Measuring up

National Report on Credit Union Governance Practices

September, 2004

Research Questionnaire Findings

Canadian Co-operative Association and Brown Governance Inc

CCA

BrownGovernance

Credit unions are under considerable pressure from regulators, insurers, and members to ensure the effectiveness of their governance practices. At the time of publishing this report, at least three provinces are putting the finishing touches on the next generation of corporate governance standards for credit unions. One major contributor to a robust review, which has not been available until now, is a national database of credit union governance practices. This landmark research will enable credit unions to:

- Identify where their own governance practices are comparable with—or differ from—system norms, and compare with corporate (private sector) practices and trends;
- Understand how other credit unions are addressing governance changes and issues; and
- Make informed decisions about improving their own governance practices.

People ask us, "why benchmark?" The answer lies in the inaccuracy of self-assessment: over 60 per cent of people and organizations will self-assess their performance in the top 25 per cent; over 90 per cent in the top half. Benchmarking illuminates the gap between perceptionæwhere you think you areæand realityæwhere you really are. Reforming governance is all about change management, and its first step is to know where you currently stand.

Over 600 credit unions were surveyed for this first national survey on Canadian credit union governance practices. The 197 responses provide a comprehensive picture of governance practices across the country and profile specific practices such as: the degree to which credit union boards get involved in the director selection process; sought-after attributes of new board members; independent directors on credit union audit and other board committees; disclosure and transparency practices; and the areas over which boards assume strategic or monitoring responsibility. There are other resources available for further insights on each of these areas, including the Canadian Co-operative Association's *Governance Matters* e-newsletters and Brown Governance Inc.'s seminar series.

We urge users to obtain customized comparisons to add value to these national findings. For example, a credit union in Ontario may want to compare its director compensation, evaluation, and selection practices with credit unions of similar size across Canada. Or a credit union may want to benchmark its board responsibilities and committee practices with others in its province or region. Such customized correlations are available by contacting either of us directly.

These findings are the most comprehensive ever compiled in Canada for the credit union system, and will be of great value in helping leaders to benchmark and enhance their governance and board practices. We wish them success, as that is also our objective.

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Acknowledgements

This research and report are a joint undertaking by the Canadian Co-operative Association (CCA) and Brown Governance Inc. (BGI):

> CCA is a national umbrella organization for co-operatives that provides leadership to promote, unite, and develop co-operatives and credit unions for the benefit of people in Canada and around the world. CCA is recognized for a number of governance products and services, including the e-newsletter *Governance Matters*, governance toolkits, an annual Corporate Secretaries Conference, and governance and leadership workshops.
>
> Brown Governance Inc. is an internationally recognized consulting firm, which has provided governance expertise to credit unions and co-operatives and other businesses. BGI produces a series of governance diagnostic tools (CD and on-line), delivers governance, financial literacy and risk management seminars, and edits the CCA's *Governance Matters* e-newsletter.

We would like to extend our sincere thanks to all those who invested the time in completing this research questionnaire. Further, we acknowledge the significant support of many of the provincial Credit Union Centrals who helped get the word out to local credit unions about this survey in order to increase the response rate. We also thank Chantal Lalonde and Brenda Heald of CCA, and Jane Whynot of BGI for their contributions to this report.

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1. Profile of Respondents

In March 2004, the first national survey on credit union and co-operative governance practices was undertaken among both credit unions and non-financial co-operatives across Canada. A comprehensive research questionnaire was sent to over 1,200 non-financial co-ops and over 600 credit unions, with 412 completed responses returned, including 197 from credit unions.

The credit union research results form the basis of this report—a baseline benchmark of the current state of governance among Canada's credit unions and a look forward to next steps.[1] Primarily, this is baseline data; it sets a single marker for each practice that will be increasingly useful as future research is conducted and trends are identified.

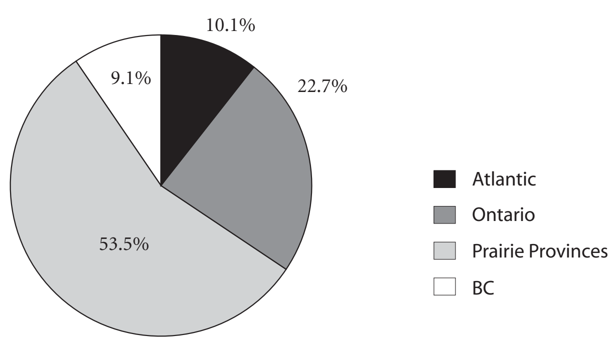
The 197 respondents represent a broad cross-section of Canada's credit union system, as detailed below.

1.1 Region

One-in-three credit unions in Canada completed and returned a research questionnaire

The distribution of responses reflects the underlying distribution of credit unions across Canada. The largest number of respondents was from the three Prairie Provinces, followed by Ontario, the Atlantic region, and British Columbia respectively. While the proportion of respondents from the Prairie Provinces is higher than their numbers nationally, readers can feel confident that the national results are representative of the entire system: in fact, one-in-three credit unions in Canada completed and returned a research questionnaire.

Figure 1.1: Distribution of Respondents by Region (%)[2]

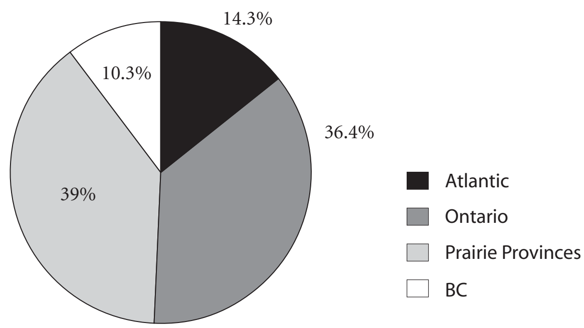


1. A companion report, *Towards Excellence: Report on Credit Union & Co-operative Governance Practices (2004 Research Questionnaire Findings)*, contains the research findings, comparisons, and observations for all 412 co-operatives. For the purpose of both reports, "co-operative" and "co-op" mean any organization in the sector, including credit unions and non-financial co-operatives. "Non-financial co-operatives" are all co-operatives excluding credit unions.

2. n = 190 for region. Throughout this report, where the number of respondents to a question is significantly different than the entire population of 197, "n" indicates the number of valid responses to that question (in tables and figures.) In other words, eight (or 4%) of the 197 credit unions did not indicate a region for this particular question.

The following chart shows all credit unions in Canada broken down by the same regions:

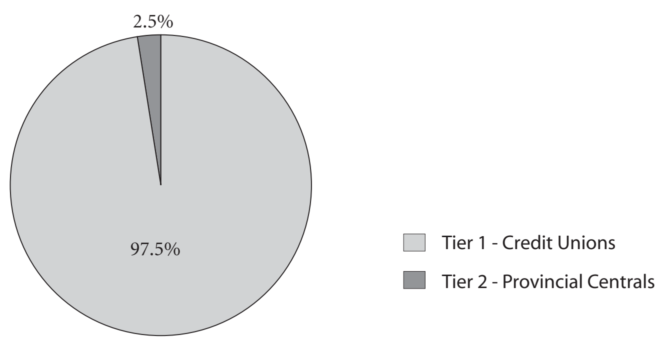
Figure 1.2: Distribution of All Credit Unions by Region (%)[3]



1.2 Tier

Over 97 per cent of respondents indicated that they are Tier One credit unions. The other 2.5 per cent are Tier Two provincial centrals.

Figure 1.3: Distribution of Respondents by Tier (%)



1.3 Size: Assets, Revenues, and Membership

Credit union respondents represent a wide range of assets, revenues, and membership sizes.

Asset size ranges up to several billion dollars with a median of $61 million. One quarter of respondents has less than $21 million in assets, and one quarter over $160 million.[4]

Median revenues are $3 million annually. One quarter reports less than $900,000; one quarter, more than $9 million.

There is also a wide range of total membership numbers reported among respondents, from under 100 members to 300,000. The median number of members is 4,900.

3. System data is courtesy Credit Union Central of Canada, www.cucentral.ca/Public/insidecdn/financialdata/content/findata.htm

4 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.

Small credit unions are those with less than $29 million in assets.

Medium credit unions have between $29 million and $120 million in assets.

Large credit unions have over $120 million in assets.

Table 1: Size Characteristics of Responding Credit Unions

Characteristics	Small Credit Unions	Medium Credit Unions	Large Credit Unions
Assets:	Under $29 million	$29 – 120 million ($61 million median)	Over $120 million
Revenues:	Under $1.4 million ($552,000 median)	$1.4 – $7 million ($3 million median)	Over $7 million ($13 million median)
Membership:	Under 2,200 (1,200 median)	2,200-8,000 (4,900 median)	Over 8,000 (14,000 median)
Employees:	1 – 11 (6 median)	11 – 43 (20 median)	Over 43 (71 median)

For comparison purposes throughout this report, the respondents are grouped into "small," "medium," and "large" credit unions based on their asset size. These dividing points result in three equally sized groups of respondents.

- Small credit unions are those with less than $29 million in assets.
- Medium credit unions have between $29 million and $120 million in assets.
- Large credit unions have over $120 million in assets.

There is a high degree of correlation between asset size and revenue, as one would expect. There is less correlation between membership size and asset size; there are even some small asset credit unions (i.e. under $29 million in assets) with over 50,000 members.

This means that some smaller asset credit unions have a large number of small relationships, while medium and larger asset credit unions tend to weed out or reduce smaller relationships and focus on a smaller number of members with a larger market share or "wallet" share.

1.4 Employees and Unions

Respondents indicated a range of number of employed personnel, from one to 1,700 people. Credit unions reported median employment of 20 full-time equivalents (FTEs).

Five-out-of-six small credit unions employ 10 or fewer people. Medium-sized credit unions tend to employ 14 to 35 people (one third employ 14 to 23, and another third 24 to 35). Large credit unions cluster into two groups: 30 per cent of large credit unions employ 40 to 60 people; 40 per cent employ 100 or more.

The majority of respondents indicate that they are *non-unionized* by a ratio of more than six-to-one (86% are not unionized; 14% are unionized).

The larger the size of the credit union, the greater the chance that its workforce is unionized. Just over one quarter of large credit unions (with assets over $120 million) have a unionized work force. This percentage shrinks to 13 per cent for medium-sized credit unions (with between $29 million and $120 million in assets). Less than five per cent of small asset credit unions (with assets under $29 million) are unionized.

An implication of this is that larger credit unions may be more enticing targets for unions to organize than smaller ones. As growth and mergers fuel ever-larger credit unions, boards and management should be alert to employee sensitivities and disconnections.

1.5 Regional Differences among Respondents

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

- The Atlantic region has a larger proportion of small credit unions.
- The Prairie Provinces have the smallest proportion of small credit unions.
- In British Columbia, there is a *bi-polar* distribution, meaning that there are proportionately more small and large credit unions, but fewer medium-sized; this polarization in size has significant implications in central services, technology, marketing, and even regulation since there is a strong tension between these opposites.

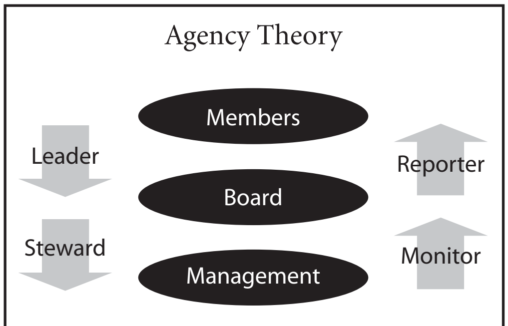
2. Governance Framework

Every credit union in Canada has a great deal of leeway in selecting its own governance model as long as it does so within certain parameters set down in provincial law and regulation. Each province has its own credit unions act and deposit insurance, deposit guarantee and/or stabilization regimes, with sound business practices setting a minimum standard.

