

Effective Credit Union Board Succession Planning:

New Demands Shine Spotlight
On Standard Practices

A White Paper Commissioned by CUNA's
Community Credit Union Committee

January 2012

Report Prepared By:

George A. Hofheimer – Chief Research Officer

Filene Research Institute



Credit Union
National Association



Your Trusted Resource for Credit Union Success™

Visit us online at cuna.org

TABLE OF CONTENTS

Introduction	3
A Changing World	3
How Do Credit Union Boards Look and Act	6
Credit Union Board Succession Success Stories	12
Credit Union X	13
Credit Union Y	14
Credit Union Z	15
Credit Union XYZ	16
Taking the First Action Steps to Better Board Succession Planning	17
Conclusion	19
Sidebar	20
References	21
Appendix	22
Sample Nominating Committee Policy	22
Sample Associate Volunteer Program Policy	24
Sample Board Member Job Description	28
Demographic Matrices	30

INTRODUCTION

The typical credit union board member is a 61-year-old white male. He has served on his credit union’s board for well over a decade, and has a better than average chance of serving on the board for many years to come. This board member helps differentiate his credit union from the bank down the street, furnishes the wisdom to navigate financial crises, and helps his management team key in on critical strategic opportunities and threats. In short, the typical credit union board member is a net positive for the credit union.

Unfortunately this is not a dream scenario. As this paper will illustrate, most credit unions do not have a reliable system (or inclination) for attracting the next generation of credit union board members. If credit unions do not successfully find this next generation of board members how will the industry effectively compete in the future? When discussing board succession issues, the debate tends to veer towards ageism; nothing could be further from the truth. I have nothing against 61 year old white males (I hope to be one someday), but the cold hard fact is today’s credit union board members are ageing, and the credit union system is struggling to find future credit union board members. This paper helps you take proactive steps to build the appropriate board for your credit union’s needs.

First we will present information that illustrates the diverse world in which community chartered credit unions find themselves and the imperative for credit unions to understand the long-term implications of these demographic shifts. Next, we leverage existing academic research and explain the current state of affairs in credit union board selection, composition and succession practices. Then, we present a set of credit union vignettes to illustrate how successful board succession planning looks in the real world. Finally, we close with a list of ten recommendations for better succession planning at your credit union.

A CHANGING WORLD

The United States is an increasingly diverse place. Population growth is strongest among the oldest and youngest members of our society, a variety of ethnic groups have grown in both sheer numbers and economic clout, and “minority” groups of all kinds are playing an increasingly dynamic role in society.

Boomers and youth

Although 2010 U.S. Census data shows that the U.S. population of those aged 65 and older had a faster rate of growth than the total population between 2000 and 2010 (15.1% vs. 9.7% for the overall population), the current numbers prove the escalating importance of the youth market.

Age and Gender Composition of U.S. Population

Age	Percent		
	Both sexes	Male	Female
Under 18 years	24.0	25.0	23.1
18 to 24 years	9.9	10.3	9.6
25 to 34 years	13.3	13.6	13.0
35 to 44 years	13.3	13.5	13.1
45 to 54 years	14.6	14.6	14.6
55 to 64 years	11.8	11.6	12.0
65 to 74 years	7.0	6.7	7.4
75 to 84 years	4.2	3.6	4.8
85 years and over	1.8	1.2	2.4

Source: U.S. Census 2010

Women

Women make up a roughly equal percentage of the population across all age segments, but those numbers tell just part of the story. Women are getting college degrees at a faster rate than men—one in four women vs. one in seven men—and in the most recent recession, men accounted for 78% of all layoffs. A recent study by Bank of America-Merrill Lynch reported that unemployment levels were 1% lower for women vs. men as of March, 2011 (largely because the most affected industries—construction and manufacturing—tend to be male-dominated), that women’s pay has increased about 1% per year over the last five years (while men’s had dropped 1.5% annually during the same period), and that women dominate in nine out of ten occupations projected to add the highest number of jobs by 2018.

Growth in ethnic populations—and their buying power

According to the U.S. Census, more than half of the U.S. population growth between 2000 and 2010 could be attributed to the Hispanic population—which increased by 43%—and as of 2010 Hispanics comprised 16% of the total U.S. population. The Asian population showed similar growth by percentage, also at 43%, and gained the most in share of total population, moving from 4% of the population in 2000 to 5% in 2010.

