



# BONUS SESSION: VOLUNTEER GOVERNANCE TUNE-UP

**Tony Ferris, President & CEO**

Rochdale Paragon Group

**Jeff Owen, COO**

Rochdale Paragon Group

**James L. This, PhD, President & CEO**

James L. This and Associates

## **Learning Objectives:**

1. Share best practices on governance issues that affect all credit unions.
2. Answer questions that attendees have on governance practices.
3. Identify resources for further research and sample policies.

**ROCHDALE  
+ PARAGON**

**apogee iQ**

MANAGING RISK. SPOTTING OPPORTUNITY.



# Volunteer Governance Tune-Up

James L. This, President, James L. This & Associates  
Tony Ferris, President & CEO, Rochdale Paragon Group  
Jeff Owen, COO, Rochdale Paragon Group

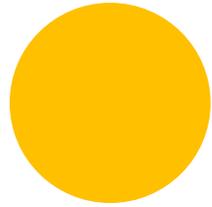
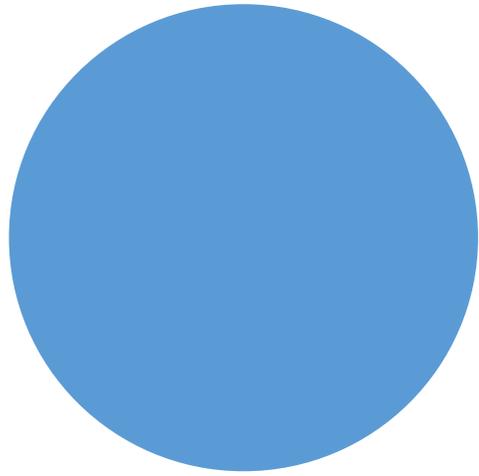


# Topics for Today's Discussion

- Board Recruitment and Development
  - Led by Jim This
- Mechanics of Running the Board
  - Led by Tony Ferris
- Managing Relationships
  - Led by Jeff Owen



# Take a Minute to Appoint a Spokesperson



# Section One: Board Recruitment and Development

- Director and Audit Committee Diversity and Competencies
- Compensation for Volunteers
- Official Evaluation
- Board and Audit Committee Renewal



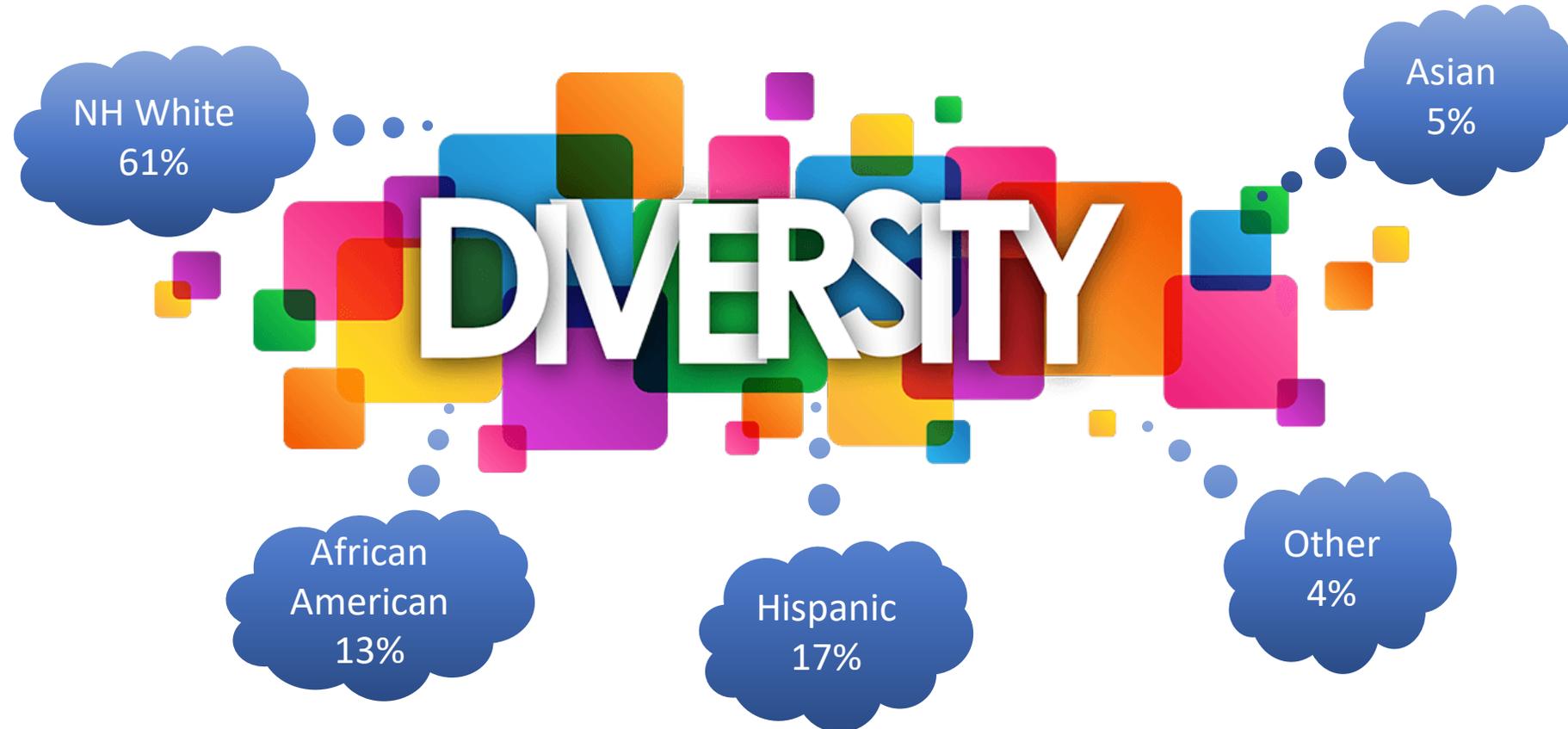
# Topic One: Director and Audit Committee Diversity and Competencies



# Importance of Diversity in the Boardroom

- “Credit unions acknowledge that increasing diversity of credit union boards is critical, and we understand that we must be intentional about increasing diversity and inclusion in the board room in order for credit unions to continue to reach and better serve an increasingly diverse population.”
  - CUNA Letter to House Financial Services Committee – June 2019

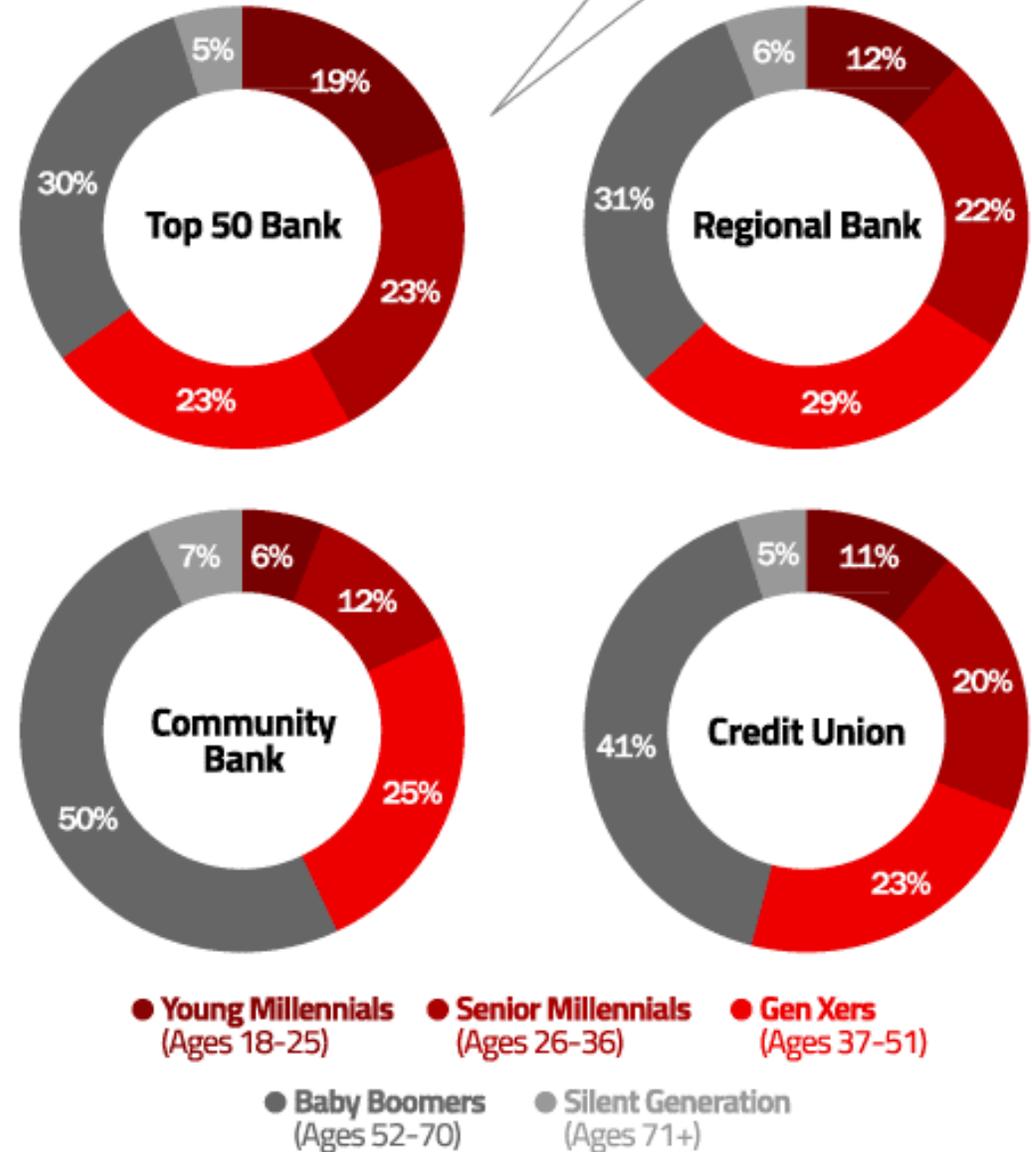
# America's Population is Becoming More Diverse





# Customer/Member Generations

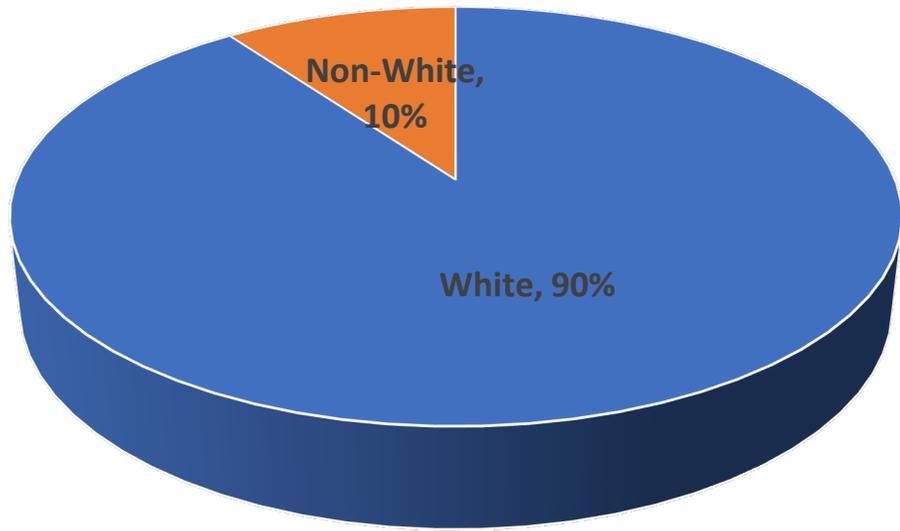
Generational distribution among primary banking providers



SOURCE: FIS © June 2017 The Financial Brand

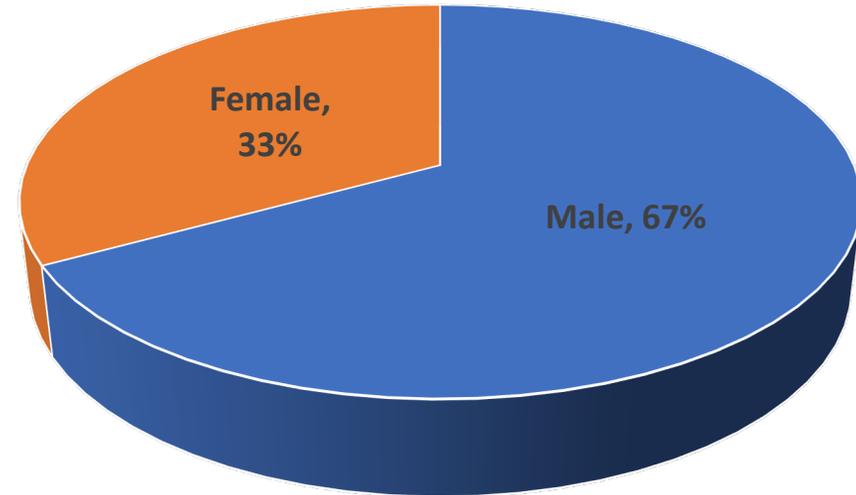
# The Boardroom Continues to be Dominated by White Male Directors

Non-White Board Members



Source: CUNA Research

Gender Breakdown on Credit Union Boards



Source: Spizzirri & Fullbrook



# Framework Assessment

1. Identify the skills, experience, influence, and diversity the board/committee wants.
2. Assess the current levels of skills, experience, influence and diversity it possesses.
3. Identify areas that need strengthening and help the board/committee set actions to fill the gaps.



