



The State of Credit Union Governance 2020

Credit Union Governance and Leadership Trends

Rotman

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Johnston Centre for
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Special thanks to the many credit union board members, supervisory and audit committee members, CEOs and senior staff members who participated in the governance assessments and surveys that informed this report. Your passion to improve, candid feedback and valuable insights made this report possible. We are deeply grateful.

We hope you will find what follows of direct benefit to your credit unions and full of insights that will help drive you and your colleagues to ask the right, and sometimes hard, questions that will propel your credit union to the next level of governance and leadership excellence.

ABOUT THE TEAM

The David and Sharon Johnston Centre for Corporate Governance Innovation at the Rotman School of Management, University of Toronto

The David and Sharon Johnston Centre for Corporate Governance Innovation at the University of Toronto is Rotman School of Management's home for research and resources about boards of directors and corporate governance. The Johnston Centre's purpose is to support academic research and teaching, generate practical tools and insights, and host events that improve the effectiveness of boards of directors. Our research focuses on such under-served sectors as family enterprise, both public and private; co-operatives; crown corporations; and dual-class public issuers.

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INTRODUCTION

In a world of constant change, credit union leaders face a daunting task: to be vigilant stewards of their members' funds, while making the crucial strategic decisions to steer their credit unions toward success.



Credit union boards, which consist mostly of unpaid volunteers,¹ have not always performed to their optimum capacity, and their directors frequently lack the necessary talent, skills and experience to optimize board effectiveness (Fullbrook, 2015). Making matters more difficult, credit union boards often lack formal processes for objectively evaluating the composition of their boards and the effectiveness of existing governance practices (Fullbrook & Spizzirri, 2015; Chen, Fullbrook & Spizzirri, 2010).

In doing the research for this year's report, the "State of Credit Union Governance, 2020," we found that 46% of respondents described their boards as—at best—adequate in attracting the right people to serve as board members. In another study, 60% of the credit union boards surveyed did not even undertake an evaluation of their own performance, and 25% had no process in place for removing underperforming directors (Fullbrook & Spizzirri, 2015). Perhaps most shocking of all, credit union directors often did not fully understand their core roles and responsibilities (Chen, Fullbrook & Spizzirri, 2010).

Furthermore, boards all too often focus heavily on operational, day-to-day issues that should fall under the purview of the CEO and senior staff (Day, Schoemaker & Dopico, 2018). Additionally, Quantum Governance, L3C's "State of Credit Union Governance, 2018" report revealed rifts within the credit union leadership: board members and

¹ Although most credit union boards in the U.S. serve on a volunteer basis, state-chartered credit unions in a growing number of states are allowed to pay their directors. A 2015 Filene Center study explored the pros and cons of paying credit union board members (Fullbrook, 2015).



CEOs disagreed on how effective their boards were on key questions² fundamental to good governance, such as whether board members were effective in fulfilling their governance responsibilities.

The State of Credit Union Governance, 2018 report provided a comprehensive analysis of governance assessments conducted by Quantum Governance between 2012 and 2017. The 2020 report provides updated figures for 2018-2019, where appropriate, and draws on data from the governance assessments

of 115 credit unions³ to enrich the 2018 findings (please see the “Methodology” section of this report for further details). This year’s report is a collaborative effort between CUES, Quantum Governance and The David and Sharon Johnston Centre for Corporate Governance and Innovation at the Rotman School of Management, University of Toronto. Our findings are also derived from a supplemental online survey conducted in September 2019 that had responses from 320 directors and CEOs across 170 U.S. credit unions.

² The State of Credit Union Governance, 2018 report identified 21 questions as “key questions” from among 47 questions on Quantum Governance’s governance survey—meaning that they were identified as most fundamental to good governance. For more information, see the 2018 report, page 7.

³ 114 of the credit unions are U.S.-based credit unions, and one credit union is based in Jamaica.



2020 Key Findings

Credit union boards are stepping up in some very important ways, while they continue to fall far short in other critical ones. The demographic composition of boards is slowly changing for the positive, and boards are recruiting more on the basis of the skills and attributes they value.

However, they still struggle with balancing operational and strategic discussions in the boardroom, often fail to ask the hard questions that need to be asked, and rarely hold each other accountable for poor performance. There is also a lack of clarity among directors on what “effectiveness” truly means in a number of key areas of good governance. Notably, “governance” is a term that many credit union leaders find difficult to define with precision. These challenges, and many others, highlight the areas in which credit union leaders must continue to focus in order to make effective decisions in the best interests of their members.

Many of the key findings from the 2018 report stand. There are still differing perceptions between board members and CEOs regarding critical governance issues (including, importantly, trust) and those perceptions diverge even more based on director and CEO tenure. Larger credit unions, with assets of \$1 billion or greater, still tend to rate their governance practices higher than smaller credit unions rate theirs. And, finally, respondents remain very concerned about recruiting future board members.

Rather than simply revisiting the areas that have shown very little change, this report focuses its findings in five central areas, while strongly encouraging readers to review the 2018 report for a baseline understanding. The 2020 report addresses five key areas; 1) board structure and composition, 2) board governance, 3) board leadership, 4) strategy and 5) decision-making.

BOARD STRUCTURE AND COMPOSITION

The demographic diversity of boards is one of the most hotly debated topics in governance today. A central finding of the 2020 report is, however, that credit union boards are now more likely than ever before to prioritize demographic diversity. Furthermore, we have also seen that the demographic composition of the board impacts directors’ satisfaction with the board’s overall composition (Fullbrook & Spizzirri, 2015). In this section, we take a close look at the makeup of today’s credit union boards.

Board Recruitment

Demographic diversity is an explicit priority.

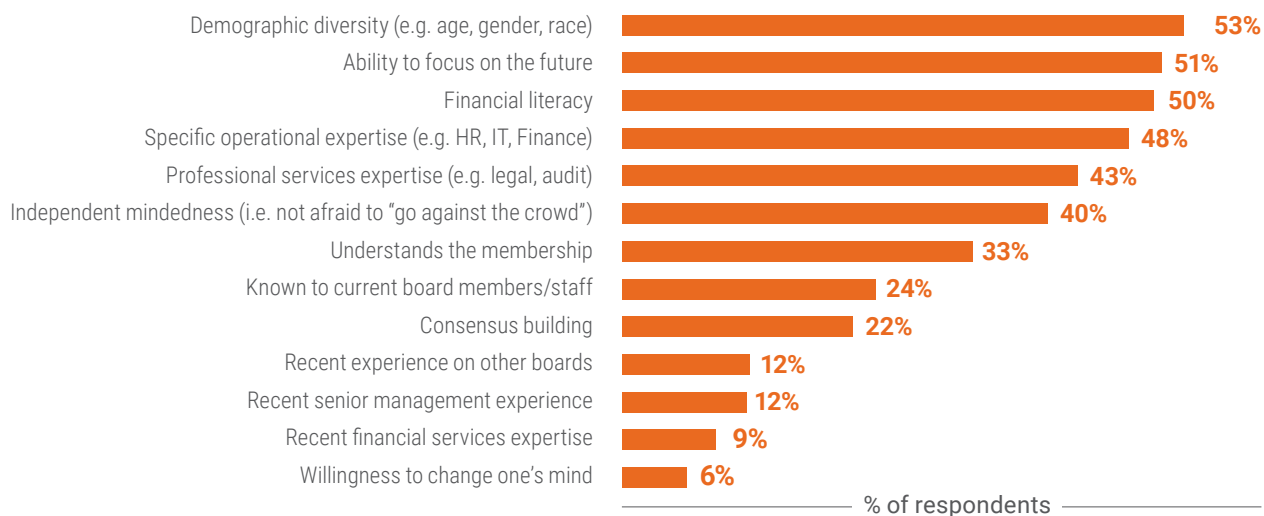
As seen in Figure 1, credit union boards are taking to heart calls to diversify their membership. Demographic diversity (53%) was identified as the number one priority for credit union board recruitment. This is a welcome but surprising finding, given that demographic diversity has been less of a priority in previous studies (Fullbrook, 2018).

After demographic diversity, the next highest recruitment priorities identified when recruiting new members to credit union boards were an ability to focus on the future (51%), as well as such key skill sets as financial literacy (50%) and operational expertise (48%) or professional services (43%) expertise.

“
DIVERSITY, EQUITY AND
INCLUSION ARE AN IMPORTANT
PART OF THE FABRIC OF CREDIT
UNIONS—THEY’RE INHERENT
IN OUR PHILOSOPHY OF
PEOPLE HELPING PEOPLE.”

—Brett Martinez, President/CEO, Redwood Credit Union
and 2019 CUNA Board Chair

Figure 1: What are the highest priorities when recruiting new board members? (n=320)



FINANCIAL LITERACY

In 2011, the National Credit Union Association introduced a requirement (through NCUA regulation 701.4) for directors to have:

- 1) a basic familiarity with rudimentary finance and accounting practices;
- 2) the ability to read and understand their credit union's balance sheet and income statement; and
- 3) the ability to ask appropriate questions of management and auditors.

There is room for boards to improve in this area, since 27% of board members do not think their board is effective⁵ at ensuring that board members have a working familiarity with finance and accounting practices. Furthermore, 28% of board members believe that their boards are not effectively asking meaningful questions on finance/accounting issues. Perhaps not everyone at the table is financially literate or comfortable asking questions on the matter.

⁵ A rating was considered "effective" when a director ranked their board's effectiveness as either "effective" or "very effective" on the governance assessment.



Credit union boards are also open, more than ever before, to candidates they do not know, which is emerging as a best practice (see Figure 1). Only 24% of directors reported that their boards prioritize candidates who are known to board members or staff. This was a significant shift in perspective, since credit union boards have historically relied heavily on their social networks and word-of-mouth to recruit new directors.

Figure 2: What are the skills that add the most value in the boardroom? (n=320)



The most valued traits in the boardroom according to respondents are the “ability to focus on the future” and “independent mindedness” — or not being afraid to go against the crowd (see Figure 2). More than three-quarters of respondents (76%) indicated it was important for board members to have an ability to focus on the future since it is critical for directors to anticipate looming risks and opportunities and, appropriately, to lead the organization to adapt and change. 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 percent (66%) of respondents identified “independent mindedness,” as an important trait in the boardroom.

While we expected to see a gap between the needs of the board and recruitment priorities, this was not the case. Previous research by the Johnston Centre had shown that although boards prioritized such soft skills as independent mindedness and strategic acumen, they often recruited for such hard skills as financial literacy and operational expertise (Fullbrook, 2018). Indeed, we found that board members continue to think that soft skills, such as an ability to focus on the future (76%) and independent mindedness (66%), are most valuable in the boardroom. However, their recruitment priorities now align much more closely to the skills they actually believe will add value.