Growth in these two populations is expected to continue for the foreseeable future, and despite the fact that they’ve been hit hard during the recession, a recent study suggests that their buying power will show strong gains in the near future. The 2010 minority buying report by the Selig Center for Economic Growth reported that buying power for Hispanics had increased 108% from 2000 to 2010 and by 98% for Asians. By 2015, the report predicts that the combined buying power of racial minorities (which includes Asians, African Americans, and Native Americans) and Hispanics would each increase by half a trillion dollars.

Increasing clout of LGBT

According to a recent study by the Williams Institute, a think tank that conducts research on the lesbian, gay, bisexual and transgendered (LGBT) communities, roughly 4% of the total population—nine million people—identifies itself as LGBT. This group has become an economic force with higher levels of education and income, and high degrees of affiliation and influence.

An argument for diversity

While there seems to be an inherent belief that a credit union board should reflect the composition of its membership, most credit union board members and executives don’t believe that they do according to a Filene Research study by William Brown, Ph.D. (the Filene - Brown Study).

Perception That the Board Reflects Your Membership

	Mean	(SD)	Not at all			Very Closely	
			1	2	3	4	5
Chief Executives	3.19	(.99)	2%	24%	36%	28%	10%
Board Chair	3.42	(.87)	2%	12%	39%	39%	9%
<i>Member Categories</i>							
0-4,000 members	3.69	(.88)	0.5%	7%	34%	38%	19%
4,001-10,000	3.49	(.84)	0.6%	11%	38%	41%	10%
10,001-25,000	3.16	(.94)	3%	21%	41%	28%	7%
25,001-50,000	3.19	(1.00)	2%	26%	32%	30%	10%
50,001-100,000	2.98	(.93)	2%	32%	35%	25%	5%
100,001 or more	2.87	(.85)	4%	31%	42%	22%	1%

Source: Filene Research Institute

Congruence might not be a desirable goal for a number of reasons. One is the fact that we live in a changing world as evidenced by previously mentioned demographic trends. Your board may reflect your current membership, but are these demographics sustainable and desirable? If, for instance, you have a shrinking, older, largely Caucasian membership, you will likely need to target other populations in order to grow. Adding board members from these currently under-represented categories may help you do this more effectively. Diversity also plays a role in public perception. Society as a whole values and desires the companies it works with to be open and diverse. Your credit union’s approach to diversity could impact your ability to attract and retain exceptional board members and your ability to grow your membership.

One caveat: adding a token member of an under-represented group is unlikely to make a true difference in board effectiveness. A study by Cornell University that examined ethnic diversity in the corporate setting showed that unless approximately 20% of an organization’s leaders came from an underrepresented racial background, there was unlikely to be sustainable change in the company’s culture. Although this study was specifically geared to ethnicity, it seems logical to assume that this could also hold true for diverse groups.

In conclusion, the U.S. population’s demographics are shifting. Within this context, credit unions admit they struggle to seat boards that reflect these changing demographics. In the next section we inspect the credit union board characteristics and the mechanisms credit unions use to attract and select new board members.

NCUA REQUIREMENTS

As of January 2011, the National Credit Union Association (NCUA) required board members at federal credit unions to have “...at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union’s balance sheet and income statement and the ability to ask, as appropriate, substantive questions of management and auditors.” There are broad perceptions that the typical board member does not currently possess these skills and this is a critical concern. A lack of financial knowledge can compromise a board’s ability to ensure the financial security of the credit union and directors who lack sufficient financial acumen might find themselves at the mercy of the CEO and C-suite when it comes to judging the financial position of the credit union.

HOW DO CREDIT UNION BOARDS LOOK AND ACT? ¹

Across the board, the average credit union board largely remains older, male, and white and lacks experience widely viewed in the larger world as crucial to board performance.

Aging

Institutional knowledge is vital to board stability and success, but it can come at the expense of board vibrancy, member stamina, and both exposure to and a willingness to consider new ideas. Existing boards have more than twice the percentage of members from the 70+ segment as they do from the under 40 segment.