# Framework Assessment

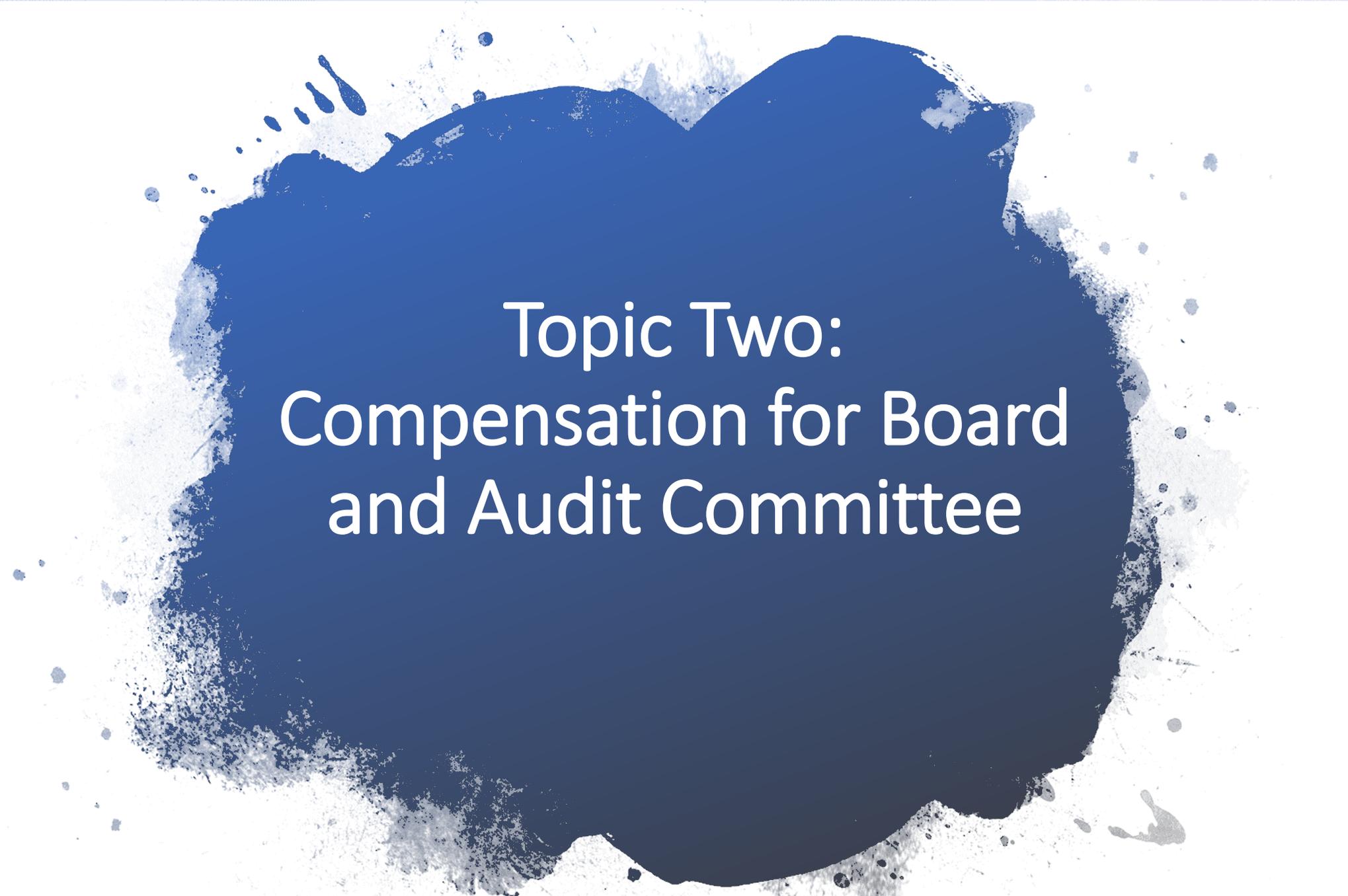
- Diversity
  - Gender, race, age...
  - Sectors of the FOM
- Areas of Competency
  - Knowledge/Experience
  - Spheres of Influence



# Sample Diversity Framework

Gender	Current Status	Area for Recruitment
Male	7	
Female	2	
Race/Ethnicity	Current Status	Area for Recruitment
White	8	
African American	0	
Hispanic/Latino	1	
Asian/Pacific Islander	0	
Native American	0	

Spheres of Influence	Current Status	Area for Recruitment
Local Government		
Media		
Political		
Other		
Knowledge/Experience	Current Status	Area for Recruitment
Financial		
Strategic Planning		
Technology		
Other		
Other		



# Topic Two: Compensation for Board and Audit Committee

# 17 States Permit CU Board Compensation

**AZ, CO, GA\*, IN, \*KY, MD, MN, ND\*,  
(NJ?), OH, OR, PA, RI, TN, TX\*\*, WA, WI\*\*\***

\*Act is silent; i.e., not explicitly prohibited.

\*\*Subject to Commissioner approval.

\*\*\* Board officers only--not board directors.

## **7 Treasurer-Only States**

**(AR), (HI), ID, MS, MT, NE, VT**

### Notable:

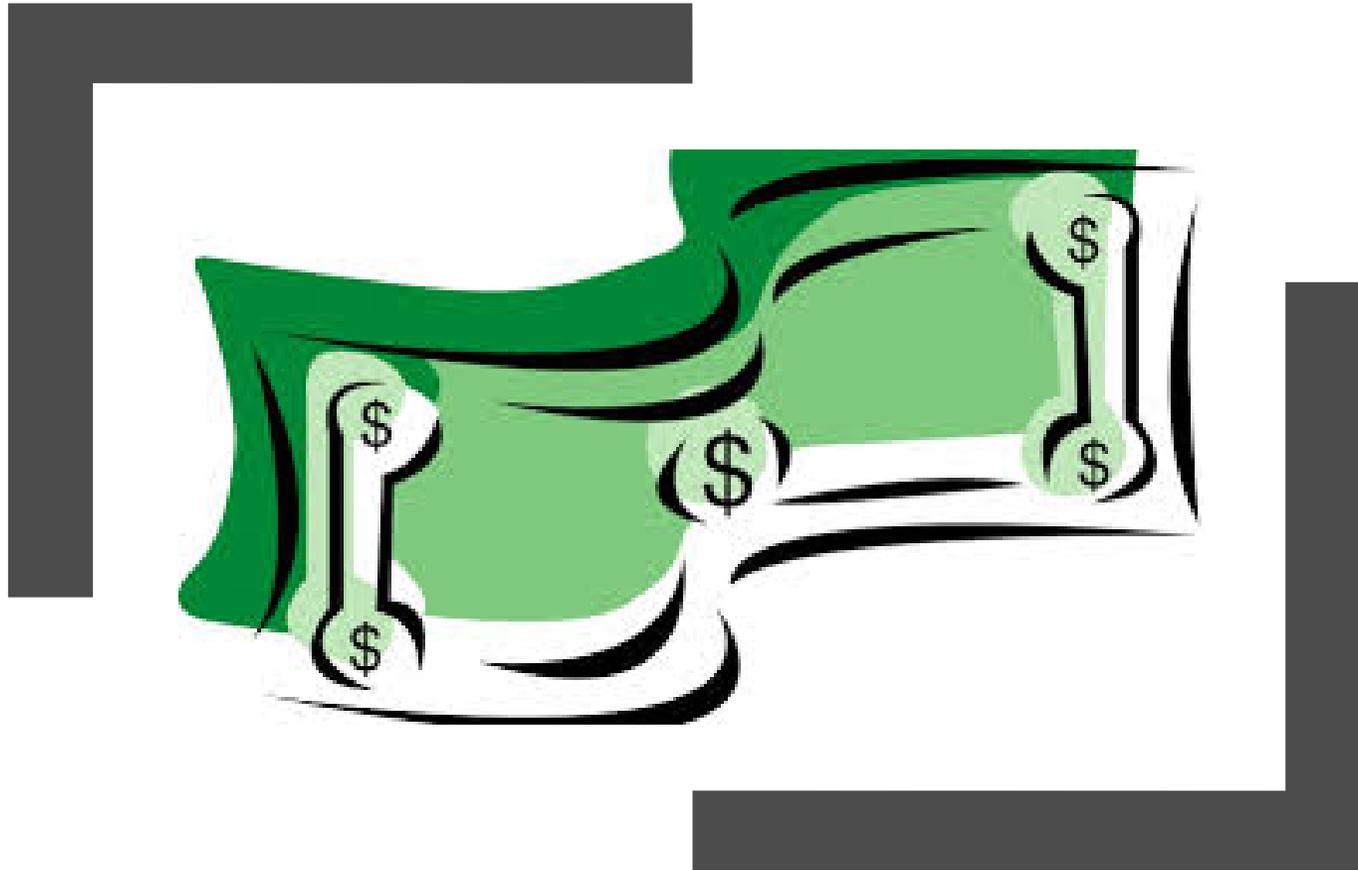
*In a state where board compensation is not permitted, a FCU pays its chairman. This FCU would convert to state charter but for inability to compensate its chairman as SCU.*

+/- 145 SCUs exercise authority (Source: Filene 2014)

Updated: 8/30/2019



# Compensation Question



- How many of you are state chartered?
- Of the state chartered group, how many compensate volunteers?



# Pros and Cons of Compensation

## Pros

- Attract qualified people.
- Increase expectations of directors and committee members.
- Better governance leads to better credit union performance.

## Cons

- Every dollar spent on board compensation is a dollar that cannot be spent elsewhere.
- A paid director will have a strong incentive to stay on the board past his or her prime.
- Any step that narrows the differentiation between credit unions and banks is a threat to credit unions' tax- exempt status.



# Justification for Compensation

- XYZ Credit Union has established a Compensation Policy to provide reasonable compensation for its Board of Directors and Supervisory Committee (Officials) as allowed by State law and the credit union's bylaws, beginning effective October 1, 2018.
- Given the evolution of the credit union industry in an increasingly competitive financial services marketplace, the XYZ Credit Union Board of Directors has adopted an Officials' compensation schedule designed to support and promote the professionalism, independence and accountability of the Board and Supervisory Committee in achieving the vision, mission, values, and goals of XYZ Credit Union and its membership. Increased efforts to strengthen the capacity, knowledge, commitment, and skills of the Board and Supervisory Committee will be acknowledged and facilitated through the implementation of reasonable compensation consistent with industry standards.



# Justification for Compensation

- The Board of Directors is responsible for the general direction and control of the credit union. The Directors typically serve on multiple committees and meet monthly. The Board establishes the strategic plan, annual budget and policies, and reviews the credit union's financial performance. The Supervisory Committee is responsible for overseeing internal controls, conducting an annual audit of the financial statements, and verifying the accuracy of members' accounts. The size and complexity of XYZ requires Officials with financial knowledge, diverse skills and dedication to meet the management demands of a competitive and highly regulated financial services industry. The time demands of Officials' meetings, meeting preparation, regulatory training and continuing education warrants fair and reasonable compensation.



# Governance Questions for Credit Unions Paying Board and Audit Committee

- Do we have a purposeful process for determining the Framework we want and recruiting qualified people?
- Does each official have an annual expectation for professional development?
- Do we have an effective process for measuring:
  - Board performance
  - Individual performance?



# Governance Questions for Credit Unions Paying Board and Audit Committee

- Do we have a process that guarantees orderly official succession?
- Is the credit union achieving financial results that meet or exceed peers?

