CANADA'S CO-OPS

COUNTING ON CANADA'S CO-OPS

08 National Report on Credit Union & Co-operative Governance Practices

Research Questionnaire Findings

CCA 100 YEARS 1909–2009

BrownGovernance

ACKNOWLEDGEMENTS

This research and report are a joint undertaking by the Canadian Co-operative Association (CCA) and Brown Governance Inc. (BGI) – additional information about each may be found on the inside back cover pages.

CCA's Good Governance Committee reviewed the research methodology, providing valuable input, including a series of new survey questions on co-operative values and the co-operative identity. We acknowledge the members of the Committee with thanks:

- Michael Barrett, Chief Operations Officer, Gay Lea Foods Co-operative
- Debra Brown, President and CEO, Brown Governance
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- Carol Hunter, Executive Director, Canadian Co-operative Association
- Jim Johnson, Director, Credit Union Central of Nova Scotia and CCA Director
- Clarence Olthuis, Chairman, UFA Co-operative Ltd and CCA Director
- Andy Poprawa, CEO, Deposit Insurance Corporation of Ontario
- Janis Riven, Past President, Chartered Secretaries Canada
- Alexandra Wilson, CEO, Co-operative Housing Agency

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TABLE OF CONTENTS

LIST OF FIGURES AND TABLES

Figures

Tables

EXECUTIVE SUMMARY

Five years ago, in 2004, the Canadian Co-operative Association and Brown Governance Inc. undertook the first national survey of its kind on co-operative and credit union governance practices across Canada. In 2008, a second national survey was completed by 115 Canadian-based co-ops and credit unions: this report contains the detailed findings of that research.

Canada's co-ops and their boards have taken some important steps in governance in the 4 years since the baseline study. An overarching theme is enhanced accountability: many of the new or improved governance practices enhance the accountability of the co-op, its board and performance to its members, community and beyond.

> *Canada's co-operatives and credit unions are firmly focused on the effectiveness of their boards and governance, and have made major strides in adopting accountability and oversight practices*

"Accountability", like a coin, has two sides to its meaning, both of which apply here. One side is "making an account", stewards accounting for their shepherding of resources which belong to other people, the members. The other side is "being counted on", stewards being trusted by the members to lead and direct a significant undertaking, because they are trustworthy and capable. Both of these aspects of accountability shine through in the 2008 national research.

Some highlights of the 2008 national research:

- Since 2004, many more co-op boards have adopted formal board and committee charters, board and director evaluations, member surveys and focus groups, on-line governance and financial disclosures, CEO position descriptions and delegations of authority, and taken explicit responsibility for 10 of 11 benchmark board responsibilities: most of the biggest increases relate to the board's role in accountability: governance, measuring, monitoring and risk.
- Canada's co-ops can be grouped by the three governance models that they follow:
  - about 40%, including most large non-financial co-ops and credit unions, follow a reform model of governance, including delegating significant oversight work to Audit, Governance/Nominating and HR Committees which report with recommendations and rationale to the Board for approval (this model is typical of large publicly-traded private sector firms)
  - about 30%, including many smaller non-financial co-ops, follow a more traditional model of governance, where the Board, both as a whole and through functional committees (e.g. Executive, Investment, Member Relations), gets involved in both strategic and operational issues, and the CEO (General Manager, Executive Director) brings most reports, presentations and recommendations to the Board and committees (this

model is more typical of smaller not-for-profit and voluntary organizations and societies)
    - one key distinction between these two models is "who owns the recommendation?"—management or a board committee—when it comes to the board
    - about 30%, including both some larger and smaller credit unions and co-ops, follow a hybrid model of governance, which combines elements of traditional and reform governance: monthly board meetings, several board committees including Executive and Nominating, drawing the line between board and management in different places for different issues, a more situational approach
- The average co-op board size is 9.4 (larger than in 2004 but smaller than most corporate boards), with 7 men and 2½ women, all outsiders – non-management – (more women and fewer insiders than corporate boards)
- The average number of co-op board meetings annually is 10 (more than corporate boards), averaging 3 hours in length (shorter than corporate boards)
- Credit union boards are typically more explicitly focused on strategy, risk and formal written processes than non-financial co-operative boards, are more active in encouraging independent and experience-based directors be nominated, and have directors that serve longer (9 years vs. 7.5 years),
- The boards of larger co-ops are more actively involved in formal assessment, evaluation and performance measurement than smaller co-ops' boards, in actively recruiting qualified candidates to run for election, and in providing or even insisting on ongoing director education
- Delegates are used by about a third of larger co-ops to represent the interests of segments of the membership, typically by geography (region, district, branch): delegates often elect and/or select board members, and work/meet with both the board and management to give input to strategy, priorities, products/services and other assessments
- A solid majority of co-op board members now receive compensation for serving – while this varies widely based on co-op size and industry, typical remuneration is either an annual retainer (or honorarium) averaging $6,500, and/or fees per meeting (or per diem) averaging $150–$200; Board and Committee Chairs usually receive additional annual retainers
- Co-op boards are generally better at applying the co-operative principles of voluntary and open membership, democratic member control, autonomy, and concern for community than they are at member economic participation, education and co-operation among co-operatives; most co-ops would benefit from their boards better promoting the co-operative identity.

Looking forward, it is clear that Canada's co-operatives and credit unions are firmly focused on the effectiveness of their boards and governance, and have made major strides in adopting accountability and oversight practices in particular.

This research and report are intended to publicize comparative benchmarks and to inform co-op and credit union leaders of governance practices, trends, and choices as they move forward. At the Canadian Co-operative Association and Brown Governance Inc.,[1] we remain firmly committed to excellence in co-operative governance and welcome your comments, suggestions, or inquiries.

1. For CCA, see www.CoopsCanada.coop and www.governance.coop. For BGI, see www.browngovernance.com

1. PROFILE OF PARTICIPATING CO-OPS

DETAILED FINDINGS

HOW MANY CO-OPS PARTICIPATED?

Five years ago, in 2004, the first national survey on co-operative and credit union governance practices was undertaken among both credit unions and non-financial co-operatives across Canada. In 2008, a second national survey was completed by 115 Canadian-based co-ops and credit unions: this report contains the detailed findings of that research.

The 115 participants represent a broad cross-section of Canada's co-op sector, as detailed below. For the purpose of this report, "co-operative" and "co-op" mean any organization in the sector, including credit unions and non-financial co-operatives. Non-financial co-operatives are all co-operatives *excluding* credit unions.

WHAT REGIONS OF CANADA ARE REPRESENTED?

The distribution of responses received reflects the underlying distribution of credit unions and co-operatives across Canada. The largest number of respondents were from the three Prairie Provinces, followed by Ontario, British Columbia, and the Atlantic region respectively. Readers, therefore, can feel confident that national results are geographically representative of the entire sector (not including most Quebec-based co-ops and caisses populaires.)

WHAT BUSINESSES DO THE CO-OPS OPERATE?

Credit unions represent just over half of the respondents, followed by retail, housing and agriculture sectors.

Figure 1.1: Distribution of Respondents by Region (%)

- Prairie Provinces 37.4
- Ontario 32.2
- British Columbia 15.7
- Atlantic 14
- Quebec 0.9

Figure 1.2: Distribution of Respondents by Sector (%)

- Credit Union 56.5
- Retail/Wholesale 19
- Housing 9.6
- Other 4.3
- Agri/Agri Food 6.1
- Service 3.5
- Day Care 0.9

WHAT KINDS OF CO-OPS PARTICIPATED?

Just over four out of five respondents indicated that they are Tier One co-ops (primary co-operatives or credit unions, whose members are the direct suppliers or customers). 15 per cent are Tier Two co-ops (regional, district, or provincial co-operative or credit union organizations, whose members are primary co-ops), while Tier Three respondents (national co-operative or credit union organizations, whose members are federations, centrals and other regional or national co-ops) account for just under two per cent of respondents.

HOW MANY MEMBERS DO THEY HAVE?

There is a wide range of total membership numbers reported among respondents, from less than five members to over 2 million. The median number of members is 5,300.[2] About 13 per cent of the reporting co-ops have less than 100 members, while half have more than 6,000.

Compared to 2004 the 2008 research includes a higher proportion of "large" co-ops, for two reasons: co-ops continue to grow organically and through mergers, including several large mergers, and larger co-ops are more likely to participate in survey research. Among large membership sized organizations, credit unions and retail co-ops account for the vast majority of respondents, as in 2004.

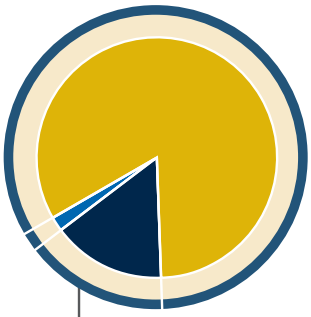


Figure 1.3: Distribution of Respondents by Tier (%)

- Tier 1 – Primary co-ops or credit unions 83
- Tier 2 – Regional, District or Provincial co-operative or credit union organizations 15.2
- Tier 3 – National Co-operative or credit union organizations 1.8

HOW MUCH IN ASSETS AND REVENUES?

When analyzed by asset and revenue size, the respondents represent the broadest possible range.

Assets range from $10,000 to several billion dollars. Median asset size is $79 million, with a quarter of respondents having less than $10 million in assets, and a quarter over $310 million.

Median revenues are $95 million annually. One quarter report less than $1.7 million; one quarter, more than $50 million.

HOW MANY EMPLOYEES AND ARE THEY UNIONIZED?

Participants also cover a wide range of number of employed personnel, ranging from 0 (all volunteer) to over 4,000 employees.

Organizations reported median employment of 44 full-time equivalents (FTEs) A large number of co-ops, 19 per cent, employ four or fewer FTEs. One quarter employ more than 125.

The majority of respondents indicate that they are *non-unionized*: 75% are not unionized; 25% are unionized.

As was found in 2004, generally, non-financial co-operatives employ less staff than do credit unions. This year, non-financial co-ops employ a median 16.5 FTEs, while the median for credit unions is 52 FTEs. There is no significant difference in the extent of unionization between credit unions and non-financial co-ops.

2. For most of the data in this report, we have chosen the median as the more representative, or typical, case than the arithmetic mean or average. This is because most of the responses result in skewed distributions, and the mean is not representative in these cases (inflated result.) This is typical practice in social studies research.

COMPARING SMALL AND LARGE CO-OPS

Larger co-ops often exhibit quite different governance practices from smaller ones, so throughout this report, we will report on results using the following split:

- "Small" co-ops are those with less than 4,400 members, representing 44 per cent of all respondents;
- "Large" co-ops have over 4,400 members, representing 56 per cent.

We are using 4,400 members as the cut-off point since this is what we used for large co-ops in 2004 for the baseline report. [3] This makes comparisons over time more meaningful.

Membership was chosen as the defining characteristic of this split, since membership is usually considered to be the broadest and most reliable indicator of a co-op's size. Other indicators such as assets and revenues vary greatly by industry – credit unions and housing co-ops operate with large asset bases, for example.

