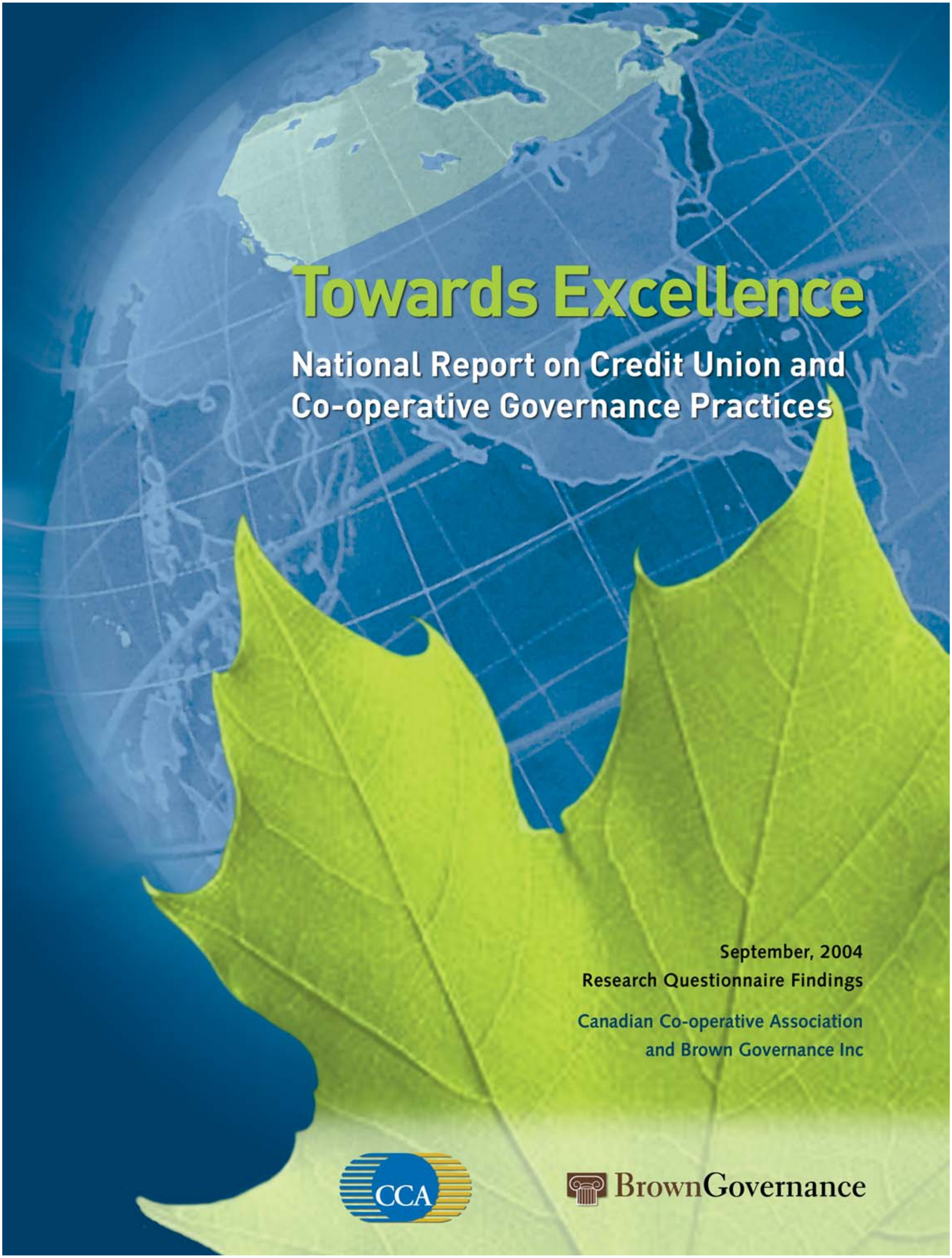

Towards Excellence

National Report on Credit Union and Co-operative Governance Practices

September, 2004

Research Questionnaire Findings

Canadian Co-operative Association
and Brown Governance Inc

CCA

BrownGovernance

BrownGovernance

CCA

As governance practices continue to dominate the attention of regulators, the media, and members, it is increasingly important for co-operatives and credit unions to ensure they have the most effective governance practices possible. One major contributor to this, which has not been available until now, is a national database of governance practices. This landmark research will enable co-operatives and credit unions to:

- Identify where their own governance practices differ from system and sector norms, as well as to compare with corporate sector practices and trends;
- Understand how other co-operatives and credit unions are dealing with governance changes and issues; and
- Make informed decisions about improving their own governance practices.

Over 1,200 non-financial co-ops and 600 credit unions were surveyed for this first national survey on Canadian co-operative and credit union governance practices. The 412 responses provide a comprehensive picture of governance practices across the country and profile specific practices such as participation of inside directors on co-op boards, selection process and attributes of board members, 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 an agricultural or retail co-operative in Western Canada may want to compare board size, committees, and meetings with all agricultural or retail co-ops in its region. Such customized correlations are available by contacting either of us directly.

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

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Towards Excellence

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2004 Research Questionnaire Findings

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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 their 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 GayLea Foods Co-operative Ltd., The Co-operative Trust Company of Canada, and Co-op Atlantic for piloting the questionnaire. Chantal Lalonde and Brenda Heald of CCA, and Jane Whynot of BGI are also thanked for their contributions to this report.

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List of Figures and Tables

Figures

Tables

1. Profile of Respondents

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

These research results form the basis of this report, a baseline benchmark of the current state of governance among Canada's co-operatives and credit unions, and a look forward to next steps. We have exercised some caution in reaching conclusions based on this research. Primarily, this report 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. Further, the data as presented are aggregated from a broad range of diverse co-operatives and credit unions.

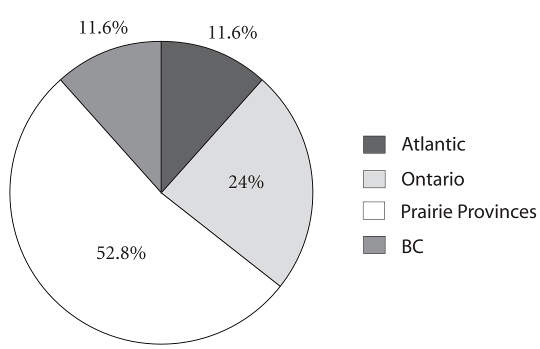
The 412 respondents represent a broad cross-section of Canada's co-op sector, as detailed below. For the purpose of this report, "co-operative" and "co-op" mean any organization in the sector, including credit unions and non-financial co-operatives. Non-financial co-operatives are all co-operatives *excluding* credit unions.

Readers can feel confident that national results are geographically representative of the entire sector.

1.1 Region

The distribution of responses received reflects the underlying distribution of credit unions and co-operatives across Canada. The largest number of respondents was from the Prairie Provinces, followed by Ontario, British Columbia, and the Atlantic region respectively. Readers, therefore, can feel confident that national results are geographically representative of the entire sector.