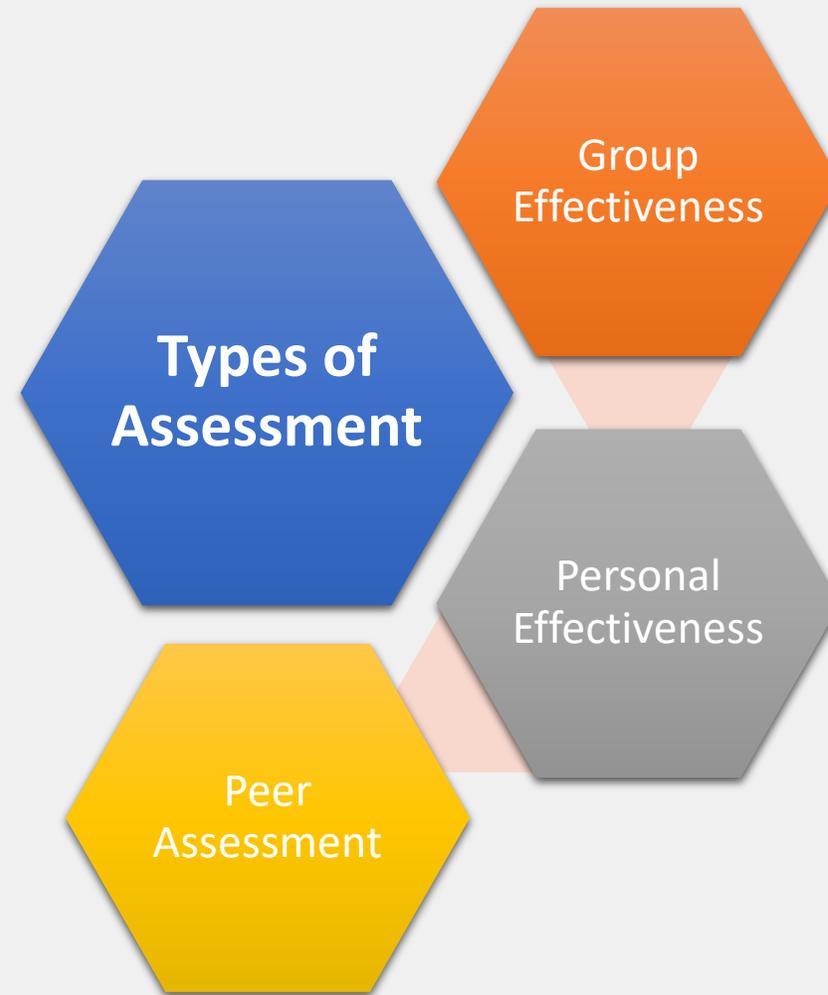
# Topic Three: Official Evaluation



# Purpose of Assessments

- Document performance expectations for individuals and groups
  - Board of Directors
  - Audit Committee
- Assess performance against expectations
- Create development plans for performance enhancement
  - As a group
  - Individually

# Three Types of Assessment





# Group Effectiveness Assessment

- Board/Committee members evaluate the performance of the Volunteers in eight categories
  - Strategic Planning
  - Financial Management
  - Products and Services
  - Risk Management
  - Community Relations
  - Governance
  - Relationship with President/CEO
  - Board Recruitment and Development
- The results are used to identify strengths that need to be amplified and opportunities for improvement
- Action plans are established for priority areas of improvement



# Sample Performance Expectations

- Strategic Planning
  - An effective strategic plan helps your credit union succeed by focusing the energy, resources, and time of everyone in the same direction.
    - Board members are familiar with the vision, mission and core values of the Credit Union.
    - Board members and Management participate regularly in a comprehensive strategic planning process.
    - Policy decisions on products and services reinforce the strategic plan goals.



# Personal Effectiveness Assessment

- Individuals evaluate their performance
- Professional development plans are created for each Volunteer
  - Personal use only
  - Monitoring by Governance Committee



# Personal Assessment Statements

- Board Governance
  - I understand the major federal and state laws affecting credit unions (e.g., Bank Secrecy Act).
  - I have a general understanding of and have access to the Bylaws of the Credit Union.
  - I come to meetings prepared to discuss the issues on the agenda.
  - I actively participate in discussions on key issues to ensure quality deliberation.



# Open-Ended Questions

1. What are one or two things you can do in the next 12 months to enhance your performance on the Board?
2. What are one or two areas in which you would like to receive training during the next 12 months?



# Personal Development Plan

## Things I will do to Enhance My Performance

Objectives	Actions to Achieve the Objectives	Resources I Need (if any)	Target Date For Achieving My Objectives	Progress Report

## Training I will Take to Enhance My Performance

Area	Training Actions	Resources I Need (if any)	Target date for Training	Progress Report



# Types of Assessments

## Peer Assessment

- Volunteers evaluate the performance of their peers
- The results are used to identify strengths that need to be amplified and opportunities for improvement
- Action plans are established for priority areas of improvement
- *May also be used as a criteria for re-nomination*



# Peer Assessment

- Deliverables
  - Develop assessment statements with client
  - Prepare assessment instrument and email it to participants
  - Receive completed assessments and create reports
  - Share results

# Peer Assessment

## Board Member Evaluation

### 2. Feedback Statements

Please indicate the degree to which you agree with the following statements about the performance of individual Board members.

#### 1. The Board member understands the responsibilities of the Board.

	Completely Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
Jane Doe	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
James Smith	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Linda Smart	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fred Terrific	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Susan Exceptional	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

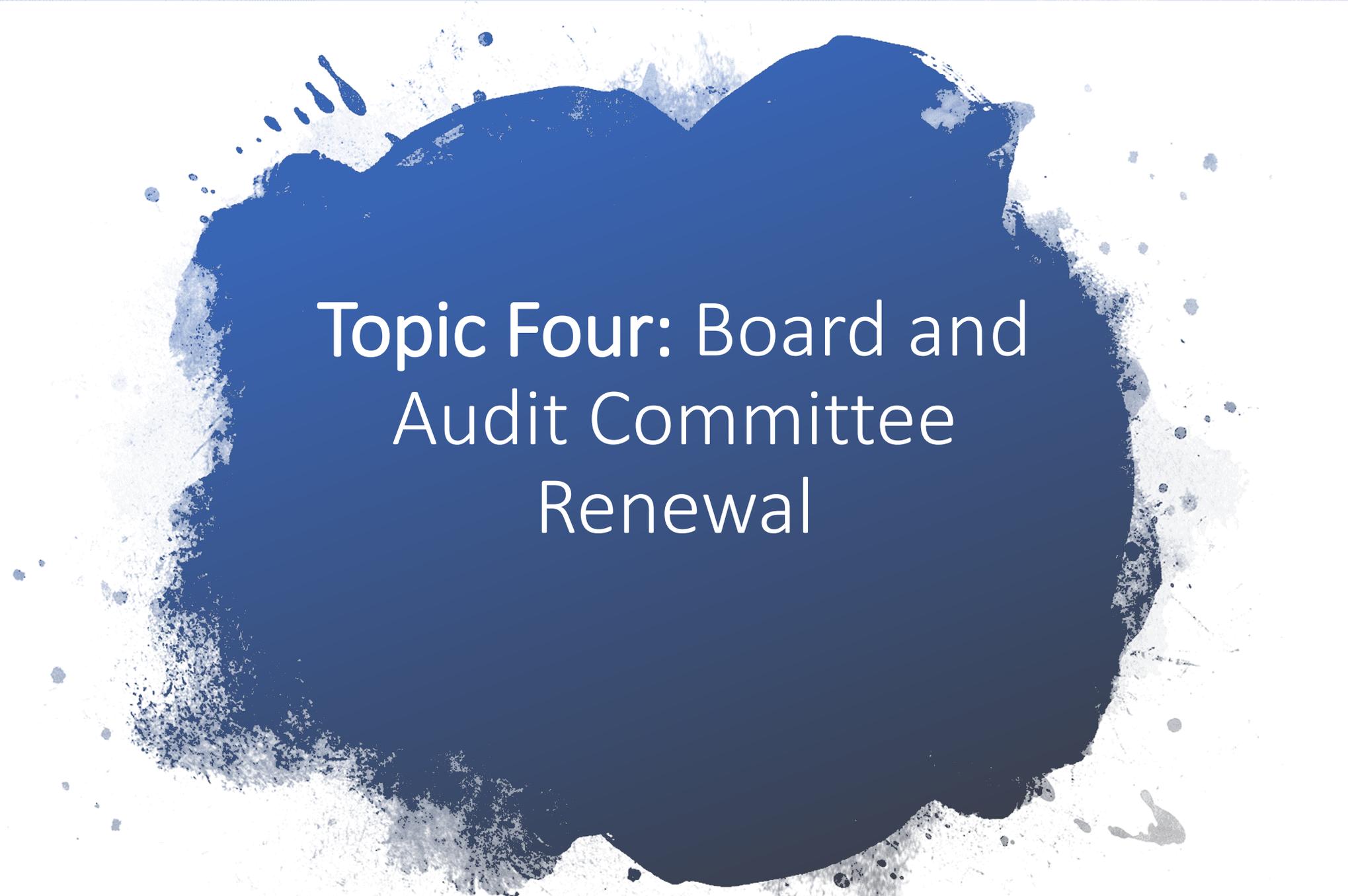
#### 2. The Board member understands the Credit Union's direction (mission, vision, strategic plan).

	Completely Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
Jane Doe	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
James Smith	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Linda Smart	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fred Terrific	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Susan Exceptional	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



# Sharing the Results

- Options for sharing results
  - Participants only
  - Participants and Chair
  - Other



# Topic Four: Board and Audit Committee Renewal



# Reasons to Pursue Succession Planning

- It sets the CU up to obtain the top talent.
- It prevents groupthink on the board.
- It ensures a diverse board composition.
- It maintains the balance of institutional knowledge.
- It enhances trust with members and other stakeholders.
- It maintains the balance of power on the board.
- It ensures that shareholders and stakeholders will be unaffected by changes in leadership.

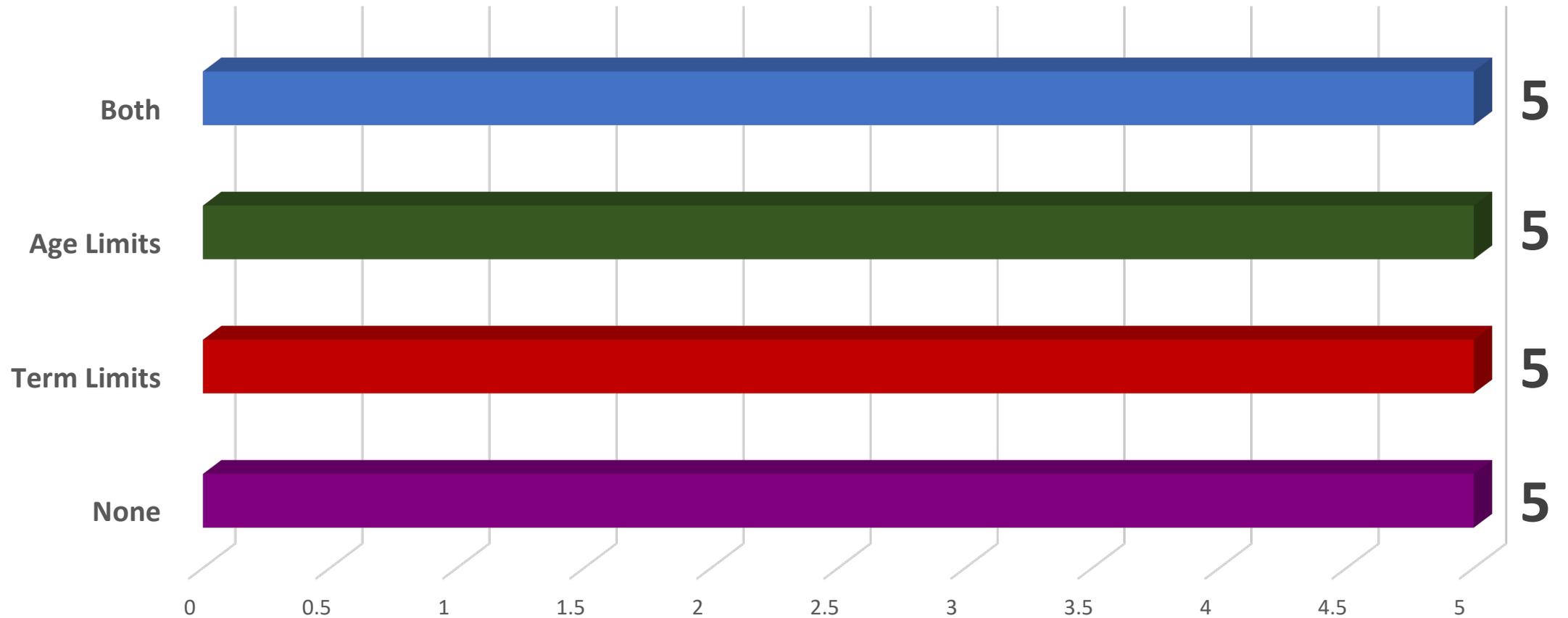
# Term Limits

- According to *Leading with Intent: 2017 Index of Nonprofit Board Practices*, 72 percent of nonprofit boards have term limits.