SOME REGIONAL DIFFERENCES

The survey yielded some regional differences among the respondents. They include:

- BC has the highest proportion of credit union respondents (financial co-ops) followed by the Prairie provinces, Ontario, and then the Atlantic region;
- BC also has more co-ops with a large membership, more in revenues, and a larger number of employees compared with other regions.

Overall, the participating co-ops are broadly representative of the system in Canada, and the governance practices results are useful and reliable.

Table 1.1: Characteristics of "Small" and "Large" Co-ops

CHARACTERISTICS	"SMALL" CO-OPS	"LARGE" CO-OPS
Membership	Up to 4,400 (322 median)	4,400 to over 2 million (14,458 median)
Assets	Up to $40 million ($5.15 million median)	$40 million to over $8 billion ($226 million median)
Revenues	Up to $6.5 million ($766,000 median)	$6.5 million to over $5 billion ($32.9 million median)
Employees	Up to 32 (7 median)	35 to over 4,000 (105 median)

3. In 2004, results were reported for small, medium and large co-ops. Due to the shift in response rates, we have grouped the small and medium co-ops into a single category this year.

2. GOVERNANCE FRAMEWORK

Both this report and the research questionnaire itself follow a modified agency model of governance:[4]

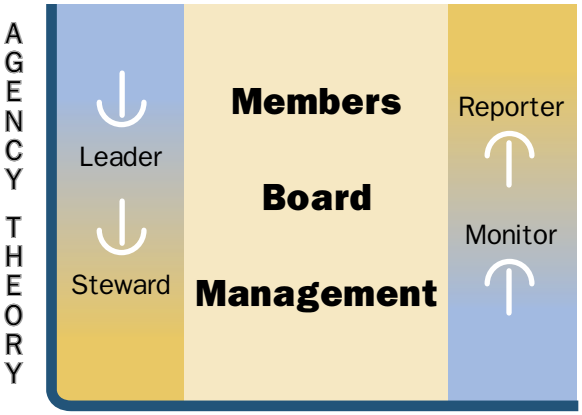
"Governance" in the agency model has four core responsibilities (see Figure 2):

1. Leadership: setting the strategic direction of the organization (purpose, mission) and putting in place the leadership (CEO selection, board renewal) to accomplish that direction.
2. Stewardship: shepherding resources belonging to others (trustee, fiduciary for members) such as risk management, budgeting, allocation of duties/roles/responsibilities, and delineation of authority.
3. Monitoring: receiving and reviewing measures of performance, and holding management (CEO; "agents") accountable for success (achieving the purpose, creating "value").
4. Reporting: accounting to the "principals" (owners, members, stakeholders) on the results of using their capital (resources, labour, etc.) and accomplishing their purpose.

In addition to these core *structural responsibilities*, effective governance encompasses *relational* and *cultural* responsibilities:

5. Citizenship: engaging, dealing fairly with, and relating to stakeholders, the community and the membership in particular.

Figure 2.1: Agency Theory



Source: Brown Goverance 2003

6. Innovation: embracing a culture of learning and change, recognizing that no system, including an organization's governance, remains static but is dynamic.

This modified agency model has also been developed with the co-operative principles in mind. The remainder of this report details findings from the national co-op research according to these six responsibilities that comprise governance.

4. Agency governance was articulated by Adam Smith in 1776 in *An Inquiry into the Wealth of Nations*. The modified Agency Governance model has been articulated and is used in training by Brown Governance Inc.

3. LEADERSHIP

Setting the strategic direction of the organization (purpose, mission) and putting in place the leadership (CEO selection, board renewal) to accomplish that direction

WHAT DO BOARDS TAKE RESPONSIBILITY FOR?

Perhaps the biggest shift in governance in recent years has been the increasing level of engagement and activity of the board, including explicitly taking responsibility for the governance of the organization itself.

The national research indicated the following proportion of respondent co-op boards actively taking responsibility for the key leadership areas below.[5]

Table 3.1: Areas of Active Responsibility by Co-op Boards

LEADERSHIP RESPONSIBILITY	2008: % OF CO-OP BOARDS	2004: % OF CO-OP BOARDS	CHANGE: 2004 TO 2008
Developing co-op's approach to governance issues	**86**	81	+5
Working with management to develop strategic direction	**93**	90	+3
Identifying criteria for measuring strategy	**79**	74	+5
Monitoring the implementation of strategy	**88**	82	+6
Setting objectives to measure management's performance	**82**	79	+3
Assessing management's success in meeting its objectives	**85**	82	+3
Identifying the principal risks of the co-op's business	**83**	78	+5
Ensuring the implementation of appropriate systems to manage risks	**82**	78	+4
Ensuring internal controls and info systems by verifying data integrity	**78**	81	-3
Ensuring compliance with accounting principles	**88**	86	+2
Management succession planning	**70**	59	+11

5. These 11 board responsibilities are drawn from the Dey Committee's Report *Where Were The Directors?* (1994) for the Toronto Stock Exchange, and are often used as benchmarks for boards across sectors in Canada.

The biggest shift in governance in recent years has been the increasing level of engagement and activity of the board

These are encouraging results: almost all have increased since 2004, meaning that co-op boards are becoming more actively involved in the leadership responsibilities of their co-ops.

Most of the biggest increases relate to the board's role in accountability: governance, measuring, monitoring and risk. These are areas that have come under more scrutiny recently.

The biggest increase of all is the board playing an active role in management succession planning. Given demographic trends, ensuring a smooth succession of the CEO and the senior executive team is requiring more active planning and efforts, and we do see co-op boards spending more time and paying more attention to CEO succession in particular.

However, there is always room for improvement. In Canada's corporate sector, many of these responsibilities rate even higher, in particular boards taking responsibility for internal controls (a requirement in the Sarbanes-Oxley Act for U.S. public companies) and management succession. A comparison of selected responsibilities with Canada's corporate sector is shown in Figure 3.1.[6]

In key areas such as governance, strategy and risk oversight, the co-op sector is within striking distance of the corporate sector.

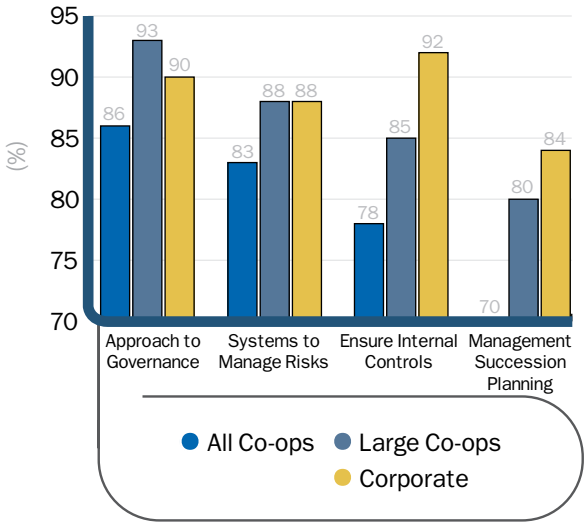
DO SMALL AND LARGE CO-OPS' BOARDS TAKE ON DIFFERENT RESPONSIBILITIES?

Boards of smaller co-ops are less likely to take explicit, active responsibility for all of these areas of leadership (see Table 3.2, on page 9).

This gap is even larger than in 2004, meaning that boards of large co-ops have adopted more active leadership responsibilities, approaching Canada's corporate boards, while many smaller co-op boards have not made significant governance changes since 2004.

In key areas such as governance, strategy and risk oversight, the co-op sector is within striking distance of the corporate sector.

Figure 3.1: Comparison of Selected Leadership Responsibilities between Co-operatives and the Corporate Sector



6. Corporate comparators are ©The Conference Board of Canada's *Canadian Directorship Practices*, unless otherwise indicated.

Again, most of the biggest gaps relate to the board taking responsibility for accountability of the co-op: its governance, measurement, monitoring, risk and control.

There are significant differences between credit union boards and non-financial co-operatives. Over 92 per cent of credit union boards explicitly assume responsibility for risk oversight, compared with 70 per cent of non-financial co-op boards. Strategy is another area where credit union boards take more active responsibility than other co-op boards. This is likely due to a combination of their relative size, complexity and high degree of regulation; deposit guarantee and insurance authorities in Canada stress a risk-based approach to capital management and corporate governance in credit unions (although this approach is effective in all sectors).

As we noted in 2004, some argue that not all board responsibilities are of equal value or necessity in co-ops of different sizes. This view is that boards of directors of smaller or less complex co-ops ought to focus their energies on governance, strategy, and performance measurement. At larger or more complex organizations, the board needs to get more involved in risk management, internal controls, and succession planning.

WHAT DO DELEGATES HAVE RESPONSIBILITY FOR?

In 2008, the national research explored the roles of delegates for the first time. Of the co-ops participating, 37% do have delegates, and their responsibilities include:

Table 3.2: Comparison of Active Responsibilities between Boards of Small and Large Co-ops

Areas of Active Responsibility	% of Small Co-op Boards	% of Large Co-op Boards
Developing co-op's approach to governance issues	80	93
Working with management to develop strategic direction	91	95
Identifying criteria for measuring strategy	73	85
Monitoring the implementation of strategy	80	93
Setting objectives to measure management's performance	68	93
Assessing management's success in meeting its objectives	76	92
Identifying the principal risks of the co-op's business	76	90
Ensuring the implementation of appropriate systems to manage risks	74	88
Ensuring internal controls and info systems by verifying data integrity	71	85
Ensuring compliance with accounting principles	83	91
Management succession planning	59	80

- Developing the co-op's approach to governance 21%
- Representing interests of regions, branches to co-op 38%
- Working with board to develop strategic direction 35%
- Assessment of board's success in implementing strategy 18%
- CEO succession planning..... 19%
- Auditor oversight..... 37%
- Succession/renewal of the board..... 50% which may include:
  - Assessment of co-op's strategic needs..... 31%
  - Profiling skills, attributes of board candidates..... 21%
  - Recruiting, identifying pool of candidates..... 38%
  - Selecting individuals to stand for election 39%
  - Election of board members..... 62%
  - After election, identifying gaps to provide training 21%
  - Evaluation of board members as input to renewal..... 30%

Delegates' primary responsibility, therefore, is to elect directors, which they often do through regional, district or branch representation or direct voting. Beyond this, delegates represent the interests of their segment of the membership to the co-op, often in meetings with both the board and management, and get involved in developing strategy and overseeing the auditor.

> *Boards need to get more involved in risk management, internal controls, and succession planning*

Other responsibilities delegated to delegates of co-ops include:

- Representing the co-op at provincial organizations, centrals, conferences
- Community outreach, ambassador of the co-op in their community
- Developing and presenting resolutions at AGM, membership and system meetings

WHO IS ON CO-OP BOARDS AND HOW DO THEY GET THERE?

The following sections cover board composition, selection and nomination research findings.

WHAT IS THE SIZE OF CO-OP BOARDS?