Figure 1.1: Distribution of Respondents by Region (%)[1]

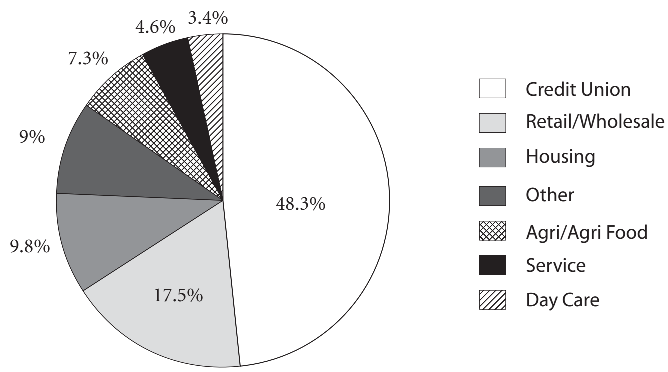


1. n = 398 for region. Throughout this report, where the number of respondents to a question is significantly different than the entire population of 412, "n" indicates the number of valid responses to that question (in tables and figures.)

1.2 Sector

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

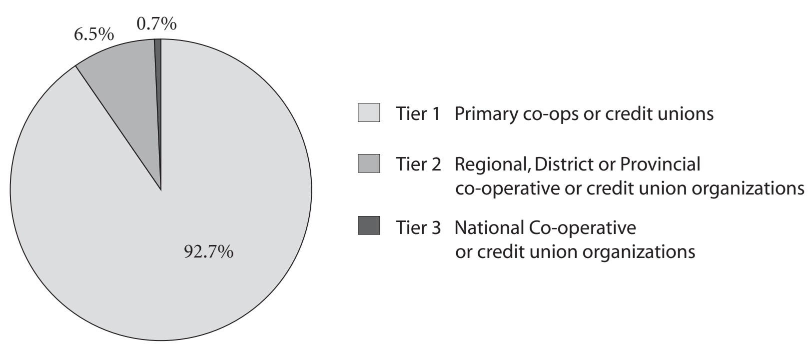
Figure 1.2: Distribution of Respondents by Sector (%)



1.3 Tier

Almost 93 per cent of respondents indicated that they are Tier One co-ops (primary co-operatives or credit unions). Over six per cent are Tier Two co-ops (regional, district, or provincial co-operative or credit union organizations), while Tier Three respondents (national co-operative or credit union organizations) account for less than one per cent of the respondents.

Figure 1.3: Distribution of Respondents by Tier (%)[2]



2. n = 403 for tiers.

1.4 Size

1.4.1 Membership

There is a wide range of total membership numbers reported among respondents, from less than a dozen members to almost 400,000.[3] The median number of members is 1,400.[4] Over one quarter of the reporting co-ops has less than 100 members, while one quarter has more than 6,000.

For comparison purposes throughout this report, the respondents were grouped into "small," "medium," and "large" co-ops based on their membership size. These dividing points result in three equally sized groups of responses.

- Small co-ops are those with less than 385 members.
- Medium co-ops have between 386 and 4,400 members.
- Large co-ops have over 4,400 members.

We found that among large membership sized organizations, credit unions and retail co-ops account for the majority of respondents. Medium membership sized co-ops were dominated by production, retail, and insurance co-ops. And among small membership sized organizations, housing, daycare and other non-financial co-ops dominate.

Small co-ops are those with less than 385 members.

Medium co-ops have between 386 and 4,400 members.

Large co-ops have over 4,400 members.

1.4.2 Assets and Revenues

When analyzed by asset and revenue size, the respondents represent the broadest possible range. Assets range from under $100 to several billion dollars.[5]

Median asset size is $15 million, with a quarter of respondents having less than $2 million in assets, and a quarter over $80 million. Median revenues are $2.2 million annually. One quarter report less than $500,000; one quarter, more than $13 million.

Table 1: Characteristics of Responding Co-operatives

Characteristics	Small Co-ops	Medium Co-ops	Large Co-ops
Membership	Under 385	386-4,400 (1,400 median)	Over 4,400
Assets	Under $3.4 million	$3.4 – 40 million ($15 million median)	Over $40 million
Revenues	Under $892,000	$892 thousand - $6.5 million ($2.2 million median)	Over $6.5 million
Employees	1 to 6	7 – 32 (15 median)	35 and over

3. n = 400 for membership.

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.

5. n = 378 for assets, n = 354 for revenues.

1.5 Employees and Unions

Respondents indicated a vast range of number of employed personnel, ranging from one to almost 20,000 people. Organizations reported median employment of 15 full-time equivalents (FTEs).[6]

A large number of co-ops, 25 per cent, employ four or fewer FTEs. One third employ more than 35; one quarter, more than 50.

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 organization's assets, the greater the chance that its workforce is unionized. Just over one third of large asset organizations (co-ops with assets over $40 million) have a unionized work force. This percentage shrinks to 16 per cent for medium asset organizations (co-ops with between $3.4 million and $40 million in assets). Unionized small asset organizations (co-ops with assets under $3.4 million) appear at .04 per cent. Approximately 10 per cent of Tier One and Tier Two organizations are unionized, while 33 per cent of Tier Three organizations are unionized.

Generally, non-financial co-operatives employ less staff than do credit unions: the median non-financial co-op employs seven FTEs; the median for credit unions is 21.5 FTEs. There is no significant difference in the extent of unionization between credit unions and non-financial co-ops.

1.6 Regional Differences among Respondents

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

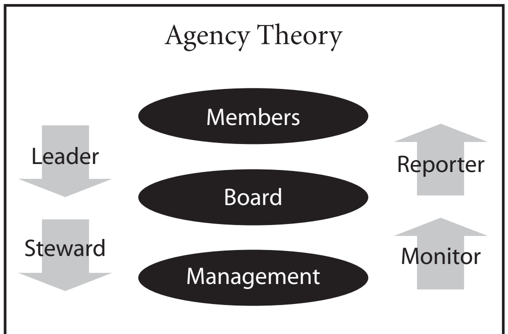
- Atlantic region reports more day care co-ops
- Atlantic and BC regions report more agricultural co-ops
- Ontario reports more housing co-ops
- Ontario and BC regions account for all the Tier three respondents
- Ontario and Prairie regions account for almost 80 per cent of the Tier Two respondents
- Both Ontario and Prairie provinces have skewed membership size towards the large membership co-ops
- Atlantic and BC regions report (proportionally) more medium asset sized organizations
- Prairie regions report more large revenue co-ops than any other region
- BC reports less small revenue co-ops than any other region

6. n = 368 for employees.

2. Governance Framework

Both this report and the research questionnaire itself follow a modified Agency Model of governance:[7]

Figure 2: Agency Theory



Source: Brown Governance 2003

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

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

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

5. Citizenship: engaging, dealing fairly with, and relating to stakeholders, the community and the membership in particular.
6. Innovation: embracing a culture of learning and change, recognizing that no system, including an organization's governance, remains static but is dynamic.