# Term or Age Limits Among Participants





# Pros of Term Limits

***Source: BoardSource***

- Provide a balance of continuity and turnover
- Make it easier to diversify your board, which brings new ideas and new perspectives to the board and its decision-making process
- Provide opportunity for the board and organization to work with talented community members who can devote only a few years to board service
- Enable you to avoid stagnation, tiredness, boredom, and loss of commitment that can sometimes set in when board members serve long terms
- Enable you to avoid the perpetual concentration of power within a small group of people and the intimidation of new members by this dominant group
- Provide a respectful and efficient mechanism for the exit of passive, ineffective, or troublesome board members



# Cons of Term Limits

***Source: BoardSource***

- Potential loss of expertise or insight that has benefited the board and organization over time
- Potential loss of organizational memory
- Need for the governance committee to dedicate more time to the identification, recruitment, and orientation of new board members
- Need to dedicate additional time to building the cohesiveness of the board as members rotate on and off the board



# Volunteer Development Committee

- Standing committee
- Year-long set of activities
- Looks at both Board and Audit Committee volunteers



# Primary Duties of the Volunteer Development Committee

- Competencies and Recruitment
  - Takes the place of the old Nominating Committee
- Volunteer Development
- Volunteer Assessment



# Associate Board Members

- Nominated by current board members
- One-year terms
- Attend meetings and retreats
- Non-voting status
- Optional
  - Training budget



# Associate Board Members

## SAMPLE ASSOCIATE BOARD MEMBER POLICY

### Background:

The purpose of this policy is to define the Associate Board Member program which is intended to:

- Increase member involvement and emphasize member-owned philosophy
- Provide additional resources for committees
- Develop potential Board Members
- Provide volunteer succession

### Policy:

The Board of Directors will maintain an Associate Board member program to help develop new volunteers and prepare for the succession of the Board.

May also want to add a section to the bylaws.





# Casting a Wider Net

**Source: John Pembroke, President/CEO of CUES**

- Directors need to reach out to candidates at other organizations or in other industries, such as community development and young professional groups; non-profit or advocacy organizations; and Hispanic, black, Asian and other multicultural outfits that align with the credit union's values.
  - Travis CU – Hispanic Advisory Group
- **Invite community leaders to Board meetings**



# Committees as Training Grounds



- Non-elected members on standing committees
- Members of “Disappearing Task Forces”



## Just Ask!

- “The number one reason people do not volunteer is they do not feel they were asked. Publicity is not recruitment.”
  - Susan J. Ellis
    - The Volunteer Recruitment Book





## Good Places to Recruit Younger Volunteers

- Chambers of Commerce
  - Sponsor Companies and Major SEG's
  - Local Campuses
  - Business School Programs
  - Military Bases
- 
- *A Seat at the Table: Young Adult Directors and Board Advisors*
  - Ben Rogers, Filene Institute



## Section Two: Building and Maintaining a High-Performing Governance Ecosystem

- Governance demands & opportunities
- Growing engagement
- Continuous improvement & accountability



# Topic Five: Creating a Dynamic Governance Program to Meet Tomorrow's Demands



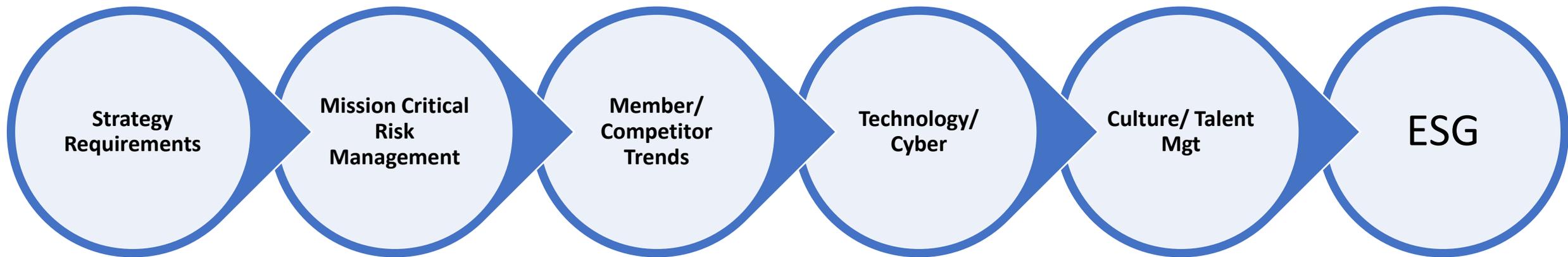
# Trending Priorities

- 86% expect to deepen engagement

*NACD Fit For The Future 2019*

- 53% percent indicate need improved reporting

*2018-2019 NACD Public Company Governance Survey*



# Contradiction or Alignment

- **CEO perspective:**

- < 30% well prepared for meetings, per CEOs
- 25% report meeting focus on strategy rather than operational

*Leading with Intent: A National Index of Nonprofit Board Practices 2017*

- **Board perspective:**

- Only 27% reported need to improve rigor of preparation
- 70%-86% feel need to strengthen strategic discussions

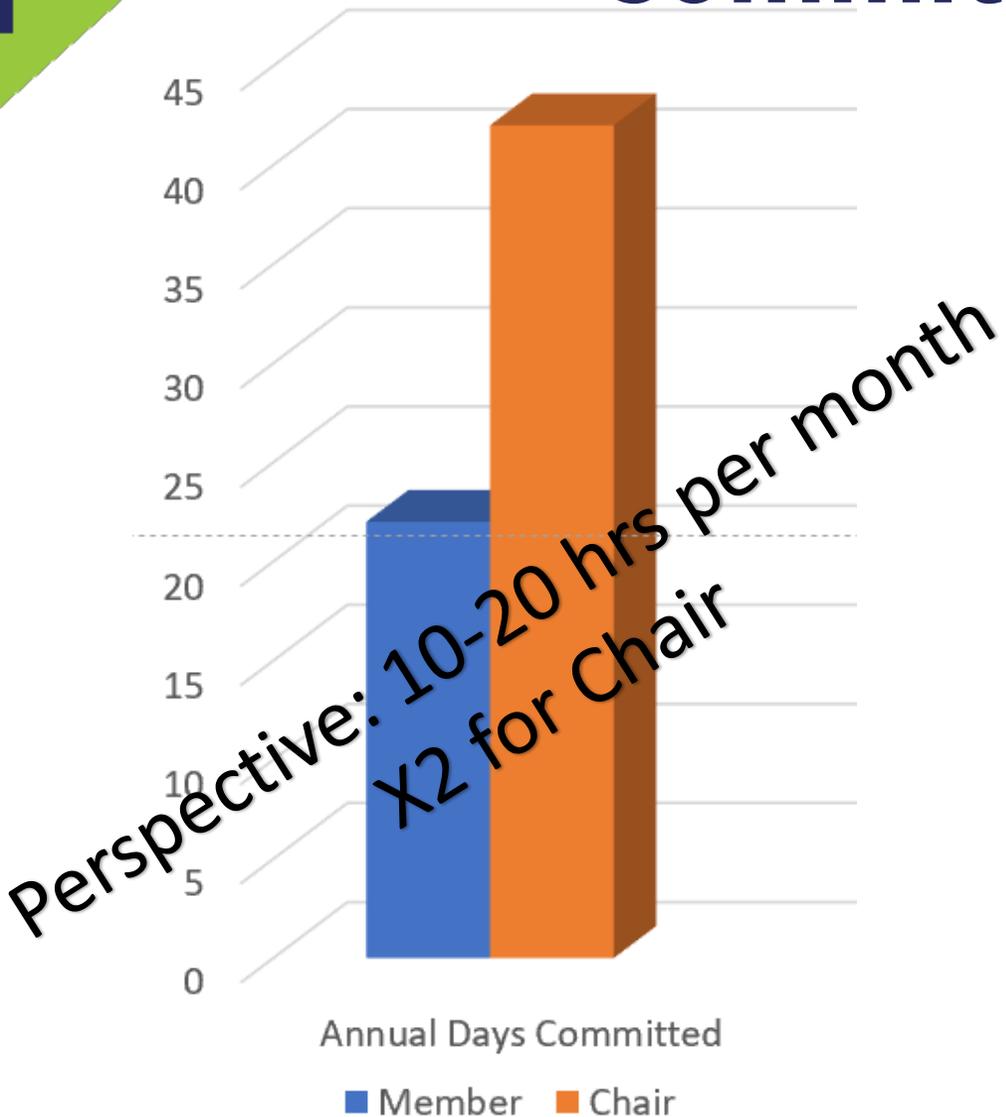
*NACD Public Company Governance Survey 2019*



# Commitment Expectations

- 73% indicate more challenging
- 84% indicate increased expectations
- 36% report struggling to keep pace

*NACD Fit For The Future 2019*





# Refocused Efforts and Opportunities



**AGENDA**

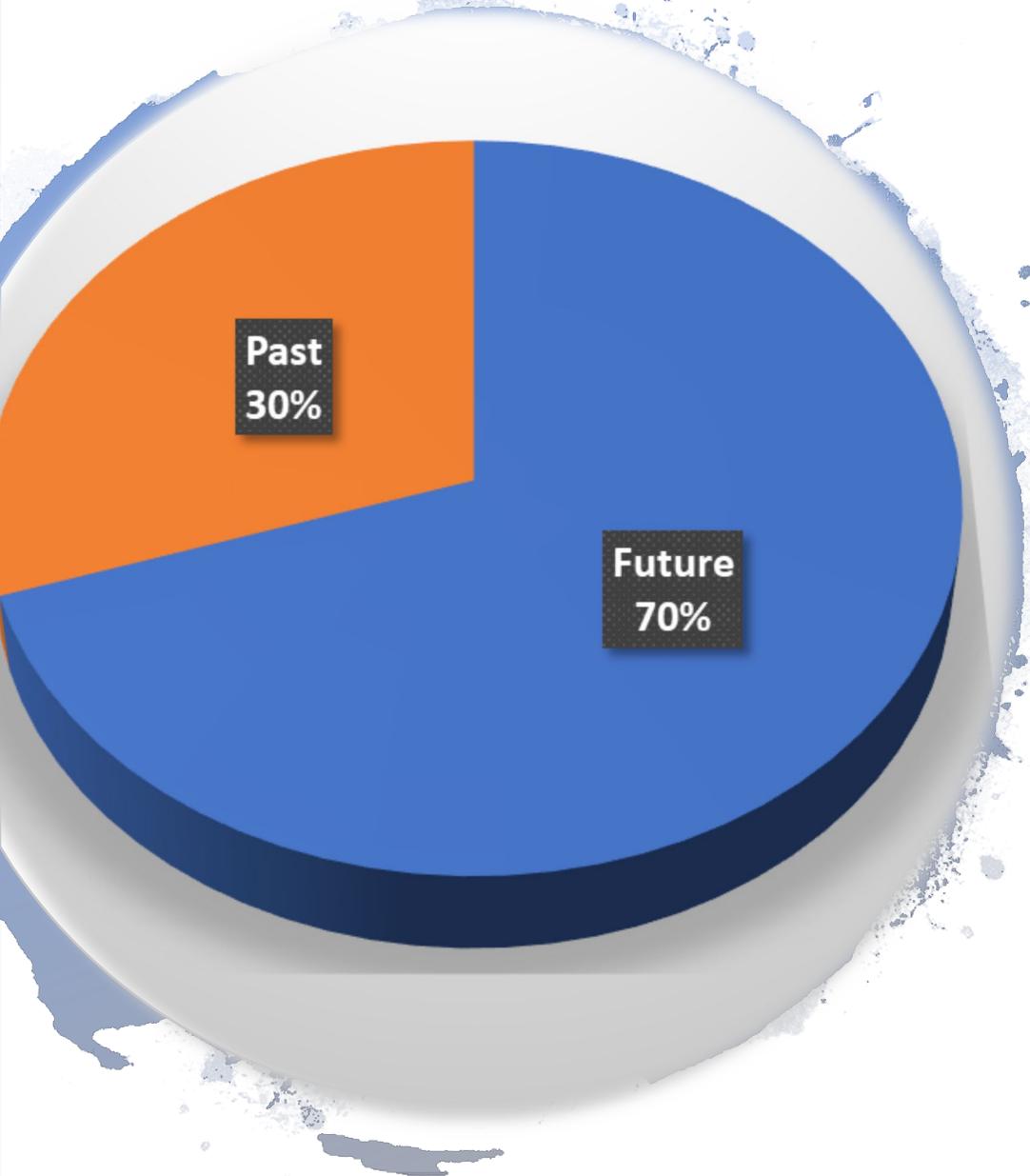


**CHAIRPERSON**



**COMMITTEES**

# Refocus The Agenda



1. Invest time in forward looking topics
2. Move performance-based topics to reports and dashboards
3. Include deep-dive topical sessions, e.g., technology, risk
4. Shift focus from defensive to an offensive model
5. Leverage committees for key insights
6. Develop agreed-upon process for establishing and refining annual and on-going agenda
7. Devote the time
8. Provide opportunity for feedback