In 2008, the average size of a co-op or credit union board in Canada is 9.4 directors.[7]

This is smaller than the average corporate board (11 people), but up from 8 in 2004, and well within the range of "best practice" board size often cited (5–15, where 9–13 is preferred). In the corporate sector, the average board size has not changed in over 30 years: large boards have become smaller and smaller boards, larger. Board size typically correlates with the size, complexity, and age of a co-op.

As with many areas of governance, board size is a fine balance: too small a board risks a lack of diverse views, independent thought, and quorum. Smaller boards may also contribute to an under-use of committees by co-op boards since it is more difficult to populate committees. Too large a board risks a lack of active deliberation and individual engagement, and an over-reliance on committees or other subsets of the board to undertake key duties, or instead, an over-reliance on management.

HOW MANY WOMEN ARE ON CO-OP BOARDS?

There are twice as many women board members in co-ops than in the corporate sector, with 27 per cent of director positions on co-op boards held by women in this year's research, similar to the 30 per cent observed in 2004 (see Figure 3.2).

7. In these cases (board size, terms, tenure), the arithmetic mean, or average, is used instead of the median, since board size data is normally distributed and therefore the mean is the most representative or typical case.

On corporate boards, less than 14 per cent of director positions are held by women. The co-op sector even out-performs the public sector in this area, where 20 per cent of Crown Corporation and other public sector enterprise directors are women.

Over two-thirds of co-ops (68%, unchanged from 2004) have at least one woman on their board, identical to Canada's private sector. Over the past several years, however, the number of women on boards, and boards with women, seems to have reached a plateau.

HOW INDEPENDENT ARE CO-OP BOARDS?

A fundamental principle of effective governance is the ability of the board to think and act in the best interests of the co-op itself (its "fiduciary" duty), and not in the interests of management, nor any other specific stakeholder or membership group.

Very few co-op managers serve on their boards – traditional practice in the co-op sector has been to exclude the CEO and other managers from boards. This differs from Canada's private sector, where an average of 1.5 managers also sit on their board (14%), being the CEO in almost all cases, and one other executive (e.g. COO, EVP) on half of these.

84 per cent of directors of participating co-ops are considered independent.[8] This is above the comparable corporate sector proportion of 80%.

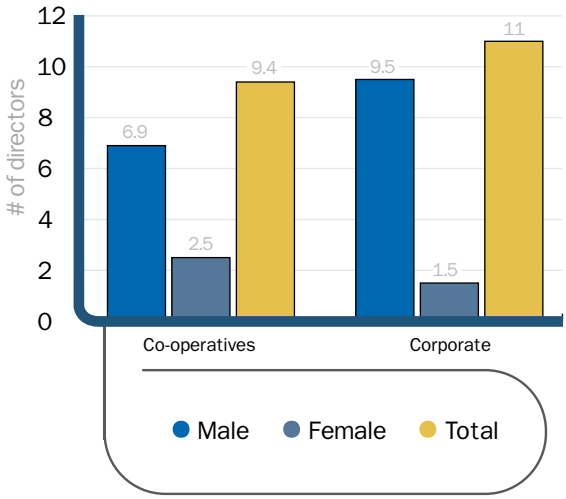
Overall, credit unions report that they maintain a much higher rate of independent board members (93%) than do non-financial co-operatives (63%). These are both up significantly from 2004, when 64% of credit union board members were independent, and 49% of non-financial co-operative board members. Credit unions have had to pay more attention to this area due to changes in regulations and guidelines, such as the requirement that Audit Committees be comprised of only independent directors.[9]

There are a number of other measures in place that enhance a co-op's (and its board's) independence from management. We explored seven criteria that enhance independence; the top four reported by co-ops and credit unions in ranked order are:

1. Independent external auditor 91%
2. Board chair may not be management 86%
3. Audit Committee consists entirely of independent directors 81%
4. Independent Chair responsible for board's relationship with management 72%

There are twice as many women board members in co-ops than in the corporate sector

Figure 3.2: Comparison of Board Composition by Gender between Co-operative and Corporate Boards



8. "Independent" goes beyond non-employees; it is defined as being free from any material interest other than the ordinary interest of a member. Material interests include the co-op's lawyers, consultants, major suppliers, affiliates, and family members of employees.

9. Many provincial credit union regulators take their lead from OSFI, which says: "best practices suggest or require that all audit committee members be independent board members." (Office of the Superintendent of Financial Institutions, *Corporate Governance Guideline*, Ottawa: 2003)

WHO CHAIRS CO-OP BOARDS?

The chair of the board in co-ops is far more likely to be part-time and independent than in the corporate sector.

A full 97 per cent of co-op board chairs are part-time, which is an indicator of the separation of the governance function from management; some argue that a full-time chair is a CEO by another name! And 90 per cent of co-op board chairs are independent, meaning they are neither "inside" (current CEO or employee) nor "connected" (having a material interest beyond their normal membership).

These are both indicators of the ability of the board's leader, and by extension the board, to function, think and act independently of the management and staff if and when this becomes necessary.

Respondents indicated overwhelmingly that men are more likely than women to be chairs of their respective boards by a ratio of 5-to-1 (83.5% male; 16.5% female).

In 2004 we found that women are more likely to be a board chair in a non-financial co-operative (26%) than a credit union (20%). This trend appears to hold true for the 2008 research as well, with 20 per cent of non-financial co-ops reporting female chairs compared to 13 per cent among credit unions. In both cases, however, the proportion of women chairs has dropped significantly.

ARE CO-OP DIRECTORS ELECTED FOR TERMS?

Eighty-five per cent of co-ops have three year terms for their directors (up from 76% in 2004), while 12 per cent have two-year terms.

Three-year terms are typically staggered to ensure continuity of leadership and a more stable renewal of the board. At a number of co-ops, with small member turnouts at the Annual General Meeting (AGM) and no proxy voting, this is a way of guarding against a tiny cadre of members replacing an entire board with its own slate.

Corporate practice has moved to one-year terms—electing a slate of directors at every AGM. This is in response to investor activism, the intention being to ensure director accountability each year. In practice, corporate shareholders have very little democratic power in selecting directors, as they usually have to vote "yes" or "no" to an entire slate and cannot separate non-performers from exceptional board members.

HOW LONG DO/CAN DIRECTORS SERVE?

On average, co-op board members have 8.2 years of service (tenure) on their board. For credit unions, average length of service is even higher, at 9 years compared to 7.5 (median 6) years among non-financial co-ops. The average tenure at private sector boards is 7 years.

Men are more likely than women to be chairs of their respective boards by a ratio of 5-to-1

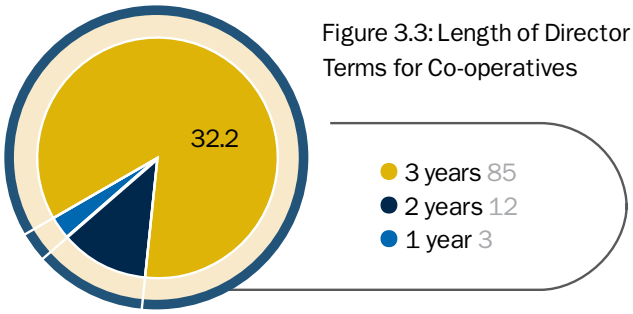


Figure 3.3: Length of Director Terms for Co-operatives

Overall, 19 per cent of co-ops report an average director tenure of more than 10 years, while another 10 per cent report 10 years as their average.

Co-ops are less likely to have a limit to the maximum number of terms, with 66 per cent indicating that they do not. Where a maximum is indicated, three terms is usually the limit (i.e. directors must step down after three terms served.)

Similarly, few co-ops mandate retirement from the board at a specific age – less than 3 per cent in 2008 for co-ops, much less than the 31 per cent of corporate boards in Canada. When retirement is mandated, the age is usually 70, but there is a trend to increasing this to 75 paralleling longer working lives and better health.

This year, we asked participants whether they regarded board turnover as sufficient, with mixed results. One third of respondents said that they do not find this level of turnover sufficient on their board, one quarter are satisfied with turnover, and the rest do not have a strong view one way or the other.

This reflects the reality that board turnover, like employee turnover, is a balance. Too long a tenure may limit fresh ideas and the board's challenge function ("groupthink"), but too short a tenure may limit directors' grasp of issues and risks, and may limit cohesive thinking and action.

HOW ARE CO-OP DIRECTORS CHOSEN?

One of the toughest governance decisions faced by co-operatives and credit unions is the appropriate extent of involvement in the board selection and renewal process.

There is increasing pressure from regulators and "best" corporate practices for an intentional process of renewal that would be more likely to yield directors with specific skills and experience, including financial and business skills. Yet one of the co-operative principles emphasizes "open democratic member control," which many take to mean that the board selection process must be left entirely to the membership without involvement of the co-op or its board.

The 2004 national co-op research survey resulted in ground-breaking findings in this area. In that research we found that the majority of co-op boards do get explicitly involved in board renewal. The 2008 research reveals this as well, as illustrated in Figure 3.4 which shows the degree of board involvement reported for various steps of board renewal and succession.

These findings demonstrate that the co-op sector is actively embracing the reform era of corporate governance, where directors are more than just representative of members' interests but also bring specific attributes that enable them to actively govern the co-op.

Figure 3.4: Co-op Boards' Involvement in Board Succession Activities

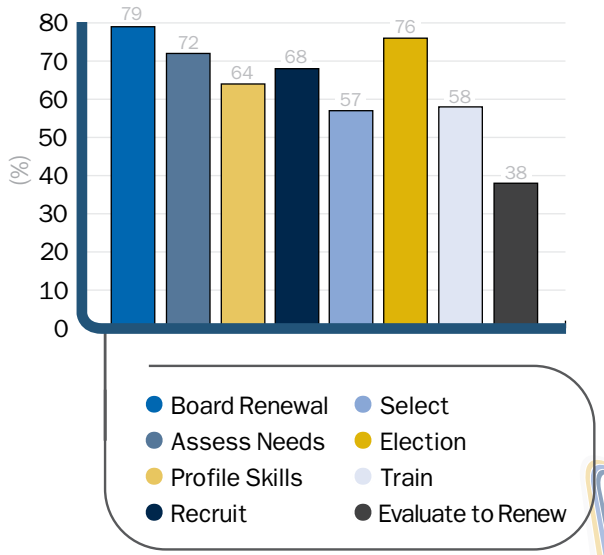


Table 3.3: Comparison of Active Renewal Responsibilities between Boards of Small and Large Co-ops

Areas of Active Responsibility	% of Small Co-op Boards	% of Large Co-op Boards
Succession/renewal of the board (overall)	76	86
Assessing organization's strategic needs	66	79
Profiling skills, attributes, criteria for candidates	62	66
Recruiting: identifying pool of candidates	65	76
Selecting candidates from pool	44	68
Election of board members	67	84
Identifying skills gaps and providing training	48	66
Evaluating contributions as input to renewal	27	44

There are interesting differences here between smaller and larger co-ops. While both are equally likely to prepare a "board profile" of desired attributes for director candidates, small co-ops are less likely to actively recruit or select candidates to run for election, leaving this to the membership. After the AGM, smaller co-ops are much less likely to get involved in formal director training or evaluations, which is perhaps surprising since they are more likely to have specific skills or expertise gaps that need training and assessment, than are co-ops which actively recruit for skills and expertise.