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

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

3. Leadership

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

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 co-op boards actively taking responsibility for the key leadership areas below.[8]

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

Leadership Responsibility	% of co-op boards[9]
Developing co-op's approach to governance issues	80.5
Working with management to develop strategic direction	89.8
Identifying criteria for measuring strategy	74.3
Monitoring the implementation of strategy	81.5
Setting objectives to measure management's performance	78.5
Assessing management's success in meeting its objectives	82.3
Identifying the principal risks of the co-op's business	77.6
Ensuring the implementation of appropriate systems to manage risks	78.2
Ensuring internal controls and info systems by verifying data integrity	81.2
Ensuring compliance with accounting principles	86.1
Management succession planning	58.5

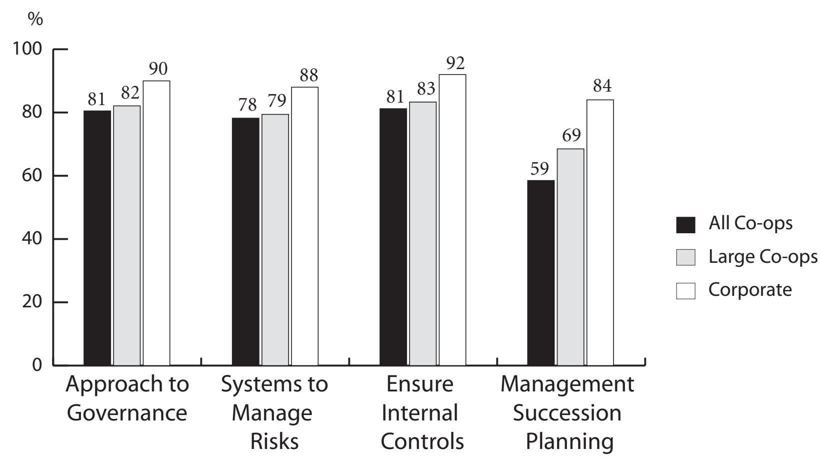
The highest percentages are encouraging. Almost nine-out-of-ten co-op and credit union boards are actively involved in setting the strategic direction and in ensuring compliance with accounting principles.

8. 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.

9. n = 389 for responsibilities; n = 343 for governance approach.

However, there is room for improvement. In the corporate sector, many of these responsibilities are generally considered fundamental board roles. A comparison of selected responsibilities with Canada's corporate sector is shown in Figure 3.1.[10]

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



Generally, the larger the size of the organization, the greater the emphasis of the board on corporate strategy

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

In smaller co-ops, the board is less likely to take explicit, active responsibility for these areas of leadership. Generally, the larger the size of the organization, the greater the emphasis of the board on corporate strategy (see Table 3.2, below). Larger organizations also put more emphasis on managing risks than do their medium and smaller counterparts. While larger credit union and co-operative boards are more likely to get directly involved in these areas, they still fall far short of current corporate practices (see Figure 3.1, above).

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

Areas of Active Responsibility	% of Small Co-op Boards	% of Large Co-op Boards
Criteria to measure strategy …	72	77
Managing overall risks …	76	79
Ensuring internal controls through info systems/data integrity …	77	83
Management succession planning …	54	69

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

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

When these corporate strategic components are compared between credit unions and non-financial co-operatives, credit union boards assume more explicit responsibility for corporate strategy issues than do other co-op boards. Another significant difference is in risk management, where over 81 per cent of credit union boards explicitly assume responsibility for this, compared with 74 per cent of non-financial co-op boards. This is likely due to a combination of their relative size, complexity and high degree of regulation; deposit guarantee and insurance authorities in Canada stress a risk-based approach to capital management and corporate governance in credit unions (although this approach is effective in all sectors).

Some regional differences among respondents:

- BC leads the country in many of these areas of co-op boards assuming responsibilities: for developing an approach to governance, for implementing and measuring strategy, for assessing management, and for system compliance.
- More Ontario respondents' boards assume responsibility for strategic direction
- BC's results indicate that they are more concerned with identifying principal risks
- Ontario's results indicate that they are more concerned with data integrity

30 per cent of director positions on all co-op boards are held by women

3.2 Board Composition

3.2.1 Size

The average size of a co-op or credit union board in Canada is eight directors.[11] 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 co-op 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.

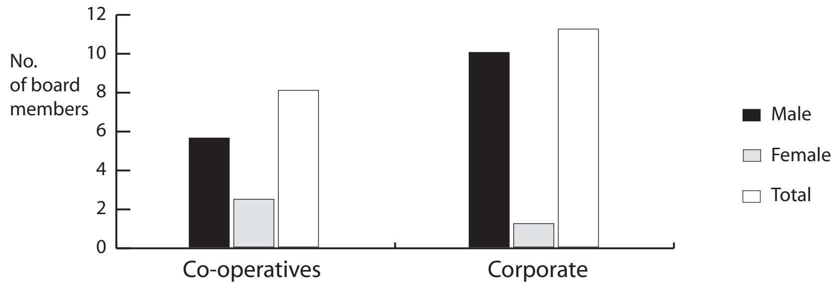
3.2.2 Gender

Predominantly, co-ops and credit unions report that there are more male directors than female directors serving their organization on their respective boards (see Figure 3.2). There is a much higher proportion of women board members in co-ops than in the corporate sector, however. A full 30 per cent of director positions on all co-op boards are held by women; on corporate boards, less than 12 per cent of director positions are held by women. The co-op sector even out-performs the public sector in

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

this area, where 20 per cent of Crown Corporation and other public sector enterprise directors are women. Over two-thirds of co-ops (68%) have at least one woman on their board.

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



There are slightly more female board members in smaller membership sized co-ops and more male board members in larger membership co-ops. When examining gender representation across credit unions and non-financial co-ops, male directors are more prevalent in non-financial co-ops than credit unions, until board size begins to increase.

Less than one in three co-op boards includes the CEO as a full board member

3.2.3 Independence

In terms of board mix, the typical co-op board includes zero or one "inside" director.[12] Less than one in three (28%) co-op 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.

Table 3.3: Comparison of Board Independence between the Co-operative, Corporate and Public Sectors (Number of Directors)

	Co-operatives	Corporate (Private Sector)	Crown (Public Sector)
Inside (employee)	1	2	1
Outside	7	9	11
Total	8	11	12

Overall, credit unions report that they maintain a higher rate of independent board members (64%) than do non-financial co-operatives (49%). By "independent," we mean directors who are free of material interests or relationships (beyond their membership in the co-op itself). 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.[13]

12. 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.

13. 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.)

There are a number of other measures in place that enhance a co-op's (and its board's) independence from management. The research survey explored seven criteria that enhance independence; the top four reported by co-ops and credit unions in ranked order are:[14]

1. External auditor (89%)
2. Board chair cannot be management (70%)
3. Responsibility for board relationship assigned to chair who is independent of management (61%)
4. Audit Committee consists entirely of independent directors (52%)

Having said this, co-ops and 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 52% of co-ops), and 78 per cent of corporate boards hold regular sessions at board meetings without management present (versus only 42% of co-ops). This latter practice is considered important to ensure directors air any sensitive issues and deal transparently with the CEO's performance.