In an effort to present these findings in a logical and overarching way to Canada's credit unions, both this report and the research questionnaire itself follow a modified Agency Model of governance:[5]

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

Figure 2: Agency Theory



Source: Brown Governance 2003

1. Leadership: setting the strategic direction of the credit union (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 on behalf of credit union's members or "principals") including risk management, allocation of duties/roles/responsibilities, and delineation of authority.
3. Monitoring: receiving and reviewing measures of credit union performance, and holding management (CEO; "agents") accountable for success (achieving the purpose, creating "value").
4. Reporting: accounting to the "principals" (credit union's owners/members and other 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 and dealing fairly with, and relating to the credit union's stakeholders, the community and the membership in particular.
6. Innovation: embracing a culture of learning and change, recognizing that no system, including a credit union's governance, remains static but is dynamic.

This modified agency model is consistent with standards for credit unions in each province and has also been developed with the co-operative principles in mind. The remainder of this report details findings from the national credit union research organized according to these six responsibilities that comprise governance.

5. 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. www.browngovernance.com

3. Leadership

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

3.1 Leadership Responsibility

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 credit union boards actively taking responsibility for the key leadership areas below:[6]

> "The board of directors' key responsibilities include reviewing and approving:
> –the credit union's mission
> –structure and controls
> –objectives, strategies and plans
> –management succession
> –an enterprise risk management framework
> –integrated strategic, risk and capital management …"
>
> Excerpts from Credit Union Deposit Guarantee Corporation's *Risk-Based Monitoring* (Saskatchewan, July 2004)

Table 3.1: Areas of Active Responsibility by Credit Union Boards

Leadership Responsibility	% of credit union boards[7]
Developing credit union's approach to governance issues	81.4
Working with management to develop strategic direction	94.1
Identifying criteria for measuring strategy	77.4
Monitoring the implementation of strategy	82.8
Setting objectives to measure management's performance	80.3
Assessing management's success in meeting its objectives	84.5
Identifying the principal risks of the credit union's business	81.2
Ensuring the implementation of appropriate systems to manage risks	81.3
Ensuring internal controls and information systems by verifying data integrity	84.7
Ensuring compliance with accounting principles	89.4
Management succession planning	63.5

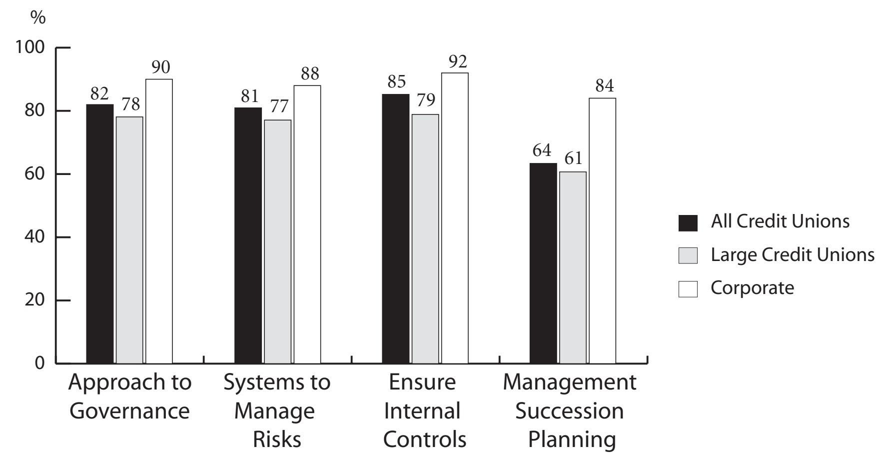
The highest percentages are encouraging. Nine-out-of-ten credit union boards are actively involved in setting strategic direction and in ensuring compliance with accounting principles.

6. 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.

7. n = 188 for responsibilities; n = 161 for governance approach.

However, there is room for improvement in credit union boardrooms. In the corporate sector, many of these responsibilities are generally considered fundamental board roles. A comparison of key board responsibilities—governance, risk, and controls—with Canada's corporate sector is shown in Figure 3.1.[8]

Figure 3.1: Comparison of Selected Leadership Responsibilities between Credit Unions and the Corporate Sector



Larger credit unions often lag smaller credit unions in their adoption of governance practices

Here we see the first evidence of an interesting and perhaps surprising trend in the research: that larger credit unions often lag smaller credit unions in their adoption of governance practices. This occurs in many, but by no means all, governance areas. In the area of board responsibility, small credit unions' boards are significantly more likely to take active responsibility for strategy, risk, controls, and board renewal than large credit unions (see Table 3.2, below).

> "Credit unions have the responsibility of identifying, measuring and managing the risks they assume."
>
> Credit Union Deposit Guarantee Corporation *Risk-Based Monitoring* (Saskatchewan, July 2004)

Table 3.2: Comparison of Active Leadership Responsibilities between Boards of Small and Large Credit Unions

Areas of Active Responsibility	**% of Small Credit Union Boards**	**% of Large Credit Union Boards**
Developing strategic direction	91	83
Identifying principal risks	80	73
Ensuring internal controls through info systems/data integrity	82	79
Ensuring compliance with accounting principles	86	82
Succession/renewal of the board	74	65

8. Corporate and Crown comparators are ©The Conference Board of Canada's 2004 *Canadian Directorship Practices.*

It is reasonable to argue that not all board responsibilities are of equal value or necessity in credit unions of different complexity, strategy, or values. The boards of directors of smaller or less complex credit unions may be focusing their energies on strategy, risk, and control partly because the management team is smaller and more reliant on the board's active involvement. At larger or more complex credit unions, however, one would expect the board's involvement to be on governance oversight and compliance responsibilities, but this is not always the case.

3.2 Board Composition

3.2.1 Size

The average size of a credit union board in Canada is 8.2 directors.[9]

This is significantly smaller than the average corporate board (over 11 people) but is 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.

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 credit union boards since it is more difficult to populate committees. Too large a board risks a lack of active deliberation and individual engagement.

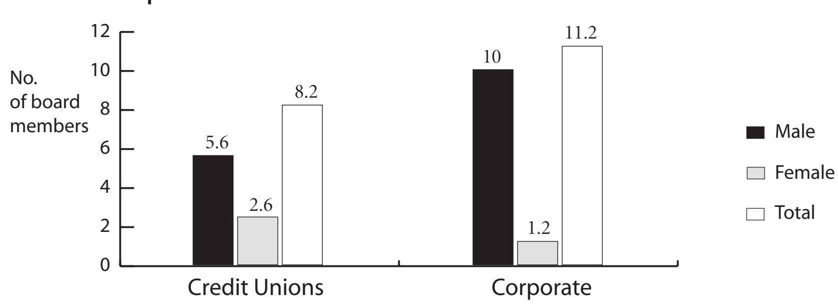
Board size typically correlates with the size, complexity and age of an organization, and this holds true in credit unions, too.

3.2.2 Gender

Canada's credit unions report that there are many more male directors than female directors serving on their boards (see Figure 3.2). There is a much higher proportion of women board members in credit unions than in the corporate sector, however. A full 31 per cent of director positions on all credit union boards are held by women; on corporate boards, less than 12 per cent of director positions are held by women. The credit union sector out-performs even the public sector in this area, where 20 per cent of Crown Corporation and other public sector enterprise directors are women.

Almost three quarters of credit unions (72%) have at least one woman on their board.

Figure 3.2: Comparison of Board Composition by Gender between Credit Union and Corporate Boards



There are more female board members in small credit unions (36%) and more male board members in large credit unions (71%).

9. In these cases (board size, terms, tenure), the arithmetic mean or average is a more representative or typical case than the median. This is because these questions' responses result in normal or "bell curve" distributions.

3.2.3 Independence

In terms of board mix, the typical credit union board has entirely "outside" directors, with no "inside" director.[10] Barely one-in-six (17%) credit union boards includes the CEO as a full board member. In the corporate sector, the typical number of inside directors is one or two employees on the board (see Table 3.3, below), with almost all corporate boards including the CEO as a full board member.

> 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.

Table 3.3: Comparison of Board Independence among the Credit Union, Corporate and Public Sectors (Average Number of Directors on Board)

	Credit Unions [11]	Corporate (Private Sector)	Crown (Public Sector)
Inside (employee)	1	2	1
Outside	7	9	11
Total	8	11	12

Overall, credit unions report that 63 per cent of their board members are "independent." By "independent," we mean directors who are free of material interests or relationships (beyond their membership in the credit union itself). Large credit unions lead the way with 70 per cent independent board members; medium-sized credit unions report 65 per cent; and small credit unions, 59 per cent.

A number of the smallest credit unions have several employees on their boards, likely volunteers who both work at and govern the credit union. Since employees are not considered independent, boards with more employees would have fewer independent directors.

Credit unions have had to pay more attention to this area recently due to changes in regulations and guidelines, such as the requirement that Audit Committees be comprised of only independent directors.

There are a number of other measures in place that enhance a credit union's board independence from management. The research survey explored criteria that enhance independence; the top four reported by credit unions in ranked order are:[12]

1. Independent external auditor (88%)
2. Board chair cannot be management (74%)
3. Responsibility for Board's relationship with management assigned to chair who is independent of management (64%)
4. Audit Committee consists entirely of independent directors (61%)

10. The survey used the following definition: inside directors are full-time current employees of the co-op/credit union or employees of a parent, controlling, or subsidiary company who are voting members of the board of directors in addition to their regular duties.

11. The reason that the average number of inside directors at credit unions is one is because a small number of credit unions have up to six-to-eight inside directors on their board.

12. n = 186 for independence mechanisms.

Here, too, large credit unions lead in every area of board independence from management: 65 per cent have an Audit Committee composed only of independent directors; 70 per cent assign responsibility for administering the board's relationship with management to an independent board chair; and 46 per cent of large credit union boards hold regular sessions without management present.

Having said this, credit unions lag the corporate sector in the use of governance practices to enhance independence. For example, 72 per cent of corporate boards now report having an Audit Committee consisting entirely of independent directors (versus 61% of credit unions), and 78 per cent of corporate boards hold regular sessions at board meetings without management present (versus only 41% of credit unions). This latter practice is considered important to ensure directors air any sensitive issues and deal transparently with the CEO's performance.

Another area where credit union practice differs from the corporate trend: only one third of credit unions have a system in place to enable individual directors to engage an outside professional advisor. While this should be an exceptional occurrence, it is becoming accepted practice in the corporate sector for core committees to have this ability and for directors to have a way to request outside advice if needed.

3.3 Board Chairs, Terms and Tenure

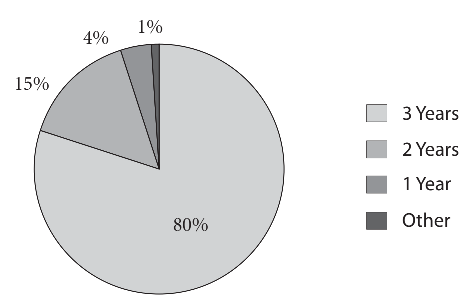
Canadian credit unions indicated overwhelmingly that their board chair is more likely to be male than female by a ratio of four-to-one (80% male; 20% female). Twenty-eight per cent of small credit unions are chaired by a woman.

The chair of the board in credit unions is more likely to be part-time and independent than in the corporate sector. A full 88 per cent of credit union board chairs are part-time (and 94% of large credit unions), 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 over 96 per cent of credit union 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.

Credit unions in Canada overwhelmingly (98%) indicated that directors are elected for a specific term on their board.

Figure 3.3: Average Length of Director Terms for Credit Unions (%)



Most commonly, a three-year term was indicated (80%; see Figure 3.3, above). Three-year terms are typically staggered to ensure continuity of leadership and a more stable renewal of the board. This is the traditional model of electing credit union directors.

The larger the credit union, the more likely it is to follow this model. Only 12 per cent of large credit unions have director terms of one or two years; 18 per cent of medium-sized credit unions do, and 22 per cent of small credit unions.