The national research also examined who has the most influence in the board selection process. The top five parties that participants indicated as influencing their board selection process are illustrated in Table 3.4 below.

Table 3.4: Comparison of Who Influences Board Selection Processes between Co-operatives and the Corporate Sector

Rank	Co-operatives: 2008	Co-operatives: 2004	Corporate Sector
1	Governance/Nominating Committee (57%)	Governance/Nominating Committee (57%)	Governance/Nominating Committee (95%)
2	Membership (50%)	Membership (52%)	Board as a Whole (92%)
3	Board as a Whole (34%)	Board as a Whole (42%)	Board Chair (80%)
4	Management (27%)	Management (15%)	Management (68%)
5	Board Chair (9%)	Board Chair (5%)	Shareholders (36%)

This reflects a much better balance among different parties in selecting board members at co-ops than in corporate Canada where shareholders have very little real say in widely-held public companies, where the Board Chair and CEO often hold too much sway. Co-op boards are twice as likely to seek input from management than they were in 2004.

Table 3.5: Comparison of Who Influences Board Selection Process between Boards of Small and Large Co-ops

Who has the most influence?	% of Small Co-op Boards	% of Large Co-op Boards
Governance/Nominating Committee	45	89
Membership	55	49
The Board as a Whole	36	36
Management	19	32
Board Chairperson	6	12
Delegates	13	9

Larger co-ops are twice as likely to use a Governance and/or Nominating Committee in the director nomination process than smaller co-ops. Larger co-ops are also more likely to seek management's input on the nomination process or on prospective candidates for election.

Beyond determining *if* and *who* influences board selection, the research survey asked *how* new board members are selected. The top five criteria respondents indicated as affecting board selection are as illustrated in Table 3.6 below.

Table 3.6: The Top Five Criteria Affecting Board Selection for Co-operatives and the Corporate Sector

Rank	Co-operatives: 2008	Co-operatives: 2004	Corporate Sector
1	Character/personal qualities (77%)	Active member (75%)	Character/personal qualities (88%)
2	Active Member (69%)	Character/personal qualities (74%)	Financial knowledge/experience (84%)
3	Financial knowledge/experience (53%)	Financial knowledge/experience (33%)	Specific skill set to complement the board (76%)
4	Co-op/credit union experience (46%)	Co-op/credit union experience (29%)	Industry experience (62%)
5	Specific skill set to complement the board (41%)	Specific skill set to complement the board (23%)	Similar organization experience (60%)

It is interesting to see how much emphasis co-ops place on character qualities and active membership. This may reflect the maxim: "recruit for character; train for competence". The corporate sector has also moved in the direction of seeking directors with strong character and personal qualities, no doubt due to ongoing scandals and crises of confidence with the leadership of large corporations.

Co-ops are also more actively seeking board members with financial expertise and other specific skills than they were in 2004. Given the current economic environment and challenges that co-ops face, these can be expected to increase even further in importance.

4. STEWARDSHIP

Shepherding resources belonging to others (trustee, fiduciary for members), i.e. risk management, budgeting, allocation of duties/roles/responsibilities, delineation of authority

HOW ARE DUTIES ALLOCATED AND AUTHORITY DELEGATED?

Once both the strategy and board are in place, the next logical step in governance is to allocate accountabilities and delegate authority. This typically involves both a written mandate (e.g. CEO job description, board charter, committee charter/mandate) and a delegation of authority levels (approval and reporting limits) in writing.

This is another governance practice which we see more broadly adopted by co-ops since the 2004 baseline year. Eight of every nine co-op CEOs now have written position descriptions and delegations of authority; six of every seven co-op boards and committees now have written charters or mandates.

This is an important step in governance, to explicitly draw the "bright line" between the board and CEO in terms of "who does what."

Credit unions are more likely than non-financial co-ops to have a position description for the CEO (96% vs. 76%), and board committees (92% vs. 72%), though

Table 4.1: Percentage of Co-operative Boards with Position Descriptions and Written Authority Limits

	% with Position Description/ Mandate: 2008	% with Position Description/ Mandate: 2004	% with Written Authority Limits: 2008	% with Written Authority Limits: 2004
CEO	**87**	65	**86**	66
Board as a Whole	**83**	69	**64**	56
Board Committees	**84**	63	**64**	51
Individual Directors	**76**	50	**n/a**	n/a
Delegates	**26**	Not asked	**19**	Not asked

less likely to have descriptions for delegates (16% vs. 36%). Likewise, credit unions are more likely than non-financial co-ops to have formal written authority limits for the CEO (95% vs. 73%) and board committees (73% vs. 52%), though less likely to have written limits for individual board members (32% vs. 51%).

This reflects both the nature of credit unions – where financial and credit decisions must be made on a frequent basis – and their high degree of regulation which focuses on authority and accountability documentation as part of compliance with a prudent governance regime. Having said that, all co-ops would benefit from clarity on management and committee authority levels.

Table 4.2: Comparison of Position Descriptions and Written Authority Limits at Co-operative and Corporate Boards

	% with Position Description/ Mandate: Co-ops	% with Position Description/ Mandate: Corporate	% with Written Authority Limits: Co-ops	% with Written Authority Limits: Corporate
CEO	**87**	95	**86**	85
Board as a Whole	**83**	95	**64**	43
Board Committees	**84**	74	**64**	34
Individual Directors	**76**	58	**n/a**	n/a
Delegates	**26**	n/a	**19**	n/a

These results compare fairly closely with the current practice in corporate Canada. One subtle difference is in board committee authority limits – the trend in reform governance, reflected in corporate data, is towards committees that do not have authority limits, but that make recommendations for board approval. Not all co-ops have adopted this model; instead board committees at co-ops are still quite likely to have delegated approval authority.

HOW DO CO-OP BOARDS USE COMMITTEES?

Committees are used by the board to conduct work on its behalf, to draft policies and guidelines for board approval, and to oversee and review management information in specific areas. The more complex, larger, and heavily regulated an organization is, the more difficult it is for its board to operate without committees.

The overwhelming majority of co-op participants (97%) indicated that they have board committees in place.

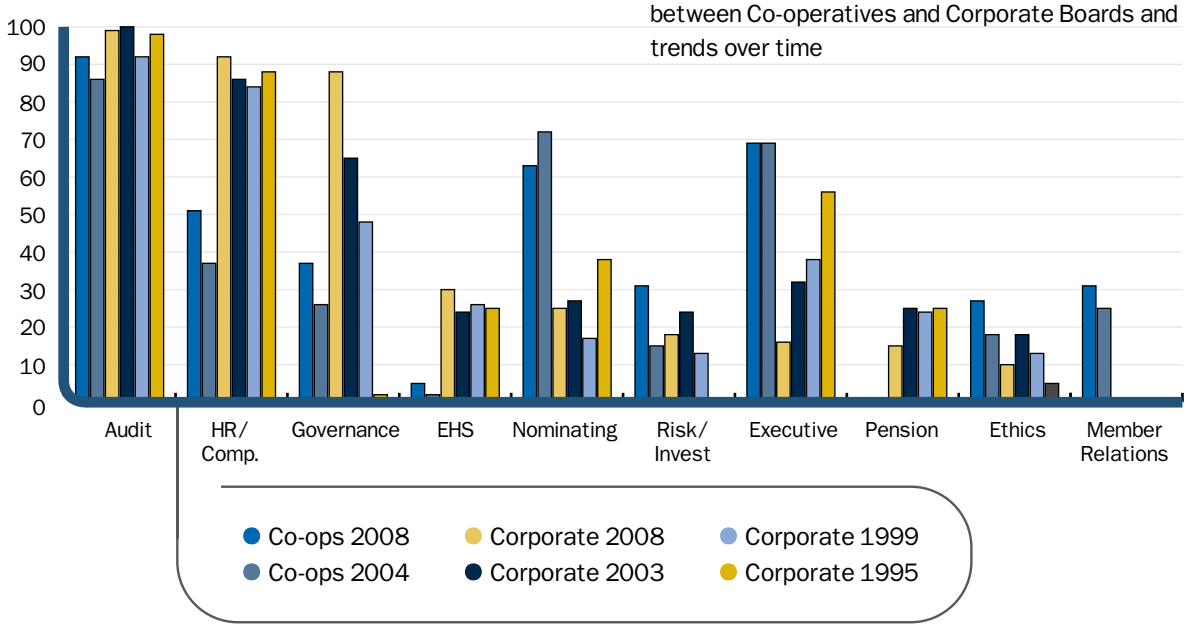
The chart below illustrates a number of things. First, that ***corporate*** boards in Canada have overwhelmingly adopted the reform model of board and committee governance, where:

- Committees do not approve decisions, they undertake major aspects of the board's due diligence work in oversight, then report and recommend to the board which has final approval
- Therefore the board generally does not use an Executive Committee
- An Audit (or Audit and Finance) Committee is responsible for financial oversight
- A Human Resources (or Compensation) Committee is responsible for overseeing the CEO employment relationship, and also executive and incentive compensation plans in general
- A Governance (or Governance and Nominating) Committee is responsible for overseeing the board itself, including the selection and evaluation processes, committee and meeting functioning
- About 30% of corporate boards also have an Environment, Health and Safety (EHS or SHE) Committee of the board to oversee these areas of risk – predominantly in the energy, utilities and related sectors
- A subtle but important aspect of this reform model is that board committees, through their chair, are the primary reporting mechanism to the board on areas of their responsibility, while management provides back-up expertise and resources – in the traditional model of board committees, management provides most of the reporting and presentations at both the committee and board levels (often resulting in duplications and overlaps of presentations and discussions at both).

Co-ops, however, are split on which committee model they use:

- About 40% of co-op boards have adopted this reform model of board-committee governance (up from about 30% in 2004)
- About 60% of co-op boards continue to use the traditional model of board-committee governance, or a hybrid between the two models

Figure 4.1: Comparison of the Use of Board Committees between Co-operatives and Corporate Boards and trends over time



- The traditional model:
  - Relies on an Executive Committee to oversee the employment relationship with the CEO, including the CEO's evaluation and compensation
  - This Executive Committee is often delegated approval authority to make decisions on behalf of the board between board meetings (e.g. leases, purchases, large transactions)
  - A separate Nominating Committee is used for the board nomination process, this committee is often struck with different members each year solely to focus on ensuring that enough candidates are nominated for the board for election at the AGM, and this committee's work is often concentrated in the months leading up to the AGM
  - An Audit Committee is used, although it may (or may not) have approval authority over certain items (budget, capital expenditures, financial reports) rather than recommending them to the Board
  - Other Board Committees may also be used depending on the needs of the co-op and its board: co-ops are more likely to have a board-level Member Relations Committee (31%), Investment or Risk Committee (31%), Ethics or Conduct Committee (27%), or other board committees (39%) than corporate boards, where these responsibilities are more likely to be incorporated with one of the three core oversight committees (e.g. ethics and conduct with Governance or Audit, risk with Audit), or left with the board as a whole (e.g. risk, investment).