Co-ops and credit unions lag the corporate sector in the use of governance practices to enhance independence

Another area where co-op practice differs from the corporate trend: only 28 per cent of co-ops 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

Respondents indicated overwhelmingly that males are more likely than females to be chairs of their respective boards by a ratio of 3.5-to-1 (77% male; 23% female).

Women are more likely to be a board chair in a non-financial co-operative (26%) than a credit union (20%). Across Canada, there are only small variations (less than 10%) in chair gender by region. This also holds true across co-ops of different membership size.

The chair of the board in co-ops is more likely to be part-time and independent than in the corporate sector. A full 88 per cent of co-op board chairs are part-time, which is an indicator of the separation of the governance function from management; some argue that a full-time chair is a CEO by another name! And over 95 per cent of co-op board chairs are independent, meaning they are neither "inside" (current CEO or employee) nor "connected" (having a material interest beyond their normal membership). These are both indicators of the ability of the board's leader, and by extension the board, to function, think and act independently of the management and staff if and when this becomes necessary.

Respondents overwhelmingly (98%) indicated that directors are elected for a specific term on their board. A three-year median term was indicated (76%). Three-year terms are typically staggered to ensure continuity of leadership and a more stable renewal of the board. At a number of co-ops, with small member turnouts at the Annual General Meeting (AGM) and no proxy voting, this is a way of guarding against a tiny cadre of members replacing an entire board with its own slate.

14. n = 386 for independence mechanisms.

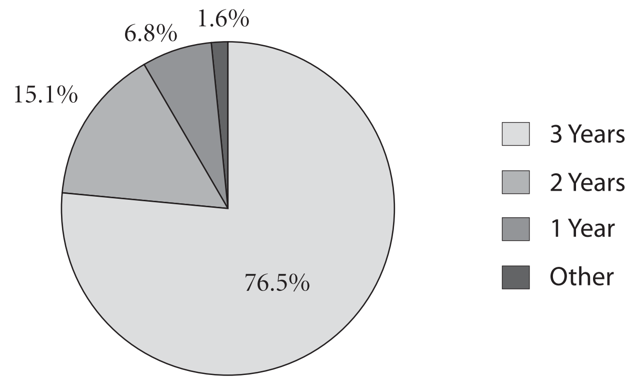
Corporate practice has moved to one year terms—electing a slate of directors at every AGM. This is in response to investor activism, the intention being to ensure director accountability each year. In practice, corporate shareholders have very little democratic power in selecting directors, as they usually have to vote "yes" or "no" to an entire slate and cannot separate non-performers from exceptional board members. Ontario is the most likely (25%) to have a one or two year term (although all regions report three years as the most common term).

Most organizations (68%) 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). Atlantic Canada (63%) is the least likely to enforce term limits. In Ontario, two terms is the limit just as often as three terms.

Eighty per cent of credit unions have three year terms for their directors, but 25 per cent of non-financial co-ops indicate a shorter duration of one or two years for directors' terms.

Several co-ops report aging memberships and challenges with member engagement

Figure 3.3: Median Length of Director Terms for Co-operatives



On average, co-op board members have 7.5 years of service (tenure) on their board.[15] For credit unions, average length of service is even higher, at 8.3 years. Indeed, over a quarter of co-ops report that the average length of service of directors exceeds 10 years. Tenure is fairly consistent across regions and sizes of co-ops, although large co-ops report higher length of service than small and medium co-op and credit union boards.

The Higgs Report recently commented that directors lose their independence after 10 years' service

This reflects a slower turnover than in the corporate and not-for-profit sectors, and a much slower turnover than in public sector boards. One possible reason is difficulty in attracting new board members to run; and several co-ops 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.

15. n = 371 for tenure.

Two per cent of co-ops have an official retirement age in place for board members, primarily in the Atlantic and Ontario regions. Those that do, 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.

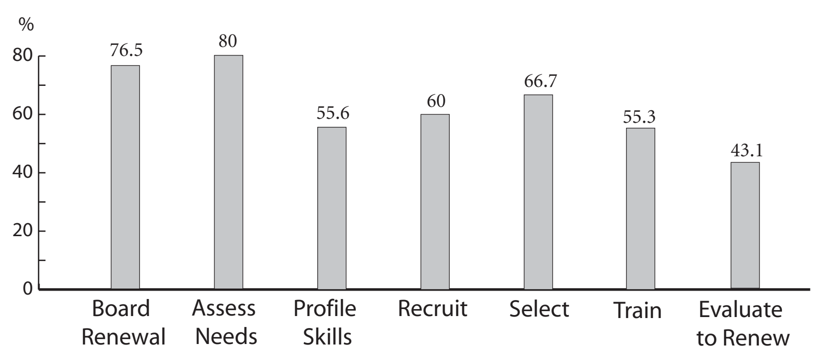
3.4 Board Selection and Renewal

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

The national co-op research survey resulted in ground-breaking findings in this area. Over three quarters of co-ops and their boards do get explicitly involved in board renewal, in fact at almost every step of the process. Figure 3.3 illustrates the degree of involvement in the steps of board renewal and succession by co-op boards.

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

Figure 3.4: Co-op Boards' Involvement in Board Succession Activities[16]



Over three quarters of co-ops and their boards do get explicitly involved in board renewal

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

1. Assessment of co-op's strategic needs (80%)
2. Selecting individuals to stand for election from a pool (67%)
3. Recruitment: identification of a pool of candidates (60%)
4. Profiling skills, desired attributes and criteria for candidates (56%)
5. After election, identifying skills gaps and providing training (55%)

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

16. n = 386 for board succession.

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 3.4, below.

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

Co-operatives	Corporate Sector
Governance/Nominating Committee (57%)	Governance/Nominating Committee (95%)
Membership (52%)	Board as a Whole (92%)
Board as a Whole (42%)	Board Chair (80%)
Management (15%)	Management (68%)
Board Chair (5%)	Shareholder (36%)

Owners (members) of co-ops have much more direct influence in the selection of board members than do corporate shareholders

As one would expect, the owners (members) of co-ops 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 co-ops than in private sector corporations. Many observers believe that management holds too much influence, and shareholders too little, in board selection in the corporate sector; in fact, the Securities Exchange Commission and other regulators are moving in the direction of mandating more influence for shareholders.[17] This may be an area where co-ops and credit unions have found a better balance.

Beyond determining *if* and *who* influences board selection, the research survey asked *how* new board members are selected. The top five criteria respondents indicated as affecting board selection are as illustrated in Table 3.5, below.

Table 3.5: The Top Five Criteria Affecting Board Selection for Co-operatives and the Corporate Sector

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

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

The majority of co-ops are still not actively seeking new board members with certain skills identified

There is some degree of correlation, here, showing that financial and other specific skills are being sought by boards in both the co-operative and corporate sectors.