For example, the ability to focus on the future was identified as the skill that added the most value in the boardroom and was also a key priority during recruitment (51%). Independent mindedness was a much lower priority in the actual recruitment of new board members (40%). This gap may be bridged, at least partially, by a board’s emphasis on recruiting for demographic diversity. Research suggests that there is less conformity and greater independence of thought among groups that are racially diverse, for example (Gaither et al., 2017). Thus, recruiting for such observable markers of diversity as age, gender and ethnicity might be a strategy for injecting independent thought into the boardroom.



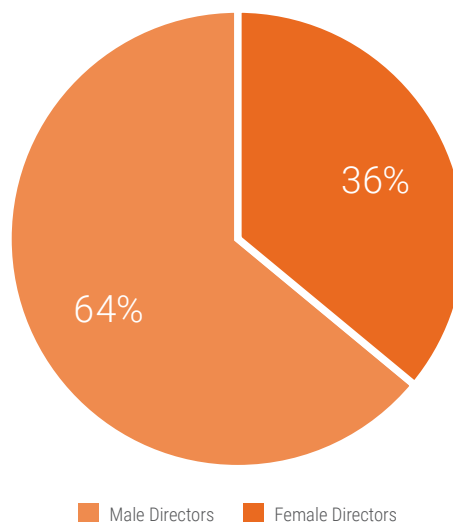
Board Demographics

Credit union boards are becoming more demographically diverse.

Board composition and renewal are among the most critical issues facing credit union leaders today. With credit union board members aging at an alarming rate and the competition for qualified board members increasing, it is critical for today's credit union boards to attract the right candidates with the right skills to help govern the credit union effectively. Demographic diversity is a key component of effective board composition, and it can impact directors' own confidence in the effectiveness of their boards (Fullbrook & Spizzirri, 2015).

The good news is that credit union boards are more gender diverse than their counterparts in other sectors. The average credit union board has nine members, of which three are women (36%) (see Figure 3) and one is a visible minority (16%). These figures are consistent with other recent studies that have documented the growing number of female credit union directors (Fullbrook, 2018). A 2018 study by Deloitte and The Alliance for Board Diversity of America's Fortune 100 companies found that women held 25% of board seats in Fortune 100 companies in 2018, while visible minorities held 20% of seats on their boards. While this comparison is, indeed, good news for the credit union movement, much more work remains to be done.

Figure 3: Credit union boards are mostly male (avg. board size = 9.1) (n=320)



Credit union board members are not getting any younger, either. We found that on average only 20% of credit union directors were under 50 years of age. Johnston Centre studies done in 2005 and 2015 reported a similar finding: one out of four directors on a credit union board were under the age of 50 (Fullbrook & Spizzirri, 2015). Moreover, directors also identified "an aging board" as a major concern (See Fullbrook & Spizzirri, 2015 & Fullbrook, 2018). As older board members begin to retire, credit unions will need to balance a broad set of demographic factors—such as age—as they identify new candidates.

BOARD GOVERNANCE

In this section, we present our findings about the rise in the adoption of governance committees and how boards struggle to find the right people and renew their boards at a healthy rate. They even grapple with their definition of board leadership itself.

Governance Committees

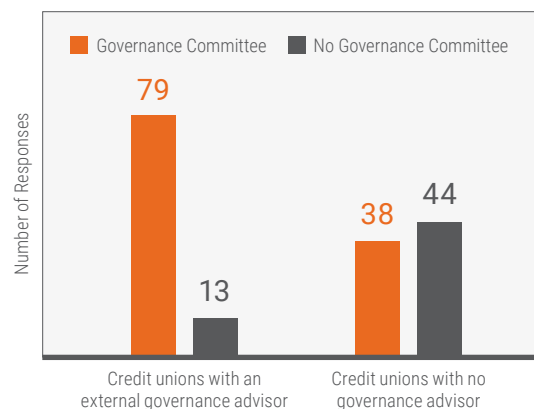
Governance committees are an increasingly important aspect of credit union governance structures.

Governance committees (or governance & nominations committees, which integrate both functions into one committee) carry out a range of critical activities from developing long-term plans for the composition of the board to managing board renewal processes and overseeing ongoing board education initiatives. In essence, however, they are responsible for the overall effective functioning of the board.

In the past, credit unions have often lacked a permanent standing governance committee to carry out these activities or they have had multiple committees (such as policy, nominating and board development committees) that combined oversight for their various aspects of credit union governance to get the job done. The 2020 study explored the extent to which credit unions have adopted governance committees and found that credit union boards that focus on bolstering their governance tend to adopt a governance committee (see Figure 4) more readily than those that do not have a concerted focus on good governance.

A significant majority of surveyed credit unions (86%) that hired an external governance advisor also have a governance committee,⁸ with the remainder of our sample much less likely to have a governance committee (46%). Given the tremendous value of having a governance committee, it is perhaps not surprising to find that credit unions with governance committees are also taking additional steps to bolster their governance, such as engaging outside advice to support their efforts.

Figure 4: Credit union boards typically adopted governance committees if they worked to improve board effectiveness. (n=174)



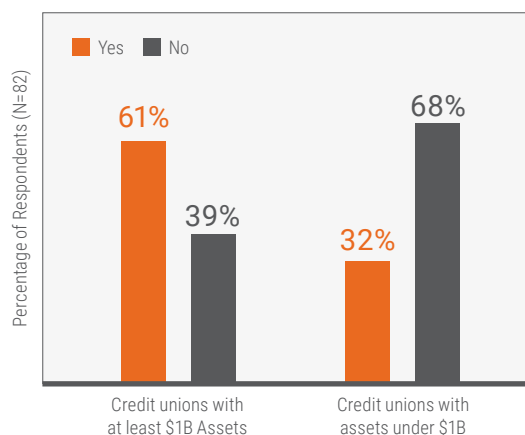
⁸ We were able to identify which of our survey participants had engaged Quantum Governance to provide governance advisory services.

Size also matters. A 2012 study of the state of U.S. credit union governance found that just 23% of credit unions surveyed had a governance committee, with larger credit unions (i.e. with more than 10,000 members) more likely to have a governance committee (33%), compared to smaller credit unions (6%) (Goth et al., 2012). The 2020 results confirmed these trends (see Figure 5). Among the credit unions that had not retained external governance advice, smaller credit unions (under \$1 billion in assets) are much less likely to have governance committees (32%) than larger credit unions (61%).

A formal governance committee provides boards with a specialized forum in which to oversee critical issues, including nominations and renewal,

monitoring board performance and ensuring that board policies and procedures are relevant and up to date. These are all deeply important tasks regardless of a credit union's size.

Figure 5: Governance committees are more common among boards of large credit unions. (n=82)



Board Renewal

You may be getting four elements of board renewal wrong.

Challenges with board renewal have consistently surfaced in previous research conducted by the Johnston Centre and in the 2018 report as well. A board is only as good as the directors serving on it, yet 58% of credit unions have at least one director who thinks their board does a poor⁹ job at attracting candidates with the right skills. It may be tempting to dismiss one director's point of view as a simple outlier; after all, everyone has worked with someone who seems to disagree as a matter of principle. It is

critical, however, not to dismiss any board member's perspective, perhaps most of all when their opinions run counter to the crowd. In this case, at least one board member in a majority of the credit unions we surveyed believes that their board is failing at attracting effective new candidates. If one of those directors is in your boardroom, what can you learn by listening carefully to his or her point of view?

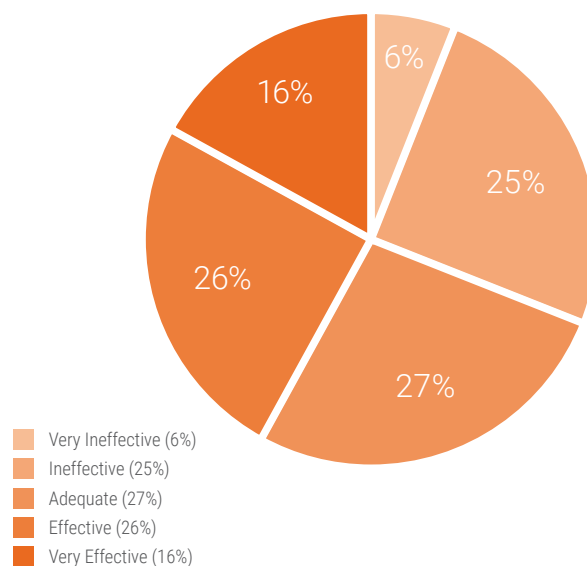
⁹ A rating was considered "poor" when a director ranked their board's effectiveness as either "ineffective" or "very ineffective" on the governance assessment.

In fact, even when there is consensus among board members that more effective renewal is in order, change in board composition is often very slow and difficult to achieve (Fullbrook & Spizzirri, 2015). Directors often express a lack of confidence in their current renewal processes, doubting that they will bring the needed improvements. Still others express concerns that a carefully crafted culture (generally after decades) may be put off-balance with the addition of even one new director.

When looking closely at the 1,060 director responses in our sample, we found that directors on the same board would often report very different—and sometimes opposing—perspectives on their board’s effectiveness in fundamental areas of board renewal. Indeed, most credit unions (between 61% and 78% depending on the element of renewal) have at least one director who reports that their board does a poor job on four of these fundamentally important elements of board renewal:

assessments can be used to identify gaps in skills or expertise and thereby inform the board member nominations process.

Figure 6: How effective is the board at conducting a periodic board assessment? (n=936)



1 Periodic governance assessments

Credit union board members tend to have very different perspectives on the effectiveness of their governance assessment processes. Indeed, almost a third (31%) of surveyed directors believe their process is ineffective or very ineffective (see figure 6).

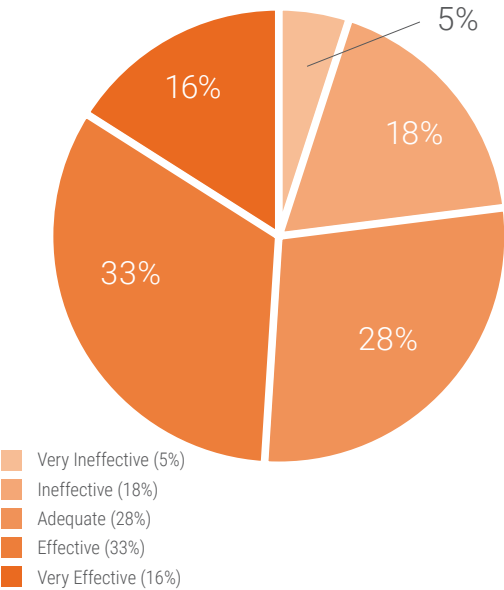
However, regular governance assessments can help boards, working in constructive partnership with the credit union’s CEO and senior staff, as well as the supervisory/audit committee, become more aware of their performance and, ultimately, more accountable. The outcomes from such

2 Action plan based on governance assessment outcomes

As mentioned above, governance assessments can help identify potential areas for improvement. However, 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 (See Figure 7). Without concrete, actionable insights that lead to measurable improvements, governance

assessments are at best a waste of time and money. At worst, lack of follow-up on assessments will lead to a lack of trust that the board will hold itself accountable for its performance.

