewal, 2015, Filene Research Institute, Madison, Wisconsin USA

respondents reported term limits, and 6%, age limits.[25]

Those credit unions without term limitations view them as an unnecessary restriction, which may have the effect of throwing the baby out with the bath water. The 2015 Filene report points out, "Such policies are often unpopular with boards of directors as they force fully capable – and sometimes hugely valuable – directors from the board based on factors that have nothing to do with their effectiveness . . . the accumulation of institutional knowledge is critical to board effectiveness, but so is regular director turnover. These two realities are difficult to balance." In the 2018 report, Fullbrook, notes: "To be fair, the issue here isn't really about tenure. It's about credit union boards refocusing on the needs of the credit union rather than the feelings of individual board members."

According to Fullbrook, directors don't suddenly become ineffective simply because they have hit some arbitrary tenure marker any more than new directors are excellent simply because they are fresh off the shelf. "However, the general lack of board renewal in the credit union system is largely a result of a dearth of formal process and a lack of willingness to make difficult personal decisions," Fullbrook writes.

There are no term limits for those serving on the Board of the University of Wisconsin Credit Union. But attention is paid to assuring the right people with the right skills are in place to lead the Madison, Wisconsin-based credit union forward, According to Board Treasurer Marion Brown. "The Board Development Committee developed a process in which directors annually write down when they think they might be ready to leave the board." Then, skill sets are lined up to determine how gaps might be filled. Brown reports that the process, in place for seven years, has proven effective, and is helpful in recruiting younger directors. "The plan allows for flexibility, and if needed, directors may be asked to extend their terms," she says.[26]

Fullbrook points out that it's critical to acknowledge that a board's work is very hard. "If you or your peers do not have the time, energy or will to completely embrace the job, it is time for a change. Be brutally honest with yourself and others."

At Unitus Community Credit Union, based in Portland, Oregon, directors are asked to answer "yes" or "no" to the question: "Would you be interested in continuing your service with full engagement and enthusiasm on the Board in the future?" The credit union limits service to four three-year terms, according to Board Chair Frank Chinn. "Serving as a director is not necessarily a job for life," he says. Chinn believes term

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[25] Fullbrook, Formalizing the Art of Board Composition, 2018, Filene Research Institute, Madison, Wisconsin USA

[26] Conversation with the author September 2019

limits can bring new life and new thinking to a Board.[27]

The creation of an emeritus director program enables some credit unions to preserve the institutional memory of the board, at the same time allowing room for board renewal. At Unitus Community, directors can serve in an emeritus position for an additional three years, and reapply after a one-year break.

Typically, an emeritus director must sign confidentiality and code of ethics documents, attend and participate in meetings, but cannot vote. Credit unions usually offer them the same educational benefits as directors, for example, travel to conferences. Some credit unions ask emeriti to mentor associate directors or newly elected directors. Most have terms of office, and some have provisions for removal by 2/3 majority secret ballot vote of the Board.

Whether or not a credit union has term limits for its directors, rotation of the chair position may prove beneficial. According to the State of Credit Union Governance Report: “A board chair that remains in the position for too long can impede board innovation in response to new realities, and often the credit union can become rooted in the past rather than looking toward the future.”[28] If a board chair becomes entrenched, the report notes, directors may feel at a loss to suggest any improvements believing they’re not likely to pass the chair’s approval. A long-term chair (say 10+ years), can be a red flag with respect to resistance to change, according to TEAM Resources consultants.[29]

Concludes the State of Credit Union Governance report: “There is clearly a need to set a healthy pace for renewal in the chair role. Defining the right frequency for chair turnover, whether or not implemented through a term limit, will be unique to each board.”

8. Evaluating Performance

In any successful organisation, management assesses staff performance, providing constructive feedback. A board regularly sets performance goals and reviews the CEO's progress in meeting them. A board should use a similar process to monitor its growth as a high-functioning team, in order to continue moving forward the credit union’s mission of service to members.