¹ Much of this section is based on two Filene Research Institute research papers sourced in the References section. We refer to these papers as the Filene-Brown Study and the Filene-CCBE Study.

Average Age of Credit Union Board Members

Age Group	Percentage
Under 30	1
30-39	5
40-49	17
50-59	31
60-69	33
70-79	11
80 or older	2

Source: Filene Research Institute

Male-centric

There has been some growth in the number of females on credit union boards but with male board members currently outnumbering females by three to one, there is still ample room for improvement. Small credit unions, those with less than \$25 million in assets, are slightly more likely than larger (those with \$500 million in assets) to have women on their boards: 30% to 25%.

Caucasian

Credit union boards have historically skewed white and there has been little change in this area, even as the larger population becomes increasingly diverse. While these numbers may be moving in the right direction, they are doing so at a slow pace.

Board Representation by Ethnicity

Ethnic group	Credit union board representation	S&P 500 board representation	2009 Census estimate
White, Non-Hispanic	89%	85%	65%
African American	6%	10%	13%
Hispanic	3%	4%	16%
Asian/Pacific Islander	1.5%	1%	5%

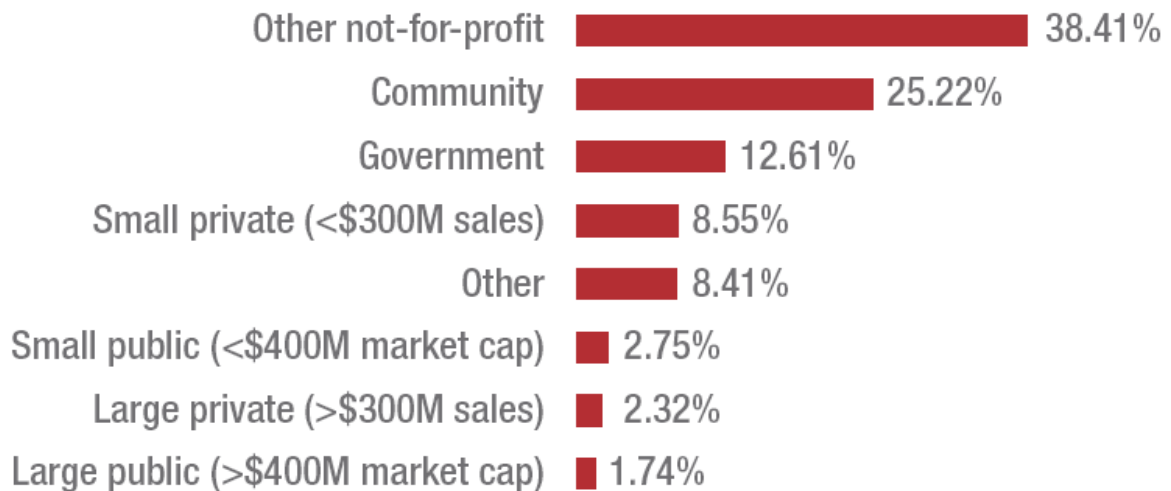
Source: Spencer Stuart, Filene Research Institute, and U.S. Census

Unlikely to have strong C-level experience

Credit unions have struggled to attract board members with substantial senior level management experience. They have traditionally chosen board members based on their willingness and ability to learn, serve the membership, and be a team player, or because they had previous experience in the not-for-profit or community realm.