Figure 7: How effective is the board at making changes in response to periodic assessments? (n=423)



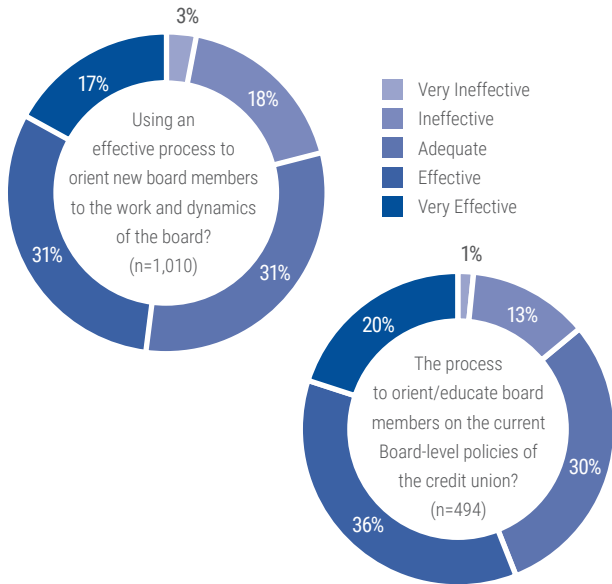
3 The director onboarding process

The process to onboard new directors is critical because it provides them with the initial information and the relationships they need to effectively fulfill their roles and responsibilities. In far too many cases, we have heard directors say their boards do only the bare minimum to prepare new board recruits. Indeed, a significant number of board members believe their boards must improve their current onboarding process (see Figure 8).

An effective onboarding process should last a full 12 months at a minimum and go far beyond meetings with and trainings provided by the senior staff. Yes, these elements are important, but effective onboarding programs should go much further and include additional components such as: 1) individual meetings with the chair and other board members; 2) access to and briefings on vital documentation, including strategic plans, current financials, updated by-laws, board-level policies, an effective board member job description and more; 3) ongoing mentoring by a more tenured member of the board; 4) regular check-ins by the chair; 5) appointment to a board-level committee at an appropriate time; and 6) ongoing access to, and regular participation in, internal and external professional development.

Figure 8: Using an effective process to orient new board members to the work and dynamics of the board? (n=1,010)

The process to orient/educate board members on the current board-level policies of the credit union? (n=494)

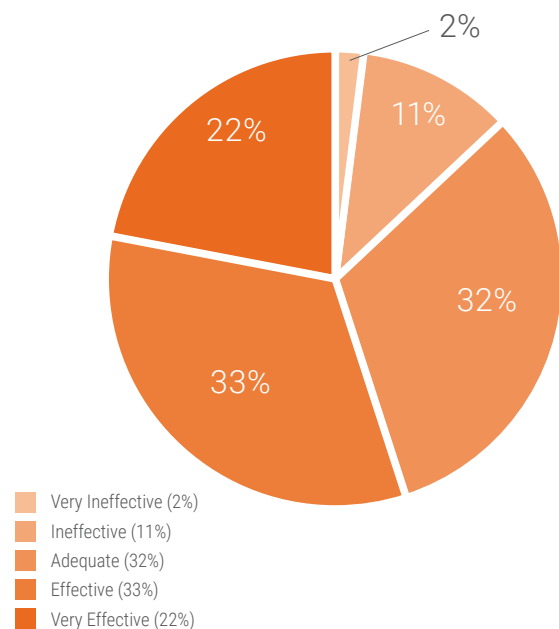




4 Frequency of board member renewal

The ideal frequency of board renewal will vary from one credit union board to another, but it is still critical for credit union boards to inject new perspectives into the boardroom on a fairly regular basis. We found that almost a quarter of credit union board members have been on their respective boards for at least 20 years. This is about two times the average of the 1,060 directors in our sample (11.7 years). Perhaps this is due, in part, to directors lacking confidence in the board's ability to effectively renew itself (see Figure 9). However the question that all boards should ask themselves vis-à-vis board tenures is this: What is the appropriate balance of historical continuity and renewal to best position the credit union for the future? The discipline of regularly renewing board membership appears to pay real dividends over time, especially when attention is paid to striking the right balance between that renewal and historical continuity.

Figure 9: How effective is the board at attracting people who have the right skills? (n=1,033)



BOARD LEADERSHIP

The chair is perhaps the most under-valued position in the credit union. The chair is responsible for helping to craft effective agendas, facilitating meetings, getting the most out of each board member and serving as the main interface between the board and the CEO. It is difficult to overstate the importance of this role.

The Role of the Board Chair

The chair has seven core responsibilities.

While most board chairs ascend to the role with little to no training, we found there was a remarkable degree of agreement among directors, board chairs, senior staff and CEOs on the top seven functions of a board chair. These top responsibilities can be placed into two categories: 1) establishing processes (e.g., allocating time, setting the agenda and facilitating meeting participation) and 2) working with people (e.g., appointing committee members and committee chairs). Both help ensure that boardroom discussions are productive and that the board can carry out its responsibilities as effectively as possible. The chair also serves as the key liaison between the board and the CEO—working to ensure a healthy constructive partnership and setting clear parameters on the supervisory role of the board. The end result is ensuring that the board keeps its eye on the strategic horizon and its focus “out of the weeds.”¹⁰

According to the study’s respondents, the top seven functions of the board chair are the following:

1 Establishing the board meeting’s agenda

The chair, working in constructive partnership with the CEO, helps to craft the flow of the meeting and decides which topics will be covered in the board meeting—and how much time will be spent on each. This is a critical role given the need to balance central strategic matters with fiduciary oversight.

2 Managing time effectively

During board meetings, the chair is the key facilitator and is responsible for keeping conversations on track and making adjustments

as necessary to ensure that presentations, discussions and decisions are given appropriate attention. Given the need for the board to focus on effective decision-making, this is a critical role entrusted to the chair.

3 Communicating between the board and CEO

The chair is the board’s main point of contact with the CEO. It is up to the chair to ensure that the board/CEO constructive partnership is effective and that all key elements of the governance structure are appropriately informed at all times.

¹⁰ The survey findings on board chair responsibilities are not meant to be a definitive job description for the chair of the board. An example of a contemporary credit union board chair job description is provided in Appendix 3.

4 Keeping the board “out of the weeds”

The chair also plays a vital role in safeguarding that the roles of the board and CEO/senior staff are sufficiently distinct and in keeping the board’s involvement at an appropriate, strategic level whenever possible.

5 Appointing committee chairs

For most credit union boards, the board chair’s role includes the authority to select and appoint the chairs of the board-level committees. This appointment power is one of the most significant elements of the chair’s authority.

6 Appointing committee members

In general, the chair is also responsible for selecting the members of the board-level committees, ensuring that they have the appropriate expertise to function effectively. (Some boards also ratify the members of certain committees, such as governance committees.)

7 Facilitating board member participation

The board chair is responsible for fostering the participation of every individual board member. This requires a difficult balance of relationship building, time management, tact and candor.

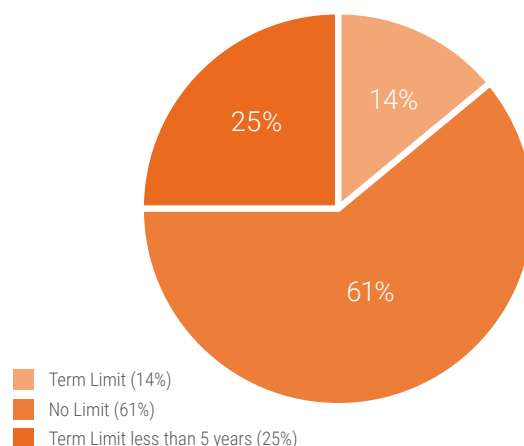
Board Chair Term Limits

Credit union boards may want to reconsider board chair term limit policies.¹¹

Although most survey participants report that their credit union boards do not limit the number of terms a board chair can serve (see Figure 10), we found that at least a third do. Term limits for board chairs can range anywhere from a year to more than 10 years. More than half of the participants whose boards have a term limit in place for their board chairs reported term limits of less than five years.

In conversation with credit union directors, the general sentiment is that it takes about two to three years to become a fully engaged and effective board chair. As we stated earlier, most credit union board chairs ascend to the position with little to no formal

Figure 10: Most survey participants indicated that their credit union board does not have a limit on the number of years their board chair can serve. (n=295)



¹¹ Only 48% of survey participants reported that their board was effective at regularly rotating board officers, including board chairs.

training and find that there is a significant amount of growth and learning that needs to take place in the first few years after assuming the position. This includes, most importantly, building an effective constructive partnership with the CEO, developing a leadership framework and culture that sets the tone at the board level and deepening the relationships that he/she has previously built with other board members, now through the board chair lens. These tasks are critical and a tall order for incoming chairs, suggesting that a maximum term of three to four years may be too short to allow the chair to flourish in the role.

On the other hand, however, 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. In cases in which a board chair is entrenched, some directors report feeling at a loss to make any requests to improve the board since it is likely not to pass the chair's approval. Thus, 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.

CREDIT UNION BOARDS ARE IMPLEMENTING CHAIR SUCCESSION PLANS

A succession plan for the board chair can manage the risks of a shorter term limit for the board chair. One credit union board, for example, has a chair succession process that helps prepare a successor to assume his or her role as board chair. The board starts by appointing a 1st vice chair and a 2nd vice chair who are in line to become the chair. The 1st vice chair shadows the chair for three years, which enables the person to become accustomed to the unique responsibilities of the board chair and, therefore, eases eventual transition into that role.



Alignment Between the Board and CEO

Good governance goes beyond a good relationship between the board and CEO.

A healthy relationship between the CEO and the board is critical to effective oversight of the credit union and its performance. We took a close look at how the board and the CEO perceive this relationship, and whether they share the same sentiments about the effectiveness of their credit union's governance.

The good news is that an overwhelming number of board members report that their board is effective at maintaining a good working relationship with the CEO (92% of all board responses).

The 2018 report found, however, that the average board member and CEO differed on how effective they thought their boards were on a range of key governance measures. Indeed, there was significant disagreement between the board and CEO on 86% of key survey questions in 2018. It is important to acknowledge this gap in perception between the board and the CEO. If the gap is ignored, it can destroy the integrity and trust of this relationship and compromise the ability to collectively govern and lead the credit union.

In the 2020 report, we explored this dynamic further with a larger dataset—115 credit unions compared to 70 in 2018, including 81 credit unions from which we had responses from both the CEO and the board, more than in the 2018 survey.