At many credit unions, with small member turnouts at the Annual General Meeting (AGM) and no proxy voting, this is one 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.

Most credit unions (70%) indicate that there is no limit to the maximum number of terms, but where a maximum is indicated, three terms is usually the limit (i.e. directors must step down after three terms served). Large credit unions are less likely to enforce term limits than small credit unions.

On average, credit union board members have 8.3 years of service (tenure) on their board.[13] Indeed, almost a quarter (23%) report that the average length of service of directors exceeds 10 years, and another quarter average nine or 10 years. Tenure is fairly consistent across regions and sizes of credit unions, although large credit unions report a slightly shorter length of service (8.25 years) than small- and medium-sized credit unions' boards (8.6 years).

This reflects a slower turnover than in the corporate and not-for-profit sectors, and a much slower turnover than at public sector boards. One possible reason is difficulty in attracting new board members to run; and several credit unions report aging memberships and challenges with member engagement.

Tenure, like so many governance practices, involves striking the right balance. On the one hand, a reasonable turnover rate ensures fresh faces and ideas on the board; in fact, the *Higgs Report* in the U.K. recently commented that directors lose their independence after 10 years' service. On the other hand, too high a "churn" on the board leads to inexperience and a lack of gelling together as an effective unit. At many Crown corporations, for example, the board tends to lack real power and management holds a great deal of power and influence.

Only two per cent of credit unions have an official retirement age in place for board members. Those that do, which are all small or medium credit unions, mandate a retirement age of between 69-71 years old. In the corporate sector, 44 per cent of boards still have mandatory retirement, typically at age 70.

Both mandatory retirement and director term limits are seen as traditional methods to ensure directors step down off boards after a time of service. However, many governance practitioners see these as blunt and ineffective tools to ensure better board performance through director succession. Instead, director evaluations and accountability are regarded as more leading-edge ways of optimizing the refreshing of the board.

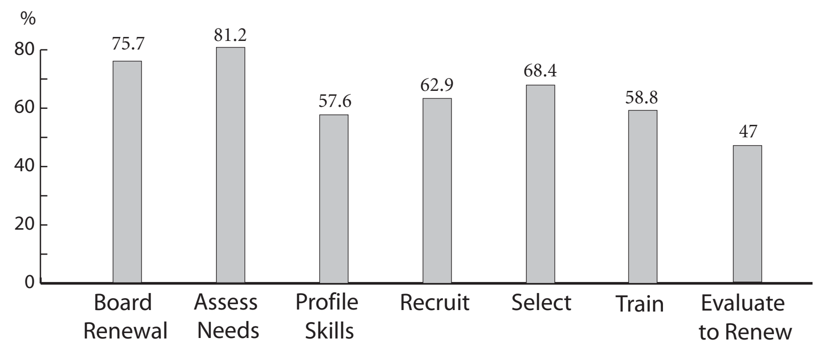
13. n = 180 for tenure.

3.4 Board Selection and Renewal

One of the toughest governance decisions faced by 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 interpret to mean that the board selection process must be left entirely to the membership without involvement of the credit union or its board.

The national credit union research survey resulted in ground-breaking findings in this area. Over three quarters of credit union boards do get explicitly involved in board renewal, in fact at almost every step of the process. Figure 3.4 illustrates the degree of involvement in the steps of board renewal and succession by credit union boards:

Figure 3.4: Credit Union Boards' Involvement in Board Succession Activities[14]



The top five ways in which respondents indicate that their board is involved in board succession and renewal are:

1. Assessment of credit union's strategic needs (81%)
2. Selecting individuals to stand for election from a pool (68%)
3. Recruitment: identification of a pool of candidates (63%)
4. After election, identifying skills gaps and providing training (59%)
5. Profiling skills, desired attributes and criteria for candidates (58%)

These findings demonstrate that the credit union 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 credit union.

This is another area where small credit union boards get more involved than large credit union boards (see Table 3.4, below).

Again, this is an intriguing finding. Some small credit unions may get more actively involved in board succession because they are having difficulty finding suitable candidates willing to run. Some large credit union boards may leave this responsibility up to someone else, perhaps the management of the credit union.

14. n = 181 for board succession.

Table 3.4: Comparison of Active Renewal Responsibilities between Boards of Small and Large Credit Unions

Areas of Active Responsibility	% of Small Credit Union Board Involvement	% of Large Credit Union Board Involvement
Assessment of needs	80	71
Profiling skills, attributes	55	50
Selecting candidates from pool	59	58
Identifying skills gaps and training	60	50
Evaluating contributions as input to renewal	46	33

The national survey also examined who has the most influence in the board selection process. The top five parties that respondents indicated as influencing their board selection process are illustrated in Table 3.5, below.

Table 3.5 Comparison of Who Influences Board Selection Processes between Credit Unions and the Corporate Sector

Credit Unions	Corporate Sector
Committee of Board (e.g. Nominating, Governance) (97%)	Governance/Nominating Committee (95%)
Membership (49%)	Board as a Whole (92%)
Board as a Whole (43%)	Board Chair (80%)
Management (19%)	Management (68%)
Board Chair (4%)	Shareholder (36%)

Management plays an increasingly influential role in board selection as the credit union gets larger; the board plays a decreasingly influential role

As one would expect, the owners (members) of credit unions have much more direct influence in the selection of board members than do corporate shareholders. And management has a concurrently smaller influence in board selection in credit unions than it does in private sector corporations.

There is a significant difference between small and large credit unions here: management plays an increasingly influential role in board selection as the credit union gets larger; the board plays a decreasingly influential role (see Table 3.6, below).

Table 3.6: Comparison of Who Influences Board Selection Process between Boards of Small and Large Credit Unions

Who has the most influence?	% of Small Credit Unions	% of Medium Credit Unions	% of Large Credit Unions
The board	49	41	36
Management	15	20	23

This confirms the hypothesis, above, that some boards in larger credit unions play a less active role in certain areas of governance, leaving these to management. This is not necessary wrong, since different credit unions may be served better by different governance models, and the line between the board and management is not always drawn in the same place.

Boards and management of credit unions would be well served by having a dialogue over who should do what in the board succession process so that roles are intentional, agreed, and effective. And this generally begins with a board profiling exercise.

In the private sector, many observers believe that management holds too much influence and shareholders too little; in fact, the Securities Exchange Commission and other regulators are moving in the direction of mandating more influence for shareholders.[15] This may be an area where credit unions have found a better balance.

Beyond determining *if* and *who* influences board selection, the research survey asked what criteria are applied in selecting board members. The top five criteria respondents indicated as affecting board selection are as illustrated in Table 3.7, below.

Table 3.7: The Top Five Criteria Affecting Board Selection for Credit Unions and the Corporate Sector

	Credit Unions	Corporate Sector
1	Active member (75%)	Character/personal qualities (88%)
2	Character/personal qualities (75%)	Financial knowledge/experience (84%)
3	Financial knowledge/experience (32%)	Specific skill set to complement the board (76%)
4	Co-op/credit union experience (31%)	Industry experience (62%)
5	Geographical representation (24%)	Similar organization experience (60%)

There is some degree of correlation here, showing that financial and sector experience are being sought by boards in both the credit union and corporate sectors. The fact that character and personal qualities score so high in both sectors indicates how important relational strengths are to effective board composition and functioning.

However, the significantly lower reported frequency of specific skills (e.g. financial knowledge) in credit unions means that the majority of credit unions are still not actively seeking new board members with certain skills identified. In fact, credit unions score *no* higher than do non-financial co-ops in seeking financial knowledge or other specific skills despite recent regulatory efforts to encourage this.

There are some interesting differences in desired attributes of board members depending on credit union size. Large credit unions are more likely to emphasize geographic representation (27%), specific skill set (26%), and industry experience (21%) than small credit unions. These criteria make sense in light of the challenges faced by more complex and wider spread financial service firms. Small credit unions are more likely to seek out directors with strong character and personal qualities (78%).

Large credit unions report paying more attention to gender when selecting new board members (17% versus 13% for medium and 11% for small credit unions). Yet, as we have seen, large credit unions have not succeeded in recruiting women to their boards, where they have significantly fewer women in both absolute and proportional terms than on small credit union boards (and chairs). Perhaps the attention that large credit unions are paying to gender is in recognition of this gap, and the need to bridge it.

The reform era of governance in the corporate sector, including the U.S.'s *Sarbanes-Oxley Act*, and the Office of the Superintendent of Financial Institution's *Corporate Governance Guideline* in the financial services sector, is all about more active, risk-based oversight and control by boards and committees of the board, requiring directors with hard business and financial skills.

15. The Securities and Exchange Commission (SEC) is the predominant corporate governance regulator in the United States, and heavily influences practice elsewhere.

4. Stewardship

Shepherding resources belonging to others (trustee/fiduciary for "principals", credit union members), including risk management, allocation of duties/ roles/responsibilities, delineation of authority

4.1 Allocating Duties and Delegating Authority

Once both the strategy and board is 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 terms of reference, committee mandate) and a delegation of authority levels (approval and reporting limits) in writing (see Table 4.1, below).

Table 4.1: Percentage of Credit Union Boards with Position Descriptions and Written Authority Limits[16]

	% with Position Description/Mandate	% with Written Authority Limits
CEO	70	71
Board as a Whole	71	60
Individual Directors	51	34
Board Committees	67	56

Over two thirds of Canadian credit unions do have written position descriptions/mandates for their CEO, board and committees of the board. Seven-out-of-ten credit unions delegate authority levels/limits to their CEO in writing.

This means, however, that one third of responding credit unions do not have written CEO, board, and committee mandates. An informal allocation of duties may have taken place as a result of discussions, but there is value for this to be in writing for clarity and continuity. This is particularly important in a financial intermediary where the approval of loans, interest rates, and maturities matching is critical to success.

Here is a governance area where medium-sized credit unions outdistance both small and large credit unions (see Table 4.2, below).

Table 4.2: Comparison of Position Descriptions and Delegation of Authority between Small and Large Credit Unions

	% of Small Credit Unions	% of Medium Credit Unions	% of Large Credit Unions
CEO position description	69	80	62
Director position description	43	57	59
Board mandate	69	75	68
Board committees' mandates	66	72	62
Delegation of authority levels to CEO	74	79	64

16. n = 185 for position descriptions.

One can understand medium-sized credit unions surpassing small credit unions here, where in the latter, the line between board and management is often blurred and each does what it needs to do to ensure the credit union's survival. However, it is more difficult to explain why large credit unions lag in almost all these areas. At least some of these large credit unions' boards seem to be less actively engaged in many governance areas, and that could extend to delegation of authority; this could be another area left to management. Yet even those large credit unions following Carver's Policy Governance model would have clear delegation of authorities.[17]

> "A board of directors must determine the duties, the limits of authority, and the accountability requirements of the board committees and the CEO."
>
> Standard #4, *Standards of Sound Business Practice* (Credit Union Deposit Guarantee Corporation, Manitoba)

In both of these areas there is still room for improvement when compared with best practice and with Canada's corporate sector. For example, 76 per cent of corporate CEOs have a written position description and 80 per cent, a written delegation of authority. Ninety per cent of corporate board committees have a written mandate or terms of reference.

4.2 Board Structure and 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.

While a large majority of credit unions in Canada indicated that they have board committees in place, there are still a number that do not (one-in-six or 16%). Again, small credit unions' boards are more likely to use committees (88%) than are large credit unions' boards (80%).

This is unexpected given that small credit union boards are smaller and their operations are less complex. However, as we have already seen, small credit union boards tend to be more "hands on" in terms of active governing, and perhaps at times in operations too. Also, a number of large credit unions follow the Carver model, which calls for the board as a whole to deliberate almost all matters, and for minimal reliance on committees.