There are differences in board committee use between credit unions and non-financial co-ops, as well as between smaller and larger co-ops, although not necessarily as expected.

Table 4.3: Comparison of Board Committee Use: Credit Unions, Small and Large Co-ops

	% of Credit Unions	% of Non-financial Co-operatives	% of Small Co-ops	% of Large Co-ops
Audit	100	80	77	100
HR/Compensation	55	43	31	58
Governance	47	19	19	50
Nominating	83	76	68	86
Executive	74	62	61	68

Larger co-ops and credit unions of all sizes are more likely to have adopted the reform committee model, while smaller co-ops are less likely to rely on board committees in general, and so undertake key oversight work directly at the board level.

Nominating and Executive Committees continue to be popular across the board at co-op and credit union boards, including at a fair number of large co-ops and credit unions, where a hybrid model is often in place (starting HR and Governance Committees, but still using Executive and Nominating Committees as well.) This probably leads to some confusion over committee roles, responsibilities and accountability lines, particularly between Executive and HR Committees (since it is easier for Nominating and Governance Committees to draw a clear line between their roles, and some co-ops include non-board members on their Nominating Committee with reported success.)

HOW OFTEN DO CO-OP BOARDS AND COMMITTEES MEET?

Table 4.4 illustrates how often co-operatives and the corporate sector hold board and committee meetings.

Table 4.4: Comparison of Board and Committee Meetings between Co-operatives and the Corporate Sector

Co-operatives	Corporate
Board Meetings: 10 per year	Board Meetings: 7 per year
Length of meetings: 3 hours	Length of meetings: 5 hours
Committee Meetings: Most commonly 4 per year	Committee Meetings: 4 to 5 per year

While both co-op and corporate boards meet for about 30-35 hours regularly each year, co-op boards have more frequent but shorter meetings. The typical pattern of co-op and credit union board meetings is monthly, the traditional model in Canada, while most corporate boards have adopted a reform model of 6 regularly scheduled face-to-face meetings annually, often being 4 quarterly business meetings, a strategic retreat plus a governance/evaluation/education session (and 1 tele-conference meeting) annually.

77 per cent of credit union boards and 60 per cent of all co-op boards, meet 10 to 12 times a year. Less than one-in-six credit union boards meet six or less times annually. The typical credit union board meets 10–12 times a year for an average of just over 3 hours.

In some provinces, this is due to credit union regulations and standards that call for boards to meet no less frequently than monthly. While the intent of these regulations is sound, to ensure active oversight of management, the unintended consequence is often to cram board committee meetings too frequently and too closely with board meetings, leading to duplication, overlaps and frustration for both board and management team members. Further, monthly board meetings with set business agendas force management to produce monthly performance reports, which can draw the board into operational matters and cloud longer-term trends and strategic variances.

In the case of smaller non-financial co-operatives, more frequent and short board meetings is instead indicative of the fact that most co-op boards are voluntarily run and meetings may be held primarily in the evening with fewer hours available, and that smaller co-op boards may be more involved in the operations than at larger co-ops.

We do find that, when permitted by regulation, both large non-financial co-op and credit union boards trend towards fewer meetings annually, giving committees time to meet and work between these. One reason that

fewer credit unions and co-ops have fully adopted the reform model of governance is the requirement to hold monthly board meetings.

Many committees of co-op boards hold quarterly meetings. This is typically the case for the Audit/Finance, Ethics/Conduct, Executive, Governance, Investment/Risk Management and Member Relations Committees. Environmental Issues and Human Resources committees meet slightly less frequently at 3 to 4 times per year, while Compensation committees typically meet 2 to 4 times annually. Nominating committees typically meet 2 to 3 times annually, while Resolution committees most commonly meet on a biannual basis. These meeting rates are similar to the corporate sector.

HOW ARE CO-OP DIRECTORS COMPENSATED?

Just under three quarters of co-operative directors (72%) are paid for serving on the board. This is up from 52% in 2004, reflecting a long-term trend towards co-ops adopting some form of remuneration for board members, and away from the traditional volunteer-community service model.

Director compensation is far more prevalent among credit unions, at 85%, compared to non-financial co-ops at 56%, and among large co-ops at 90% compared to smaller co-ops at 53%.

Of those co-ops that do compensate directors, here is a breakdown:

- 70% pay per-meeting fees, averaging $155 per meeting
  - typical meeting fees are $50, $60, $75, $100, $125, $150, $175, $187, $200, $250 or $300
- 53% pay an annual retainer or honorarium, averaging $6,467
  - these vary even more widely than meeting fees, from $300 to $5,000, $10,000, $12,500 and higher
- 37% pay a per diem (hourly or daily rate based on time) averaging $237 per day
  - These are similar in amounts to per meeting fees, although more often as high as $300 or $500 per day
  - Per diems often cover board and committee meetings and other co-op business such as conferences, training, members' meetings, regional or provincial meetings
- These add to more than 100% since a number of co-ops pay a combination of retainers and fees to directors
- 61% of co-ops pay Board Chairs additional compensation, usually by way of annual retainer.
  - These average $4,250 annually but vary widely from $1,000 to $16,000 or more
  - Approximately one third of co-ops that pay their Chair do so per meeting: median fees are $100 per meeting but range widely from $10 to $500.
- Vice-Chairs are sometimes paid, typically half the Chair's retainer.
- Committee Chairs are also paid additional compensation, also by way of a higher retainer, averaging one-third to one-half of the Board Chairs.
- A small number of co-ops pay differential compensation to committee chairs based on the degree of work and expertise involved (Audit, HR and Governance, for example, being double other committees.)

Just under three quarters of co-operative directors (72%) are paid for serving on the board

In addition to compensating for meetings:

- 79% of co-ops reimburse directors their travel (mileage, etc.) costs
- 60% compensate directors for training
- 25% waive or reduce costs on the co-op's products or services
- 23% pay for directors' life insurance
- 23% pay directors for travel time (to meetings or on co-op business, based on a travel policy and time required)

Another benefit that some co-ops offer their board members are communications expenses (internet, cell phone), in some cases providing directors with laptop computers (larger co-ops.)

Overall, non-financial co-operatives use these additional methods more than credit unions. Co-ops and credit unions that participated in the 2008 research spend a median amount of $15,000 annually on board travel and related out-of-pocket expenses.

A rough estimate of the average potential compensation for a co-op director in 2008 is $7,630, up considerably since 2004, due to more co-ops compensating, and an increase in retainers and fees. Another factor affecting the 2008 results is that a higher proportion of the 2008 survey participants are larger co-ops compared with the 2004 mix, and larger co-ops tend to pay higher compensation; we were able to eliminate this skew when it was significant in other questions but not for compensation due to sample size limitations.

These amounts of compensation still pale compared to Canada's corporate sector, where the average potential compensation for private sector directors was $77,000 in 2007, ten times the co-op average.

A significant trend in the private sector has been away from meeting fees and towards a single flat fee or retainer for directors. This recognizes that measuring time spent in meetings or on official business is not a very good measure of level of effort or value exchange, and can actually incent too many meetings or events. Instead, a reasonable amount is agreed upon, that reflects the total value exchange for skills, expertise, preparation, meetings, education, conferences, and risk.

Compensation varies dramatically in both the co-operative and corporate sector based mainly on the size of the firm, but also its industry. For example, board members in smaller private sector firms average compensation of $18,000; health and education averages $4,500; while oil and gas corporation directors reached $200,000. For this reason, we recommend that co-ops conduct peer comparator, industry and community research before setting compensation amounts.

DO CO-OPS COMPENSATE DELEGATES?

Over one-third of co-ops (37%) report that they have delegates. Among these, 60% do not compensate their delegates, while 40% do.

Per diem fees are by far the most common way of compensating co-op delegates (three-quarters of those that do pay.) The average is $160 per day for delegates, with a range of $60 to $200., and $187.50 being the median. Most of the remaining co-ops pay delegates per meeting fees, also typically about $175.

Beyond fees, delegates are also compensated for:

- Travel and mileage costs 76%
- Training 40%
- Travel time 17%
- Insurance (life or medical) 17%
- Discounts on co-op services/products 10%

5. MONITORING

Receiving and reviewing measures of performance, and holding management (CEO; "agents") accountable for success (achieving the purpose, creating "value")

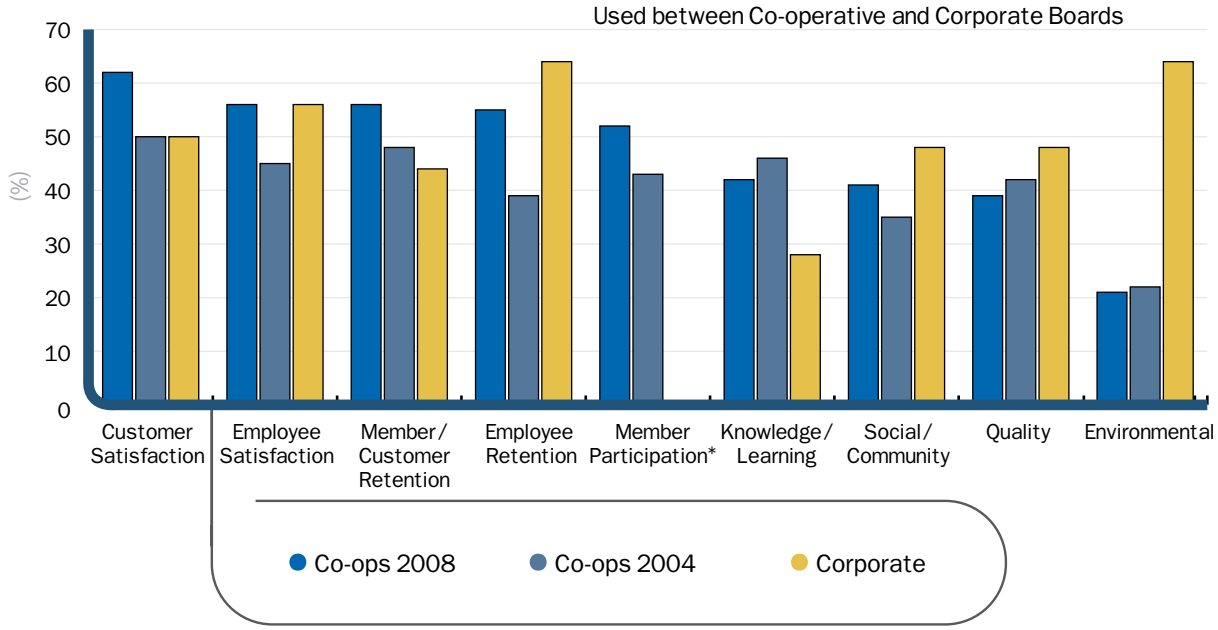
HOW DO BOARDS MEASURE THE CO-OP'S PERFORMANCE?

Every board receives some form of measure of financial success of their co-operative or credit union, from the three basic financial statements (income, balance sheet, and cash flow) and budget to increasingly sophisticated levels of segmentation, ratios, comparisons, and modeling.