In 2020, across the full sample of 81 credit unions, we found that there's disagreement between the board and CEO regarding the board's effectiveness



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IN AGREEMENT ON HOW THE
BUSINESS LANDSCAPE IS
CHANGING, FOR EXAMPLE,
OR WHAT MATTERS TO OUR
CUSTOMERS, THEN WE CAN
PLAN TO TAKE ACTION.**

—CUES member John Janclaes, CCE
President/CEO, Partners Federal Credit Union

SUPERVISORY/AUDIT COMMITTEES: A KEY PIECE OF THE GOVERNANCE PUZZLE

With supervisory/audit committees playing a critical role in the oversight of the credit union and its financial health, it is important to review their governance effectiveness. In a series of 12 questions about the performance of their supervisory/audit committees, over 80% of a sample of nearly 1,300 credit union board members, senior staff and supervisory committee members rated their supervisory/audit committees as either “effective” or “very effective” overall. Only seven participants (a tiny 0.5%) rated their supervisory/audit committees as “very ineffective.” These results hold true no matter which group we observed, with all parties demonstrating very high confidence in their supervisory/audit committees’ performance.

on average of 22 out of 49 survey questions.^{12,13} In fact, many individual credit unions demonstrated even larger disparity—20 of them disagreed on 39 questions or more. In a few cases, CEOs were more confident in the board’s effectiveness than the boards were in themselves, but usually the opposite was the case. It is perhaps not surprising for CEOs to have high expectations of their boards given their day-in, day-out exposure to the operational realities of the organization. Nonetheless, these gaps in perceived effectiveness are crucial opportunities for discussion and ongoing improvement. While a board may never achieve perfect alignment with the CEO, ongoing efforts to identify gaps—both real and perceived—will have a significant impact in mutual confidence between board and senior staff.

¹² Survey participants assessed the board’s effectiveness on a five-point scale ranging from “very ineffective” to “very effective.” In this analysis, “disagreement” means that the CEO assessed the board as “effective” or “very effective,” while the average of board responses ranged from “adequate” to “very ineffective,” or vice versa. In short, the one party indicated that the board is “effective” and the other did not.

¹³ Survey categories included vision, mission and strategy; bylaws and board policies; board structure and composition; fiduciary oversight; governance and leadership, and supervisory/audit committee. For the purposes of this analysis, we excluded questions about the effectiveness of the supervisory/audit committee.



STRATEGY

Of all of the roles and responsibilities held by Board members, none is so primary as setting the strategic vision or direction for the credit union and asking the right questions—and making the best decisions—to ensure that the credit union is headed in the right direction. While seemingly simple tasks to undertake, our study found that often these can be among the most difficult.

Strategic Dialogue

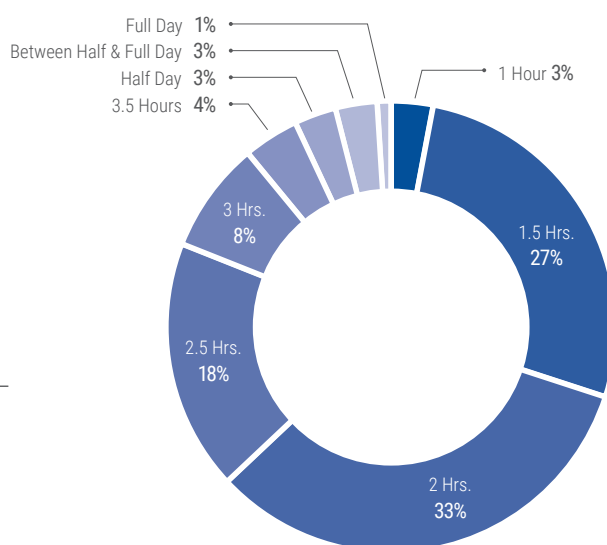
Directors need to invest more time in strategic dialogue.

For credit unions, unforeseen issues can come from all corners—including new technologies and changes in regulation, shifts in demographics and an inability to attract or keep talent in the C-suite.

By definition, one of the primary roles and responsibilities of all credit union board members (working in constructive partnership with the CEO and senior staff) is to spend time scanning the horizon to see where the organization should be headed and how it can get there. These strategic discussions can help credit unions become more vigilant, identify risks and opportunities, and adapt to imminent change. However, 32% of survey respondents do not feel that their board is effective in helping to develop the credit union's vision, mission and strategy. Many directors also believe they are spending too much time “in the weeds”—reviewing compliance policies, approving progress reports and addressing operating issues—to the detriment of time spent on important strategic matters.

We found that credit union board meetings can last anywhere from an hour to a whole day, with the majority of credit union board meetings lasting between 1.5 to 2.5 hours (see Figure 11). Directors say they spend as much as 60% of that time on operational oversight issues rather than strategic ones: reviewing financial results, assessing the

Figure 11: How long are your board meetings? (n=314)



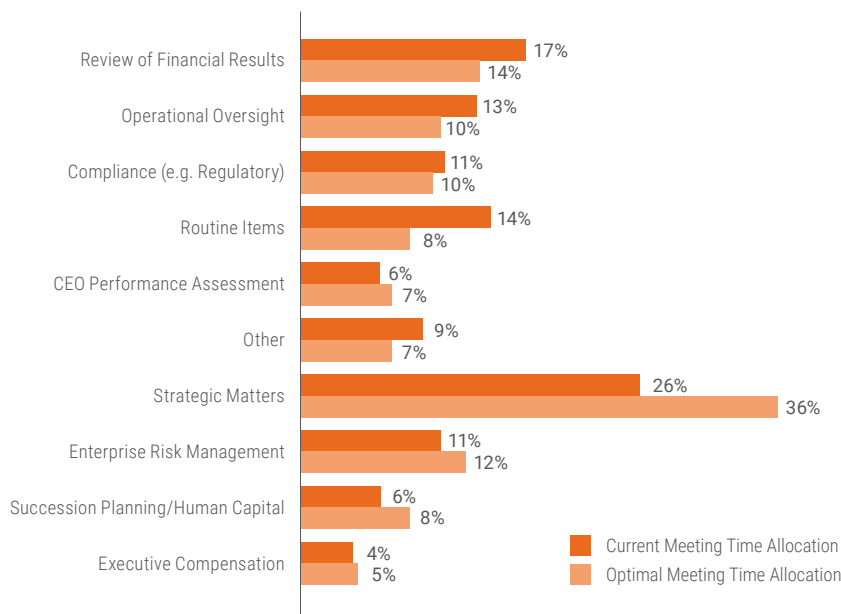
performance of management, ensuring regulatory compliance and providing operational oversight. In contrast, only 26% of their time is devoted to reviewing matters of strategic importance (see Figure 12). A review of credit union board meeting agendas and minutes suggests that even this 26% might be an overestimate. Further, some directors may include the time they spend on strategic issues during their annual retreats in their overall tallies, with little time actually being dedicated to strategic matters in their regular, monthly board meetings.

Nonetheless, board members clearly recognize the importance of investing in strategic thinking, learning and planning: As mentioned earlier, “an ability to focus on the future” was ranked as the number one skill that added the most value in the boardroom by 76% of survey respondents.

Moreover, nearly 87% of credit unions devote at least one meeting a year exclusively to strategy (for example, an annual strategic planning retreat). Despite dedicated strategic planning retreats, we found that 36% of survey respondents believe their board can do more to be effective in striking the optimal balance between strategic and operational discussions.

Most survey respondents say they should slash—by a third—the average time they spend on routine items and operational oversight (i.e., items that do not require debate or can be approved with a single motion as on a consent agenda)¹⁴ and invest an average of 10% more of their time on strategic matters (see Figure 12). Surprisingly, this was the case regardless of the length of board meetings; even those respondents with longer-than-average board meetings were not satisfied with the

Figure 12: What percentage of time does your board allocate to each of the following items at a typical board meeting? (n=320)



¹⁴ A consent agenda groups routine credit union operational items into one agenda item under the term “consent agenda,” which is then approved in one motion, rather than multiple motions to approve each agenda item. Consent agendas are used to save boards time and increase the efficiency of their meetings.

proportion of their meetings devoted to strategic discussions, even though in terms of actual time, they spend much more time on strategy than those with shorter meetings. Although relatively few survey participants reported meeting times of an hour (11 respondents) and more than half a day (11 respondents), the data suggests that the board is likely to spend more of its time on operational issues if the meetings are longer than half a day, compared to those with meetings of an hour. Indeed, an average of 27% of meeting time is spent on strategic matters for one-hour meetings compared to 19% for meetings lasting longer than half a day. Moreover, even though larger credit unions (with an asset size of \$1 billion or more) spend 6% more time on strategic matters than smaller credit unions (with an asset size less than \$1 billion), they nevertheless believe that a greater amount of time should be devoted to strategic matters.

There are many reasons boards may struggle to focus on strategic versus operational issues despite recognizing the value of being strategic. Directors may have been groomed in traditional schools of thought that recommend spending the first half of meetings on more operationally focused items, while leaving other topics to the latter half. Expansive discussions on prioritized business items can limit time for strategic discussions. It is also easy for board members to get trapped in their “comfort zone” and focus on reviewing fiduciary matters, for example, because these items are relatively easy to address with a measure of precision.

As such, boards should become more deliberate in allocating time to strategy on a regular basis, and board chairs and the CEO must collaboratively master the fine art of developing agendas to foster such dialogue in the boardroom. A number of techniques can help directors perform routine activities. For instance digital technologies can be used to approve budgets or conduct trainings; deploying meeting tools such as consent agendas and dashboards can speed the transfer of data and reports.



DECISION-MAKING

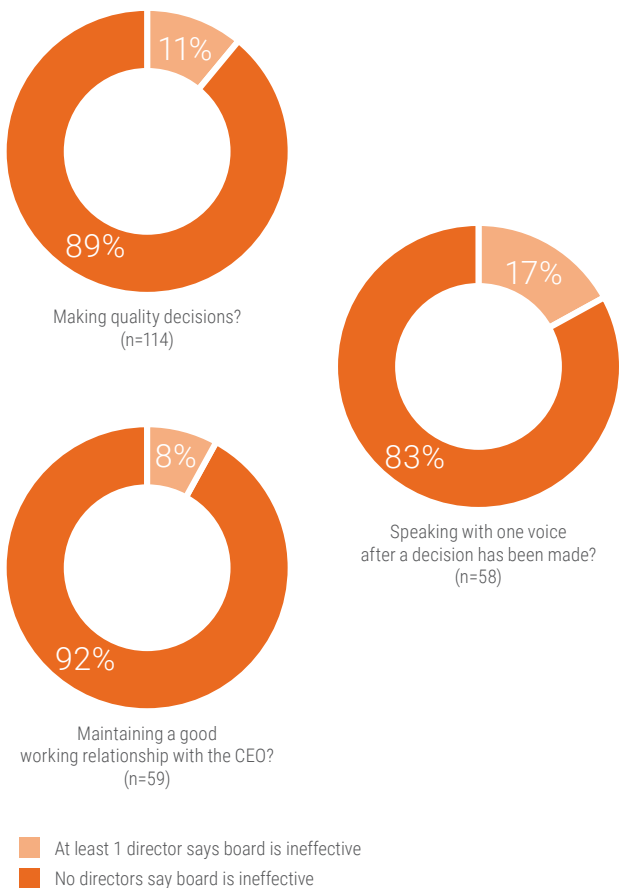
A diversity of perspectives is a board’s greatest strength, but it can also add complexity to the decision-making process. While the most effective boards encourage constructive disagreement, it is also critical to build alignment around vision, mission and strategic goals.