Credit Union Board Composition by Past Board Experience

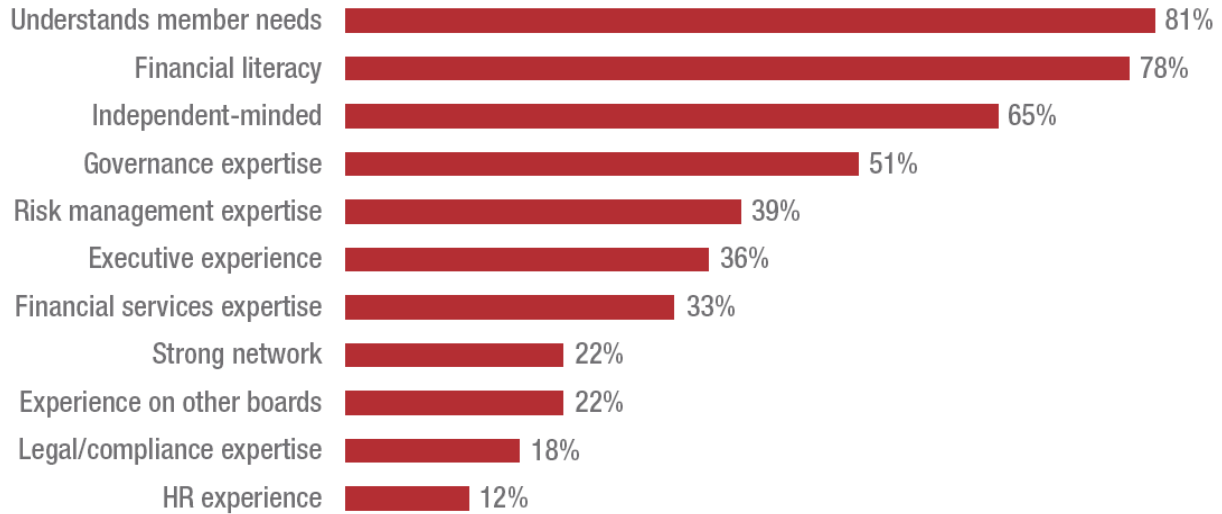
In addition to their credit union board(s), directors currently sit or have experience sitting on the following types of boards:



Source: Filene Research Institute

When picking new credit union board members, one survey found that a full 81% felt that understanding member needs was the most important skill for a board member to have, with governance expertise viewed as a key priority by only 51% of board members.

Most Important Skills for an Effective Credit Union Board



Source: Filene Research Institute

This attitude is changing. About 40% of the respondents in the Filene-CCBE Study felt they lacked legal/compliance and risk management expertise on their boards and that this left their credit union highly dependent upon their CEO to interpret credit union performance and highly vulnerable to being misled. This research also showed that there is strong disagreement between CEO and board members on this subject. ***Eighty-eight percent of CEO respondents felt their boards lacked sufficient financial services expertise while only 22% of board members did. But when these board members were queried in follow-up interviews, this number jumped to 50%.***

Insular Selection Practices

Board succession best practices are plentiful and easy to find, but research suggests that the average credit union has been slow to adopt them. For instance, in the Filene-Brown Study, 713 credit unions offered feedback on their board’s use of common succession best practices. The responses speak for themselves in the figure below.

Credit Union Board Recruitment Practices

		1	2	3	4	5
	Mean (SD)	Not at all		some extent		great extent
Job descriptions exist for board member positions	2.55 (1.48)	37.8%	13.5%	19.0%	15.0%	14.7%
Competency/skill profiles developed/used to nominate new members	2.14 (1.22)	42.7%	21.4%	20.1%	11.1%	4.8%
CEO plays a role in board member recruitment	2.66 (1.29)	26.0%	18.3%	29.1%	16.8%	9.6%
Strategies are in place to insure diversity of new board members	2.32 (1.15)	32.4%	22.9%	28.4%	13.1%	3.2%
Nomination committee works year round identifying a wide variety of potential candidates	1.98 (1.05)	42.3%	29.8%	17.8%	8.3%	1.8%
Finds good candidates for the board	3.47 (1.10)	4.5%	15.2%	28.3%	32.1%	19.8%
Number of candidates typically exceeds number of seats filled	2.14 (1.28)	43.2%	24.1%	15.9%	9.0%	7.8%