The distribution of committees of credit union boards, starting with the most commonly used, is listed below:

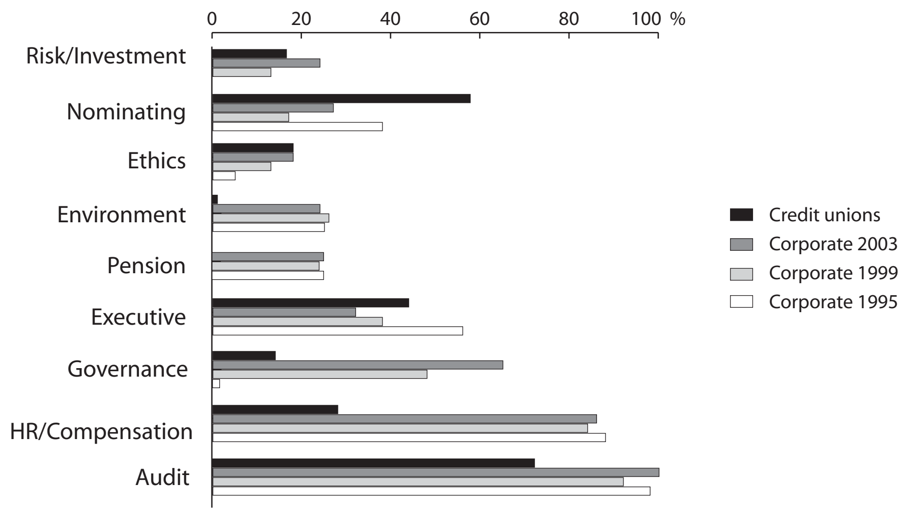
- Audit and/or Finance Committee (75%)
- Nominating Committee (60%)
- Executive Committee (46%)
- Member Relations Committee (21%)
- Human Resources (HR) Committee (18%)
- Ethics/Conduct Review Committee (19%)
- Risk Management and/or Investment Committee (18%)
- Governance Committee (15%)

17. The Winter 2003 issue of CCA's *Governance Matters* (www.governance.coop) discusses the pros and cons of the Carver model.

- Compensation Committee (12%)
- Credit or Loan Review Committee (9%)
- Corporate Social Responsibility (CSR) Committee (7%)
- Environmental Committee (2%)
- Other Committees, such as Building, Strategic, Property /Maintenance, Marketing, Fundraising, and Policy (25%)

Figure 4.1 compares this new national credit union system research with board committee use in the corporate sector, showing also corporate trends in the past eight years:

Figure 4.1: Comparison of the Use of Board Committees between Credit Unions Today and the Corporate Sector for the Past Eight Years



Credit unions in Canada over the past decade or more have been undergoing a transition in their governance practices, moving from a “traditional” credit union model to one more closely resembling the “corporate” model. The two places where this is the most evident is in the selection of board members (specific skills versus representation) and here, in the use of board committees.

The traditional structure, still employed by some credit unions in Canada, is for a separately constituted Board, Credit Committee, and Supervisory Committee.[18] The members of each may be directly elected by the membership at the AGM, and each is responsible to the membership for effectively discharging his or her duties. The Board tends to focus on management oversight including CEO hiring and evaluation; the Credit Committee on loan approval and delinquency oversight; the Supervisory Committee on internal controls as an independent check on the operational and transactional work of the credit union’s management, board, and Credit Committee. About 16 per cent of the larger credit unions do use a Credit or Loan Review Committee.

The corporate structure, based on *Cadbury*, *Dey* and *Sarbanes-Oxley*, calls for a Board of Directors responsible for governance, with core committees of this board (and comprised of board members) conducting work on its behalf. Credit unions are

18. In Ontario, for example, the *Credit Unions and Caisses Populaires Act* still allows credit unions to govern themselves in either the old or new way.

much less likely to rely on these three "core" committees of the board—Audit, Compensation/HR, and Governance—that have become the norm in Canada's corporate sector in the past five years. A sizeable number of credit union boards (at least 16%) deal with these issues in "committee of the whole" (the entire board deliberating).

Credit unions are more likely to use a Nominating Committee (60 per cent) than in the private sector; most corporations over the past decade (since the Dey Committee TSE Report) have combined their Nominating Committees with Governance Committees.

Further, credit unions are more likely to use an Executive Committee (46%), the use of which has been dropping quickly in the corporate sector due to concerns about its effect on the active engagement and responsibility (also liability) of other directors.[19]

One might expect the use of Executive Committees to drop off and Audit/ Governance/ Compensation Committees to increase as credit unions approach the size or complexity of larger private sector corporations, but they do not. Large credit unions use Executive Committees more often than small. Only one-in-five large credit unions uses a Governance Committee, and three-in-ten, a Compensation/HR Committee. Audit Committees are more likely found at small credit unions (82% versus 70% for large).

All these findings point to smaller credit unions being quicker to adopt the new corporate board structure than larger credit unions, many of which are still using the Carver model and/or the old traditional board structure.

Credit unions are less likely to use Risk (18%), Environment (2%), and Pension (0%) committees of the board than the corporate sector, but more likely to use *ad hoc* or other specialized committees focused on aspects of their business or community. This is a good sign in terms of boards not just using committees out of tradition or rote, but for added value.

Member Relations Committees, for example, are used by 21 per cent of all credit union boards (and 23% of large credit unions), which is a strong signal of the commitment of these credit unions and their boards to understanding and responding to member needs and expectations.

4.3 Board Functioning and Meetings

Table 4.3 illustrates how often credit unions and the corporate sector hold board meetings each year.

Table 4.3: Comparison of Board and Committee Meetings between Credit Unions and the Corporate Sector

Credit Unions	Corporate
Board Meetings 10-12/yr	Board Meetings 6.7/yr
Length 2.7 hrs	Length 4.3 hrs
Committee Meetings 4/yr (Nominating 1-2/yr)	Committee Meetings 4-5/yr

19. See the October 2003 issue of CCA's *Governance Matters* (www.governance.coop) for a fuller exploration of this difficult and timely question.

Typically, credit union boards meet much more frequently, yet for less time at each meeting, than corporate comparators. Over 70 per cent of credit union boards meet 10 to 12 times a year, which is essentially monthly (since many boards do not meet regularly over the summer or holiday season). Barely one-in-six credit union boards meet six or less times annually; a majority of corporate boards have moved to a bi-monthly or quarterly cycle (4 to 6 board meetings annually).

This is an area where we may expect change in credit unions soon; the traditional corporate practice was to have monthly board meetings before the "new era" of board governance was ushered-in in the 1990s.[20]

The boards of large credit unions are more likely to meet less often, and for longer, than smaller credit union boards (see Table 4.4, below).

Table 4.4: Comparison of Board Meetings between Small and Large Credit Unions

	% of Small Credit Unions	% of Medium Credit Unions	% of Large Credit Unions
Monthly: 10 – 12 board meetings annually	75	78	64
Quarterly or bi-monthly: 1 – 6 board meetings annually	15	13.5	20.5
Length of typical board meeting	2 hours 22 min	2 hours 34 min	2 hours 49 min

More frequent board meetings can indicate a board that tends to "micro-manage" and overly focus on operations, and one that has not fully empowered its management in transactional and tactical matters. Consequently, these boards also risk lacking a strategic oversight focus. Alternatively, more frequent and short board meetings may be indicative of the fact that most credit union boards are voluntarily run and meetings may be held primarily in the evening with fewer hours available.

On the other hand, as mentioned previously, there are credit union boards that follow the Carver model of Policy Governance, which calls for few (or no) board committees, with the whole board deliberating at a policy level the strategy and results; the Carver model must account for some of these frequent yet short credit union board meetings.[21]

As we will see later, a major issue for credit unions is training board members to be less operational and more strategic in focus; this would reinforce the sense that a sizeable number of credit union boards are micro-managing and could benefit from additional director education combined with a board workplan that moves to fewer, more strategic sessions.

Most credit union board committees hold quarterly meetings. This is typically the case for Audit, Governance, Human Resources, and Risk Management committees. Compensation and Nominating committees meet less frequently, often only one-to-two times annually to deliberate and recommend the year's plan or candidates. These meeting rates are similar to the corporate sector.

20. The "new era" of governance reform is generally considered ushered in by the *Cadbury Report* in the U.K. in 1992, followed by Canada's *Dey Report* in 1994.

21. The Winter 2003 issue of CCA's *Governance Matters* (www.governance.coop) discusses the pros and cons of the Carver model.

4.4 Compensation of the Board[22]

Half of the responding credit unions pay their directors for serving on the board and committees. For those that do compensate directors, the preferred method of payment is per meeting fees (see Table 4.5, below).

Table 4.5: Comparison of Board Compensation between Credit Unions and the Corporate Sector[23]

Credit Unions	Corporate
31% pay per meeting; median $50 – $60	74% pay per meeting; median $1,000
14% pay annual retainers; median $3,600 (vary widely, from $500/1,000 – 4,000 and up)	78% pay annual retainers; median $15,000
9% pay per diems; median $125	(per diems not generally used here)
Committee fees; median $50/mtg ($25 – $340 range)	Committee fees; median $1000/mtg ($1000 – $1250 range)

There are surprisingly few differences in board compensation by asset size. Roughly the same proportion (half) of small credit unions pays directors for service as large. Small credit unions are more likely to pay directors via a fixed annual retainer or honorarium; large credit unions are more likely to pay directors per meeting fees.

While amounts vary tremendously, they do not correlate particularly to credit union size. Across regions, the Atlantic region pays directors the least (typically $25 – $50 per meeting).[24]

Credit union board and committee median compensation totals almost $12,000 annually for responding credit unions. This represents over 40 per cent of all board costs, including meetings, travel, and insurance. It is also an investment of less than one-half of one per cent of revenues.

The question of compensating directors in a credit union is another governance issue that has competing tensions.

Those in favour of higher compensation would argue that it is a necessary ingredient in attracting board members with the requisite financial and business skills to direct and oversee a complex financial intermediary in today's highly competitive world. Many credit unions report difficulties in recruiting board members with needed expertise to serve on the Audit Committee, for example.

Those in favour of low stipends or no compensation argue that credit union board service should be voluntary; it should be expected of an active and engaged member interested in a successful co-operative, and in serving their community. In principle, there are those who take issue with paying credit union directors like corporate directors; certainly the high end of director compensation has been severely criticized in recent years. In practice, there are also affordability considerations.

22. Data on board compensation is not available in this survey for Prairie and British Columbia credit unions. This data is collected by Credit Union Central of British Columbia and was not collected for this survey.

23. n = 127 for compensation (due to the absence of western credit unions.)

24. Compensation varies widely in amount and method in the credit union system; we encourage users to contact the Canadian Co-operative Association and/or Brown Governance Inc. to obtain accurate current comparison data from their peer group(s), province, and community.

Beyond cash compensation, credit union board members often receive other forms of compensation, the most frequent being:

1. Mileage (50%)
2. Training (32%)
3. Life insurance (13%)
4. Waived or reduced service fees (10%)
5. Other business (e.g. conferences) (9%)
6. Travel time (5.5%)

Directors of large credit unions are more likely to receive mileage (61% versus 32%) and to be paid for other business (14% versus 5%) than those who serve on smaller credit unions' boards.

Credit unions spend a median amount of $3,000 annually on board travel.

Thirty per cent of credit unions pay their board chairs additional compensation beyond other directors. An annual retainer is the most common method, often in the $1,200 to $4,000 range or higher (one in five credit unions that do pay additional compensation to chairs pay $3,500 or more). Approximately one third of credit unions that pay the Chair do so per meeting or monthly; median fees are $500 per meeting but range widely from $50 to $1,000.

Chair compensation, as with director pay, tends not to vary by credit union size; clearly other variables are at play here, including the bond of association (members are inclined to pay board members based on their own expectations) and location (e.g. urban, competition).

5. Monitoring

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

5.1 Performance Measurement

Every board receives some form of measure of financial success of their credit union, from the three basic financial statements (income, balance sheet, and cash flow), interest rate and matching schedules, and budget, to increasingly sophisticated levels of segmentation, ratios, comparisons, and modelling.