Beyond this, co-op boards rely on different non-financial performance measures to evaluate the extent to which the co-op or credit union is succeeding. Figure 5.1 shows the most popular non-financial performance measures reported to co-op boards in 2008, compared to corporate boards.

These performance measures used by co-op boards reflect the key stakeholder groups whose interests the board is overseeing or ensuring: the members (in their roles as owners as well as customers) and employees.

Figure 5.1: Comparison of Non-Financial Performance Measures Used between Co-operative and Corporate Boards



* There are no comparable data from the corporate sector.

Satisfaction and retention are traditional metrics used to track whether an organization is serving stakeholders' interests: satisfaction is usually determined by survey, retention by internal counts. Engagement metrics are becoming more popular, as with member participation in co-ops. Employee engagement metrics, for example, go beyond satisfaction and retention to levels of affinity, loyalty and participation employees have with the organization, and may be better long-term predictors of the health of these relationships.

Again in 2008, corporate boards are more likely to review performance indicators in the "softer" areas of social, community, quality and environment than co-op or credit union boards. There is probably heightened sensitivity over legal liability, risk assessment and to reputational and public/investor relations issues on private sector boards. Another plausible explanation is that many co-ops and credit unions feel they are, by their very nature, community-based; that they are intrinsically and systemically engaged with their communities through patronage dividends, volunteerism, community involvement, and providing services that commercial enterprises would not provide, or have withdrawn. In this case, they may not feel an additional need to measure and report in these areas.

As with other areas in this report, we are not suggesting that all of these metrics are "best practice", but that co-op and credit union boards and managers can compare their own non-financial performance metrics to what other boards are using, and to their own strategic plan and objectives. For example, if a co-op's vision, values and goals focus on the community and society, but its board is not receiving measures of success in these areas, this may be a prompt to ask for them.

HOW DO CO-OPS EVALUATE THEIR BOARDS AND CEOS?

Once strategy, people, duties, structure and monitoring are all in place, a key board role is to evaluate performance and to ensure accountability of management to the board and of the co-op to its members.

In the national research, co-operative sector respondents indicate that most do conduct an evaluation of performance for their CEO, over half conduct board evaluations, but most do not conduct other types of evaluation, such as self or peer evaluation of directors or board committees. See Figure 5.2, below.

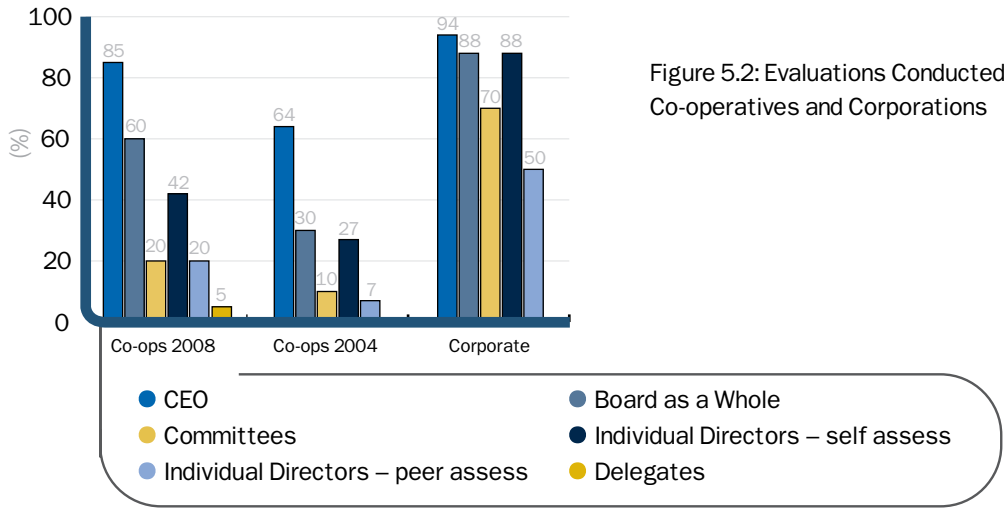


Figure 5.2: Evaluations Conducted in Co-operatives and Corporations

These results are mixed. On the one hand, there has been a significant uptake in formal evaluations by co-ops since 2004. Board and director peer assessment rates have doubled. In 2004 roughly two-thirds of co-ops reported that they conduct a formal performance evaluation of their CEOs, while the 2008 research now shows 85 per cent do so. Most of these evaluation results do affect the CEO's compensation (71%) and the CEO's renewal/re-appointment (56%).

On the other hand, there is a lot of room to go: formal evaluations still lag corporate practice. In particular, only one in five co-ops undertake formal board committee evaluations, while more than seven in ten corporate boards do. Given the increasing responsibilities for diligence work delegated to board committees in reform governance, it is difficult to see the rationale for excluding committees from formal evaluation and accountability.

And individual director evaluations also lag far behind:

- 42% of co-op directors have self-assessments (vs. 88% of corporate)
- 19% of co-op directors have their peers assess them (vs. 48% of corporate)

More robust evaluation practices have taken several years to be adopted in the private sector, and compliance with both mandatory standards and "best practice" codes (like the Globe & Mail's and CCGG's) have been key drivers. We are seeing similar trends in the co-op sector.

As might be expected based on higher levels of regulation and provincial sound business practices and governance codes, formal evaluations are more common in credit unions than non-financial co-ops. For example:

- CEO evaluation: 95% vs. 71%
- Evaluations are more likely to have an impact on CEO compensation and renewal/re-appointment
- Board evaluation: 83% vs. 30%
- Committees' evaluation: 29% vs. 9%.

Formal evaluation processes are also more common in larger co-ops compared to small co-operatives.

There are those who argue that informal performance evaluations and face-to-face "chats" between Chair (President) and CEO are all that is required in smaller or less complex co-ops. Certainly there is no substitute to a strong and transparent relationship of trust and accountability between a CEO and Chair. In our experience, though, even a short form evaluation questionnaire completed by each board member, collected and reported on by a trusted intermediary (who may or may not be the Chair) almost always adds value to understanding and enhancing performance, and new learnings and "aha's" are discovered. This need not cost a lot of money or involve outsiders. The strongest CEOs appreciate a constructive appraisal, and the strongest directors seek individual evaluations.

Formal evaluations still lag corporate practice

6. REPORTING

Accounting to the "principals" (owners, members, stakeholders) on the results of using their capital (resources, labour, etc) and accomplishing their purpose

The final step in a board's core structural governance responsibilities is ensuring a fair accounting back to the member-owners and other stakeholders. This is accomplished through an effective information system, audit and control regime, and reporting.

WHAT COMMUNICATIONS RESPONSIBILITIES DO CO-OP BOARDS ASSUME?

Overall, participants in the national co-op research indicate that their boards do take responsibility for most aspects of communications within their co-operative or credit union. Of primary focus are *ensuring*:

- Information flows to the board ..... 74% in 2008 up from 72% in 2004
- Internal controls as part of the Annual Report .... 67% in 2008 up from 62% in 2004
- Effective communication with members ..... 55% in 2008 down from 63% in 2004
- Communication plan or policy ..... 46% in 2008 about the same as 48% in 2004
- Effective communication with other stakeholders ..... 42% in 2008 well up from 30% in 2004
- Effective communication with the public ..... 37% in 2008 about the same as 38% in 2004

The biggest increase since 2004 has been on ensuring effective communication with stakeholders other than the membership, perhaps reflective of many co-ops' desire to grow organically by broadening their membership base and community engagement.

The boards of large co-ops are more likely to assume responsibility for ensuring appropriate information flows to the board (81% compared to 66% of smaller co-ops), as are credit unions (82%) compared to non-financial co-ops.

The boards of large co-ops are also more likely to assume responsibility for reporting on the adequacy of internal controls as part of the annual report (78% compared to 55% of smaller co-ops). Non-financial co-op boards are more likely to assume responsibility for ensuring effective communications with the membership.

> ***Research shows greater prevalence of co-ops posting annual reports and financial statements, disclosure and privacy policies, governance structure and by-laws***

WHAT ABOUT ON-LINE DISCLOSURES?

The 2008 national research shows much greater emphasis by co-ops on on-line disclosure: what information co-ops and credit unions make available on-line and/or on their websites:

- Annual Report, including financial statements 51%
  in 2008 well up from 20% in 2004
- Information on disclosure and privacy policies 49%
  in 2008 well up from 28% in 2004
- Governance (and delegate) structure 32%
  in 2008 well up from 12% in 2004
- By-laws 19%
  in 2008 up from 7% in 2004
- Committees' composition..... 9%
  in 2008 vs. 7% in 2004
- Board summaries or minutes..... 4%
  in 2008 vs. 7% in 2004
- Committees' terms of reference/mandates..... 4%
  in 2008 vs. 4% in 2004

Compared to 2004, the 2008 research shows greater prevalence of co-ops posting annual reports and financial statements, disclosure and privacy policies, governance structure and by-laws.

Credit unions are much more likely to post their disclosure and privacy policies (73% vs. 15%), as well as their Annual Report and financial statements (67% vs. 23%) compared to non-financial co-operatives.

Larger co-ops are more inclined to make available on-line their Annual Reports (70% vs. 29%) and disclosure/privacy policies (73% vs. 17%) than are smaller co-ops. Larger co-ops are also more likely than smaller co-ops to post their by-laws online (27% vs. 9%). No doubt larger co-ops have access to more resources to enable on-line disclosures.

By comparison, 57% of private sector corporations disclosed their Board Charter on their websites, 66% Committees' Charters, 70% their Code of Conduct, and 27% their Board Guidelines.[10]

In an era of declining member engagement and even declining stakeholder and public trust, organizations that emphasize transparency seek to re-engage and empower members, and to rebuild trust. Posting financial and governance information on-line for all to see is one indicator of a co-op's transparency. Benchmarking disclosure practices is becoming a common annual practice at leading organizations when they undertake governance assessments.

Posting financial and governance information on-line for all to see is one indicator of a co-op's transparency

10. This comparative corporate data is from Patrick O'Callaghan and Associates *Corporate Board Governance Review*.

7 CITIZENSHIP: CO-OPERATIVE IDENTITY, MEMBER, STAKEHOLDER AND COMMUNITY RELATIONS

Engaging, dealing fairly with and relating to stakeholders, the community and the membership in particular

Beyond core structural governance responsibilities, it is generally recognized that boards have additional relational and cultural responsibilities. Relationally, particularly in co-ops, that means boards ensuring that members, the community and other stakeholders are being listened to, being engaged, and are being served.

HOW DO CO-OPS ENGAGE THEIR MEMBERS?

The national co-operative governance research examined this area from a number of perspectives, beginning with member engagement and participation.

The survey examined member engagement in activities other than the Annual General Meeting (AGM) in order to measure the health of "democracy beyond voting." The research found:

- Members participate in surveys 72%
  well up from 54% in 2004
- Members participate in (district/branch) meetings 45%
  approx. same as 43% in 2004
- Member site visits by staff 42%
  well up from 29% in 2004
- Member focus groups 40%
  well up from 25% in 2004
- Member site visits by directors 23%
  up from 16% in 2004

Member meetings and site visits are more common among non-financial co-ops, while surveys and focus groups are more prevalent among credit unions and large co-ops.