In fact, for boards to be truly effective, they need to have a high degree of agreement (or alignment) on where the board stands in terms of its governance effectiveness and where it aspires to be in the future. We found that directors on the same board sometimes have vastly different opinions of the board’s governance effectiveness, and we explored this phenomenon further to determine if there were specific governance areas in which these differences tended to appear.

We found the widest variance of views in areas where success can be difficult to assess. For example, board renewal and the decision-making process were fraught with disagreement among board members (see Board Renewal, above). This lack of consensus may be due to a need for clarity about how to define “effectiveness” or the fact that there is not yet an established benchmark from which to assess where the board currently stands compared to where it aspires to be.

To effectively debate and arrive at good decisions, it is important that: 1) all of the voices in the boardroom are heard, 2) the hard questions are raised and 3) board members hold each other accountable. These three principles form the bedrock of effective decision-making. We found that many credit unions have at least one director who says that the board is ineffective at asking hard questions (53%), holding each other accountable (54%) and engaging all members in the work of the board (49%). Again, it may be tempting to dismiss the opinion of one dissenting director on the board, however it is critical for boards to take stock of

Figure 13: Top 3 governance areas where credit union boards agree they are effective.



non-conforming opinions if they are to govern effectively and avoid errors in judgment. It is also our experience that such a dissenting voice often speaks for others less willing to sound an alarm or offer a contrarian opinion. Furthermore, the idea that there will always be one person who disagrees is not the case in all areas (see Figure 13). When directors feel that one or more of the three components of effective decision-making are compromised, it may be more difficult for credit union boards to make good decisions.

Although boards could be better at engaging members and asking tough questions, this appears to bear little impact on the decisions they believe they are making. We found that very few boards had at least one director who questioned the board's ultimate effectiveness in making quality decisions or sticking together (see Figure 13). In other words, while directors had misgivings about how decisions are reached, most believe the decisions their boards made were ultimately good, and they could stand by them and speak with one voice.





What's Next:

OUR 2020 RECOMMENDATIONS

This year's recommendations focus on a number of big-picture issues:

First, the vital importance of board renewal and composition and how it cannot be left to chance. It is something that must be carefully developed and nurtured over time. We also touch on the evolving mix of skills and personal attributes required in contemporary credit union board leaders. **Second**, we highlight the welcome prioritization of diversity when recruiting new board members. **Third**, we address the indispensable role that board chairs must play in actively leading and managing a credit union board that wishes to be successful. **Fourth**, we address the idea of "governance effectiveness" and how it must be thoughtfully and regularly attended to if it is to be sustained. This includes crafting a shared definition of high standards as well as holding the board—and all its members—accountable to such standards. **Fifth**, we reinforce the critical need for credit union boards to continue their consequential shift towards becoming more strategic in their thoughts, questions and overall efforts.

We have framed our recommendations as a series of provocative, fundamental questions. While we recognize each credit union's situation is unique, we believe that answering these questions will help advance your governance and leadership endeavors—no matter how successful you believe your current efforts to be. We also suggest that in addressing these questions your credit union will be further along—and serve as a model for others—in addressing a number of the key governance and leadership challenges facing the credit union community today.

1 **Board Renewal: Focus on strategic thinking and independent mindedness.**

Your credit union is a complex financial institution navigating the era of greatest change in the history of the credit union movement. As a result, your board requires meaningful financial literacy, business acumen and specialized skills in such specialties as law, accounting and human resources. However, even boards with the most skilled members will fail to add value without independent mindedness and strategic thinking. What are the skills and characteristics that make board members most effective in your boardroom? How will you define and measure those skills and characteristics in advance of your next round of nominations? In what ways do you evaluate your current board members against those criteria, and how can you support their ongoing improvement in those areas?

2 **Board Diversity: Make a plan.**

More than ever, credit unions are acknowledging the value of demographic diversity among board members, including gender, race/ethnicity and age. In fact, diversity is now the number one priority in the director recruitment process. However talking about it as a priority is not enough. To ensure that your board is truly diverse, you will need to be clear in your objectives and work hard at executing them. Once you know the demographic balance you are looking for, you will need a plan to help you find the right people. Where will you look? Will you use a recruiter? How will you balance demographic diversity with the need for both technical and soft skills? What steps will you take to ensure that your diversity goals remain relevant on an ongoing basis?

3 **Board Leadership: Take your board chair position very seriously.**

Although your CEO is responsible for carrying out your credit union's strategy on a day-to-day basis, no individual in your credit union has more potential to add value than your 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. 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?

4 **Board Governance: Build alignment around what "effective" truly means.**

It is both normal and constructive for board members to disagree. One might argue that without disagreement there can be no excellent decisions. In too many cases, however, our data shows boards where one or more directors have assessed the board's effectiveness at polar opposite ends of the spectrum. How is this possible? In some cases, it could be a simple—yet extreme—difference of perspective about the board's performance. It is much more likely that there is disagreement about what "effective" really looks like. And if your board disagrees about what effective governance means, then you are likely pulling in different directions without even knowing it. How does your board define effectiveness? Does your Board have its own objectives and when was the last time you reviewed them? How effective is your board governance assessment or evaluation (if you do one—and you should) at yielding specific and actionable recommendations? How well do you follow up on those recommendations? How confident are you that you and your fellow board members are on the same page?

5 **Strategic Thinking, Learning and Planning: Invest more time in strategic matters board wide.**

The most valuable skill identified in credit union boardrooms today is the ability to focus on the future, yet we found that 32% of survey respondents do not feel that their board is effective in helping to develop the credit union's vision, mission and strategy. And, even though most think that they should cut — by a third — the average time they spend in board meetings on operational issues to prioritize strategic ones, the focus for most credit union board meetings remains largely fiduciary in nature. With setting the strategic vision, mission and strategy of a credit union squarely in the role and responsibility of the board (working, of course, in constructive partnership with the CEO and senior staff), ask yourselves these questions: How strategic is your board? Do you prioritize an 'ability to focus on the future' during your board renewal efforts? What percentage of your board meetings focus on fiduciary versus strategic matters? What percentage should? Is your board meeting its responsibilities in the area of strategy? If not, what adjustments can you make so that it can?

We also encourage you to revisit the recommendations from the State of Credit Union Governance, 2018, as they remain, still, highly relevant today. You can download the report at cues.org/GovernanceReport2018.

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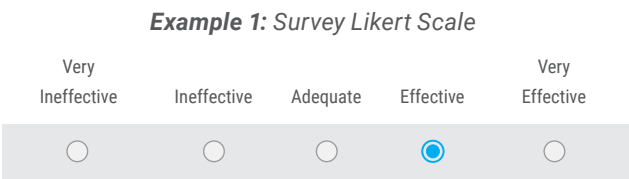
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APPENDIX 1 - Methodology

The 2020 report includes findings and insights from data collected by Quantum Governance through credit union governance assessments performed between 2013 and 2019.

Governance Assessment Survey Tool

Quantum Governance’s governance assessment survey tool is organized into six key survey sections: 1) vision, mission and strategy; 2) bylaws and board policies; 3) board structure and composition; 4) fiduciary oversight; 5) governance and leadership; and 6) supervisory/audit committee. Each of the six survey sections includes multiple-choice questions derived from generally accepted credit union governance best practices and processes. The survey asked a series of questions on the board’s effectiveness using a five-point Likert scale (Example 1).



The data collected through Quantum Governance’s governance assessments from January 2013 through September 2019 include responses from 114 U.S.-based credit unions in 33 states and the District of Columbia and one credit union from Jamaica (Figure 1). The credit unions ranged in size from \$51.9 million in assets to \$11.9 billion, with 49% of the respondents reporting assets of \$1 billion or greater (Figure 2).

Figure 1: Credit union responses by state. (n=115)

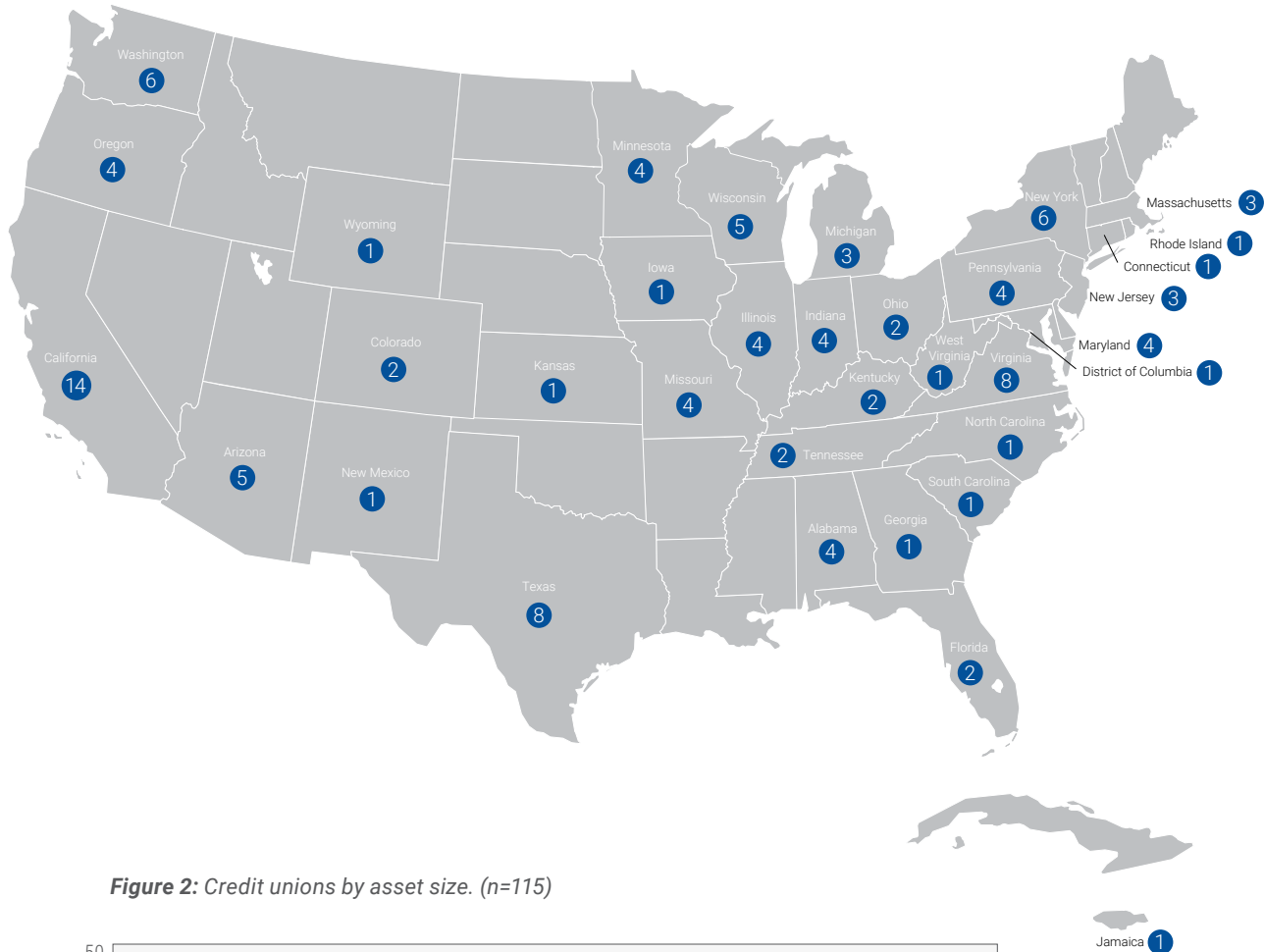
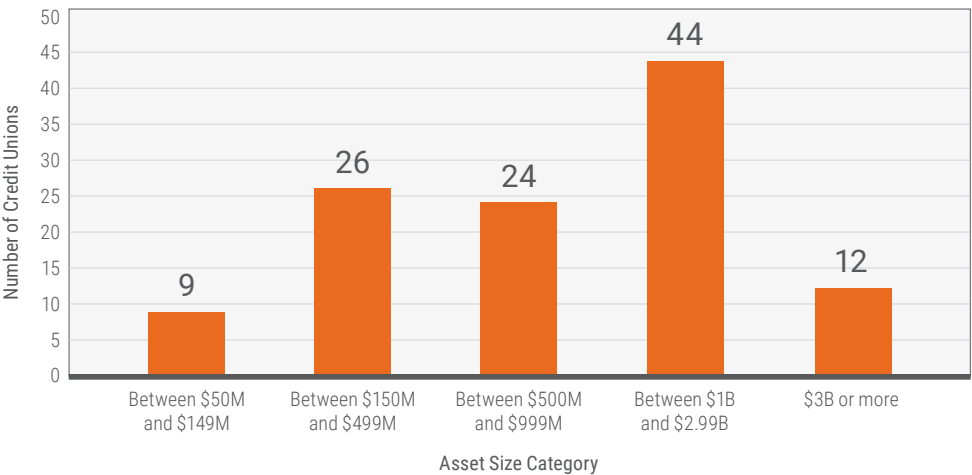