Fullbrook and Spizzirri point out formal evaluations can strengthen processes, structures, and decision-making on an ongoing basis because directors are much more likely to voice concerns through a well-defined and confidential procedure

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[27] Conversation with the author September 2019

[28] Ibid 2020 State of Credit Union Governance Report

[29] Harrington and Smith, How to Spot a Board in Trouble, May 2020, blog post forteamresources.com

than they are during a board meeting.[30] But their survey found only 40% of credit unions had implemented formal board evaluations, with smaller credit unions being least likely to evaluate. The State of Credit Union Governance survey found less than half (42%) of respondents rated their boards as effective in conducting a periodic assessment.[31]

Writing in the Harvard Business Review, Yale University Professor Jeffrey A. Sonnenfeld notes:

> *Behavioural psychologists and organizational learning experts agree that people and organizations cannot learn without feedback. No matter how good a board is, it's bound to get better if it's reviewed intelligently. A performance review can include a full board evaluation, individual directors' self-assessments, and directors' peer reviews of one another. Most often, the nominating or governance committee drives these evaluations.*
>
> *A full board review can include an evaluation of such dimensions as its understanding and development of strategy, its composition, its access to information, and its levels of candour and energy. In individual self-assessments, board members can review the use of their time, the appropriate use of their skills, their knowledge of the company and its industry, their awareness of key personnel, and their general level of preparation. The peer review can consider the constructive and less constructive roles individual directors play in discussions, the value and use of various board members' skill sets, interpersonal styles, individuals' preparedness and availability, and directors' initiative links to critical stakeholders.*[32]

The basic purpose of self-assessment is to answer the question "Are we doing what we said we will do?" and if the answer is "not really" or "mostly," what can be done to improve performance? As noted in the State of Credit Union Governance Report, conducting a governance assessment is not enough. "To create value, there must be an action plan designed to follow up on and address any issues or gaps identified in the assessment. A significant number of credit unions are falling short in this area, with 51% of directors surveyed reporting that their board must do more to become effective at making changes in response to assessments."[33]

Fullbrook points out in the 2018 Filene study that no matter what type of board

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[30] Ibid. Entrenched or Energetic: Improving Credit Union Board Renewal

[31] Ibid. State of Credit Union Governance Report

[32] Sonnenfeld, "What Makes Great Boards Great," Harvard Business Review, September 2002, Cambridge, Massachusetts USA

[33] Ibid State of Credit Union Governance Report

evaluation process is chosen, two important questions need answers. "First, what will your board do differently as a result of the evaluations? If your evaluation process has yielded no opportunities for development or evolution, then it was not carried out effectively," he notes. "Second, what has changed since the last time you conducted your board assessment? Your credit union evolves year over year, and your board should evolve as well. The board evaluation process must acknowledge this evolution."[34]

According to Rising Above Enterprises' Rendel, board evaluations are a good way to identify any gaps in skill sets. "Once identified, set goals for the Board and board members to move forward," he told *Credit Union Magazine.* "Hold each Board member accountable. Filling gaps can serve as a good tool for recommendation for re-nomination for a board seat."[35]

Unitus Community directors annually perform a skills inventory and self-assessment, according to Chinn. The credit union's Nominating Committee looks for any gaps that are revealed and recruits to fill them. In addition, peer and board evaluations are conducted.

9. Recommendations

From their research, O'Kelley and Neal cite four best practices for board leadership that emerged, and that can be regarded as recommendations for credit unions:

1. **Refocus the board agenda** to go beyond review of financials and audits; spend time on forward-thinking activities, for example, strategic planning, CEO and management succession planning, and improved oversight of enterprise risk. "These activities help the company create its future," according to the authors.

2. **Make debate a top priority**. O'Kelley and Neal found on Gold Medal Boards, board members and committee chairs acted as facilitators, including fostering high-quality debate and building trust among the directors and with management, actively seeking different points of view, and ensuring everyone was contributing experience and expertise. "All of these activities help to ensure that the board gets maximum value out of its time together and reaches decisions that have been fully thought through," they conclude.

3. **Give clear feedback.** The authors found Gold Medal Boards ensure they are giving directors clear performance feedback. "There should be an annual assessment of each director's contribution, with the board chair (or another senior director) responsible for giving clear and actionable feedback and coaching to each director,"

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[34] Ibid Formalizing the Art of Board Composition

[35] Ibid Credit Union Magazine

they note. “Boards need to move beyond survey-driven assessments that provide almost no qualitative insights into the board’s overall effectiveness. Strong feedback leads to strong performance.”

4. **Be present and ready to speak up.** When individual directors are distracted, overall board performance drops, the authors report. “This isn’t just about ignoring their phone during meetings,” they advise. “Directors need to be present themselves and help keep fellow members focused on the matters at hand. Actively listening, speaking up and encouraging others to do so are all important . . . willingness to speak up and avoid group think is essential to making good board decisions.”[36]

[36] Ibid. “Top Boards Do These Things Differently”

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