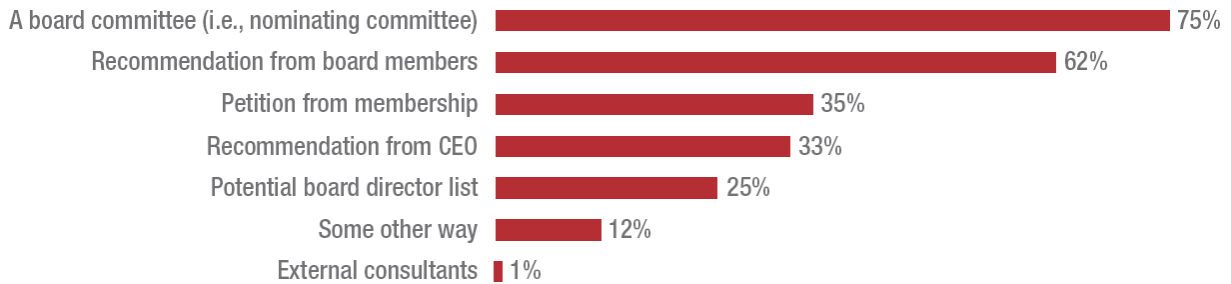
N = 1051

Source: Filene Research Institute

The Filene-Brown Study further showed strong reliance on nominating committees with 90% of responding credit unions reporting that they used them. The use of a nominating committee was sometimes viewed as problematic when it came to incumbents, though executives and board members had differing views on this topic. **Fifty-seven percent of executives, vs. 37% of board chairs strongly agreed that any incumbent could be nominated, with similar percentages (53% of executives vs. 31% of board chairs) saying that this nomination stood even if the board member had a poor track record.** Both this report and other research indicate that standard credit union board succession practices might be compromising their ability to recruit and add the best candidates to also their boards.

The Filene-CCBE Study examined methods for identifying and recruiting new board members. Although 75% reported using a nominating committee, a full 62% relied on board member recommendations and few (25%) made it common practice to develop an ongoing list of potential board prospects.

Processes/Sources Used by Boards to Identify New Directors



Source: Filene Research Institute

With recruitment practices heavily skewed toward existing connections, it’s no surprise that new boards tend to resemble their predecessors. The Filene-CCBE Study showed that of those credit unions that still had strong ties to their original sponsor company—as defined by having at least 75% of their board members coming from the sponsor company—the majority (72%) felt they were able to achieve sufficient diversity without looking elsewhere. A number of survey respondents felt that even if a board was able to come up with an “ideal” candidate, that they had a hard time finding a prospect that possessed appropriate credentials and was willing to serve on the board.

Lack of director renewal policies

Although the Filene-CCBE Study showed that credit union directors were evenly split between those who believed directors were “too old/far too old” and those who considered their age “about right,” only 2% of credit unions reported having a mandatory retirement age for their boards. The Filene-Brown Study showed that 93% of boards limited the length of a term—with 81% choosing a three-year limit—but that there was effectively no limit to time of service because a board member could serve an unlimited number of consecutive terms. In fact, only 15% of responding boards had director term limits.

Largely uncontested board elections

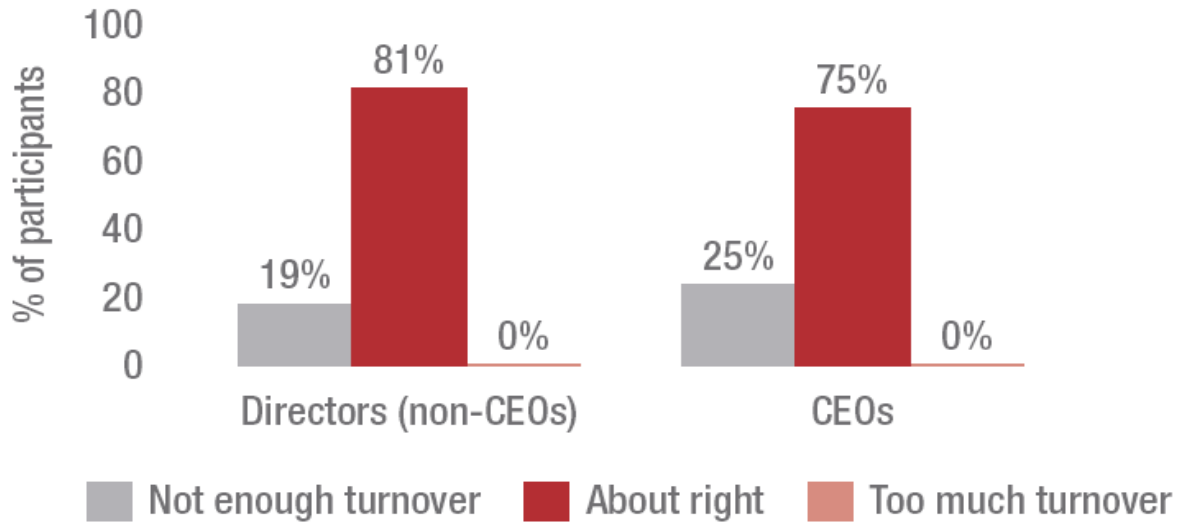
The limited reach of the selection process frequently leads to an uncontested election. And even contested elections are that in name only for most credit unions. The Filene-Brown Study found that the vast majority of board elections—92% at credit unions with assets of \$25 million or less and 46% of those with assets of \$500 million and more—were held during only sparsely attended annual meetings.