However, the significantly lower reported frequency in co-ops means that the majority of co-ops are still not actively seeking new board members with certain skills identified. In fact, credit unions score *no* higher than non-financial co-ops in seeking financial knowledge or other specific skills despite recent regulatory efforts to encourage this. The reform-era of governance in the corporate sector, including the U.S.'s *Sarbanes-Oxley Act*, is all about more active oversight and control by boards and committees of the board, requiring directors with hard business and financial skills.

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.

4. Stewardship

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

4.1 Allocating Duties and Delegating Authority

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

Table 4.1: Percentage of Co-operative Boards with Position Descriptions and Written Authority Limits[18]

	% with Position Description/Mandate	% with Written Authority Limits
CEO	65	66
Board as a Whole	69	56
Individual Directors	50	34
Board Committees	63	51

Co-op governance practices in this area are split. Two-thirds of reporting co-ops do have written job/position descriptions and delegations of authority for their CEOs. However, a sizeable number of co-ops do not have written board or committee mandates. An allocation of duties may have taken place as a result of informal discussions, but there is value for this to be in writing, for clarity and continuity.

Credit unions are slightly more likely to have position descriptions and written authority limits in place. For example, 70 per cent of credit union CEOs have a written position description, and 71 per cent a written delegation of authority.

In both of these areas, however, there is considerable room for improvement, both 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 Functioning 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 overwhelmingly respondents indicated that they have board committees in place, there are still a number that do not (18%). Non-financial co-operatives (20%) and small co-ops (22%) are the least likely to have any committees of the board, as are co-ops in the Atlantic and Prairie regions. Credit unions are more likely, at 84 per

18. n = 364 for position descriptions.

cent, but it is interesting that as many as 16 per cent of credit union boards operate without committees at all.

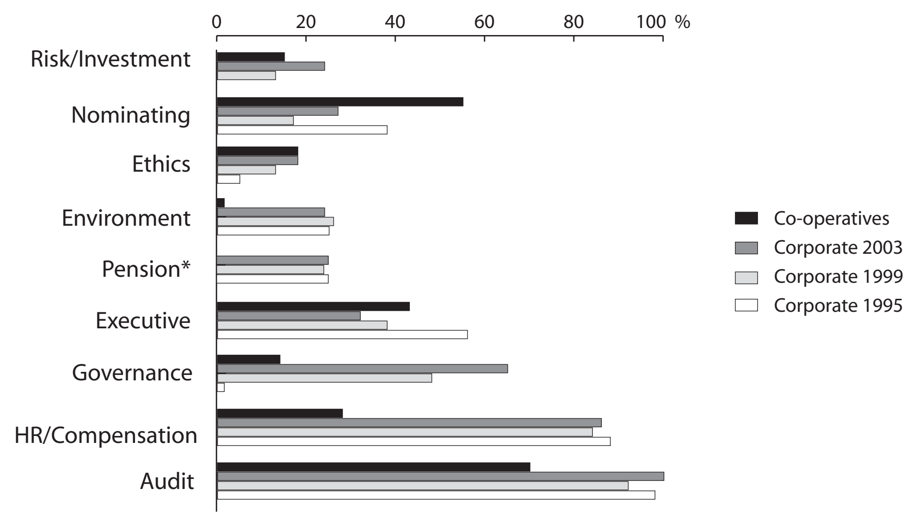
The distribution of board committees among co-ops, starting with the most commonly used committee is listed below:

- Audit and/or Finance Committee (70%)
- Nominating Committee (55%)
- Executive Committee (43%)
- Member Relations Committee (25%)
- Human Resources Committee (18%)
- Ethics/Conduct Review Committee (18%)
- Risk Management and/or Investment Committee (15%)
- Governance Committee (14%)
- Compensation Committee (10%)
- Corporate Social Responsibility (CSR) Committee (6%)
- Environmental Committee (2%)
- Other Committees, such as Credit/Loans, Building, Strategic, Property/Maintenance, Marketing, Fundraising, and Policy (31%)

Figure 4.1 compares this new national co-op sector research with board committee use in the corporate sector, showing also corporate trends in the past eight years:

Co-ops and credit unions are much less likely to rely on the three "core" committees of the board – Audit, Compensation/HR, and Governance

Figure 4.1: Comparison of the Use of Board Committees between Co-operatives Today and the Corporate Sector for the Past Eight Years



**Only one co-operative indicated it had a Pension Committee.*

We can draw a number of observations from these data:

- Co-ops and credit unions are much less likely to rely on the 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 co-op and credit union boards (at least 18%) deal with these issues in "committee of the whole" (the entire board deliberating).
- Co-ops and credit unions are more likely to use a Nominating Committee (55%). Most corporations over the past decade (since the Dey Committee TSE Report) have combined their Nominating Committees with Governance Committees.

- Co-ops and credit unions are more likely to use an Executive Committee (credit unions are even more likely at 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]
- Large co-ops use more committees, but their distribution does not change; for example, Audit, 72 per cent; Executive, 47 per cent; Governance, 18 per cent; and Compensation, 14 per cent. One might expect the use of Executive Committees to drop off and Governance/Compensation Committees to increase as co-ops approach the size or complexity of larger private sector corporations, but they do not.
- Co-ops and credit unions are less likely to use Risk, Environment, and Pension committees 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 value-added.
- Member Relations Committees are used by a quarter of all co-ops, and 28 per cent of non-financial co-operative boards, which is a strong signal of the commitment of these co-ops and boards to understanding and responding to member needs and expectations.

Co-ops and credit unions spend a median amount of $3,650 annually on board meetings

Table 4.2 illustrates how often co-operatives and the corporate sector hold board meetings each year.

Table 4.2: Comparison of Board and Committee Meetings between Co-operatives and the Corporate Sector

Co-operatives	Corporate
Board Meetings 10-12/yr	Board Meetings 6.7/yr
Length 2.5 hrs	Length 4.3 hrs
Committee Meetings 4/yr (Nominating 1-2yr)	Committee Meetings 4-5/yr

Credit union and co-op boards meet much more frequently, yet for less time at each meeting, than corporate comparators. Over half of co-op and credit union boards meet every month, while two thirds meet 10-to-12 times a year, which is essentially monthly (since many boards do not meet regularly over the summer or holiday season). Only one-in-eight co-op boards meet four, five, or six times a year; a majority of corporate boards have moved to a bi-monthly or quarterly cycle. Co-ops and credit unions spend a median amount of $3,650 annually on board meetings.

Credit union boards do not meet less frequently or for a longer time than non-financial co-operative boards. The typical credit union board meets 10-12 times a year for 2.65 hours. Just over 71 per cent of credit union boards and 75 per cent of all co-op boards, meet 10, 11, or 12 times a year. Less than one-in-six credit union boards meet six or less times annually.

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

This is an area where we may expect change in the co-op sector 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]

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 also be indicative of the fact that most co-op boards are voluntarily run and meetings may be held primarily in the evening with fewer hours available.

More frequent board meetings can indicate a board that tends to "micro-manage"

In addition, many co-op boards 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 co-op board meetings. [21]

As we will see later, a major issue for co-ops and 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 co-op and 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.