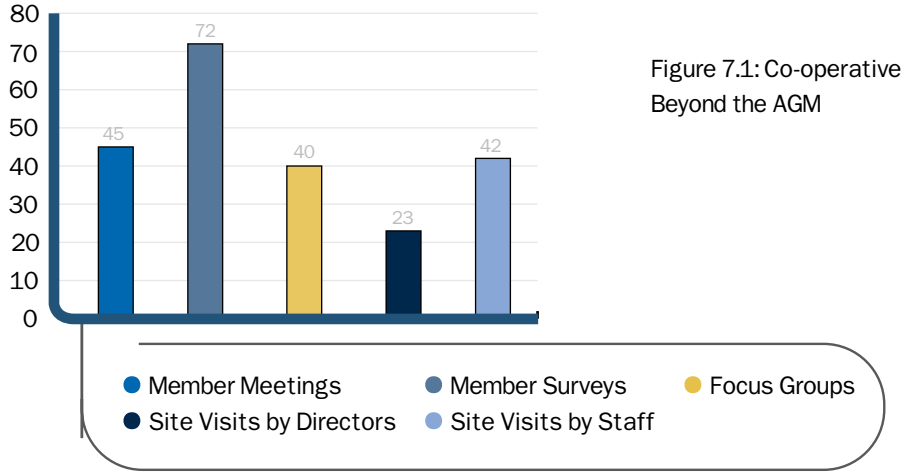


Figure 7.1: Co-operative Member Engagement Beyond the AGM

WHAT DEMOCRATIC POWERS CAN CO-OP MEMBERS EXERCISE?

The research also measured the extent to which member participation is encouraged and members empowered at the AGM itself:

- 78 per cent of co-ops allow members to add items to the AGM agenda,
- 86 per cent allow members to propose resolutions for the AGM, and
- 95 per cent permit members to nominate a candidate to the board.

However, with respect to a member being able to exercise recall/dismissal of directors during their terms, just over half (55%) of respondents answered that members could do so. These figures far surpass the corporate sector, where the average shareholder in a publicly traded company faces almost insurmountable obstacles to adding items to an AGM agenda, proposing resolutions, or nominating candidates. In fact, the Securities Exchange Commission is currently reviewing ways to change these draconian practices.

At 84 per cent, the majority of co-ops indicate that they do not allow proxy voting compared with the corporate sector where proxy voting is the norm. Proxy voting is sometimes seen as a way to shift power to management and the board and to disempower members, or at least to water down the power of engaged members who come to AGMs. In a number of co-operative jurisdictions, proxy voting is still prohibited by law, co-operative legislation calling for voting by members in person at membership meetings only. Several provinces have amended their Credit Unions Acts to permit proxy voting to broaden out the number of members exercising democratic control, and in light of geographical considerations as bonds of association continually expand (many credit unions now operate on a province-wide bond.) It was efforts by special interest groups to "stack" AGMs to gain control of the board that convinced some provinces and regulators to shift policy.

Neither do most co-ops permit board members who are not co-operative members to be elected (98% do not). Non-member directors are often seen as violating the co-operative principle of member control. Others have made valid counter-cases: non-member board members can contribute additional skills and perspectives.

Study results related to measures of member empowerment are generally similar across large and small co-ops and across sectors. One exception is that members of non-financial co-ops are more likely to be able to recall or dismiss a director during their term, at 72 per cent compared to 42 per cent among credit unions.

Overwhelmingly, co-ops' voting structure is based on one person, one vote, at 90 per cent of participants. The other voting structures are:

- Voting by delegates selected by geography or memberships (4%)
- Voting by size/assets/membership/dues (6%)

In many founding family and controlling shareholder corporations in the private sector, it is common for a small number of shareholders to hold controlling voting power. By contrast, in only 5 per cent of co-operatives can a minority of voting delegates control a majority of votes at the AGM.

WHAT ABOUT MEMBER RELATIONS AND CSR STRATEGIES?

Just over half (54%) of the responding co-op boards work with management to develop a member relations and engagement strategy. And just over one-third (38%) follow this up by identifying criteria to measure the strategy and monitor its implementation. These results are slightly higher than in 2004.

75 per cent of non-financial co-ops develop a member relations and engagement strategy, compared to only 40 per cent of credit unions.

With respect to corporate social responsibility (CSR) strategy, the survey found that a little less than one third (31%) of co-op and credit union boards work with management explicitly to develop a CSR strategy, and just under a quarter (22%) follow this up with measures and monitoring.

Developing explicit CSR strategies is much more common among large co-ops (41%) compared to smaller co-ops (16%), and large co-ops are twice as likely to have the board involved with measures and monitoring.

Few respondents (only one in ten) indicate that their co-op completes a Social Accountability/Responsibility report. Still fewer (just 5 co-ops in total) have this report externally verified or audited.

DO CO-OP BOARDS ENSURE A CODE OF CONDUCT AND CONFLICT OF INTEREST GUIDELINES?

The research gauged ethical leadership where we found the vast majority of co-op boards taking responsibility for a code of conduct (81%) and conflict of interest guidelines (79%). These are well up from 2004 reported levels (63% and 61%), and are approaching levels found in the private sector where these codes are often required. As was found in 2004, credit union boards and larger co-ops are more likely to ensure both of these.

HOW WELL DO BOARDS ENSURE THE "CO-OPERATIVE IDENTITY"?

Finally, in the 2008 survey we asked participants a series of new questions[11], to rate on a scale of 1 ("not at all") to 5 ("a great deal") to what extent the board of directors applies each of the co-operative principles:

- Voluntary and open membership 4.7
- Democratic member control 4.3
- Member economic participation.....4.1
- Autonomy and independence of the co-op.....4.5
- Education, training and information 3.9
- Co-operation among co-operatives 4.0
- Concern for community, including volunteerism 4.3

And, more specifically, to what extent:

- Board members take into account members' interests while acting in the interests of the co-op 4.4
- Board members are chosen in an open and transparent way 4.3
- Members experience improved benefits when the co-op thrives 3.9
- The co-op's strategy reflects important things in the lives of members 3.7
- The co-op's services or products reflect co-operative values 3.7
- Board ensures employees are educated in co-operative principles 3.6
- Board ensures delegates are educated in co-operative principles 3.6
- Staff members are effective in explaining the co-op's distinct values 3.5
- The co-op experiences improved benefits when members thrive 3.4
- The co-op has a clear sense of the members' values, expectations, etc. 3.4
- The co-op conducts organized inquiries to find out what members think 3.2
- Board ensures members are educated in co-operative principles 3.0
- The co-op distributes information to members about strategic issues and choices prior to making a decision 2.8

Other than the first two or three of these specific areas, most of these results are moderate or disappointing, showing that many co-ops still have work to do on their co-operative identity.

11. CCA's Good Governance Committee, in particular Brett Fairbairn, suggested the addition of this area and these questions for 2008 – whom we acknowledge with thanks.

8. INNOVATION: LEARNING AND CHANGE

Embracing a culture of learning and change, recognizing that no system, including an organization's governance, remains static but is dynamic

The sixth and final governance responsibility is for the board to encourage and ensure that its organization's culture is one of learning and change. This begins with, but is no means limited to, the development of human resources in the organization, including orientation for new staff and directors, and ongoing education for both.

An organization can excel in strategy, recruitment, systems and relationships, but there will always be cultural dynamics and skills gaps to bridge on the board and management team.

DO CO-OPS ORIENT AND EDUCATE DIRECTORS AND THE CEO?

There is a wide range of orientation and on-going education practices for co-op and credit union directors, delegates and the CEO.

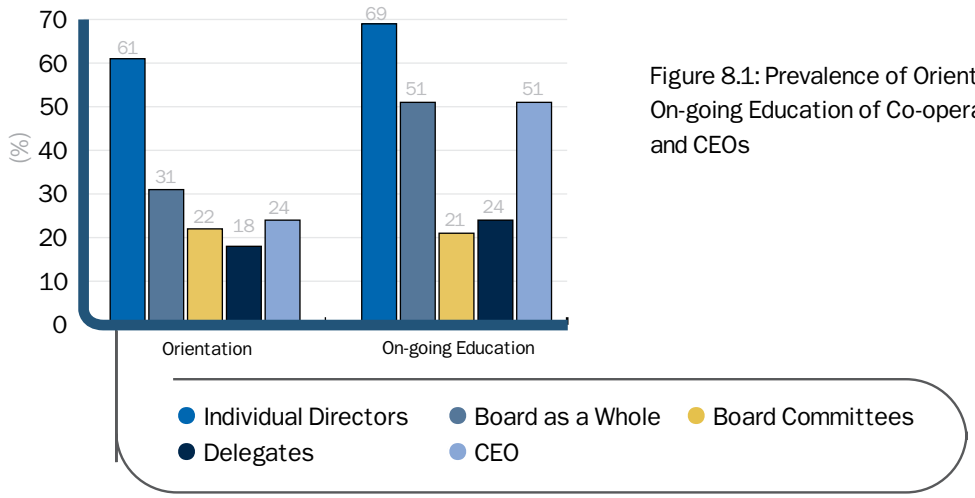


Figure 8.1: Prevalence of Orientation and On-going Education of Co-operative Directors and CEOs

Table 8.1: Comparison of Orientation and On-going Education between Co-operatives and the Corporate Sector

	Co-operatives: 2008	Co-operatives: 2004	Corporate Sector
New Director Orientation	**61%**	47%	83%
Committee Orientation	**22%**	14%	33%
Ongoing Director Education	**69%**	57%	80%
Mandatory Director Education	**26%**	17%	n/a
CEO On-going Education	**52%**	35%	68%

Co-ops continue to increase their emphasis on training, both for new directors, and ongoing education for directors and the CEO, having made major strides since 2004. The corporate sector has adopted education practices even faster, with 28% of corporate boards having formal director education programs in 2004, and an astonishing 80% in 2008. This is the biggest single governance practice change in corporate boardrooms, and coincides with the launching of both the Directors College C.Dir. and the ICD-Rotman DEP in the fall of 2003.

Table 8.2: Comparison of Orientation and On-going Education between Small and Large Co-ops, and Credit Unions

	All Co-ops	Small Co-ops	Large Co-ops	Credit Unions Only
New Director Orientation	61%	36%	76%	67%
Committee Orientation	22%	14%	23%	27%
Ongoing Director Education	**69%**	**60%**	**91%**	**86%**
Mandatory Director Education	26%	17%	36%	37%
CEO On-going Education	52%	39%	63%	64%

Co-ops continue to increase their emphasis on training, both for new directors, and ongoing education for directors and the CEO

Formal education or development programs for directors are in place at well over half of all small co-ops, 91 per cent of large co-ops, and 86 per cent of credit unions.