Board turnover viewed as adequate—with caveats

The Filene-CCBE Study showed that while most CEOs (75%) and non-CEO directors (81%) felt that turnover was adequate overall, that there is probably too much turnover among newer, younger

directors. This study also discovered turnover was negatively affected by two things: a lack of renewal policies (85% of surveyed credit unions don’t have them) and the tendency to avoid removing ineffective members from the board.

Perceptions of Credit Union Board Turnover in the Past Five Years



Source: Filene Research Institute

In summary, credit union boards are not highly diverse groups and the mechanisms to find future board members is in need of re-engineering. In the next segment we present four credit unions that have found varying degrees of success in board succession planning. Their stories are instructive for credit unions of all shapes, sizes and persuasions.

CREDIT UNION BOARD SUCCESSION SUCCESS STORIES

The following four vignettes result from interviews with credit unions that self-identified themselves as satisfied with their board succession planning process. We conducted more than four interviews, and these stories represent the most instructive for the topic. Many credit unions we interviewed for this project admitted that their credit union struggles with board succession planning and that they look forward to specific tactics. At the request of the credit unions their names are disguised, but their stories are very real and very instructive.

CREDIT UNION X

Located in the Midwestern United States **Credit Union X** has 60,000 members and \$600 million in assets. Though not officially a community chartered institution, it operates as a de-facto community credit union through their multi-SEG charter and heavy coverage in several well-defined communities.

Succession Story Approximately 10 years ago Credit Union X’s board of directors recognized the need to diversify their board members as they readied a change in their field of membership from a narrow employer-based to a multi-SEG and community relationship. The board realized without a term limit policy the chances of board turnover were very slim due to the board’s long running passion for the credit union’s mission. This same passion, remarks the CEO, “lead the board to understand that planned governance turnover was in the credit union’s best long-term growth interests.” As a federally chartered credit union, Credit Union X can’t legally have term limits, but it has become a de facto board practice. The practice allows board members to serve a maximum of four three-year terms, for a maximum of 12 years of board service.

The board succession planning process is owned entirely by the board and executed by a nominating committee. This committee is comprised of board directors who are coming off the board via term limits and other volunteers. The committee typically identifies 25 potential candidates by tapping into current committee (ALCO, supervisory, etc.) members, messaging to the entire membership and outreach to local community leaders. The nominating committee then interviews the pool of candidates, and usually ends up with 15-20 viable candidates. The committee then recommends to the full board of directors, the candidates who are to be placed on the ballot to fill each board vacancy. Candidates not invited to the next stage of the process are typically not a good match in terms of experience, attitude and outlook. Credit Union X does not wish to have contested elections, so the number of candidates always equals the number of board vacancies. Credit Union X’s CEO states, “The vetting process is fairly in-depth so we don’t want to put prospective volunteers through the gauntlet and then embarrass them by losing an election.” Once the candidates are slated, they are voted by acclamation at the credit union’s annual meeting.

What Makes Credit Union X’s Efforts Successful?