A sizeable number of co-op and credit union boards are micro-managing and could benefit from additional director education

Many committees of co-op boards 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 1 to 2 times annually to deliberate and recommend the year's plan or candidates. These meeting rates are similar to the corporate sector.

4.3 Compensation of the Board [22]

A slight majority of directors (52%) are paid for serving on the board and committees that may be in place in their co-operatives and credit unions. For those that do compensate directors, the preferred method of payment is per meeting fees.

A slight majority of directors are paid for serving on the board and committees

Table 4.3: Comparison of Board Compensation between Co-operatives and the Corporate Sector[23]

Co-operatives	Corporate
36% pay per meeting median $50	74% pay per meeting median $1,000
14% pay retainers median $3,600	78% pay retainers median $15,000
11% pay per diems median $100	(per diems not generally used here)
Committee fees median $50/mtg ($25 – $340 range)	Committee fees median $1000/mtg ($1000 – $1250 range)

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.

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 = 291 for compensation (due to the absence of western credit unions.)

When examined across membership size, small co-ops tend to pay higher annual retainers to their directors but less per meeting, per diem, and honorarium fees. Alternatively, larger membership organizations pay more per meeting, per diem, and honorarium fees. Across sectors, agriculture co-ops generally pay their directors the most. Across regions, Atlantic co-ops pay directors the least (typically \$25 – \$50 per meeting), while Prairie co-ops pay the most (often \$100 – \$150 per meeting).[24]

Co-op and credit union board and committee median compensation totals almost \$11,000 annually for responding co-ops. This represents over 40 per cent of all board costs, including meetings, travel and insurance. It is also an investment of one-half of one per cent of revenues.

The question of compensating directors in a co-op 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 organization in today's highly competitive world. Many credit unions and non-financial co-operatives report difficulties in recruiting board members with needed expertise to serve on the Audit Committee, for example.

An annual retainer is the most common method of additional compensation to chairs of co-op boards

Those in favour of low stipends or no compensation argue that co-op 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 co-op 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.

Beyond cash compensation, co-op board members often receive other forms of compensation, the most frequent being:

1. Mileage (34%)
2. Training (22%)
3. Life insurance (9%)
4. Other business (e.g. Conferences (6%)
5. Waived or reduced service fees (5%)
6. Travel time (4%)

Overall, non-financial co-operatives use these additional methods more than credit unions. Co-ops and credit unions spend a median amount of \$5,170 annually on board travel.

Chairs of co-op boards are less likely to receive additional compensation beyond other directors (one-in-five do). An annual retainer is the most common method of additional compensation, often in the \$2,500 – \$4,000 range or higher. Approximately one third of co-ops that pay their Chair do so per meeting or monthly; median fees are \$500 per meeting but range widely from \$50 to \$1,000.

24. Compensation varies widely in amount and method by industry, region and size in the co-operative and credit union sector; we encourage users to contact CCA and/or BGI to obtain comparison data from their peer group(s).

5. Monitoring

Receiving and reviewing measures of 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 co-operative or credit union, from the three basic financial statements (income, balance sheet, and cash flow) and budget to increasingly sophisticated levels of segmentation, ratios, comparisons, and modelling.

Beyond this, co-op boards rely on different non-financial performance measures to evaluate the extent to which the co-op or credit union is succeeding.

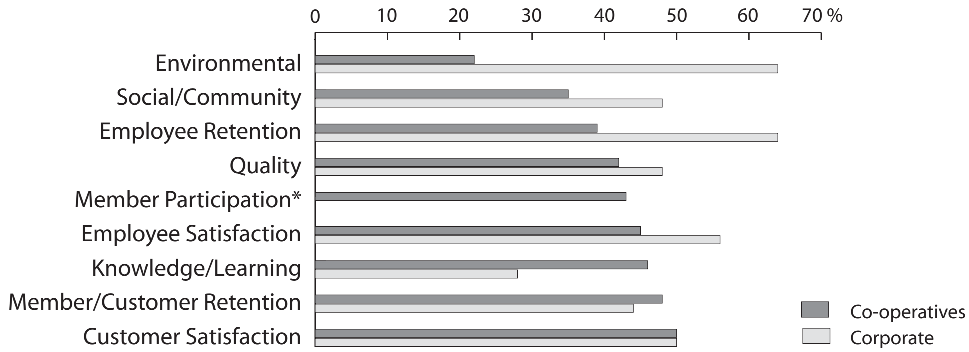
The main non-financial performance measures (and the percentage of co-ops that report them) are listed below:

1. Customer satisfaction (50%)[25]
2. Member retention (48%)
3. Knowledge / continuous learning (46%)
4. Employee satisfaction (45%)
5. Member participation (43%)
6. Quality of products /services (42%)
7. Employee retention (39%)
8. Image and professionalism (36%)
9. Social / community responsibility (35%)
10. Value (member/customer perception) (31%)
11. Member loyalty (24%)
12. Environmental (22%)
13. Customer loyalty (20%)
14. Innovation (18%)
15. Gender representation in management (9%)

25. The terms "customer" and "member" often overlap, and are often used interchangeably at retail and service-type co-ops and credit unions. While they might be the same person, however, these are two different relationships calling for different engagement and different measures of success. And in producer co-ops, customers and members do often involve different groups. See the December 2003 issue of CCA's *Governance Matters* (www.governance.coop) that explores this at-times-confusing issue in more depth.

Figure 5.1, below, shows how this compares with current practice among corporate boards.

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



**There are no comparable data from the corporate sector.*

Social and community responsibility performance measures are more likely to be reported to corporate boards

There are some major differences in the indicators of performance used by co-op boards and corporate boards:

- Environmental measures, the most popular non-financial performance measure in the corporate sector, is among the least used in co-ops and credit unions;
- Measures of employee satisfaction (morale) and retention (turnover, loyalty) are more commonly used by corporate boards than co-op boards; and
- Social and community responsibility performance measures are more likely to be reported to corporate boards.

These results are surprising and warrant some comments.

At one end of the spectrum there are co-ops and 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 commercial enterprises would not provide, or have withdrawn. In this case, they may not feel an additional need to measure and report in these areas. 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 and co-operatives that do not have a strong sense of community, of social responsibility, or environmental sustainability. These co-ops' strategies and business models do not explicitly engage members and stakeholders, and therefore their boards do not explicitly seek measures of success in these non-financial areas. In some cases, boards may not be sufficiently engaged in strategic oversight; co-op staff may be looking at measures of success in these areas but the board has not asked or shown active interest.