Beyond this, boards rely on different non-financial performance measures to evaluate the extent to which the credit union is succeeding. The main non-financial performance measures (and the percentage of credit unions that report them) are listed below:

1. Customer satisfaction (49%)[25]
2. Member retention (48%)
3. Knowledge/continuous learning (48%)
4. Employee satisfaction (43%)
5. Employee retention (39%)
6. Social/community responsibility (38%)
7. Quality of products /services (37%)
8. Image and professionalism (36%)
9. Member participation (35%)
10. Value (member/customer perception) (29%)
11. Member loyalty (26%)
12. Environmental (21%)
13. Customer loyalty (18%)
14. Innovation (18%)
15. Gender representation in management (11%)

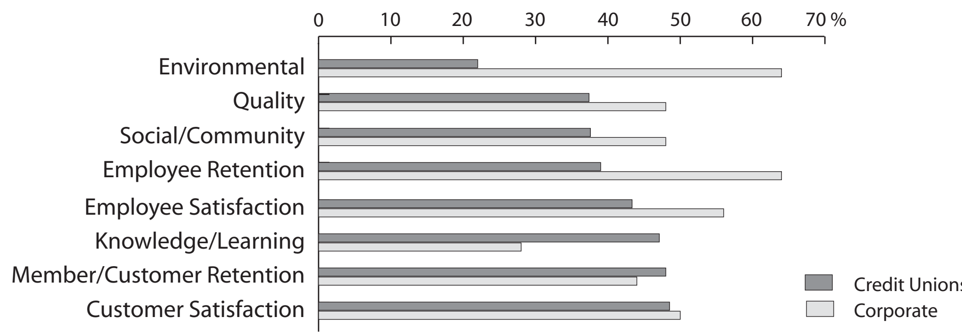
Medium-sized credit unions are more likely to use most of these non-financial performance measures in the boardroom than both small and large credit unions. For example, 54 per cent of medium-sized credit unions report customer satisfaction measures to their boards, 49 per cent employee satisfaction, 48 per cent quality, 44 per cent social/corporate social responsibility, and 41 per cent value measures. Comparatively, some small credit union boards may be too busy with day-to-day survival and operations to focus on "the forest versus the trees"; and some large credit union

25. The terms "customer" and "member" often overlap and are often used interchangeably at credit unions. A single individual is often an owner (member), customer (borrower), and even supplier (depositor) at the same time. While they might be the same person, however, these are three different relationships calling for different engagement and different measures of success. See the December 2003 issue of CCA's *Governance Matters* (www.governance.coop) that explores this at-times-confusing issue in more depth.

boards may be operating at so high a level that they do not focus on non-financial measures. These observations are only preliminary and are meant to prompt questions and dialogue rather than to conclude or prescribe.

Figure 5.1, below, shows how credit union performance compares with current practice among corporate boards.

Figure 5.1: Non-Financial Performance Usage in Credit Union and Corporate Boards



There are some major differences in the indicators of performance used by credit union boards and corporate boards:

- Environmental measures, the most popular non-financial performance measures in the corporate sector, are among the least used in credit unions;
- Employee measures such as satisfaction (morale) and retention (turnover, loyalty, churn) are more commonly used by corporate boards than credit union boards; and
- Social and community responsibility performance measures are also more likely to be reported to corporate boards.

These results warrant some discussion.

At one end of the spectrum, there are credit unions that 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 banks would not provide, or have withdrawn. In this case, they may not feel an additional need to measure and report in these areas. And there are some large corporations accused of "green-washing," of selectively measuring and reporting (even broadcasting) their "success" in non-financial areas such as environment or community, to promote their image without substantively altering their financially-rooted behaviour.

At the opposite end of the spectrum, there are other large corporations that really do pay close attention at the most senior levels to non-financial stakeholders and their needs. They take measures of performance in these areas, and their boards use these measures as part of both a sober business model and a sense of returning something to the community. And there are other credit unions that do not have a strong sense of community, of social responsibility, or environmental sustainability. These credit unions' strategies and business models do not explicitly engage members and stakeholders, and therefore their boards may not explicitly seek measures of success in these non-financial areas. Instead, they believe they can more effectively measure their success using financial measures.

In some cases, boards may not be sufficiently engaged in strategic oversight; credit union staff may be looking at measures of success in these areas, but the board has not asked or shown active interest.

The key for credit union boards and managers is to use this survey as a prompt, to ensure *their own* suite of performance measures align with *their own* strategy and yield measures of *their own* "success."[26]

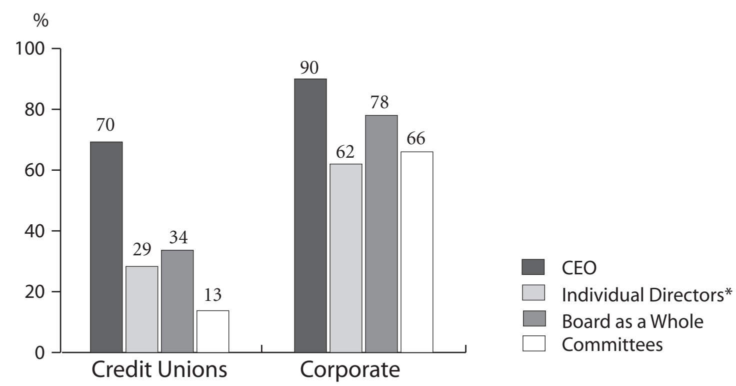
> "The **quality of the board's performance** will be demonstrated by its effectiveness in:
>
> –performing regular, in-depth **reviews and evaluations** of the credit union's business objectives and strategies …
>
> –establishing **thresholds** for the type and significance of issues to be brought to its attention …
>
> –performing a **self-assessment** against its responsibilities and promptly addressing matters identified."
>
> Excerpts from Credit Union Deposit Guarantee Corporation's *Risk-Based Monitoring* (Saskatchewan, July 2004).

5.2 Evaluation and Accountability

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 credit union to its members.

Most of Canada's credit unions *do* conduct an evaluation of performance for their CEO, but most do *not* conduct other types of evaluation such as self or peer evaluation of individual directors or board committees. See Figure 5.2, below.

Figure 5.2: Evaluations Conducted in Credit Unions and Corporations [27]



**includes peer or self-evaluation*

The results for evaluating the CEO should not be surprising at this point in the research: only 70 per cent of credit union CEO's have a written position description and most credit union boards do not have an HR/Compensation or Governance

26. CCA's *Governance Matters* (www.governance.coop) has two resources that help specifically with performance measurement (Board & Director Evaluation toolkit, February 2003) and "value-added" boards (the January 2004 issue of the e-newsletter).

27. n = 185 for evaluations.

Committee in place. These committees are where CEO performance evaluations and accountability are often dealt with at corporate boards today.

For those credit union CEOs whose performance is formally evaluated, most of these evaluation results do affect the CEO's compensation (63%) and renewal/re-appointment (52 per cent).

> "It is a sound business and financial practice that the **board of directors** of an institution understands its responsibilities, exercises independent judgment, addresses the material risks to which the institution is exposed, and r**egularly evaluates its own effectiveness** and that of management."
>
> Standard 1(a), Deposit Insurance Corporation of Ontario By-Law 5 (July 2004)

By contrast, only one third of credit unions report that they conduct an evaluation of their board's performance, and even fewer for board committees or individual directors.

There are some differences reported by credit unions of different sizes. Large credit unions are more likely to conduct CEO performance evaluations (76% versus 65% of small), and to use these to set CEO compensation levels (70% versus 55% of small). Medium-sized credit unions are the most likely to conduct board (39%), director self-evaluation (23%), and committee (16%) evaluations.

The incidence of all levels of evaluation in the credit union system falls well short of the corporate sector in Canada (Figure 5.2, above). This is an area that has gained considerable ground in the corporate sector recently, particularly since the *Sarbanes-Oxley Act* made board and committee performance evaluations mandatory for U.S. securities-issuing companies and with most provinces recommending Canadian firms follow suit.

> "**A board of directors must regularly evaluate the CEO's effectiveness** and prudence in managing the operations of the credit union, and in managing the risks to which the credit union is exposed."
>
> Standard #6, *Standards of Sound Business Practice* (Credit Union Deposit Guarantee Corporation, Manitoba)

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 credit unions. Certainly there is no substitute for a strong and transparent relationship of trust and accountability between a CEO and Chair. Even a short form evaluation questionnaire, however, 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.

This need not cost a lot of money nor involve outsiders. A key barrier in implementing effective performance evaluations is often fear—fear of rejection; fear of division; fear of the unknown. Yet good CEOs appreciate a constructive appraisal and good directors seek individual evaluations.[28]

28. McKinsey & Co. research shows that four-out-of-five board members would like to see their performance evaluated by their peers, but only one-in-five actually does. See CCA's *Governance Matters*' Board & Director Evaluation toolkit (February 2003) for a how-to guide and sample evaluation questionnaires (www.governance.coop). Brown Governance Inc. (www.browngovernance.com) offers an on-line board evaluation with benchmarking to peers, also.

6. Reporting

Accounting to the principals (credit union's owners/members, and other 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 credit union's members/owners. This is accomplished through an effective information system, audit and control regime, and reporting.

Overall, respondents to the national governance research indicate that their boards do take responsibility for most aspects of communications within their credit union. Of primary focus are *ensuring*:[29]

- Information flows to the board (73%)
- Internal controls as part of the Annual Report (63%)
- Effective communication with members (62%)
- Communication plan or policy (48%)
- Effective communication with the public (39%)
- Effective communication with other stakeholders (32%)

These results are fairly consistent across credit union size. Large credit union boards are slightly more likely to ensure effective communication with members; medium-sized credit union boards with other stakeholders and the public; and small credit unions internally, ensuring appropriate information flows to the board.

Few credit unions (only one-in-six) complete an externally verified social audit. Large credit unions are more than twice as likely to complete an externally verified social audit as small credit unions (23% versus 11%); and credit unions in Ontario more likely than those in other regions.

Another trend among leading organizations in other sectors is to e-governance—to harnessing new technology, such as the internet, intranet, and websites—to improve communications with members and others, and to improve organizational transparency. The national research asked credit unions what information they make available on-line and/or on their websites:

- Information on disclosure and privacy policies (36%)
- Annual Report, including financial statements (26%)
- Governance (and delegate) structure (13%)
- Committee composition (8%)
- By-laws (7%)
- Board meeting summaries or minutes (6%)
- Committee terms of reference/mandates (3%)
- Board agendas (1.5%)

29. n = 189 for information/communication.

The larger a credit union, the more likely it discloses its Annual Report and/or governance structure on-line. For most of these disclosure areas, however, there is a bi-polar distribution, with small and large credit unions out-disclosing medium-sized credit unions. The exception is information on disclosure and privacy policies themselves, which is a major issue at medium-sized credit unions. Possibly, large credit unions, with greater internal resources, already have processes in place to deal with these issues, while small credit unions have no available resources to deal with new privacy requirements.

More so than most businesses, financial institutions are under the spotlight for protecting and respecting their customers' privacy, and for being intentional and transparent in their disclosure practices. Posting financial and governance information on-line for all to see is one indicator of a credit union's transparency.

7. Citizenship: Member and Stakeholder Relations

> *Engaging, dealing fairly with and relating to credit union's 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. In credit unions, relational responsibilities mean boards ensuring that members, the community and other stakeholders are being listened to, being engaged, and are being served.

The national credit union governance research examined this area from a number of perspectives, beginning with member relations. Less than one half (43%) of credit union boards do work with management to develop a member relations and engagement strategy. One third follows this up by identifying criteria to measure the strategy and monitor its implementation.