Board Ownership. *The board owns the process, and is extremely picky about who gets on the board. The vetting process is treated much like a job interview.*

Strong Brand. *Credit Union X claims it doesn’t need to conduct in-depth recruiting efforts, or in the words of the CEO, “We don’t go out and shake the trees, rather they come to us because we are so well-known and well-respected around town that people want to give back through our organization.”*

Existing Committee Structure. *The reliance of a strong and diverse committee structure as a proving ground for potential board volunteers emerged as one of the strongest aspects of the board succession planning process.*

***Selective Targets.** In recruiting for volunteers (board and committee), Credit Union X targets professionals with a strong understanding of governance principles. Additionally, they must be conversant in finance and the credit union business model.*

***Policies.** Although term limits are rarely used (and fiercely debated) in credit unions, Credit Union X believes this board practice is key to successful board succession planning, or in the words of the CEO, “...term limits give board members an elegant exit, and frankly they are relieved to know that there is an end point where they can say ‘my time is up.’”*

CREDIT UNION Y

Credit Union Y has 80,000 members and \$900 million in assets. This credit union, based in the Mountain West, is a community-chartered credit union serving two large counties. This credit union originally served an educational community.

Succession Story A little over a decade ago, Credit Union Y instituted term limits to encourage planned turnover and new blood on the board of directors. This tactic roughly corresponded with the credit union’s move to a community charter. Currently, Credit Union Y’s board members are permitted to serve three three-year terms for a maximum of 9 years on the board. The board is presently comprised of working professionals with an average age in the mid- to upper-40s. Historically, Credit Union Y looked to their board committee members for the next board vacancy; however, they discovered through experience that sometimes a good committee member doesn’t make a good board member.

To broaden the pool of potentials, Credit Union Y uses a nominating committee to identify the skill set, personality and demographics needed for upcoming board vacancies. The nominating committee’s “ideal profile” changes based on which board member is vacating the board of directors. For example, the committee is searching for a younger female with marketing and technology experiences for their current board vacancy. Once the committee sets the appropriate criteria, Credit Union Y’s CEO and senior staff identifies and recruits candidates to be interviewed for the board vacancy. The candidates next meet with the board chair, then the nominating committee, and finally the full board to determine their fit with the organization. The board finally nominates the number of candidates equal to the number of vacancies resulting in an uncontested election.

What Makes Credit Union Y’s Efforts Successful?

***Board-CEO Roles.** The board and CEO each take a responsibility in the board succession planning. As it is currently implemented, the duties of each are optimized to their individual skill sets. Additionally, the dual responsibility enables buy-in from the critical parties that make up the board-CEO partnership.*

***Policies.** As stated in a previous case study, term limits pave the way for intentional and planned board succession, rather than an amorphous activity that may happen sometime in the future.*

***Creative Recruiting.** Whether through the committee structure or outside networking activities, Credit Union Y has, in the words of the CEO, “put the full resources of the credit union to attract talent to our board of directors.”*

***Focus on Diversity.** Although this tactic is just starting to bear fruit, the nominating committee’s focus on identifying skill, demographic or knowledge gaps on the board has led to a more diverse board of directors. This diversity is exemplified with the recent addition of a young, female executive from a publicly traded corporation and a retired financial services expert to Credit Union Y’s board.*

CREDIT UNION Z

Credit Union Z has 35,000 members and \$250 million in assets. It is state-chartered and a community/SEG based credit union. Credit Union Z was founded to serve employees of a supermarket chain. Two of the present directors are employees of the original sponsoring company.

Succession Story About 12 years ago Credit Union Z instituted term limits. In the words of the credit union’s board chair, “Term limits are in our members’ best interest as they bring in new blood. We didn’t want directors to be stale. All the board believes term limits are a good idea.” A key part of their board succession planning efforts center around an associate director program. The credit union’s by-laws allow for two associate directors who have all the rights of a normal director except they can’t vote. They attend all the meetings and educational/training opportunities. Associates are appointed by the board for a term of one year and can be re-appointed annually with no term limits. The associate director is evaluated annually and either party can choose to terminate the relationship. The board actively recruits for the associate program to fill vacancies that the board may have in the future through term limits or unplanned turnover. The board is very well diversified and tries to look like the community membership it serves. The last individuals recruited to the Associate program were a realtor and an attorney.

Potential board members (many coming from the associate director ranks) fill out a detailed application and return to Credit Union Z’s nominating committee. After the nominating committee² interviews the candidates and completes the background check, they present the candidates to the full board to be placed on the ballot for the annual election, which is usually a contested election.