# Meeting Considerations

- Practiced by majority
- Practiced by minority
- ▲ Biggest aspiration

## Example: Strategy practices

		Low-impact boards	Moderate-impact boards	High-impact boards	
Rigorous	Reducing decision biases	▲	○	▲	
	Evaluating resource reallocation	○	○	●	
	Assessing value drivers	○	○	●	
	Debating strategic alternatives	○	▲	●	
	Assessing portfolio synergies	○	○	●	
	Adjusting strategy, based on changing conditions	○	●	●	
	Assessing whether strategy stays ahead of trends	○	●	●	
	Engaging on innovation	●	●	●	
	Basic	Assessing portfolio diversification	●	●	●

McKinsey Quarterly – High-performing boards: What's on their agenda? April 2014

# Increasing Pressure From Regulators

Figure 2: Business Continuity Management Elements (Relative to Enterprise Risk Management)

- Fidelity Bond Rule
- Risk Transference relative to BCP
- Risk Management
- Cyber-Security
- Consumer Protection

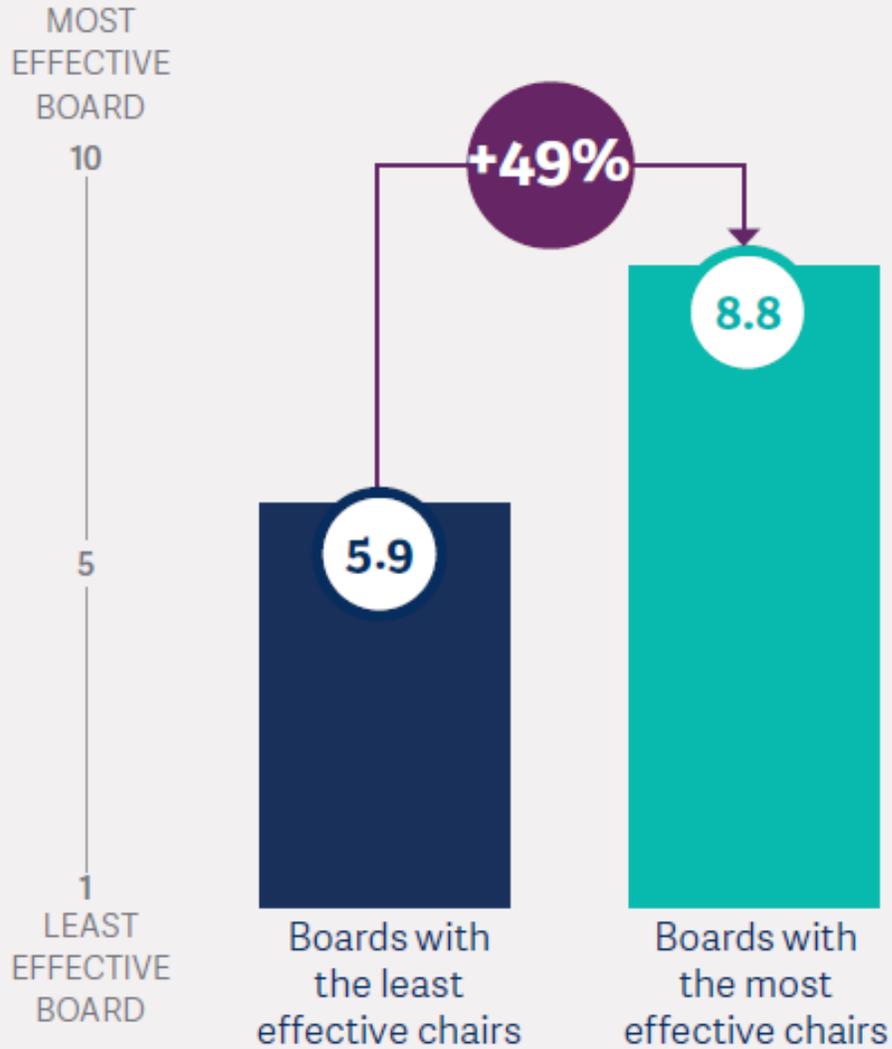


The board must demonstrate a credible challenge on risk and continuity related issues.

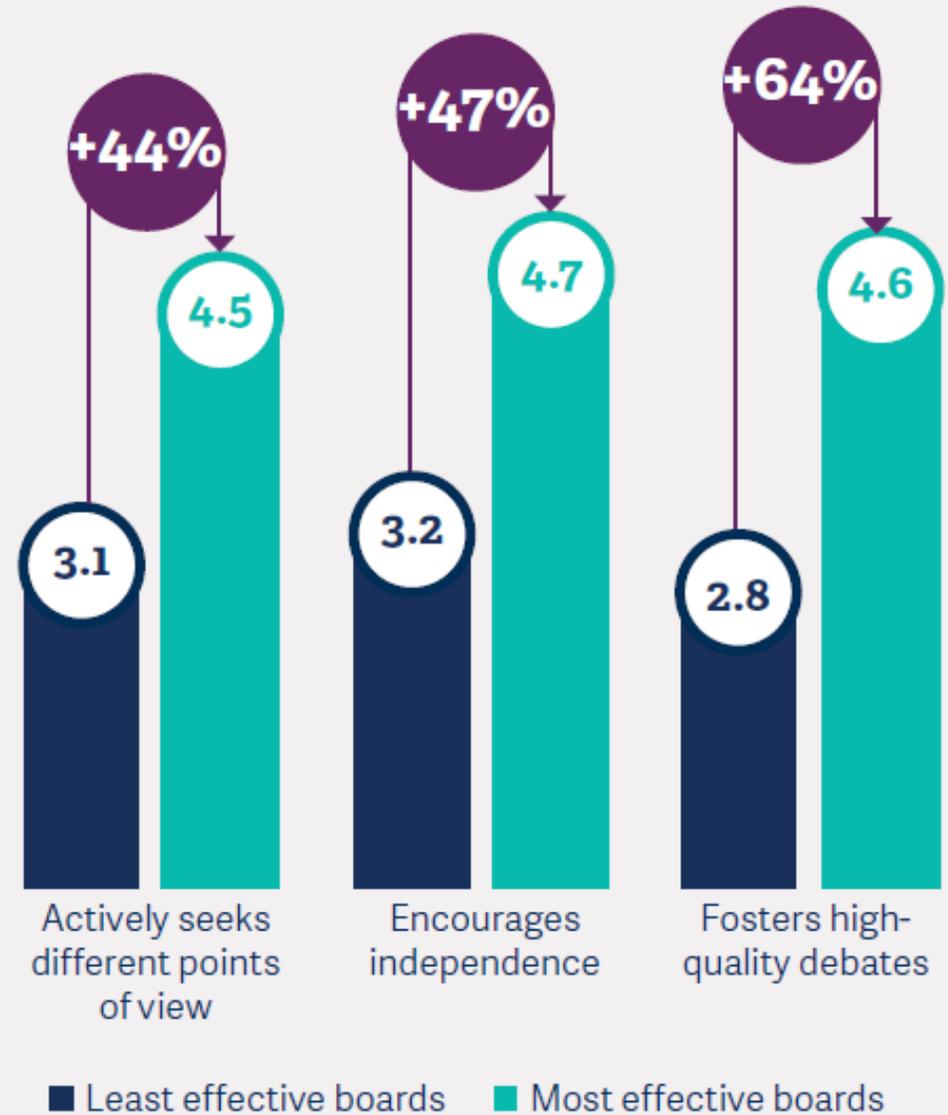
***"A credible challenge involves being actively engaged, asking thoughtful questions, and exercising independent judgment."***

# Importance of Chairperson

## Correlation between effective chairs and effective boards



## Chair behaviors by board type



<https://www.russellreynolds.com/insights/thought-leadership/global-board-culture-survey-understanding-the-behaviors-that-drive-board-effectiveness>

# The Executive Committee

## Purpose:

- Shape policy concerning board governance practices
- Evaluate makeup of board
- Assess board performance/pay
- Plan for board succession
- Evaluate CEO performance/pay
- Plan for CEO succession
- Evaluate committee structure



## Considerations:

- Outline authority and charter
- Conduct regular meetings
- Communicate immediately with CEO
- Increase focus on diversity and inclusion
- Drive identification and alignment of talent needs
- Avoid lengthy discussions that require expertise from CEO
- Proactively identify emerging governance trends, e.g., emphasis on **ESG** or **Mission Critical Risks**, etc.



# Use of Committees

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Use	Use ad hoc committees as an exploratory tactic
Maintain	Maintain board size by relying on advisory boards
Conduct	Conduct regular, rigorous charter reviews
Leverage	Leverage evaluations
Assess	Regularly assess whether director skill sets are aligned
Ensure	Ensure that information continues to flow



# Common Committee Types

## Traditional

- Supervisory / Audit
- Executive / Governance
- CEO Compensation
- Nomination/Recruitment
- Finance / Asset Liability

## Emerging

- Risk
- Strategy
- Technology
- Culture and Talent
- Single Purpose... merger
- Others?



# Items to Consider

1. Prepare forward-looking and comprehensive annual schedule
2. Focus the board agenda to align with mission critical elements: strategy, talent, technology and risk management
3. Dedicate part of every board agenda to strategy, emerging strategic challenges, and plan refinement
4. Review board chair process, skill requirements and position expectations
5. Make sure credible board challenges of management get recorded in meeting minutes
6. Analyze and restructure current committee to address strategic needs
7. Implement/review regular and effective use of Executive Committee
8. Conduct analysis and revamp reporting to better educate and more efficiently use meeting time for broader forward-looking items



# Topic Six: Emerging Areas of Engagement



# Strategy

- Align governance practices to proactively engage in strategic conversations
- Ensure deep understanding of strategic positioning and emerging threats
- Focus on value creation not just destruction
- Focus long-term 5-10 years
- Seek outside expertise and learning to drive better understanding and new ideas

68% believe existing strategies will be irrelevant in 5 years



# Culture and Human Capital

- Generate board oversight of talent and culture
- Focus on all levels of the organization
  - **C-suite:** Manage and developing top executives and ensuring that talent development is high priority
  - **Up-and-comers:** Ensure strong talent pipeline for all C-suite functions, make clear to CEO that a big part of their job is grooming successors (all C-suite positions)
  - **Workforce:** Understand the company's talent philosophy and future talent needs
- Assess the culture to determine whether it supports the company's strategy and values today and tomorrow

# Technology and Information Security

- Develop board technical knowledge
- Understand technology's strategic implications
  - Performance
    - Impact of technology investments
    - Understand role of technology in operational transformation
    - Ensure talent capabilities and acquisition
  - Strategy
    - Evaluate capabilities for growth and innovation
    - Increase use of data to inform decisions
    - Focus on member experience
  - Risk
    - Ensure clarity on risk appetite around cyber security
    - Focus on sensitive/member data
    - Evaluate resiliency
    - Manage third-parties (vendor management)
    - Look forward for evolving disruptors



Source: Deloitte US CIO Program

# Strategic Risk Management

- Enable better risk/reward information strategically and globally
- Set organizational risk appetite to drive culture and decisioning
- Ensure strong and demonstrated risk-based oversight and reporting
- Stay abreast of critical themes internally and externally that may pose disruptive to the organization long-term
- Focus discussion on opportunities as much as downside
- Set the tone from the top

Directors should identify their company's "**mission critical**" risks and ensure that information about these risks is elevated not only to management but also to the board itself.