The key for co-op and 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]

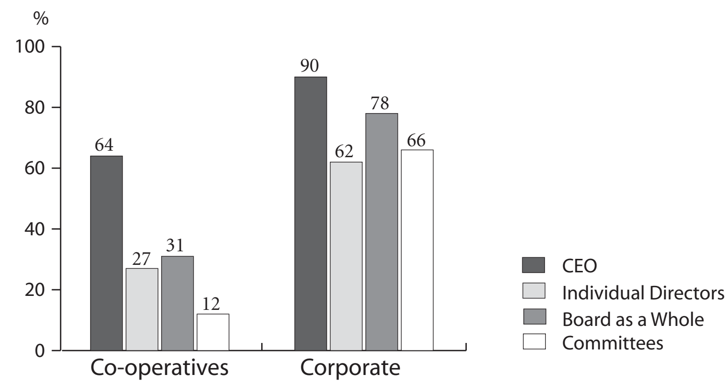
5.2 Evaluation and Accountability

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 co-op to its members.

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

A key board role is to evaluate performance and to ensure accountability of management

Figure 5.2: Evaluations Conducted in Co-operatives and Corporations[27]



Less than one third of respondents report that they conduct an evaluation of their whole board

The results for evaluating the CEO should not be surprising at this point: only 65 per cent of co-op CEO's have a written position description, and most co-op and credit union boards do not have an HR/ Compensation or Governance Committee in place, where CEO performance evaluations and accountability are often dealt with at corporate boards today.

Roughly two-thirds of co-ops do conduct a formal performance evaluation of their CEOs, and most of these evaluation results do affect the CEO's compensation (57%) and the CEO's renewal/re-appointment (47%). Formal processes of CEO evaluation, compensation, and accountability are more common in large co-ops than small, and in credit unions versus non-financial co-operatives.

By contrast, less than one third of respondents report that they conduct an evaluation of their whole board, and even fewer for board committees or individual directors. There is little variation in response by size, industry, or region.

The incidence of all levels of evaluation in the co-op sector falls well short of the corporate sector in Canada. This is an area which has gained considerable ground in

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 = 378 for evaluations.

the corporate sector recently, particularly in the last two years since the *Sarbanes-Oxley Act* made board and committee performance evaluations mandatory for U.S. securities-issuing companies. Most provinces recommended Canadian firms follow suit.

There are those who argue that informal performance evaluations and face-to-face "chats" between Chair (President) and CEO are all that is required in smaller or less complex co-ops. Certainly there is no substitute to a strong and transparent relationship of trust and accountability between a CEO and Chair. 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 or involve outsiders. The main problem with 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 ("owners", members, stakeholders) on the results of using their capital (resources, labour, etc) and accomplishing their purpose

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

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

- Information flows to the board (72%)
- Internal controls as part of the Annual Report (62%)
- Effective communication with members (63%)
- Communication plan or policy (48%)
- Effective communication with the public (38%)
- Effective communication with other stakeholders (30%)

The boards of large co-ops are more likely to have an approved communication plan or policy, and to ensure effective communication with stakeholders and the public beyond the membership. There is almost no difference in practice, here, between credit unions and non-financial co-operatives.

Few respondents (only one-in-six) indicated that their organization completes an externally verified social audit. Large co-ops are twice as likely to complete an externally verified social audit as small co-ops; non-financial co-operatives more than credit unions; and Ontario co-ops more than other regions.

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

- Information on disclosure and privacy policies (28%)
- Annual Report, including financial statements (20%)
- Governance (and delegate) structure (12%)
- By-laws (7%)
- Board summaries or minutes (7%)
- Committees' composition (7%)
- Committees' terms of reference/mandates (4%)
- Board agendas (2%)

29. n = 392 for information/communication.

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

Credit unions are more likely to post their disclosure and privacy policies (36%), Annual Report and financial statements (26%) on-line than non-financial co-operatives. Larger co-operatives and credit unions are more inclined to make available on-line their Annual Reports and disclosure/privacy policies than are smaller co-ops. Yet smaller co-ops are more likely than larger co-ops to make available on-line their governance practices and board activities, such as terms of reference, board composition, and by-laws.

In an era of declining member engagement and even declining stakeholder and public trust, organizations that emphasize transparency seek to re-engage and empower members, and to rebuild trust. Posting financial and governance information on-line for all to see is one indicator of a co-op's transparency.

7. Citizenship: Member and Stakeholder Relations

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

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

The national co-operative governance research examined this area from a number of perspectives, beginning with member relations. Half of the responding co-op boards do work with management to develop a member relations and engagement strategy. A third follow this up by identifying criteria to measure the strategy and monitor its implementation.

There is very little variation in responses by size, region, or industry. To a small extent, non-financial co-operatives and smaller co-ops are more likely to have an explicit member relations strategy, but credit unions and larger co-ops are more likely to measure and monitor its implementation.

The average shareholder in a publicly traded company faces almost insurmountable obstacles to adding items to an AGM agenda, proposing resolutions, or nominating candidates

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, 73 per cent of co-ops allow members to add items to the AGM agenda, 81 per cent allow members to propose resolutions for the AGM, and 91 per cent permit members to nominate a candidate to the board. However, in respect to a member being able to exercise the recall/dismissal of directors during their terms, less than half (49%) of respondents answered that members could do so. These figures far surpass the corporate sector, where the average shareholder in a publicly traded company faces almost insurmountable obstacles to adding items to an AGM agenda, proposing resolutions, or nominating candidates. In fact, the Securities Exchange Commission is currently reviewing ways to change these draconian practices.

At almost 90 per cent, co-op respondents indicated that they do *not* allow proxy voting compared with the corporate sector where proxy voting is the norm. Neither do most co-ops permit board members who are not co-operative members to be elected (95% do not). Proxy voting is sometimes seen as a way to empower management and the board and to disempower members, or at least to water down the power of engaged members who come to AGMs. Non-member directors are often seen as violating the co-operative principle of member control. Others have made valid counter-cases: 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.

Member empowerment, in terms of proxy voting, and the ability to add items to an AGM agenda or nominate board candidates is slightly higher in smaller co-ops and non-financial co-operatives than in larger co-ops and credit unions, by about five per cent.

Overwhelmingly, respondents indicated that their voting structure was based on one person, one vote (over 95 per cent). Other voting structures reported include:

- Voting by delegates selected by geography or memberships (3%)
- Voting by shareholdings or units (1.5%)
- Voting by family unit (0.5%)

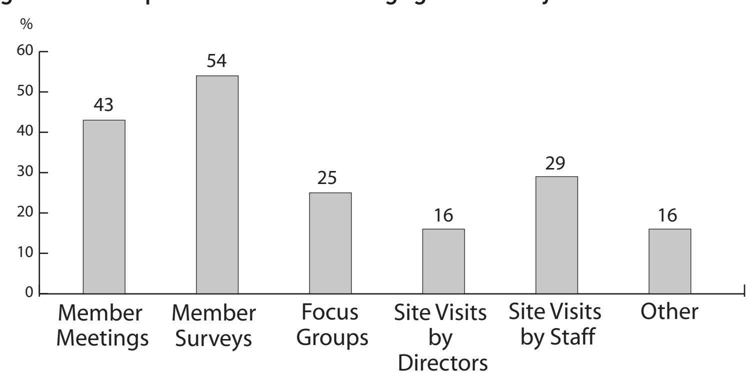
Where delegate or share voting exists, it is almost exclusive to large co-ops.