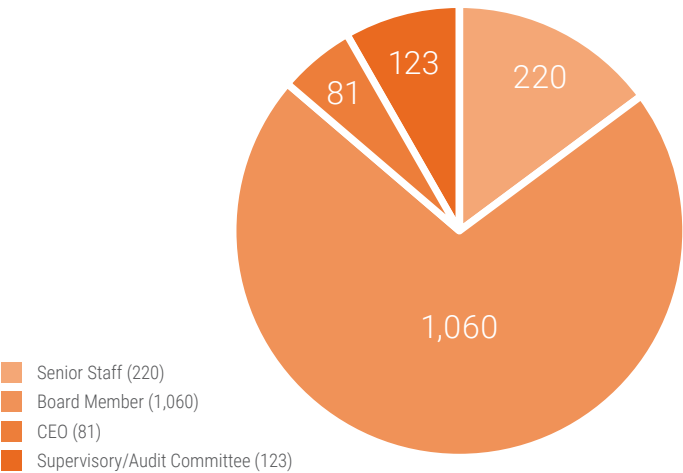
Figure 2: Credit unions by asset size. (n=115)



Participant Roles

The credit union governance assessments conducted by Quantum Governance comprise responses from 1,060 board members, 220 senior staff, 123 upervisory/audit committee members and 81 CEOs. Senior staff responses do not include CEO responses (Figure 3).

Figure 3: Credit union evaluations completed by position. (n=1,484)



Participant Ages and Tenure by Role

Board members tend to be older than all other survey participants with an average age of 60 years. CEOs and board members are more likely than senior staff and supervisory/audit committee members to have longer tenures as well. Comparing the average tenure of board and supervisory/audit committee members indicates that there is higher turnover on supervisory/audit committees. Indeed, board members sit an average of 4.3 more years on credit union boards than supervisory/audit committee members in their positions (Table 1).

Table 1: Average Participant Age and Tenure at Credit Union

| | Count | Average Age | Average Tenure |
|------------------------------------|-------|-------------|----------------|
| Board Member | 1,060 | 60.0 | 11.7 |
| CEO | 81 | 55.4 | 12.0 |
| Staff (non-CEO) | 220 | 50.8 | 7.8 |
| Supervisory/Audit Committee Member | 123 | 56.6 | 7.4 |

Board Size

The average board in this study has 9.1 members. Larger credit unions report more board members on average than their smaller counterparts (Table 2). Credit unions with at least \$3 billion in assets had on average of 1.4 more board members than credit unions with less than \$150 million in assets.

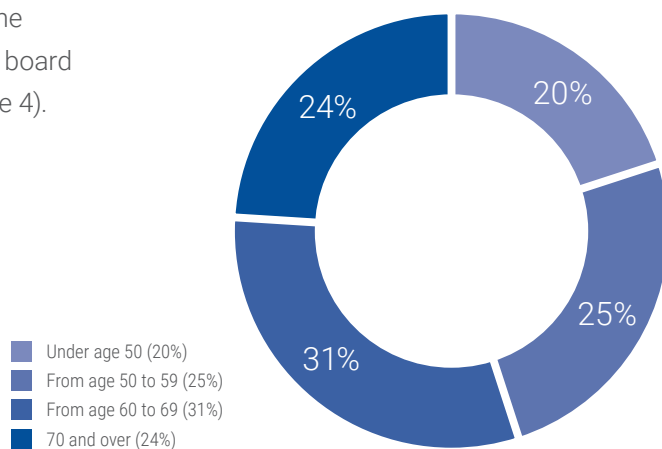
Table 2: Credit Union Average Board Size by Asset Size (n=1484)

| Asset Category (\$) | Average Board Size |
|---|--------------------|
| Between \$50 million and \$149 million | 8.0 |
| Between \$150 million and \$499 million | 9.3 |
| Between \$500 million and \$999 million | 8.6 |
| Between \$1 billion and \$2.99 billion | 9.7 |
| \$3 billion or more | 9.4 |

Board Member Age

The average age of a board member participant is 60 years old. The youngest is 25 and the oldest reported being 93 years old. Most board members are at least 60 years old (Figure 4).

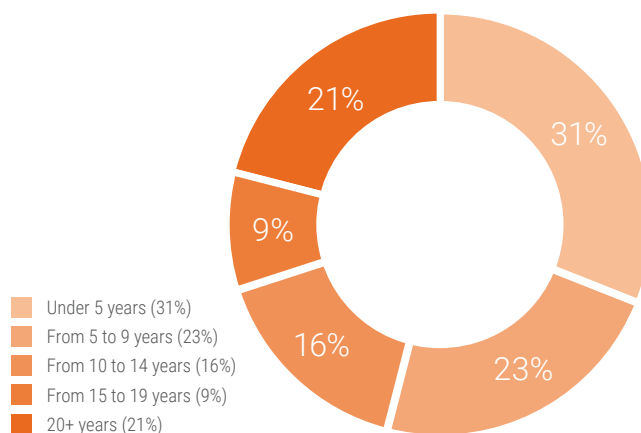
Figure 4: Credit union supervisory/audit committee by age. (n=993)



Board Member Tenure

Board members represent a diverse mix of service tenures. Almost a quarter of board members have served on their respective boards for at least 20 years. This is about two times the average. Indeed, the average board service is 11.7 years, while the median is eight years (Figure 5).

Figure 5: Credit union board members by tenure. (n=1,015)



Credit Union Online Survey Data, 2019

The Johnston Centre, in partnership with Quantum Governance and CUES, developed a confidential online survey delivered to CUES members and Quantum Governance clients from August to September 2019. The full survey questionnaire is provided in Appendix 4. Details on the survey participants are provided below.

Credit Union Country and Asset Size

All survey responses were from the U.S. The responses received were from boards of credit unions with diverse asset sizes. Approximately 25% of the participants represented credit unions with asset sizes of less than \$500 million and 20% represented credit unions with asset sizes of at least \$3 billion (Figure 6).

Figure 6: Survey participants by credit union size. (n=320)

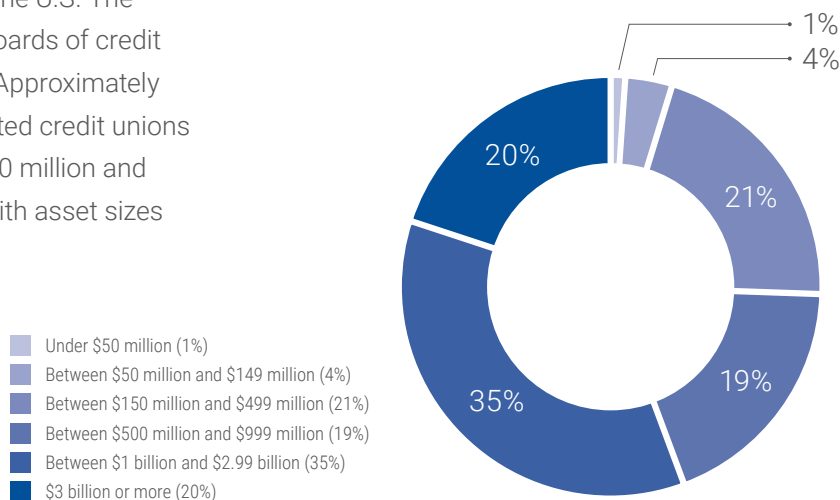
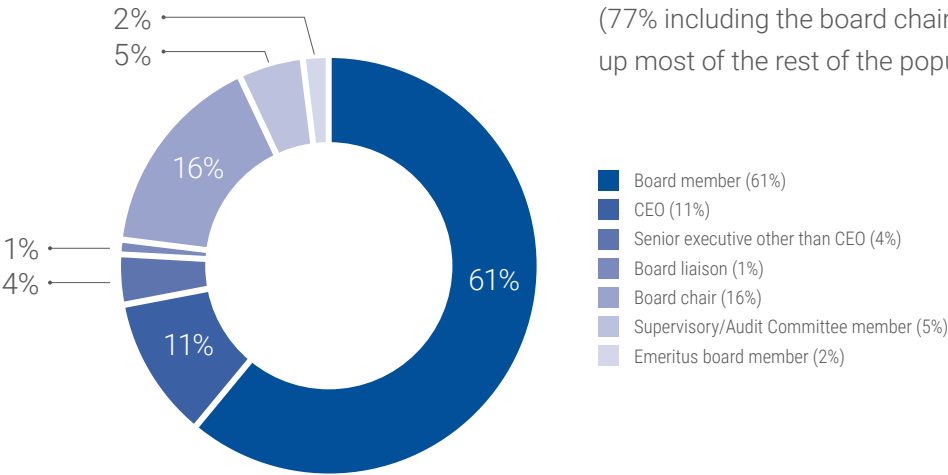


Figure 7: Survey participant roles. (n=320)



Participant Board Size and Demographics

The average size of surveyed boards was 9.1 members. Larger credit unions also have larger boards. Indeed, credit unions with over \$1 billion in assets have an average of one director more (9.37) than their smaller counterparts with \$500 million in assets (8.22).