# Options to Consider

1. Elevate to senior roles and engage (appropriately) with leaders in these critical areas
2. Establish specific goals in these areas and report on key performance indicators and tie to executive compensation
3. Consider adding directors with these skill sets or include advisory members or outside experts
4. Request that management include annual assessment of talent and culture including forward looking skills needed
5. Review your risk program to ensure it is comprehensive and delivers clear insights which allow for proactive decisioning
6. Make time on every board agenda for these strategic topics and emerging risk discussions
7. Ensure and regularly review the relationship between board and management and that clear and agreed upon boundaries are set to maintain appropriate roles and trust



# Topic Seven: Continuous Improvement and Accountability



# Action / Influence / Accountability

- Drive explicit understanding and agreement on governance
- Develop formal position descriptions and set performance expectations for all governance related roles
- Establish formal on-boarding and coaching programs
- Create culture through agreement on behavioral norms
- Leverage role of chair and executive committee to provide accountability
- Conduct annual group and individual performance evaluations and coaching



# High-Performing Governance Ecosystem

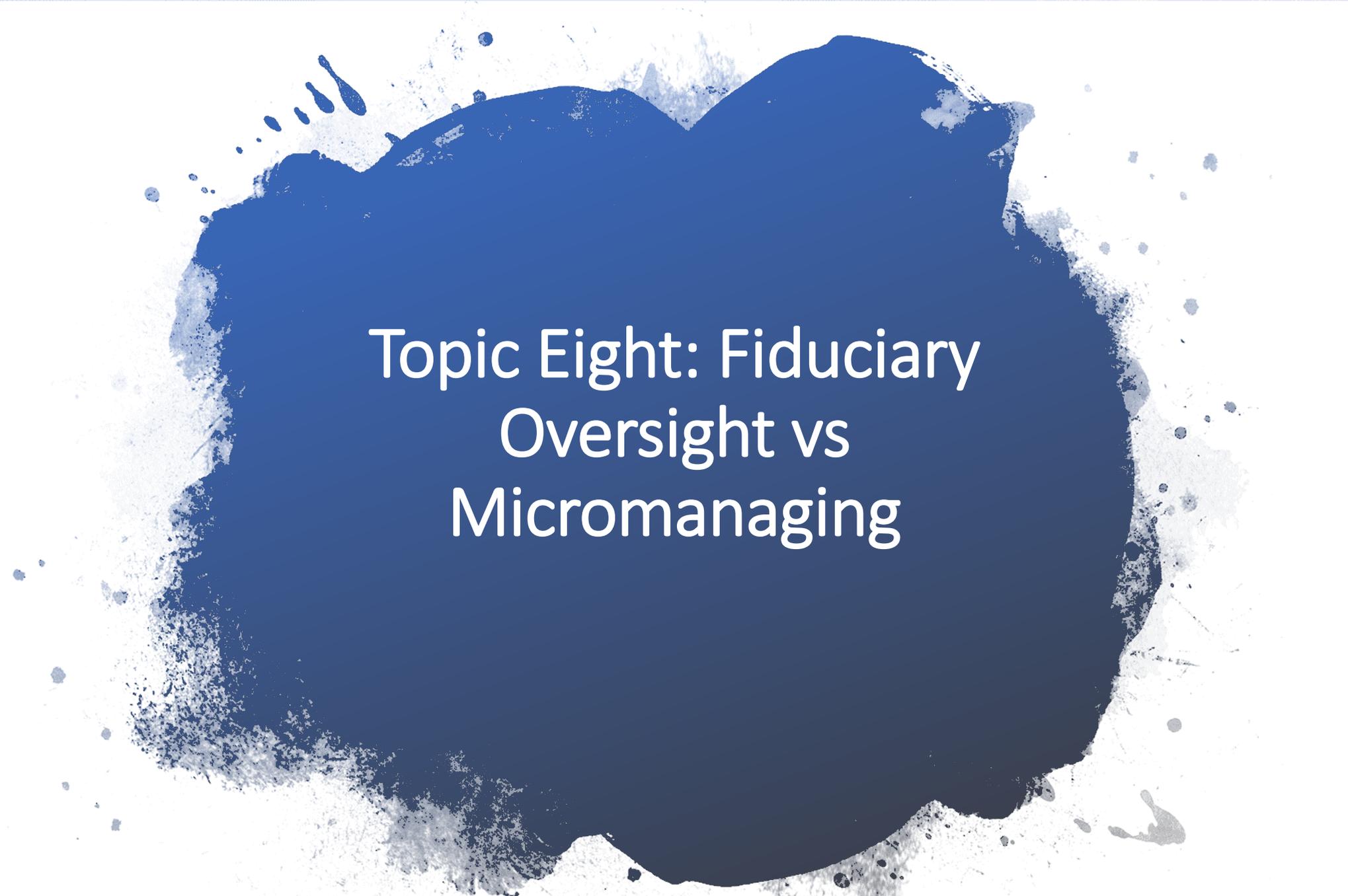
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- Set expectations
- Build Agility in Processes and Structure
- Strengthen Engagement
- Increase Transparency and Accountability



## Section Three: Managing Relationships

- Fiduciary oversight vs micromanaging
- CEO evaluation
- Community involvement
- Relationship with Supervisory / Audit Committee



# Topic Eight: Fiduciary Oversight vs Micromanaging



# Fiduciary Oversight

- **Fiduciary** – person who holds a legal or ethical relationship of trust with one or more other parties. Typically, a fiduciary prudently takes care of money or other assets for another person.
- **Fiduciary duty** – legal term describing the relationship between two parties that obligates one to act solely in the interest of the other
- **Fiduciary obligation** – exists whenever the relationship with the client involves a special trust, confidence, and reliance on the fiduciary to exercise his discretion or expertise in acting for the client. The fiduciary must knowingly accept that trust and confidence to exercise his expertise and discretion to act on the client's behalf.



# Director Responsibilities

- Act in best interests of the credit union through (1) decision-making and (2) oversight
  - **Decision-making:** establishing credit union policy, setting the strategic direction and goals, hiring and overseeing CEO, establishing/approving a budget, delegating authority
  - **Oversight:** Monitor credit union's affairs (financials, management performance, policies, compliance, etc.) on a routine basis
- Board has overall responsibility for the direction, safety and soundness and legal compliance, and then delegates operational management duties and functions to management for day to day operations (board then is responsible for oversight)



# Director Responsibilities

- “Generally, directors need not be actively involved in day-to-day operations; however, they provide clear guidance establishing acceptable risk exposure levels thru appropriate policies, procedures, and practices. Senior management is responsible for developing and implementing policies, procedures, and practices that translate the board’s goals, objectives, and risk limits into prudent operating standards.” *- NCUA Examiner’s Guide*

Appropriate level of oversight will vary across CUs and must evolve along with changes in the nature and complexity of the CU’s operations as well as in response to external factors



# Director Responsibilities

- Three general duties a director owes to a credit union:

<b><i>Duty of obedience</i></b>	<b><i>Duty of care</i></b>	<b><i>Duty of loyalty</i></b>
Must adhere to applicable credit union rules, regulations and bylaws	Duty to be informed and to try to make good decisions	Requires the director to act in best interests of the credit union rather than his/her own interests



# Oversight vs Management

- **Oversight**

- The legitimate provision of direction and guidance by a Board to the management of an enterprise, concerning the financial and operating well-being of that enterprise, its principal undertakings, initiatives and projects. The objective is to ensure compliance and appropriate governance, plus the adoption of acceptable risks, leading to improved strategy and/or execution, and sustained/enhanced value for the enterprise and its stakeholders.

- **Micromanagement**

- The habitual practice by a Board of interfering with the management of an enterprise, its people, processes and administration, in a manner which imposes the will of the Board on the principal undertakings, initiatives and projects of that enterprise.

# Oversight vs Management

- Challenge is fulfilling oversight role without exercising the role of management
- A well governed board will NOT be involved in day-to-day tactical, operational issues; rather, they will exercise knowledgeable *oversight* over management's decisions
- Entails engaging in robust discussions with senior management and challenging (appropriately) recommendations
  - Requires knowledge, comprehension, preparation
  - NCUA requires 'credible challenge' to fulfill obligations





# Oversight vs Management

- Board can/should influence, but the CEO still manages
- Process:
  - Board gives direction and outlines desired outcomes, as well as provides *meaningful* input into plans
  - CEO, thru delegated authority, makes decisions to carry out board's desires
  - Board oversees and monitors execution and holds CEO accountable for successful execution of plans
- Often, micromanagement is not a problem unto itself; it is a symptom of several problems
- Key is trust (competencies and intentions) – *trust is the residue of promises fulfilled*



# Oversight vs Management

- **Oversight**
  - Empowers, enables and assists CEO and management to do what they do best
  - Provides much needed strategic direction to CEO
  - Helps ensure longevity of organization (assurance and strategic roles)
- **Micromanagement**
  - Slows things dramatically and adds no value
  - Undermine CEO's credibility and authority, to the detriment of the credit union as a whole
  - Raises perception that board lacks trust in management
  - Results in management deliberately holding back information, loss of morale and loss of key management

# CEO Insights

**In your role as CEO, are there examples of board actions that you feel are an overstep from fulfilling their fiduciary oversight into micromanaging?**

They said  
**WHAT?!?**

- My board is cautious not to overstep. They understand the part we all play in running the credit union.
- Decisions on anything operations. Input and discussion is always welcome, but ultimately, they've asked me to serve and make decisions to best position the credit union to meet its objectives.
- I am always ok with the board asking good questions, and in fact, welcome and encourage them doing so. I depend on their input! But, I want to ensure there is clarity that they've asked me to make decisions. They then hold me accountable to how well we as a management team execute to the goals established by the board.

# CEO Insights

**If you could tell the board anything about the difference between oversight and micromanagement from the CEO's perspective, what would it be?**

They said **WHAT?!?**

- It is very important for them to understand they have one employee and only one, once this is understood they set the governance, by policies, set a budget based on credit union vision and strategic plan and then hold the CEO accountable to carry these out by running the credit union.
- The board needs to talk about what they want the credit union to be—not make decisions on how the work gets done.



# Discussion

- Any hard and fast rules at your credit union regarding roles?
- What tips would you share with others on maintaining an appropriate balance?



# Topic Nine: CEO Evaluation



# CEO Evaluation

- Supervision of the CEO (or manager) is the broadest of the board's duties in terms of organizational and strategy execution
- The quality of the board and senior management is one of the most important factors in the successful operation of the credit union
- Hiring (and removal) of a CEO is costly in terms of instability, dollars and misalignment
  - Whether due to poor recruitment, lack of established expectations or just plain poor performance, CEO turnover is undesirable!

***CEO Evaluation Paradox:** The more senior the executive, the greater their impact on the organization's performance, the less rigorous the evaluation process. In many instances, front-line supervisors are subjected to painstaking annual reviews in which they're systematically graded on a detailed set of performance goals. As you go up the ladder, the reviews become more conversational, informal, and sometimes downright perfunctory.*