In many founding family and controlling shareholder corporations, it is common for a small number of shareholders to hold controlling voting power. By contrast, in only 13 per cent of co-operatives can a minority of voting delegates control a majority of votes at the AGM. This practice is more prevalent in larger co-ops (16%).

The survey examined member engagement in activities other than the AGM in order to measure the health of "democracy without voting." Members are encouraged to participate in the direction and/or control of their co-op through:

- Participation in surveys (54%)
- Participation in (district/branch) meetings (43%)
- Member site visits by staff (29%)
- Member focus groups (25%)
- Member site visits by directors (16%)
- Participation in committees, panels, councils (4%)
- Member suggestions, comments, input (4%)

Figure 7: Co-operative Member Engagement Beyond the AGM



Member engagement becomes more challenging in larger co-ops and credit unions; additional efforts are required to ensure a good degree of member participation and strong member relations. Efforts are best achieved through persistent and diverse strategies.

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

Finally, we gauged ethical leadership through co-op boards taking responsibility for a code of conduct (63%) and conflict of interest guidelines (61%). Credit union boards and larger co-ops are more likely to ensure each. 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 while guidelines from the Canadian Council of Chief Executives and the Canadian Coalition for Good Governance are examples of voluntary codes.

8. Innovation: Learning and Change

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

The sixth and final governance responsibility is for the board to encourage and ensure that its organization's culture is one of learning and change. This begins with, but is no means limited to, the development of human resources in the organization, including orientation for new staff and directors, and ongoing education for both. An organization can excel in strategy, recruitment, systems and relationships, but there will always be skills gaps to bridge on the board and management team.

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

Figure 8: Prevalence of Orientation and On-going Education of Co-operative Directors and CEOs[30]

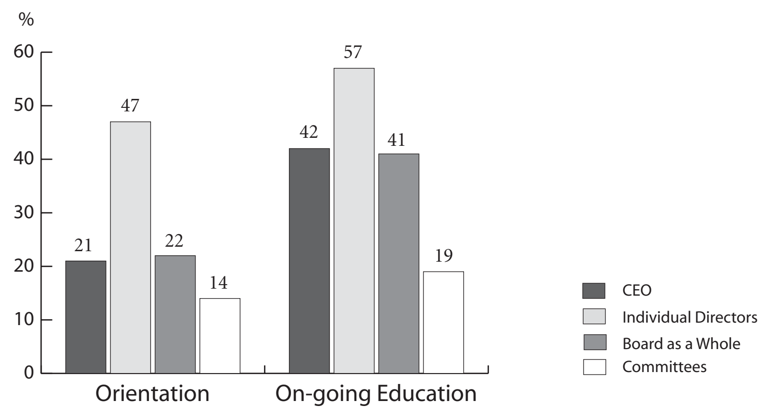


Table 8: Comparison of Orientation and On-going Education between Co-operatives, Credit Unions, and the Corporate Sector

	All Co-ops	Small Co-ops and Credit Unions	Large Co-ops and Credit Unions	Credit Unions Only	Corporate Sector
New Director Orientation	47%	46%	47%	50%	66%
Committee Orientation	14%	16%	16%	13%	30%
CEO On-going Education	**42%**	**35%**	**46%**	**48%**	**10%**
Director Education	**57%**	**50%**	**60%**	**63%**	**28%**
Mandatory Director Education	17%	14%	19%	22%	Data not available

Formal orientation programs for new directors are fairly consistently in place at about half of all co-ops and 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-six co-ops compared with twice that number for corporate boards. Of course there are informal orientations beyond these, but the importance of formal briefings, packages, familiarity with the law, regulations, by-laws, policies and practices rises as the weight of accountability in directors and committees is rising.

Respondents indicate that individual directors are a priority for ongoing education programs

Moving to ongoing education programs (beyond initial orientation), respondents indicate that individual directors are a priority for ongoing education programs. Formal education or development programs for directors are in place at half of all small co-ops, 60 per cent of large co-ops, and 63 per cent of credit unions. Both credit unions and co-operatives are well ahead of the corporate sector in this area of director education (28%).

While most ongoing director education programs are voluntary, 17 per cent of co-ops report that director participation in such a program is mandatory. Part of the co-op sector's success, here, is the result of director education programs such as the Credit Union Director Achievement (CUDA) program. Parts of the CUDA program are mandatory for all directors in British Columbia and Nova Scotia, and a growing number of credit unions are mandating CUDA training for new directors. Other director education programs have been developed by retail and housing co-op federations and associations.

Co-ops and credit unions spend a median amount of $2,760 annually on board training and development

Ongoing education and development for the CEO is less prevalent, ranging from 35 per cent of small co-ops to 46 per cent of large ones, and 48 per cent 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.

Co-ops and credit unions spend a median amount of $2,760 annually on board training and development. This represents an investment of less than one-tenth of one per cent of revenues, a small amount indeed for an area that can make such a difference to strategy, CEO selection, member engagement, and overall co-op success.

9. Looking Forward

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

9.1 Strategy

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

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

1. Growth
2. Mergers
3. Financial stability
4. Human resources
5. Profitability
6. Succession planning
7. Communications
8. Member relations
9. Market share
10. Risk management

In the future, member engagement will be critical to the sustainability of co-ops

In the future, member engagement will be critical to the sustainability of co-ops, as growth and mergers (the top two strategy issues above) create ever-larger co-operatives and credit unions weakening bonds of affinity and risking member apathy or alienation.

9.2 Governance

The second priority for co-ops and their boards is **governance**. The full effects of the *Sarbanes-Oxley Act*, 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 co-operative sector.

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.

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

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

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

1. Policy development
2. Succession planning
3. Director evaluation
4. Board evaluation
5. Accountability
6. Director recruitment

9.3 Director Training and Education

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. Credit Union Director Achievement program (CUDA)[31]
2. Financial management
3. Director's roles
4. Risk management
5. Legislative compliance
6. Governance effectiveness
7. Leadership
8. Member relations
9. Succession planning

9.4 Final Comments

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

This research and report are intended to establish a baseline and to inform co-op and credit union leaders of governance practices, trends, and choices as they move forward. At the Canadian Co-operative Association and Brown Governance Inc.,[32] we remain firmly committed to excellence in co-operative governance and welcome your comments, suggestions, or inquiries.

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

Co-operative & Credit Union Governance Practices Questionnaire[*]

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

Please return by March 31, 2004 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.

[*] **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 <u>all</u> 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 ❑

E3. Does your co-op conduct an evaluation of performance for:

	Yes	No
CEO	❑	❑
Individual directors (self-assessment)	❑	❑
Individual directors (peer-assessment)	❑	❑
Board as a whole	❑	❑
Board committees	❑	❑

E4. Do evaluation results affect compensation levels for:

	Yes	No
CEO	❑	❑
Individual directors	❑	❑

E5. Do evaluation results affect the renewal (re-appointment, re-election, etc.) of:

	Yes	No
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*

G1. Do you have a formal orientation program for:

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

G2. Do you have an ongoing education program for:

	Yes	No
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!