Survey participants reported having an average of 3.3 female directors on their boards (see Table 3). This represents 36% of the average board size (9.1). Directors under 50 years of age represent an average of 26% of the average board size. Furthermore, directors of a visible minority represent an average of just over 16%.

Table 3: Credit Union Average Board Size by Asset Size.

| | Average number of board members |
|------------------|---------------------------------|
| Board size | 9.1 |
| Female | 3.3 |
| Visible minority | 1.5 |
| Under 50 | 2.4 |

APPENDIX 2 - Governance and Nominations Committee Charter

Description

The Board of Directors ("Board") of [[CUName]] ("Credit Union") has determined that it is appropriate to form a Governance and Nominations Committee ("Committee") that shall be a standing committee of the Board. The Committee will help ensure that the Board provides outstanding leadership and operates according to the most effective governance practices available. This Charter ("Charter") describes the Committee's purpose and scope of authority, meeting schedule, membership, committee chair role and interaction with the Chief Executive Officer ("CEO") and senior management team of the Credit Union.

Purpose

The Committee is responsible for ongoing review and recommendations concerning the governance of the Credit Union to enhance the leadership quality, effectiveness and strategic impact of the Board and all elements of the governance structure, and to refresh and renew the Board through a thoughtful Board member nominations and development process. The role of the Committee is not to transcend the authority of the Board, but to help ensure that the Board and the Credit Union will be governed and led as effectively as possible.

Authority

This Governance and Nominations Committee Charter is adopted by majority vote of the Board pursuant to the Credit Union's Bylaws.

{PLEASE NOTE: Credit unions are organized under a dual system of Federal and state laws. Please chose

the appropriate option applicable to your Federal or state-chartered credit union—Option A or Option B.}

{Option A: Federally Chartered Credit Unions—If adopted, remove italics.}

This Committee is established in accordance with applicable laws and regulations, specifically the Federal Credit Union Act ("Act") of June 26, 1934, as amended, Chapter 14, Title 12 U.S.C., as revised April 2013 as 12 CFR Part 701 et seq., Credit Union and Operation of Federal Credit Unions. Federal Credit Union Bylaws are incorporated into the National Credit Union Association's ("NCUA") Regulations and are found in Appendix A to Part 701 and the duties of the Governance and Nominations Committee are found in the Model Credit Union Bylaws, Article V—Elections.

The authority of the Committee also derives from the Credit Union's Bylaws, which are in conformance with the NCUA Model Credit Union Bylaws. This policy is not intended to be a replacement of, but rather a supplement to, the duties listed in Article V of the Credit Union's Bylaws.

{Option B: State-Chartered Credit Unions. If adopted, remove italics.}

The authority of the Committee is established by majority vote of the Board and flows from the Credit Union's Bylaws and the applicable state laws and regulations.

Meetings

The Committee shall meet as often as its efforts require, but no fewer than three (3) times per year.

Members

Members of the Committee shall be elected by a majority vote of the Board annually for terms of one (1) year after receipt of nominations from the Board Chair. Members of the Committee may be re-nominated for succeeding one (1) year terms.

There shall be at least three (3) voting members of the Committee, and they shall serve one (1) year terms. The Committee shall include at least three (3) sitting members of the Board, and it may also include one (1) or two (2) independent members (such as past members of the Board, Credit Union members, etc.). The Board Chair and CEO shall serve as non-voting, ex-officio members of the Committee.

Governance and Nominations Committee Chair

A Committee Chair shall be [Option A “elected by the members of the Committee from amongst their Committee members”] or [Option B “appointed by the Board Chair”]. In the absence of the Committee Chair, the members of the Committee can appoint a temporary Acting Chair to lead Committee meetings and transact such business as is necessary to fulfill the Committee’s charge.

The Committee Chair will:

- Attend Board meetings
- Serve as a vital catalyst to the Board Chair, the Board and the Credit Union on Board governance and leadership practices
- Establish the agenda for each Committee meeting
- Lead and manage the Committee’s affairs to foster exceptional board practices in the best interests of the Credit Union and its members

Role of the CEO

The CEO has an important role in the Committee’s activities and success. It makes sense for the Committee to work closely with the CEO, but he

or she should not control or unduly influence the Committee’s recommendations or proceedings. The CEO will assist the Committee by helping to:

- Identify the Board’s current and future needs
- Ensure the best composition of the Board by working to identify, suggest and retain effective Board members
- Create good Board agendas
- Conduct effective Board meetings
- Orient, educate and develop Board members and leaders
- Advise the Board of key Credit Union issues, changes or trends

Charge of the Committee

The Committee will primarily focus its efforts in six key areas:

1. Board Role and Responsibilities

- Lead the Board in regularly reviewing and updating the Board’s members’ statement of their legal duties, role and responsibilities
- Assist the Board in periodically updating and clarifying primary areas of focus for the Board, including the Board’s calendar and the overall agenda congruent with the Credit Union’s strategic plan
- Ensure elections and the Credit Union’s governance are consistent with the Credit Union’s Bylaws and all applicable federal and state regulations
- Regularly report to the Board on the Committee’s deliberations, nominations and recommendations

2. Board Composition and Structure

- Develop a profile of the current Board, as well as a profile of the “Ideal Board of the Future,” and actively assist the Board to strategically evolve towards the ideal profile over time
- Lead in assessment of the current and anticipated needs for Board composition and structure—including the drafting and updating of all other committees and task force charters.
- Identify, nominate and help to develop Board officers and Board members, as well as all Board committee and task force members

3. Board Knowledge and Development

- Help to identify appropriate levels of experience, skill and knowledge necessary for the effective governance of the Credit Union
- Develop, implement and oversee a formal process of orientation for new Board, committee and task force members before—or as soon as reasonably possible thereafter—their election or appointment
- Design, implement and coordinate a robust and ongoing program of Board, committee and task force education

4. Governance, Board and Committee Effectiveness

- Initiate a periodic assessment of the Board’s performance—as well as the performance of Board committees and task forces. Propose, as appropriate, changes in structure, roles and responsibilities
- Provide strong advice and counsel to the Board Chair, Board members, Committee members and the CEO and senior management team on steps they may take to enhance the Credit Union’s overall governance effectiveness
- Regularly review the Credit Union’s practices regarding Board member engagement, attendance, conflicts of interest, confidentiality, etc. and suggest improvements as needed
- Periodically review and update Board-level policy guidelines, procedures and practices

5. Future Board Leadership and CEO Succession

- Take the lead in the succession planning for Board officers, as well as recruitment and preparation for future Board leaders and members
- Ensure there is an updated CEO succession plan in place at all times
- Help ensure Board leadership appropriately coordinates and transfers its governance practices, approach and philosophy with all other Credit Union governance elements and structure

6. Delegated Responsibilities

- Other responsibilities explicitly delegated to the Committee by the Board

Board Authorization

This Governance and Nominations Committee Charter was approved by the Board at a meeting dated _____

Secretary of the Board

Date

APPENDIX 3 - Board Chair Job Description

[CU Name] Board Chair Job Description

Description

This policy sets forth the description of the role and responsibilities of the Chair (Chair) of the Board of Directors (Board) of [[CUName]] (Credit Union).

Purpose

As a vital leader of the Board, the Chair is the manager and coordinator of the Board's activities. The Chair is an ambassador for the Credit Union and, when deemed appropriate by the Board, is the public spokesperson for the Board. The Chair appoints Board members to Committees, provides leadership, works to increase Board effectiveness in both governance and strategy, ensures the efficient and effective management of Board operations, and promotes a constructive partnership among the Board, the [[SUPERVISORY-AUDIT]] Committee and the Chief Executive Officer (CEO) and senior management team.

Authority

This policy is adopted by majority vote of the Board pursuant to the Credit Union's Bylaws. The authority of the Chair is established by majority vote of the Board through officially electing one of its own as "Chair." The authority of the Chair flows from the Bylaws of the Credit Union, applicable Federal and state laws, this Board Chair Job Description as well as any internal policies or procedures of the Credit Union articulating the role and responsibilities of the Chair.

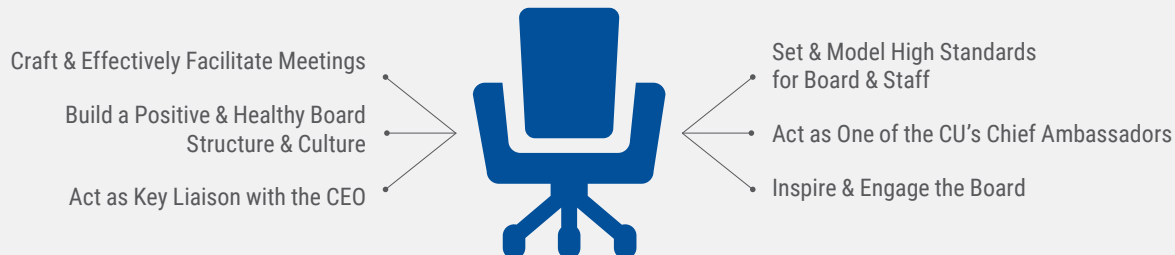
Duties of the Chair

Article VI, Section 3 of the National Credit Union Association's Model Credit Union Bylaws contains a brief description of the duties of the Chair:

"The chair presides at all meetings of the members and at all meetings of the board, unless disqualified through suspension by the supervisory committee. The chair also performs other duties customarily assigned to the office of the chair or duties he or she is directed to perform by resolution of the board not inconsistent with the Federal Credit Union Act and regulations and these bylaws."

In addition to these duties, the Chair is responsible for helping to craft effective Board meeting agendas (in constructive partnership with the CEO), building a positive and healthy Board structure and culture, setting and modeling high standards for both the Board members and staff, acting as one of the Credit Union's chief ambassadors, and inspiring and engaging the Board members. The Chair role is that of a facilitator of the group process, and the Chair's leadership should not supplant nor limit the collective responsibility of the Board members to individually and independently perform their own duties.

The Chair should serve as a key liaison to the CEO. It is important to note that the Chair is not the supervisor of the CEO, and the CEO does not report to the Chair individually. Rather, the CEO reports to the Board as a whole. The Chair should work collaboratively with the CEO to forward the Board's work efforts.