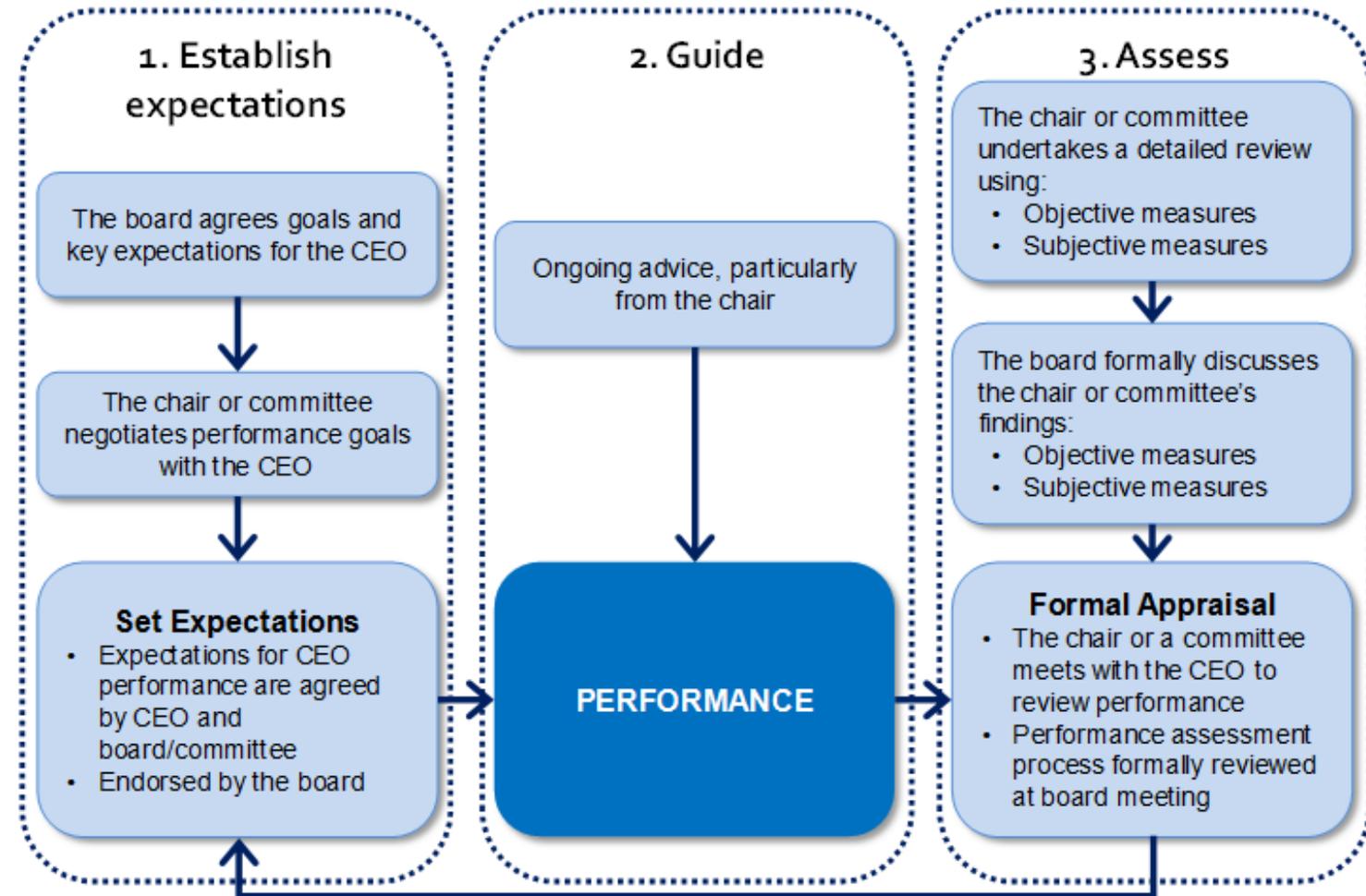


# CEO Evaluation - Benefits

- Aligning the strategic direction set by the board with the CEO's capabilities
- Promoting better board and CEO relations to ensure appropriate and productive collaboration
- Increased objectivity regarding CEO compensation
- Setting an example of accountability (performance management is core to the culture)
- Encouraging CEO's personal development
- Providing early warning system for possible problems
- Increased likelihood of optimal organizational performance

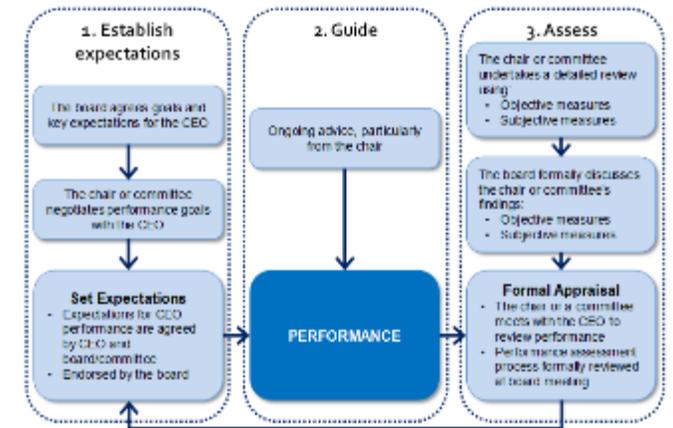
# CEO Evaluation

- There is no single method to complete the CEO evaluation process
- However, it is important to implement the evaluation process in a thoughtful and planned way
- Both the board and the CEO need to understand the process and expectations



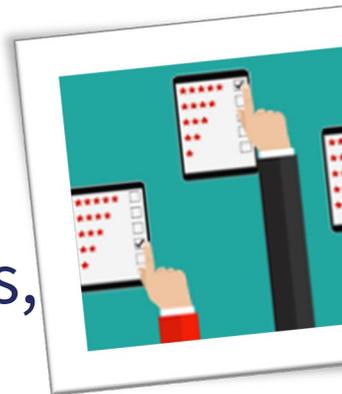
# CEO Evaluation

- Establish expectations
  - Clear expectations form basis for all good performance relationships (impossible to objectively measure performance until a framework against which to evaluate has been established)
  - Should include such items as: leadership, strategy, working with the board, financial performance, human resource management, communication, personal qualities and goals, long-term vs short-term goals
- Guide
  - Ongoing communication is critical
  - Allows correction mid course
- Assess
  - Be objective and thorough



# CEO Evaluation - Expectations

- Examiners review the “M - Management” component of CAMELS using some of the below components, which are important items to consider in CEO evaluation:
  - Adequacy of policies/procedures, budget/actual performance, effectiveness of risk programs, responsiveness to exams and audits, compliance, appropriateness of products/services, market penetration, disaster preparedness, succession planning (mgmt. development)
- Board/member/regulatory/industry relationships, service levels, strategic thinking and planning, initiative and leadership, performance against business plan, community involvement and representation, innovation, adherence to values, ability to execute
- Mix of quantitative and qualitative components





# CEO Evaluation

- **Be informed:** Compile background materials
  - Job description
  - Vision and mission
  - Annual goals and objectives
  - Individual performance goals
- **Be engaged:** Be supportive of the process and encourage full participation
  - Ensure all participants understand the importance of the CEO evaluation process (remember it's one of the board's most important roles!)
  - Ensure robust discussion and complete understanding by all
- **Be diligent:** Ensure competent and appropriate facilitation
  - Can be led by board chair, governance committee chair or external party
  - Needs to be value-added



# CEO Evaluation - Principles

- Ensure CEO performance is aligned with the objectives of the credit union
- Evaluation should be based on clear expectations developed and agreed in advance with the CEO
- Have a clear, transparent and agreed linkage between performance outcomes and compensation
- Encourage the CEO to set developmental goals and plans and provide specific direction as necessary pertaining to the outcomes of the evaluation process
- Conduct process in a manner conducive to ongoing good governance
- Tailor the process to the specific needs of the organization
- Understand and comply with relevant standards for accountability and communication of the results for the organization
- Discuss the past, but keep the focus on the future
- Both the process and the outputs of the evaluation process are important
- Be critical, but not adversarial
- CEO reports to the whole board, not to an individual director
- Remove bias from evaluation process (i.e., recency, definition, halo)

# CEO Evaluation - Examples

Qualitative Leadership Factors  
(Definitions & Performance Levels)  
January, 2019

<b>Managerial Leadership:</b>	<b>Definition:</b> Seen as an exemplary role model, contributor, visionary and leader. Holds self and others accountable to high standards. Inspires others to higher levels of performance. Effectively manages the organizational structure including strategic human resource and staffing issues.
<b>Level #1 Unacceptable</b>	<i>Completely lacks ability to guide others due to lack of effort, desire, vision, or positive attitude. Leadership skills are inconsistent with company values.</i>
<b>Level #2 Needs Improvement</b>	<i>Ability to guide others is limited due to lack of effort, desire, vision, or positive attitude. Leadership skills are inconsistent with company values.</i>
<b>Level #3 Contributor</b>	<i>Focus and direction is good and usually consistent with desired results. Leadership skills are adequate but further development and seasoning may be needed. Generally, shares credit union values and demonstrates a positive attitude toward organizational objectives.</i>
<b>Level #4 Valued Contributor</b>	<i>Shares and promotes credit union values and goals through effective leadership. Encourages and mentors others as needed.</i>
<b>Level #5 Key Contributor</b>	<i>Seen as an exemplary role model, contributor, visionary and leader. Holds self and others accountable to high standards. Inspires others to higher levels of performance. Effectively manages the organizational structure including strategic human resource &amp; staffing issues.</i>

Below are statements attributed to the CEO for successful management of the credit union. Please indicate your agreement or disagreement with the statement as follows and add your comment.

- The CEO is effective at identifying long-term needs of the credit union.

1	2	3	4	5
Strongly Disagree		Agree		Strongly Agree

Notes: |

- The CEO is effective at developing and implementing plans that result in achievement of the credit union's short and long-term objectives.

1	2	3	4	5
Strongly Disagree		Agree		Strongly Agree

Notes:



# CEO Evaluation – Desired Outcomes

- Determine overall performance for the prior 12 months
- Assist in determining compensation levels for the next 12 months
- Identify need and opportunity for performance bonus
- Enhance CEO’s performance through personal development
- Create environment that best positions the organization for long-term success
- Promote learning on the part of the CEO and the board

“The [CEO evaluation] process reinvigorated our CEO... we literally have a new CEO in attitude and approach – an excellent outcome!”



# CEO Evaluation - Feedback

- Don't lose the value of the process due to poor delivery
- Candid performance feedback is emotional
- Tying strategic plan and CEO evaluation together removes some of the emotion
- A process or procedure IS NO SUBSTITUTE for a good working relationship
- Consider:
  - Have a few (two) directors discuss feedback with CEO, allowing CEO to absorb and respond in less threatening environment
  - Repeat in a full board meeting allowing CEO to respond to all and ensure communication is accurate

# CEO Insights

## What are your biggest needs/expectations from your board in regard to the CEO evaluation process?

- That it be completed with clear consensus and no mixed messages.
- It's important that they understand the process – as volunteers, this is sometimes very hard for me to help them understand when it is me that they are evaluating.

## What is your biggest frustration with the CEO evaluation process?

- Communication is very one way.
- Planned follow up throughout the year does not occur regularly.
- Inconsistency from year to year.



# CEO Insights

**If you designed and lead the CEO evaluation process, based on your experience as a CEO what would you include? Exclude?**

- I would include true comparisons on what other CEO's perks, pay, and benefits were and use the tools that are available from CUNA, NAFCU, and the League.
- I'd include a stronger reliance on the performance metrics of the credit union.
- Recommend reviewing and understanding (and possibly excluding) 360 type evaluations. My experience has been that while these give additional perspective, they are prone to significant subjectivity.

**Any specific tips from the CEO perspective on what you might share with a group of board members regarding the CEO evaluation process?**

- Be consistent on the process from year to year and be consistent on the timing of the review.
- The review process is nerve-racking for some—especially those new to the role. At least quarterly check-ins on performance would be beneficial.



# CEO Insights

**Any specific examples of how the CEO evaluation process has helped you improve or at least consider changes to your position?**

- I currently get no value from it.
- The review helps as it provides feedback on the past year and helps to define expectations for the coming future.





# Discussion

- Any lessons learned (good or bad) that you might be willing to share?
- What positive experiences have you had or heard about that would be beneficial to all?
- Other?



# Topic Ten: Community Involvement

# Community Involvement

We believe that our success is measured by the positive difference we make for others. In fact, one of our core values is “**Community Involvement is Essential.**” These are not just words on a wall, but part of who we are as your Credit Union.

## Board community outreach committee

The primary role of the Community Outreach Committee is to interact with the credit union's membership and **represent the Board of Directors at sponsored community events.** The Committee is also required to attend the credit union's Annual Meeting of the Membership. The Committee is responsible for encouraging all credit union Volunteers to participate in various community events and be available to discuss the benefits of People's Trust.

## Credit Union has adopted the following Community Outreach Mission Statement:

To be an **active partner in our community** while continuing to build a positive image for the credit union by upholding the industry's philosophy of "people helping people."

In addition, volunteers should have time to attend meetings, be committed to learning about credit unions, **be interested in helping others become more knowledgeable about the Credit Union and its benefits** and be comfortable with networking and recruiting new volunteers.

Credit Union will work to build and strengthen our unique credit union movement by participating in community events and activities and, and by actively advocating the credit union difference at all levels of the community. Credit Union encourages all staff, management and board of directors to participate in community activities and will strive to build and strengthen relationships with other sectors of our community.

Our Directors will be champions of Credit Union and stewards of their communities, engaging leaders throughout the community to further our movement. In doing so, each Director will develop and grow as a leader, cultivate new skills, and expand their network of professional peers and community leaders.





# Discussion

- Is your role on the board or committee enough or should volunteers also participate in community outreach?
- Should community involvement be a nice to have or an expectation?
- Are there written or unwritten expectations at your credit union?