While most ongoing director education programs are voluntary, 26 per cent of co-ops – and 37 per cent of credit unions (up from 22% in 2004) – mandate their directors' participation. Part of the co-op sector's success here is the result of co-operative governance education programs such as CCA's Institute of Co-operative Studies and the Co-operative Governance Conference, and director education programs such as CUSOURCE's Credit Union Director Achievement (CUDA) program. Parts of the CUDA program are mandatory for all directors in British Columbia and Nova Scotia, and a growing number of credit unions are mandating CUDA training for new directors, especially in the Prairie and Atlantic regions. Other director education programs have been developed by retail and housing co-op federations and associations, and some large co-ops are sponsoring their directors' participation in the two national public programs (C.Dir. and DEP.)

Ongoing education and development for the CEO ranges from 39 per cent of small co-ops to 63 per cent of large ones, and 64 per cent of credit unions. However, the corporate sector has made a leap in this area too, moving from 10% of CEOs with formal ongoing education programs in 2004 to 68% in 2008. Too often boards assume that someone's professional development is over once they are appointed CEO – yet building a learning culture begins at the top, with a commitment to the professional and personal development of executives and the board.

WHAT IS THE LEVEL OF COMMITMENT AND INVESTMENT OF CO-OPS IN BOARDS?

In 2008, we added new questions, to rate on a scale of 1 ("not at all") to 5 ("a great deal") to what extent:

- Board members are adequately prepared to fulfill their responsibilities 3.7
- The co-op recognizes, rewards or celebrates new ideas 3.8
- Staff members are a source of new ideas and innovations 3.7

These are fairly moderate ratings, illustrating that the culture of many co-ops would benefit from a "shot in the arm."

In terms of the level of investment that co-ops put into their boards, delegates and governance, the following are the median amounts invested annually in:

- Compensating directors $40,000
- Training directors $12,000
- Communications with/for directors $5,000
- Board and committee meetings $8,000
- Director travel and expenses $15,000
- Legal, insurance, compliance board costs $5,000
- Other board costs $13,000
- Total investment in board/committees ... $60,000[12]

This average total amount represents an investment of less than one-tenth of one per cent of revenues, a small amount indeed for an area that can make such a difference to strategy, CEO selection, member engagement, and overall co-op success.

12. Total does not equal addition of others since these are each medians and different numbers of co-ops responded to different questions.

9. LOOKING FORWARD

We close out this report, as we ended the research questionnaire, with three areas that are meant to cast our eyes forward, to get a sense of what priorities co-ops and credit unions are facing in governance, and what trends lie just around the corner.

WHAT ARE THE TOP STRATEGIC ISSUES CO-OPS FACE?

One priority will be strategy, ensuring that the co-op's purpose, direction and business model are properly aligned with areas of future opportunity and strength.

The top strategic issues facing co-ops and credit unions over the next three years are reported to be:

1. Growth – 63%
2. Profitability – 46%
3. Financial stability – 46%
4. Member relations – 44%
5. Succession planning – 40%
6. Risk management – 38%
7. Human resources development – 37%
8. Mergers – 33%
9. Market share retention – 29%
10. Communications and Branding – 25%

Clearly, in the next three years, many co-ops will be challenged in the areas of financial stability and profitability, while mergers have dropped as a leading strategic issue since 2004. In order to succeed, boards and CEOs will need to focus on maximizing internal resources and mitigating external risks.

WHAT ARE THE TOP GOVERNANCE PRIORITIES FOR CO-OPS?

The second priority for co-ops and their boards is governance. Credit unions and other regulated industries face a new slate of governance requirements focused on risk management, audit and control, transparency and capital adequacy. It is no longer an option for boards to look to management for all the answers and for accountability.

Governance priorities identified by co-operatives and credit unions include, in order of priority:

1. Policy development/renewal – 39%
2. Succession planning – 38%
3. Director recruitment – 35%

Many co-ops will be challenged in the areas of financial stability and profitability

It is no longer an option for boards to look to management for all the answers and for accountability

4. Board evaluation – 29%
5. Accountability – 29%
6. Director evaluation – 24%

WHAT ARE THE TOP PRIORITIES FOR DIRECTOR EDUCATION?

Finally, director training and education continues to be, and will further emerge as, a priority.

Participating co-ops indicate that the top priorities in ranked order for director training/education are:

1. Director's roles and responsibilities – 50%
2. Governance effectiveness – 50%
3. Financial management – 46%
4. Risk management – 38%
5. Credit Union Director Achievement program (CUDA) – 32%
6. Leadership – 28%
7. Member relations – 23%
8. Succession planning – 21%
9. Legislative compliance – 17%

FINAL COMMENTS

The 2008 National Survey on Credit Union and Co-operative Governance Practices has set new benchmarks in assessing the co-operative and democratic health of co-operatives and credit unions. A significant benefit of building upon the 2004 Survey data is that CCA and Brown Governance Inc. are now able to benchmark governance excellence from within the system as well as comparing against the corporate sector.

The 2008 research shows overall improvement in many areas as boards have taken explicit responsibility for 10 of 11 benchmark board responsibilities particularly in areas such as governance, measuring, monitoring and risk.

Not only have we noted improvements since 2004 and vis-à-vis corporate Canada, but new data this year in the area of Citizenship reflects a commitment to co-operative values and the co-operative advantages of conducting business which has also been recognised outside the system in areas such as director education and development.

The current economic challenges will focus boards even more on being effective stewards of their co-operatives and credit unions, requiring a commitment to accountability and to continuing professional development and learning as directors.

One current issue on boards around succession planning is closely tied to the continuing debate on the need for boards to have more deliberate approaches to select and recruit talented and experienced directors on the board and how to do this while maintaining co-operative health. The increasing wave of retiring CEOs and senior managers within the workforce also requires that the board has regular input on succession planning strategies.

As a movement, we should not underestimate the importance of this survey and building on the data and practices we are generating over time. We know, as a system, that our governance practices and processes are some of the most robust in Canada and by benchmarking our practices we can continue to strengthen them further. This survey now has a strong baseline to compare our governance practices – not just against

Director training and education continues to be, and will further emerge as, a priority

The 2008 research shows overall improvement in many areas

the corporate sector but also historical data from co-operatives and credit unions across the country.

We want to give recognition to the care of duty and dedication employed on a daily basis by co-op directors and management. CCA's Leadership in Co-operative Governance Awards is one way of recognising these achievements within the sector: for more details go to http://www.coopscanada.coop/pdf/Governance/2007/CCA_Governance_Awards.pdf.

Looking forward, it is clear that Canada's co-operatives and credit unions are firmly focused on the effectiveness of their boards and governance, and have made major strides in adopting accountability and oversight practices in particular.

This research and report are intended to publicize comparative benchmarks and to inform co-op and credit union leaders of governance practices, trends, and choices as they move forward. At the Canadian Co-operative Association and Brown Governance Inc.,[13] we remain firmly committed to excellence in co-operative governance and welcome your comments, suggestions, or inquiries.

Canada's co-operatives and credit unions are firmly focused on the effectiveness of their boards and governance

13. For CCA, see www.CoopsCanada.coop and www.governance.coop. For BGI, see www.browngovernance.com.

ABOUT CCA AND BROWN GOVERNANCE

ABOUT THE CANADIAN CO-OPERATIVE ASSOCIATION

The Canadian Co-operative Association (CCA) is a national association for co-operatives in Canada, representing more than nine million co-operative and credit union members from over 2,000 organizations. CCA members come from many sectors of the economy, including finance, insurance, agri-food and supply, wholesale and retail, housing, health, utilities and the service sector. CCA provides leadership to promote, develop, and unite co-operatives and credit unions for the benefit of people in Canada and around the world.

CCA has built up a reputation amongst its members and partner organisations within the co-operative movement for providing content-rich materials relating to corporate and co-operative governance.

The association has consistently raised the bar in terms of the co-op system's understanding and knowledge of the latest thinking and activities relating to governance and the role of the board and directors. Recent activities undertaken by CCA in governance include:

- Publication of ***Governance Matters*** (published up to 6 times per year) – the newsletter, edited by Debra Brown of Brown Governance, provides an update on recent activities or issues relating to governance and tackles specific subject areas such as the role of the Corporate Secretary or in-camera sessions at board meetings.
- ***Co-operative Governance Conference*** – this biannual event is focused on providing CCA members' corporate secretaries and staff responsible for board development an opportunity to share best practices, knowledge and information amongst each and learn from acknowledged experts in the field of corporate governance, member relations, communications and co-operative systems.
- ***Institute of Co-operative Studies*** – this biannual event is not solely focused on corporate governance, it is recognised that the Institute provides many opportunities for directors and senior management of co-operatives and credit unions to explore governance issues with a diversity of co-op leaders and experts from Canada and the world.
- ***Leadership in Co-operative Governance Awards*** – annual awards sponsored by CCA which recognizes overall governance excellence, excellence in co-operative governance practices, and governance leadership amongst leading co-operatives and credit unions.

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ABOUT BROWN GOVERNANCE INC.

Brown Governance Inc. has over eighteen years of experience working full-time in corporate governance, including significant experience gained in working with boards in the private, public, co-operative and not-for-profit sectors. We understand the challenges and opportunities of co-operative governance and have developed a reputation and expertise in this area.

Brown Governance Inc. has developed particular expertise in the following governance areas:

- Brown Governance Inc. has developed and tested a comprehensive *principle-based governance system* that has been adopted and adapted by award-winning, leading governance organizations including The Conference Board of Canada and BMO Financial Group (Bank of Montreal) in Canada's private sector, federal and provincial governments in the public sector, and the Directors College in the academic sector. This principle-based system, is the basis of our systematic, robust and highly effective governance review and benchmarking systems.
- The *roles, responsibilities and relationships and delegation of authorities* of the Board, committees, Chair, CEO, Shareholder (Members), their appropriate level of engagement including developing terms of reference, mandates, workplans and necessary by-law revisions.
- *Strategic Planning:* Facilitated strategic planning sessions with numerous boards in a variety of sectors across Canada (including setting of vision and mission, development of goals, objectives and strategies and setting of targets and measures directly aligned throughout the organization.)
- *Board and CEO selection* including needs assessments, skills profiles, search and recruitment and strategic board succession and renewal (e.g. the right board size, terms of office, composition, mix, skills and experience.)
- *Performance evaluation* of the Board, Chair, committees, CEO (self, peer, individual, 360 degree; questionnaires, interviews and facilitated dialogue.)
- *Compensation* of board and committee members and chairs (peer data and approach to compensation and compensation committees of the board.)
- *Board functioning* (e.g. frequency of board meetings, the relationship of committee meetings to board meetings and implications for information management, reporting and accountabilities, agenda management, reports and presentations to the board, effective meetings, deliberations and decision-making, transparency of minutes and board reports.)
- *Risk Management:* Brown Governance has developed a board level risk management system that has been completely integrated with best governance practices and principles. In addition, we have a fully developed training program in strategic risk management for Boards of Directors.
- *Board Training and Development* including pioneering board governance training seminars across Canada since 1996, co-founded and key faculty of The Directors College, and deliver governance training and director development customized for individual boards.

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