Responsibility

The Chair carries out his or her important leadership role and responsibilities by ensuring the effective execution of vital governance efforts in six key areas. The Chair will:

Craft and Effectively Facilitate Meetings

- Set the agenda for Board and Executive Committee meetings in concert with the CEO
- Call to order and preside over meetings of the Board and the Executive Committee, in accordance with the Credit Union's policies and procedures, as well as in compliance with applicable Federal, state and local laws and regulations
- Encourage and expect full and robust participation of Board members at meetings
- Help to maintain a healthy balance between operational and strategic discussions

Build a Positive and Healthy Board Structure & Culture

- Appoint the chairs of all committees and task forces of the Board

- Work with the Governance and Nominations Committee to ensure appropriate and effective identification, recruitment and onboarding of new Board members
- Work with the Governance and Nominations Committee to create a positive and effective Board and Board member process
- Serve on the Executive Committee and as an ex officio member of all Board committees

Act as Key Liaison with the CEO

- Act as a representative of the Board as a whole, rather than as an individual supervisor to the CEO
- Help to establish the strategic direction of the Credit Union, working in partnership with Board colleagues and the CEO
- Work with the Board Treasurer, the Board members, and the CEO to oversee the budget of the Credit Union and support the development of and adherence to sound fiscal policies and actions to safeguard the integrity of the Credit Union's financial management systems

{PLEASE NOTE: Optional—If adopted, remove italics.}

Have the power to sign, in addition to the CEO, on behalf of the Credit Union, all contracts authorized either generally or specifically by the Board.

Set and Model High Standards for Board and Staff

- Oversee efforts to build and maintain an exceptional governing Board by setting goals and expectations for its members
- Convene Board discussions on evaluating the CEO and ensuring the effective negotiation of the CEO's compensation and benefits package, as well as serve as key conduit for information to the CEO

Act as One of the Credit Union's Chief Ambassadors

- Serve as the official spokesperson for the Board among community members and the media, in addition to the CEO
- Encourage Board members to act as ambassadors for the Credit Union and encourage participation by the Board in Credit Union events, as appropriate

Inspire and Engage the Board

- Inspire a shared commitment to the vision mission and strategic goals of the Credit Union.
- Cultivate leadership among individual Board members
- Encourage Board member development, including further education in Credit Union governance

Board Authorization

This Board Chair Job Description was approved by the Board at a meeting dated: _____

Secretary of the Board

Date




Acknowledgement

By my signature below, I certify that I have received a copy of the Board Chair Job Description and have read, understood and agree to comply with its terms.

Chair of the Board

Date

APPENDIX 4 - Online Survey Questions



2020 State of Credit Union Governance Survey

Welcome! Thank you for participating in the 2020 State of Credit Union Governance study (2020 Study), a collaboration between Quantum Governance, LLC, the Credit Union Executives Society (CUES) and the David & Sharon Johnston Centre for Corporate Governance Innovation (Johnston Centre) at the University of Toronto.

The 2020 Study will build upon the landmark 2018 State of Credit Union Governance study which was released by Quantum Governance and CUES, and the purpose of this new survey is to learn even more about the basic governance structures and challenges in the North American credit union system, including board composition, time allocation and board roles and responsibilities. For your participation in this special survey, you will receive an advance copy of the 2020 State of Credit Union Governance report, along with a report of insights and data that will not be made available to the general public.

All of your feedback will be kept in confidence, with only aggregated analysis presented to the public. Individual responses will only be seen by researchers at the Johnston Centre at the University of Toronto. If you have any questions about the survey or about the use of your data, please contact the Johnston Centre at matt.fullbrook@rotman.utoronto.ca.

By clicking "OK" below, you consent to the use of your responses in the creation of the 2020 State of Credit Union Governance report.



2020 State of Credit Union Governance Survey

1. I am participating in this survey as (select all that apply):

- | | |
|--|---|
| <input type="checkbox"/> Board member | <input type="checkbox"/> Board chair |
| <input type="checkbox"/> CEO | <input type="checkbox"/> Supervisory committee member |
| <input type="checkbox"/> Senior executive other than CEO | <input type="checkbox"/> Associate board member |
| <input type="checkbox"/> Board liaison | <input type="checkbox"/> Emeritus board member |
| <input type="checkbox"/> Other (please specify) | |



2020 State of Credit Union Governance Survey

2. What is the size of your credit union by assets?

- | | |
|---|---|
| <input type="radio"/> Under \$50 million | <input type="radio"/> Between \$500 million and \$999 million |
| <input type="radio"/> Between \$50 million and \$149 million | <input type="radio"/> Between \$1 billion and \$2.99 billion |
| <input type="radio"/> Between \$150 million and \$499 million | <input type="radio"/> \$3 billion or more |



2020 State of Credit Union Governance Survey

Governance Committee

3. Do you have a committee that is explicitly responsible for overseeing or improving credit union governance?

NOTE: This committee's responsibilities go beyond those of just a nominating/recruitment committee. For example, this committee might make recommendations to the board about the establishment and review of governance policies and processes, monitor and review the relationships between the board and management, monitor and review the relationship between the board and supervisory/audit committee, and ensure compliance with governance policies/procedures/regulations.

☐ Yes

☐ No



2020 State of Credit Union Governance Survey

Governance Committee

4. How many times per year does your governance committee (or equivalent) meet?



2020 State of Credit Union Governance Survey

Board Composition

5. How many members does your board of directors have? (i.e. individuals who have a vote)

6. How many of your voting board members are women?

7. How many of your voting board members identify as a visible minority?

8. How many of your voting board members are under 50 years of age?



2020 State of Credit Union Governance Survey

Board Composition

* 9. What skills/characteristics does your board prioritize when identifying a new board member? (choose top 4)

- | | |
|---|--|
| <input type="checkbox"/> Known to current board members/staff | <input type="checkbox"/> Consensus building |
| <input type="checkbox"/> Financial literacy | <input type="checkbox"/> Understands the membership |
| <input type="checkbox"/> Recent senior management experience | <input type="checkbox"/> Specific operational expertise (e.g. HR, IT, Finance) |
| <input type="checkbox"/> Recent experience on other boards | <input type="checkbox"/> Demographic diversity (e.g. age, gender, race) |
| <input type="checkbox"/> Recent financial services expertise | <input type="checkbox"/> Ability to focus on the future |
| <input type="checkbox"/> Professional services expertise (e.g. legal, audit) | <input type="checkbox"/> Willingness to change one's mind |
| <input type="checkbox"/> Independent mindedness (i.e. not afraid to "go against the crowd") | |



2020 State of Credit Union Governance Survey

Board Composition

* 10. In your opinion, what are the skills/characteristics that add the most value in the boardroom (i.e. during board and committee meetings)? (choose top 4)

- | | |
|---|--|
| <input type="checkbox"/> Known to current board members/staff | <input type="checkbox"/> Consensus building |
| <input type="checkbox"/> Financial literacy | <input type="checkbox"/> Understands the membership |
| <input type="checkbox"/> Recent senior management experience | <input type="checkbox"/> Specific operational expertise (e.g. HR, IT, Finance) |
| <input type="checkbox"/> Recent experience on other boards | <input type="checkbox"/> Demographic diversity (e.g. age, gender, race) |
| <input type="checkbox"/> Recent financial services expertise | <input type="checkbox"/> Ability to focus on the future |
| <input type="checkbox"/> Professional services expertise (e.g. legal, audit) | <input type="checkbox"/> Willingness to change one's mind |
| <input type="checkbox"/> Independent mindedness (i.e. not afraid to "go against the crowd") | |



2020 State of Credit Union Governance Survey

Board Meetings

11. How long are your board meetings?

12. How many board meetings do you hold in a typical year?

13. Does your board hold meetings that are focused exclusively around strategic issues (e.g. strategic retreat)?

- ☐ Yes, at least once per year
- ☐ Yes, occasionally
- ☐ No



2020 State of Credit Union Governance Survey

Time Allocation

14. What percentage of time does your board allocate to each of the following items at a typical board meeting?

NOTE: Your responses must add up to 100

| | |
|-----------------------------------|----------------------|
| Review of financial results | <input type="text"/> |
| Enterprise risk management | <input type="text"/> |
| Succession planning/Human capital | <input type="text"/> |
| Executive compensation | <input type="text"/> |
| Routine items | <input type="text"/> |
| CEO performance assessment | <input type="text"/> |
| Compliance (e.g. regulatory) | <input type="text"/> |
| Strategic matters | <input type="text"/> |
| Operational Oversight | <input type="text"/> |
| Other | <input type="text"/> |



2020 State of Credit Union Governance Survey

Time Allocation

15. What percentage of time SHOULD your board allocate to each of the following items at a typical board meeting?

NOTE: Your responses must add up to 100

| | |
|-----------------------------------|----------------------|
| Review of financial results | <input type="text"/> |
| Strategic matters | <input type="text"/> |
| Enterprise risk management | <input type="text"/> |
| Succession planning/Human capital | <input type="text"/> |
| Executive compensation | <input type="text"/> |
| Routine items | <input type="text"/> |
| CEO performance assessment | <input type="text"/> |
| Compliance (e.g. regulatory) | <input type="text"/> |
| Operational Oversight | <input type="text"/> |
| Other | <input type="text"/> |



2020 State of Credit Union Governance Survey

Board Chair

16. Which of the following board functions does your board chair lead? (Select all that apply)

- | | |
|--|--|
| <input type="checkbox"/> Establishing board meeting agendas with the CEO | <input type="checkbox"/> Communication between the board and regulators |
| <input type="checkbox"/> Communication between the board and CEO | <input type="checkbox"/> Facilitating individual board members' participation in discussions |
| <input type="checkbox"/> Managing time allocation during board meetings | <input type="checkbox"/> Optimizing relationships between the board and senior management |
| <input type="checkbox"/> Conducting board performance assessments | <input type="checkbox"/> Board chair succession |
| <input type="checkbox"/> Mentoring the CEO | <input type="checkbox"/> Keeping the board "out of the weeds" |
| <input type="checkbox"/> Onboarding new board members | <input type="checkbox"/> Appointing committee chairs |
| <input type="checkbox"/> Communication between the board and members | <input type="checkbox"/> Appointing committee members |

17. For how many years is your board chair elected to the chair position (one term)?

18. What is the maximum number of years that your board chair can be elected to the chair position?



2020 State of Credit Union Governance Survey

Thank you for participating in the survey! As recognition for your support, you will receive a special copy of the 2020 State of Credit Union Governance report that includes additional data and insights that won't be available to the general public. If you wish to receive the report, please provide your email address below. Your contact information will only be seen by researchers at the University of Toronto for the purpose of sending you the report, which will be available in early 2020.

If you have any questions about the survey, please contact Matt Fullbrook, Manager of the David & Sharon Johnston Centre for Corporate Governance Innovation at matt.fullbrook@rotman.utoronto.ca.

Sincerely,
Michael Daigneault, Christopher Stephenson & Matt Fullbrook

19. If you wish to receive a copy of the report, please enter your email address here



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