# Topic Eleven: Relationship with Supervisory/Audit Committee



# Supervisory/Audit Committee

- As the credit union evolves, so to is it time for the committee's purpose to evolve with the changing landscape (this affects the relationship with the board)
- Some credit unions are asking supervisory and audit committees to expand the scope of their efforts to include risk beyond just financial risks
- Examples:
  - Responsible for risk management activities
  - Internal audit association outlined responsibilities for the committee's evaluation of risk appetite and board/management behaviors
  - Many CUs moving away from using committee as a steppingstone to the board due to breadth and depth of required expertise
  - Various levels of involvement in strategic planning



# Supervisory/Audit Committee

- Board should work closely with and support functions of the committee
- Board should keep committee informed of actions (allow some representation from committee at regular board meetings)
- One study<sub>1</sub> revealed relatively high percentage of board members:
  - Don't know what their supervisory committee does
  - If they do know what they do, the practices of the committee do not appear to have changed much in the last decade
  - Almost 45% of board members think their supervisory committee's analysis of top operational and strategic risks are less than effective

<sub>1</sub>Source:<https://www.cumanagement.com/connect/skybox/2015/04/29/supervisory-committees-function-well>

# Supervisory/Audit Committee

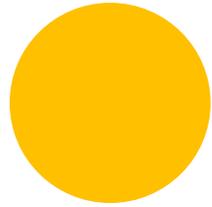
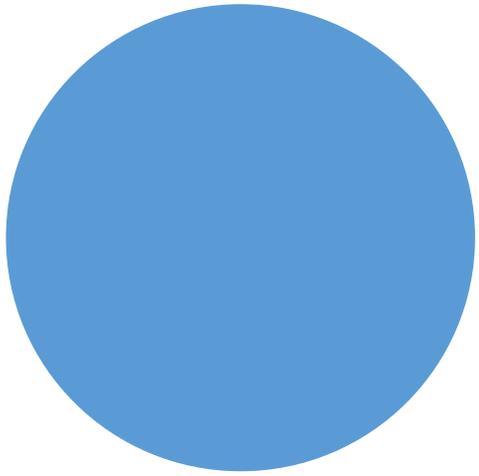
- The board of directors relies on the supervisory/audit committee's reports about matters related to managing, directing and controlling the organization
- The audit committee acts as a link, and facilitates the communications, between the board of directors and both internal and external auditors





# Discussion

- Any written or unwritten requirements to ensure effective relationship/communication between the board and the supervisory/audit committee?
- Any specific challenges?



# Closing Remarks





# Closing Remarks





# Supplemental Materials

## Board of Directors Performance Expectations

### Strategic Planning

An effective strategic plan helps your credit union succeed by focusing the energy, resources, and time of everyone in the same direction.

1. Board members are familiar with the vision, mission and core values of the Credit Union.
2. Board members and Management participate regularly in a comprehensive strategic planning process.
3. Policy decisions on products and services reinforce the strategic plan goals.
4. The Board reviews strategic plan progress regularly.

### Relationship with the President/CEO

One of the most crucial roles of the Board is to recruit, hire, and evaluate the President/CEO. The Board and the President/CEO must create a strategic partnership to lead effectively.

5. The Credit Union maintains a current job description for the President/CEO.
6. All Board members participate in an annual evaluation process of the President/CEO.
7. There is a clear understanding of the differences in responsibilities between the Board and the President/CEO.
8. The Credit Union has both short-term and long-term plans for the succession of the President/CEO.

### Credit Union Products and Services

Board members ensure that the products and services provided by the Credit Union are needed by the members, are cost effective and provide value. Board members should encourage members to use the credit union's services and strive to make the credit union their PFI.

9. The Board is knowledgeable about the Credit Union's products and services.
10. The Board receives and reviews updates on the performance of products and services.
11. Thorough discussion precedes major changes in products and services.
12. The Credit Union has written policies and procedures governing major elements of the Credit Union's operation.
13. The Credit Union closely adheres to its policies and procedures.

## Financial Management

The Board has a fiduciary responsibility to ensure the fiscal well-being of the Credit Union. They accomplish this by approving annual business plans, reviewing financial reports and holding Management accountable for financial performance.

14. The Credit Union develops an annual business plan and budget that support the strategic plan.
15. Key financial performance ratios are established and monitored regularly.
16. Financial reports are presented in an understandable format.
17. Asset-Liability Management processes are well established and followed.
18. Response to audit and examination issues, findings and comments is swift and complete.

## Risk Management

An effective credit union identifies the areas of highest risk to the credit union both in terms of likelihood of occurrence and impact. Appropriate mitigation and audit processes must be in place to safely manage the risk.

19. The Board ensures that regular risk assessments are performed, and vulnerable areas are identified.
20. The Board ensures that policies are in place to mitigate areas of high risk.
21. The Credit Union has strong conflict of interest policies in place.
22. The Board ensures that adequate liability insurance is in effect for Board members and staff.
23. The Board approves a business continuity plan for the Credit Union.

## Board Recruitment and Development

Effective Boards have effective governance practices for recruiting and developing volunteers. Board members are recruited to represent the diversity of the membership and bring varied skills to the table. Board members receive ongoing education in their responsibilities and performance is assessed and enhanced regularly.

24. The Board has identified the skills and experience needed for a well-rounded board.
25. The Board recruits volunteers that represent the diversity of the membership (e.g., geographic, gender, age, race, etc.).
26. The Board has an effective process of recruiting new volunteers.
27. New members receive a comprehensive orientation process.
28. Board members are required to participate regularly in training programs. (e. g., CUNA VAP modules, conferences, webinars, etc.)
29. The Board has effective processes in place to assess its performance.

## Board Governance

Successful Boards have effective rules, processes and policies for leading and controlling the credit union. They ensure that the credit union is operating within the law and without conflicts of interest.

30. Board members ensure that laws affecting credit unions are taken into consideration when making major policy or operational decisions.
31. Board members have access to governance documents – bylaws, policies, etc.
32. The Board routinely reviews and updates the Credit Union's policies.
33. Board members come to the meeting prepared to discuss the issues on the agenda.
34. Meetings are conducted in an efficient manner.
35. Meetings focus on policy issues appropriate for the Board.
36. Participation from all Board members is encouraged.
37. Board members communicate with each other in a respectful manner.
38. Board committees have written direction for their work and report regularly on their actions.
39. The Board has developed appropriate succession practices to ensure the stability of the Board.
40. A collaborative relationship exists between the Board and Supervisory/Audit Committee.

## Community Relations

Effective Boards help the credit union fulfill its responsibility as a good community citizen. They are excellent ambassadors for the credit union.

41. Board members promote the Credit Union in their workplace and community.
42. The Credit Union takes a responsible position as a corporate citizen in the community.
43. The Credit Union encourages staff and volunteer participation in credit union trade organizations.
44. The Credit Union has well-defined processes for dealing with inquiries from the media.

## Individual Board Member Performance Expectations

### Strategic Planning

1. I am familiar with the strategic plan of the credit union.
2. I understand the priority goals for the current year.
3. I use the vision, mission, core values and strategic goals as a basis for making policy decisions for the Credit Union.
4. I actively participate in strategic planning sessions

### Relationship with the President/CEO

5. I am familiar with the job description of the CEO.
6. I participate in the annual evaluation process for the CEO.
7. I understand the line between Board duties and responsibilities and those of the CEO.
8. I address operational questions through the CEO – I do not go directly to Credit Union staff.

### Credit Union Products and Services

9. I have a high level of understanding of the credit union's products and services.
10. I use the credit union as my primary financial institution.
11. I am aware of the financial and member impact of new services before voting on them.

### Financial Management

12. I understand how to interpret the financial reports in the board packet.
13. I understand the key financial ratios for the Credit Union and how they interrelate.
14. I understand the principles of asset-liability management.
15. I read the comments, findings and issues from examinations and audits and monitor Management's response to them.

### Risk Management

16. I understand the risk management processes of the Credit Union.
17. I disclose any potential conflicts of interest and refrain from participating in any decision-making processes in which I may have a potential conflict of interest.
18. I respect and maintain the confidentiality of member information and Credit Union data.
19. I have a basic understanding of the business continuity plan for the Credit Union.

### Board Recruitment and Development

20. I actively participate in the recruitment of new members for the Board of Directors and Supervisory Committee.
21. I keep current with key issues facing credit unions by reading trade magazines, looking at industry web sites, etc.
22. I participate annually in training opportunities for myself. (e.g., CUNA VAP modules, conferences, webinars, etc.)

## Board Governance

23. I understand the major federal and state laws affecting credit unions.
24. I have read and understand the bylaws of the Credit Union.
25. I have read and understand the Board policies of the Credit Union.
26. I come to meetings prepared to discuss the issues on the agenda.
27. I actively participate in discussions on key issues to ensure quality deliberation.
28. I present my perspective assertively and respectfully at Board meetings.
29. I support Board decisions once they are made even if I do not agree with them.
30. I participate on Board committees and/or task forces when asked.

## Community Relations

31. I promote the Credit Union to others in my community.
32. I participate in community events sponsored by the Credit Union.
33. I network with directors and staff of other credit unions at meetings, conferences, etc.
34. I refer requests for comments on credit union news issues to the appropriate spokesperson in the Credit Union.

## **Individual Audit/Supervisory Committee Member Performance Expectations**

### Strategic Planning

1. I am familiar with the vision, mission and core values of the Credit Union.
2. I understand the priority goals for the current year.

### Role of the Supervisory Committee

3. I understand the duties and responsibilities of the Supervisory Committee.
4. I understand and honor the distinction between the Committee's role and that of the Board of Directors.
5. I participate in the development of the annual auditing plan.
6. I address auditing questions through the Internal Auditor, CPA firm and/or President/CEO.
7. I attend exit meetings with auditors and examiners as required.
8. I review the results of account verifications.
9. I participate in "hands-on" auditing processes (cash counts, loan reviews, expense account reviews) as requested.
10. I read and understand the comments, findings and issues from examinations and audits and monitor Management's response to them

### Financial Management

11. I have a general understanding of how to interpret the financial reports in the Board packet.
12. I have a general understanding of the key financial ratios for the Credit Union and how they interrelate.

### Risk Management

13. I understand the risk management processes of the Credit Union.
14. I disclose any potential conflicts of interest and refrain from participating in any decision making processes in which they may have a potential conflict of interest.

### Recruitment and Development

15. I actively participate in identifying and recruiting qualified people for the Supervisory Committee.
16. I keep current with key issues facing credit unions by reading trade magazines, looking at industry web sites, etc.
17. I participate annually in training opportunities. (e.g., CUNA VAP modules, conferences, webinars, etc.)

## Committee Governance

18. I come to the meeting prepared to discuss the issues on the agenda.
19. I provide my perspective on issues at Committee meetings.
20. I communicate with other members of the Committee in a respectful manner.
21. I support decisions made by the Committee even if I disagree with them.
22. I attend Supervisory Committee meetings and planning sessions as requested.
23. I am familiar with the policies and bylaws of the Credit Union and have access to them.
24. I understand the major federal and state laws affecting credit unions (e.g., Bank Secrecy Act).

## Community Relations

25. I promote the Credit Union in my workplace and community.
26. I am a strong advocate of the Credit Union's products and services.
27. I participate in community events sponsored by the Credit Union.
28. I network with volunteers and staff of other credit unions at meetings, conferences, etc.
29. I interact regularly with legislators and regulators to provide feedback and insight on regulatory and compliance issues.

## **Individual Audit/Supervisory Committee Member Performance Expectations**

### Strategic Planning

1. I am familiar with the vision, mission and core values of the Credit Union.
2. I understand the priority goals for the current year.

### Role of the Supervisory Committee

3. I understand the duties and responsibilities of the Supervisory Committee.
4. I understand and honor the distinction between the Committee's role and that of the Board of Directors.
5. I participate in the development of the annual auditing plan.
6. I address auditing questions through the Internal Auditor, CPA firm and/or President/CEO.
7. I attend exit meetings with auditors and examiners as required.
8. I review the results of account verifications.
9. I participate in "hands-on" auditing processes (cash counts, loan reviews, expense account reviews) as requested.
10. I read and understand the comments, findings and issues from examinations and audits and monitor Management's response to them

### Financial Management

11. I have a general understanding of how to interpret the financial reports in the Board packet.
12. I have a general understanding of the key financial ratios for the Credit Union and how they interrelate.

### Risk Management

13. I understand the risk management processes of the Credit Union.
14. I disclose any potential conflicts of interest and refrain from participating in any decision making processes in which they may have a potential conflict of interest.

### Recruitment and Development

15. I actively participate in identifying and recruiting qualified people for the Supervisory Committee.
16. I keep current with key issues facing credit unions by reading trade magazines, looking at industry web sites, etc.
17. I participate annually in training opportunities. (e.g., CUNA VAP modules, conferences, webinars, etc.)

## Committee Governance

18. I come to the meeting prepared to discuss the issues on the agenda.
19. I provide my perspective on issues at Committee meetings.
20. I communicate with other members of the Committee in a respectful manner.
21. I support decisions made by the Committee even if I disagree with them.
22. I attend Supervisory Committee meetings and planning sessions as requested.
23. I am familiar with the policies and bylaws of the Credit Union and have access to them.
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## Community Relations

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