Small credit unions tend to outperform larger ones here, again. The boards of small credit unions are more likely to develop a member relations strategy (48%), identify criteria to measure this (35%), and monitor its implementation (43%) than either medium or large credit unions.

The research also measured the extent to which member participation is encouraged and members empowered, beginning at the Annual General Meeting (AGM).

In terms of member participation, 87 per cent of credit unions enable members to nominate a board candidate, 81 per cent permit members to propose a resolution at the AGM, and 71 per cent allow members to add items to the AGM agenda.

Small credit unions lead the way here, too—85 per cent of small credit unions open up the AGM to members' resolutions; 80 per cent open up the AGM agenda to members' items. Anecdotally, at least, this confirms a sense that smaller credit unions or co-ops engage members more formally. Member engagement and participation become more challenging the larger and more geographically widespread the credit union and the more diffuse its bond of association or affinity.

With respect to a member being able to exercise the recall/dismissal of directors during their terms, barely four-in-ten (41%) of respondents answered that members could do so.

These figures do, however, far surpass the corporate sector, where the typical 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 over 90 per cent, credit union respondents indicated that they do *not* allow proxy voting compared with the corporate sector where proxy voting is the norm. Neither do credit unions permit board members who are not members to be elected (only 3.5% do). Proxy voting is sometimes regarded as a way to empower management and the board, and to disempower members, or at least to dilute the power of engaged members who come to AGMs. Non-member directors are often seen as violating the co-operative principle of member control.

There is, however, a valid counter argument: proxy voting can engage and empower a wider swath of members than the "usual suspects" who come to the AGM; and non-member board members can contribute additional skills and perspectives. These are both important issues on which credit unions should decide, ideally through consultation with their members. As credit unions become larger and more spread geographically, mechanisms like proxy voting reach out to this membership. Proxy voting is also intended to prevent a small number of members from "stacking" an AGM and taking control of a credit union for its own purposes.[30] And with regulators and deposit insurers/guarantors pressing for financial and business skills on the Audit Committee and Board, it may be time for some credit unions to either look beyond their membership (particularly smaller credit unions with closed bonds of association) or for nominating committees to be more intentional in their director recruitment.

Overwhelmingly, Canada's credit unions indicated that their voting structure is based on one person, one vote (over 96 per cent). Other voting structures reported include:

- Voting by delegates selected by geography or memberships (3%)
- Voting by shareholdings or units (0.5%)

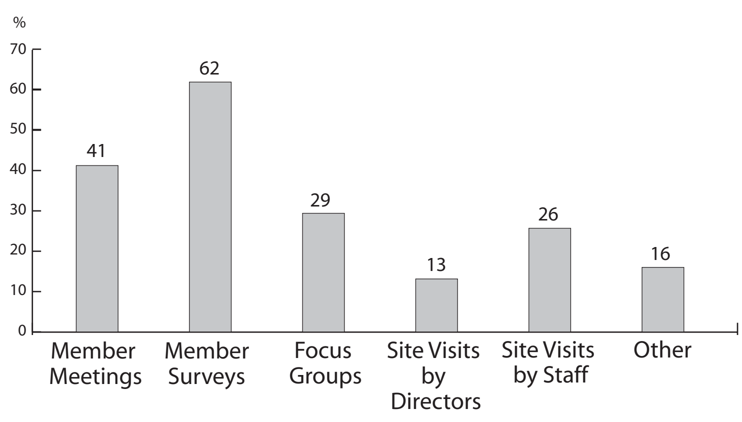
Where delegate or share voting exists, it is almost exclusive to large credit unions, where six per cent report a voting structure other than one member-one vote.

In Canada's private sector, it is not uncommon for a small number of shareholders to hold controlling voting power in founding family and controlling shareholder corporations. By contrast, in only 14 per cent of credit unions can a minority of voting delegates control a majority of votes at the AGM.

The survey examined member engagement in activities other than the AGM in order to measure the health of "democracy without voting." The survey found:

- Members participate in surveys (62%)
- Members participate in (district/branch) meetings (41%)
- Member focus groups (29%)
- Member site visits by staff (26%)
- Member site visits by directors (13%)
- Members participate in committees, panels, councils (7%)
- Member suggestions, comments, input (4%)

Figure 7: Credit Union Member Engagement Beyond the AGM



30. Ontario's Ministry of Financial Institutions, for example, changed the law to allow proxy voting precisely because of the risk of a small number of people taking control of a credit union and acting outside the interests of all members.

Interestingly, large credit unions lead the way here: 70 per cent of them use surveys, 48 per cent supplemental meetings, and 39 per cent focus groups to encourage members to participate in the credit union beyond the AGM. This is almost certainly a reflection of the difficulty of engaging members at credit unions that are geographically dispersed or have a broad bond of association; it is a good indicator that large credit unions do not take members for granted and seek to forge closer ties with them.

With respect to corporate social responsibility (CSR) strategy, the survey found that a little less than one third of credit union boards work with management explicitly to develop a CSR strategy, and a quarter follow this up with measures and monitoring. Small credit unions are significantly more likely to pursue these CSR activities than medium or large credit unions.

Finally, we gauged ethical leadership through credit union boards taking responsibility for a code of conduct (68%) and conflict of interest guidelines (68%). This practice is even more prevalent in the corporate sector, where over 80 per cent of boards ensure that the business has a code of conduct and conflict of interest guidelines. This reflects both mandatory and voluntary codes. Securities Commissions' regulations are examples of mandatory codes. Voluntary codes include guidelines from the Canadian Council of Chief Executives and the Canadian Coalition for Good Governance.

> "A board of directors must approve policies of ethical business conduct for directors, the CEO, and other employees. The board must also obtain evidence that the CEO has developed and implemented procedures to promote compliance with those policies."
>
> Standard #8, *Standards of Sound Business Practice* (Credit Union Deposit Guarantee Corporation, Manitoba)

8. Innovation: Learning and Change

Embracing a culture of learning and change, recognizing that no system, including a credit union'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 (HR) in the organization, including orientation for new staff and directors, and on-going education for both. An organization can excel in strategy, recruitment, systems, and relationships but there will always be skills gaps to bridge on the board and management team.

The prevalence of orientation and on-going education practices for credit union directors and the CEO varies widely among credit unions:

Figure 8: Prevalence of Orientation and On-going Education of Credit Union Directors and CEOs[31]

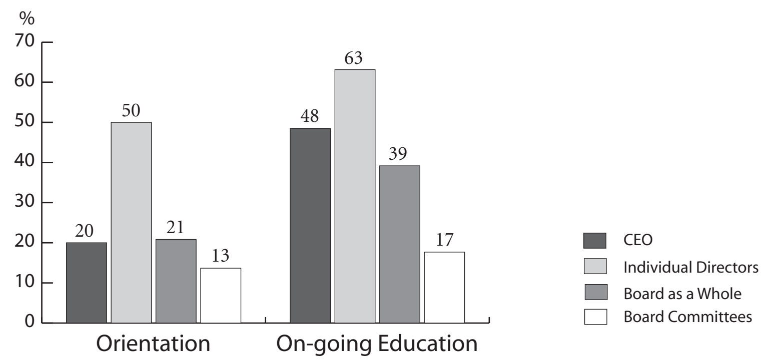


Table 8: Comparison of Orientation and On-going Education between Credit Unions and the Corporate Sector

	All Credit Unions	Small Credit Unions	Medium Credit Unions	Large Credit Unions	Corporate Sector
New Director Orientation	50%	51%	39%	58%	66%
Committee Orientation	13%	9%	8%	20%	30%
CEO On-going Education	48%	49%	44%	49%	10%
Director Education	63%	62%	61%	65%	28%
Mandatory Director Education	22%	23%	16%	27%	Data not available

Formal orientation programs for new directors are fairly consistently in place at about half of all credit unions, compared with two thirds of corporate boards. Formal orientation for new members of board committees is less common, found in only one-in-eight credit unions compared with more than twice that number for corporate boards. Where there is a difference by size, large credit unions outpace small credit unions, with medium-sized credit unions often trailing (less than four-in-ten report formal orientation for new directors).

31. n = 191 for education.

Informal orientation can, of course, be valuable, but the importance of formal briefings, packages, and familiarity with the law, regulations, by-laws, policies and practices rises as the weight of accountability for credit union directors and committees is increasing.

Beyond initial director orientation, respondents indicate that on-going education programs are a priority. Formal education or development programs for directors are in place at 63 per cent of credit unions, which are well ahead of the corporate sector in this area of director education (28%).

While most on-going director education programs are voluntary, 22 per cent of credit unions report that director participation in such a program is mandatory. A big part of the system's success here is the result of director education programs such as CUDA (Credit Union Director Achievement program). [32] 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.

On-going education and development for the CEO is less prevalent, at less than half (48%) of credit unions. However, this is well above corporate levels. Too often we 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.

Credit unions spend a median amount of $3,000 annually on training and development for the whole board. This represents an investment of one-tenth-of-one per cent of the median revenues of responding credit unions, a small amount indeed for an area that can make such a difference to strategy, CEO selection, member engagement, and overall credit union success.

32. This is the national director education program for credit union directors, developed and delivered nationally in Canada by CUSource. See www.cusource.ca.

9. Looking Forward

The national credit union research results do show some clear differences between current credit union practices and those currently in vogue in Canada's corporate sector (see Table 9.1, below).

Table 9.1: Comparison of Selected Governance Practices between Credit Unions and Corporate Sector

Governance Principle	Credit Union System	Corporate Sector
Leadership	✓ Smaller boards, with more women, outside and independent directors ✓ Staggered three year terms preserves board continuity ✓ Members play larger role in board selection and succession; management plays a small role	✓ 90% of boards take active responsibility for governance, strategy, risk and controls ✓ Use other independence mechanisms (Audit Committees, in camera sessions, outside advisors) ✓ Shorter tenure encourages new directors ✓ Explicitly seek financial, skills, industry experience on the board
Stewardship	✓ Boards use committees as needed – Boards meet more often (monthly) for less time ($2\frac{2}{3}$ hours) [33] – Median director compensation $1,000 annually	✓ More likely to have written CEO and Committee mandates and written lines of authority ✓ Most use Audit, Compensation/HR, and Governance Committees of Board – Boards meet less often (quarterly or bi-monthly) for more time ($4\frac{1}{3}$ hours) – Directors paid $20,000 annually
Monitoring	✓ High use of member retention measures (48%) ✓ High use of knowledge learning measure	✓ More likely to use non-financial performance measures at the board ✓ More likely to conduct CEO, board, director and committee evaluations
Reporting	✓ More likely to have an external social audit (one-in-six do this) ✓ New focus on privacy	✓ Board more active in ensuring effective communications, internally and externally
Citizenship	✓ Greater democratization: one member-one vote, members empowered to nominate and elect directors, propose resolutions and add items at AGM ✓ Democratization beyond AGM: members encouraged to participate	✓ Proxy voting and broader pool of board candidates ✓ More likely to have Code of Conduct and Conflict of Interest guidelines
Innovation	✓ On-going education for directors (CUDA) and CEOs	✓ Better at orientation of new directors

33. Most of these practices are generally considered to be superior, so are indicated by a ✓; however, there is not clear consensus on the "right" frequency or length of board meetings, or amount of director compensation.

Table 9.2: Highlights of Selected Governance Practices for Small, Medium, and Large Credit Unions

Governance Principle	Small Credit Unions	Medium Credit Unions	Large Credit Unions
Leadership	• Board active in strategy, risks, controls and succession • Smaller board, more women, more staff on board • Board more influential in board selection, management less • Character, personal qualities higher criteria for new board members	• Board active in governance, strategic direction, risks, accounting • Small board, least staff on board	• Board active in monitoring • Most independent board and other independence procedures • Longer director terms, shorter tenure, less term limits or mandatory retirement • Geographic, skill set, industry experience higher criteria for new board members
Stewardship	• More frequent board meetings, but shorter • Most likely to have an Audit Committee, and least likely an Executive Committee	• Most likely to have CEO, board and committee mandates and delegation • Most likely to have Compensation/HR, Ethics/Conduct, and Nominating Committees	• Less frequent board meetings, last longer • Most likely to have Executive, Credit and Governance Committees
Monitoring	• Least likely to use non-financial performance measures or evaluations	• Most likely to use non-financial performance measures: customer, employee, quality, value, CSR • More likely to evaluate performance of board, directors, committees	• Most likely to measure member participation, retention, and credit union image • More likely to evaluate performance of CEO, and use in setting pay
Reporting	• Most likely to ensure effective internal communications, information flows to board	• Most likely to ensure effective communications with public and other stakeholders • Least likely to disclose on-line	• Most likely to have external social audit • Most likely to ensure effective communications with members
Citizenship	• Members able to propose resolutions and add items to AGM • Most likely to have Member Relations and CSR strategies • Most likely to have Code of Conduct	• Least likely to have proxy voting, or Member Relations strategy, or member engagement activities	• Most likely to have delegate voting • Most likely to encourage member engagement beyond the AGM: surveys, meetings, focus groups
Innovation	• Reasonably high levels of director and CEO education	• Lowest rates of overall and mandated director education	• Most likely to have formal orientation and education programs for directors

Good governance is not about a one-size-fits-all solution: it is clear that credit unions show considerable strengths in governance, and corporations show other strengths. Many credit unions appear to be better at the relational or "people side" of governance; many private sector corporations stress robust structural governance (often in response to new laws and regulations). The purpose of this research is to enable informed dialogue to take place within each credit union and among credit unions and their centrals, insurers/guarantors and regulators aiming for the best governance possible.

The national research also found significant differences in governance practices among credit unions of different sizes. Table 9.2 (above) focuses on some key differences.

Pictures of three different types of boards emerge from this research.

1. One type of board is small, very active, meets monthly, is tightly knit, focused on the fundamentals of credit union business—strategy, finance, risks and succession—even hands-on. This type of board is more likely at small credit unions.
2. A second type of board is larger, more representative (other than gender), meets less often, is more likely to operate through an Executive Committee, is focused on monitoring and evaluating results and on how to better engage the membership. This type of board is more typical of a large credit union.
3. A third type of board is more like the new corporate model: a group of outside directors using mandates, core board committees, non-financial performance measures, board evaluations to focus on governance and control. This type of board is seen the most at medium-sized credit unions.

Change management requires understanding your starting point and your next step. Which type of board are you? What is the next governance practice that you should be adopting?

- Hands-on boards (see 1, above) may want to embrace results-based or risk-based approaches to governance, like Turnbull's risk-based approach in the U.K. that is reflected in the new Basel Accord.[34] Small credit unions benefit the most from focusing clearly on risks.
- Traditional boards (see 2, above) may want to take a second look at reforms in the private sector, at *Sarbanes-Oxley* and OSC changes, and strike Governance, HR and Audit Committees. They may want to take a second look at their Executive Committees, too, which can unintentionally create two tiers or classes of board members.
- Governance/control boards (see 3, above) are generally headed in the right direction; they may want to re-examine their member relations strategy, disclosure policy, and director education programs, as these are the areas where they tend to lag.

34. Established by the Bank for International Settlements in Basel, Switzerland (www.bis.org).

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

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

The top strategic issues credit unions report they will face over the next three years are:

1. Growth
2. Mergers
3. Market share, meeting competition, new products (wealth management, insurance)
4. Profitability, shrinking margins, cost/expense control
5. Financial stability
6. Member relations, engagement and participation
7. Human resources
8. Succession planning
9. Communications
10. Changing membership: aging to youth

In the future, member engagement will be critical to the sustainability of credit unions, as growth and mergers (the top two strategy issues, above) create ever-larger credit unions, weakening the bonds of affinity and risking member apathy or alienation. At the same time, competition, shrinking margins and expensive technology put pressure on achieving "share of wallet": member relationship and member loyalty are at the heart of credit union sustainability.

The second priority for credit unions and their boards is **governance**. The full effects of recent regulatory changes, including CEO, CFO (Chief Financial Officer), Board and Auditor certifications, and greater expertise, autonomy, and accountability of board committees, are just beginning to be felt in Canada and in the credit union system.[35] We are perhaps closer to the beginning of the road to governance reform than its end (of course, it does not have an end, because it is a journey not a destination).

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.

35 It is worth stressing here that we are not holding up Canadian corporate governance practices, nor the *Sarbanes-Oxley Act* and *Canadian Securities Administrators*' equivalents, as "best" practice that credit unions ought to follow blindly. However, regulatory trends in the credit union system, from the new Basel Accord and OSFI to the next round of provincial standards on risk and control, are strong reflections of these broader reforms of corporate governance. Credit unions that want to excel in governance would be well advised to benchmark their practices against the best practices available, including in the corporate sector, and to intentionally select their own "right" practices.

Governance priorities identified by credit unions include, in order of priority:

1. Director and board evaluation
2. Compliance with sound business practices, privacy, and money laundering regulations
3. Policy development
4. Succession planning
5. Director recruitment
6. Audit regime and Audit Committee
7. Board/management relationship, CEO evaluation

Finally, **director training and education** continues to be, and will further emerge as, a priority. Respondents indicate that the top priorities in ranked order for director training/education are:

1. CUDA (Credit Union Director Achievement)[36]
2. Financial management
3. Directors' roles
4. Risk management
5. Legislative compliance
6. Governance effectiveness
7. Centrals' seminars and conferences
8. Member relations
9. Strategic planning and thinking
10. Succession planning

Looking forward, it is clear that Canada's credit unions are firmly focused on governance and we fully expect to see further improvements and changes in this area in the coming years.

This research and report are intended to establish a baseline and to inform credit union leaders of governance practices, trends, and choices as they move forward. At the Canadian Co-operative Association and Brown Governance Inc.,[37] we too remain firmly committed to excellence in credit union and co-operative governance and welcome your comments, suggestions, or inquiries.

36. This is the national director education program for credit union directors, developed and delivered nationally in Canada by CUSource. See www.cusource.ca.

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

Appendix:

Credit Union and Co-operative Governance Practices Questionnaire

Canadian Co-operative Association

March 3, 2004

Dear Fellow Co-operator:

We are pleased to send you the **first national survey on co-operative and credit union directorship practices** which is being sent to credit unions in Canada as well as 1,200 co-operatives. For the first time, the co-operative sector will have data that will profile such board practices as: board and committee composition and compensation; board and director evaluation practices; succession planning practices; disclosure and transparency practices; the selection process and attributes of board members; and the participation of inside directors on co-op boards.

The survey results will allow co-operatives and credit unions to compare their board governance practices with co-operatives in either the same industry sector or with co-operatives of a similar size. For example, co-operatives can compare their director compensation levels with co-operatives of a similar size; or their disclosure and transparency practices with co-operatives in the same sector. The results will also be compared with data on governance practices in the corporate sector that has been collected by The Conference Board of Canada.

Co-operatives and credit unions that are in the process of reviewing or developing board policies and practices will also find the survey questions useful because they will introduce respondents to a range of board practices that may not have been considered or implemented before.

We need your help please in completing the attached questionnaire! Without your input, we cannot, as a co-operative and credit union sector, paint a bigger picture of board practices across the country. Nor can we (reliability) demonstrate how our practices differ from the corporate sector. As governance practices continue to dominate the attention of regulators, the media, and members, it will be important for the co-operative sector to benchmark their practices against the corporate sector and demonstrate how (if at all) our practices differ. The survey will take approximately 45 minutes to complete and **all respondents will receive a free copy of the survey highlights**.

This survey is being conducted by the Canadian Co-operative Association (CCA), and Brown Governance. CCA is the national umbrella organization for co-operatives which promotes, develops and unites co-operatives and credit unions in Canada and around the world. CCA is recognized for a number of governance products and services, including the free e-newsletter *Governance Matters,* governance Toolkits, an annual Corporate Secretaries Conference, and governance and leadership workshops. Please visit our website at: www.governance.coop to access our free resources on co-operative and credit union governance. BrownGovernance is an internationally recognized consulting firm which has provided governance expertise to co-operatives and credit unions and other businesses. It has published widely and edits the CCA's *Governance Matters* newsletter.

We cannot emphasize enough how important your participation is!. Your co-operation in completing the survey by **March 31,** 2004 is very much appreciated. We have enclosed a self-addressed and stamped envelope.

Thank you very much.

Carol Hunter

Carol Hunter
Director, Member Services
Canadian Co-operative Association

BrownGovernance

Co-operative & Credit Union Governance Practices

Questionnaire[*]

Prepared by Brown Governance Inc
And the Canadian Co-operative Association.

Please return by <u>March 31, 2004</u> to:

Carol Hunter
Director, Member Services
Canadian Co-operative Association
400 – 275 Bank Street
Ottawa, ON K2P 2L6

Email: carol.hunter@coopscanada.coop
Tel. (613) 238-6711 ext. 237
Fax. (613) 567-0658

Name____

Title____

Co-op/Credit Union ____

Address____

City___________________________Province______________________________

Postal Code____________________ Telephone__(______)____________________

Email____

CONFIDENTIAL

Information you submit will not be identified with you or your co-op/credit union without your permission.

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[*] **British Columbia and Prairie credit unions received a modified version of this questionnaire with questions on director and committee compensation removed.**

Instructions

1. Most questions can be answered by checking the box beside the appropriate response. A few questions will ask for a short explanation or statement.

2. This is a survey of current practices, not policies or intentions. If you are unable or uncomfortable responding to a specific question, please leave it blank but complete the questions you are able to. We will protect the confidentiality of all responses.

3. For questions based on an annual period, you can choose either the calendar year or your co-operative or credit union's fiscal year. Please give compensation amounts of board or committee service for the year 2003; for specific data, the effective date should be January 1, 2004.

If you have any further questions, please contact:

Carol Hunter
Director, Member Services
Canadian Co-operative Association
400 – 275 Bank Street
Ottawa, ON K2P 2L6
Telephone: (613) 238-6711 ext. 237
Email: carol.hunter@coopscanada.coop
Fax: (613) 567-0658

Thank you!

SECTION A: ABOUT YOUR CO-OPERATIVE OR CREDIT UNION

A1. Which **one** classification below best describes your sector?

- ❑ Credit Union
- ❑ Insurance
- ❑ Retail/wholesale
- ❑ Agriculture/agri-food
- ❑ Housing
- ❑ DayCare
- ❑ Production/manufacturing
- ❑ Service
- ❑ Other (please specify)

____

A2. In what tier do you operate?

- ❑ Tier 1 (primary co-op or credit union, retail, local housing or daycare co-op, etc.)
- ❑ Tier 2 (regional, district or provincial co-op typically owned by co-ops / credit unions)
- ❑ Tier 3 (national co-op or credit union organization, typically owned by Tier 2 co-ops)

A3. What is your total membership? (if you are a tier 2 or 3 co-op, provide number of organizational members in your co-op, not individual members in your system)

____

A4. What are your organization's total assets?

$_____________

A5. What are your organization's annual sales or revenue?

$_____________

A6. How many people does your co-op/organization currently employ? (Full time equivalents)

____

	Yes	No
A7. Is some or all of your workforce unionized?	❑	❑

SECTION B: INTENTION: *Strategic Direction, Stewardship and Composition*

B1. Does your board **explicitly** [formally; intentionally; after having discussed responsibilities with management] assume responsibility for, or assign to a committee of directors, responsibility for:

	Yes	No
Developing the co-op/credit union's approach to governance issues		
Corporate strategy Working with management to develop strategic direction		
Identifying criteria for measuring the strategy		
Monitoring the implementation of the strategy		
Assessment of management's success in implementing the strategy Setting objectives to measure management's performance		
Assessing management's success in meeting its objectives		
Managing the overall risks of the co-op/credit union Identifying the principal risks of the co-op/credit union's business		
Ensuring the implementation of appropriate systems to manage these risks		
Ensuring that appropriate internal control and management information systems are in place Verifying the integrity of data		
Ensuring compliance with accounting principles		
Management succession planning (appointment, training and monitoring of senior management)		
Succession / renewal of the board		
Does your board get involved at these stages? Assessment of co-op's strategic needs		
Profiling skills, desired attributes, criteria for candidates		
Recruiting: identifying pool of candidates		
Selecting individuals to stand for election from the pool		
Election of board members		
After election, identifying skills gaps and providing training		
Evaluation of board members' contribution as input to renewal		

Composition Definitions:

Inside directors	*are full-time current employees of the co-op/credit union or employees of a parent, controlling or subsidiary company who are voting members of the board of directors in addition to their regular duties.*
Outside directors	*are non-employees of the co-op/credit union who are voting members of the board of directors. Former or retired employees are considered to be outside directors.*
Independent directors	*are free from any material interest that may affect their relationship with the co-op/credit union, including an interest with a parent, subsidiary or affiliate company, an interest of a family member or associate, an interest that dates back within the past 5 years (e.g., former employee of co-operative or credit union, parent, subsidiary, auditor, law firm) or any other interest (e.g., foundation, charity or supplier materially dependent on co-operative or credit union).*

B2. How many board members are:

	Outside Directors	Inside Directors
Male	________	________
Female	________	________
Total	________	________

B3. How many board members would be considered independent? ________

B4. Please indicate if any of the following procedures, which are designed to maintain independence from management, are in place in your co-op/credit union.

	Yes	No
Policy in place indicating that the board chair not be a member of management.		
Sessions at board meetings are regularly held without management present.		
Responsibility for administering the board's relationship with management is assigned to: ❖ The chair of the board who is independent of management		
❖ A committee of the board		
System in place which enables an individual director to engage an outside advisor/consultant		
Independent external auditor in place		
Audit committee consists entirely of independent directors		

B5. The Chair of the Board is:
a) ❑ Male ❑ Female

b) ❑ Full-time ❑ Part-time

c) ❑ Current CEO ❑ Outside

❑ CEO/officer of parent ❑ Independent

❑ Former CEO ❑ Other *(specify)* ______________________

B6. a) Are directors elected for a specific term? ❑ Yes ____ years ❑ No

b) If yes, do you have a maximum number of terms for which your directors are elected?
❑ Yes ____ terms ❑ No

c) What is the average tenure of the directors on your board? ____ years

d) Does your co-op/credit union have an official retirement age for directors?
❑ Yes ____ years ❑ No

B7. Check (✓) those who have *the most influence* in the selection process of board members:

Nominating committee	__________	Management	__________
Governance committee	__________	Membership	__________
Board Chairperson	__________	Delegates	__________
Board as a whole	__________	Search firm	__________

Other ______________________________

B8. Check (✓) those criteria that you believe have *the most effect* on the selection of new board members:

Experience in the industry	__________
Character and personal qualities	__________
International experience	__________
High profile person	__________
Experience with co-ops/credit unions	__________
Gender representation	__________
Financial knowledge and experience	__________
Active member	__________
Geographical representation	__________
Specific skill set to complement the board	__________

Other ____

SECTION C: ALIGNMENT: *Delineating, Functioning, Accountability*

C1. Please answer the following questions as they apply to the CEO, the board, the directors and the committees in your co-op/credit union.

Is there a position description / mandate statement?

	Yes	No
CEO	❑	❑
Individual directors	❑	❑
Board as a whole	❑	❑
Board committees	❑	❑

Are there formal written limits to authority levels delegated?
[this may include financial, approval and reporting limits]

	Yes	No
CEO	❑	❑
Individual directors	❑	❑
Board as a whole	❑	❑
Board committees	❑	❑

C2. How many regularly scheduled board meetings are held annually? ____________________

Average hours in length: ____________________

Average % attendance: ____________________

C3. Are directors paid for serving on your board? ❑ Yes ❑ No

C4. If yes, how and how much? (*Check all that apply*)

❑ An annual retainer (flat fee paid yearly for service on the board)	$ ________	per year
❑ A per-meeting fee (fee paid for attending each board meeting)	$ ________	per meeting
❑ Per diem (fee paid for each day spent at board meetings)	$ ________	per diem
❑ Honorarium	$ ________	per ______

❑ Other (*please describe*)

____

In addition to meeting attendance, do you compensate directors for or with ….? (*Check all that apply*)

❑ Meeting preparation
❑ Orientation
❑ Mileage
❑ Travel Time
❑ Training
❑ Other business *(specify)*
____

❑ Waived/reduced service fees
❑ Discounts on products/ services
❑ Life insurance
❑ Medical/other insurance
❑ Other benefits (*specify*)
____

C5. Does your Chair receive additional compensation beyond other directors? ❑ Yes ❑ No

Additional compensation of $ _____________ per ________ (year; meeting; day; hour?)

C6. Does your board have any committees in place?

❑ Yes ❑ No

Committee	Please indicate if you have such a committee		Number of meetings annually	Form and amount of additional compensation to directors for committee service: Is extra pay given to outside directors for committee service?		Annual Retainer	Per meeting fee	Per diem fee
	Yes	**No**		**Yes**	**No**			
Audit / Finance	❑	❑	_______	❑	❑	$______	$______	$______
CSR (Social Resp.)	❑	❑	_______	❑	❑	$______	$______	$______
Compensation	❑	❑	_______	❑	❑	$______	$______	$______
Environmental Issues	❑	❑	_______	❑	❑	$______	$______	$______
Ethics / Conduct	❑	❑	_______	❑	❑	$______	$______	$______
Executive	❑	❑	_______	❑	❑	$______	$______	$______
Governance	❑	❑	_______	❑	❑	$______	$______	$______
Human Resources	❑	❑	_______	❑	❑	$______	$______	$______
Investment / Risk Management	❑	❑	_______	❑	❑	$______	$______	$______
Member Relations	❑	❑	_______	❑	❑	$______	$______	$______
Nominating	❑	❑	_______	❑	❑	$______	$______	$______
Ad-hoc, special purpose or other (***please specify below***)								
_______________	❑	❑	_______	❑	❑	$______	$______	$______
_______________	❑	❑	_______	❑	❑	$______	$______	$______

SECTION D: CITIZENSHIP: *Member, Stakeholder and Community Relations*

D1. Does your board **explicitly** assume responsibility for, or assign to a committee of directors the general responsibility for:

	Yes	No
Ethical leadership Ensuring conflict of interest guidelines		
Ensuring code of conduct		
Member Relations Strategy Working with management to develop a member relations and engagement strategy		
Identifying criteria for measuring the strategy		
Monitoring the implementation of the strategy		
Corporate Social Responsibility Strategy Working with management to develop a corporate social responsibility strategy		
Identifying criteria for measuring the strategy		
Monitoring the implementation of the strategy		

D2. Does your co-op/credit union permit/allow:

	Yes	No
Proxy voting?		
Board members who are not members of the co-op?		
Members to add items to the AGM agenda?		
Members to propose a resolution for the AGM?		
Members to nominate a candidate to the board?		
Members to recall/dismiss a director during their term?		

D3. How does your co-op's/credit union's AGM voting structure work?

- ❑ 1 member, 1 vote directly
- ❑ Voting delegates are selected based on region/district/geography
- ❑ Voting delegates are selected based on size/assets/membership/dues
- ❑ Other *(specify)*

____

D4. Can a minority of voting delegates control a majority of the votes at the annual general meeting? ❑ Yes ❑ No

D5. In addition to the AGM, in what ways are members encouraged to participate in direction and/or control of the co-op?

- ❑ Member meetings (eg. District or branch meetings)
- ❑ Member Surveys (print or online)
- ❑ Member focus groups
- ❑ Member site visits by **directors**
- ❑ Member site visits by co-op **staff**
- ❑ Other *(specify)*

____

SECTION E: PERFORMANCE: *Measurement, Accomplishment, Evaluation*

E1. Which non-financial performance measures are currently reported to your board?

- ❑ Quality of products / services
- ❑ Value (based on member/customer perception)
- ❑ Environmental
- ❑ Member participation
- ❑ Member retention
- ❑ Member loyalty
- ❑ Social / community responsibility
- ❑ Image and professionalism
- ❑ Customer satisfaction
- ❑ Employee satisfaction
- ❑ Customer loyalty
- ❑ Employee retention
- ❑ Knowledge / continuous learning
- ❑ Innovation
- ❑ Gender representation in management
- ❑ Other (p*lease specify*) ________________________________

E2. Does your Board ensure the co-op/credit union completes an externally verified social audit?

Yes ❑ No ❑

	Yes	**No**
E3. Does your co-op conduct an evaluation of performance for:		
CEO	❑	❑
Individual directors (self-assessment)	❑	❑
Individual directors (peer-assessment)	❑	❑
Board as a whole	❑	❑
Board committees	❑	❑
E4. Do evaluation results affect compensation levels for:		
CEO	❑	❑
Individual directors	❑	❑
E5. Do evaluation results affect the renewal (re-appointment, re-election, etc.) of:		
CEO	❑	❑
Individual board directors	❑	❑
Individual committee members	❑	❑

SECTION F: DISCLOSURE: *Transparency, Communication, Information*

F1. Does your board **explicitly** assume responsibility for, or assign to a committee of directors the general responsibility for:

	Yes	No
Ensuring there is a communication plan/policy in place		
Ensuring effective communication between the co-op/credit union and: its members		
other stakeholders		
the public in general		
Ensuring that appropriate information flows to the board		
Reporting the adequacy of internal controls as part of the annual report		

F2. Do you make available the following information on-line / on your website?

	Yes	No
Annual Report, including externally verified financial statements?		
Governance structure, including delegate structure (if any)?		
By-Laws of the co-operative or credit union?		
Committees' terms of reference / mandates?		
Committees' compostion?		
Board agendas?		
Summary of board's decisions and/or minutes?		
Information on disclosure and privacy policies?		

SECTION G: INNOVATION: *Learning, Human Resources, Change Management*

			Yes	No
G1.	Do you have a formal orientation program for:	CEO	❑	❑
		Individual directors	❑	❑
		Board as a whole	❑	❑
		Board committees	❑	❑
G2.	Do you have an ongoing education program for:	CEO	❑	❑
		Individual directors	❑	❑
		Board as a whole	❑	❑
		Board committees	❑	❑

G3. Is the ongoing education program for directors: ❑ Voluntary? ❑ Mandatory?

G4. What was the total cost of running your board of directors for your most recent fiscal year?

Compensation of Board/Committee members	$ ____________________
Training/development of Board/Committee members	$ ____________________
Communications, information for Board/Committee members	$ ____________________
Meetings of Board/Committee members (excluding compensation)	$ ____________________
Travel, expenses of Board/Committee members	$ ____________________
Legal, insurance, compliance costs of Board/Committees	$ ____________________
Other costs of Board/Committees	$ ____________________
Total cost of Board/Committees	$ ____________________
(for Tier 2 or 3 co-ops, what is the total cost of system governance?)	$ ____________________

SECTION H: TRAINING, GOVERNANCE, STRATEGY PRIORITIES

H1. What are your board's top director training / education priorities?

____

____

____

____

H2. What governance issues are your top priorities today?

Please elaborate ____

____

____

____

H3. What strategic issues will be the top priorities for your co-operative or credit union over the next 3 years?

Please elaborate ____

____

____

____

In response to specific and legitimate requests for information on comparative practices, may information contained in this questionnaire be provided to others following publication of the report?

- ❑ YES, and my co-operative or credit union may be identified
- ❑ YES, but the identity of my co-operative or credit union must not be revealed
- ❑ NO

THANK YOU FOR TAKING THE TIME TO PARTICIPATE IN THIS IMPORTANT RESEARCH!