The board chair plays a significant role in the recruiting process. Last year, the chair challenged each sitting board director to bring forth at least one suitable candidate application for the nominating committee to review. Credit Union Z received five very qualified candidates. From this pool of candidates, one was appointed to fill the open Director spot until annual elections. The other four were placed either on the supervisory committee or named as associate directors.

² See Appendix for Credit Union Z’s Nominating Committee’s Operating Policy.

Term limits do present some challenges. The policy has been in place for 12 years so all of the current directors have served under those term limits. Volunteers know their commitment ends after 12 years which provides a sense of closure. While there is much to be said about the experience and wisdom that a long-term director brings to the board meeting, Credit Union Z feels that term limits are good to have in place to bring in new perspectives, attitudes and skills. Or in the words of the board chair, “Without term limits, we wouldn't have turnover. It keeps us fresher. Our associate board member program is the linchpin to a successful board succession process.”

What Makes Credit Union Z’s Efforts Successful?

Policies. As stated in a previous case study, term limits pave the way for intentional and planned board succession, rather than an amorphous activity that may happen sometime in the future.

Education. Credit Union Z has very specific training and education requirements for their board, associate directors and committee members. An educated board naturally understands the role planned board turnover plays in good governance.

Associate Program. The nature and structure of the associate program creates a try before you buy system which has been the “linchpin” of successful board turnover at Credit Union Z.

CREDIT UNION XYZ

Credit Union XYZ has 210,000 members and is \$2 billion in assets strong, and is based on the West Coast. This credit union began as a single-employer institution serving county and municipal employees and now it is a community chartered credit union serving eight counties.

Succession Story Unlike the other credit unions highlighted in this paper, Credit Union XYZ does not have term limits and very little board turnover. However, once a vacancy does occur on the board, this credit union has a host of candidates to select from and a simple plan to get the best person on board quickly. Their CEO states one of their biggest challenges in board succession planning is “telling people we don’t have any vacancies.” To avoid upsetting passionate and talented potential volunteers, Credit Union XYZ has a strong Associate Volunteer Program³ which feeds into both the full board of directors and supervisory committee. Since the credit union is a highly respected community citizen and a host of influential community members currently serve as volunteers, Credit Union XYZ only passively recruits potential associate volunteers. They have a system to determine who would be a good fit as an associate volunteer. Once a board vacancy does occur, the key consideration for an appointment is not only a baseline of skills and knowledge, but a determination of the best cultural fit. Most board member vacancies are then filled by experienced associate board members.

³ See Appendix for Credit Union XYZ’s Associate Volunteer Program’s Operating Policy

What Makes Credit Union XYZ’s Efforts Successful?

Associate Program. The nature and structure of the associate program creates a try before you buy system and develops a stable of potential board members with on the ground governance experience.

Strong Brand. Credit Union XYZ lets the talent come to them as they’ve developed a reputation as a place people want to associate themselves with. This is their strongest volunteer recruitment/succession planning tactic.

In short, these four stories tell of divergent paths to the same destination. While there is no silver bullet to a successful board succession planning process, several foundational items can be teased out from these credit union experiences. In the final section we provide a set of 10 recommendations to get your credit union’s board succession planning process on track.

TAKING THE FIRST ACTION STEPS TO BETTER BOARD SUCCESSION PLANNING

Are you ready to create a better succession plan and a better board? This list of 10 ideas can help you get on the right path today.

1. Focus on and identify board diversity goals

As mentioned earlier, “diversity” can have a breadth of meanings. Use a skills matrix⁴ (see appendix) as your baseline, and then look for ways to fill gaps with a more diverse mix of candidates. Start with a “skills and experience” matrix. This will allow you to evaluate current and desired skills and pinpoint both areas of strength and deficiencies. Review and update the matrix regularly and take the life cycle of your credit union into account—for instance, a credit union in a period of contraction vs. growth is likely to require different skills and experience from its board members. In addition to hard skills, try to capture elements such as the ability to work with others, and flexibility. Consider aiming for a range of ages, ethnicities, backgrounds, and both male and female candidates. This tactic requires an ongoing assessment of current skills and perceived skill needs and is a highly dynamic method of board analysis.

2. Develop an “evergreen” list

Don’t wait until you have a board need. Instead, maintain an evolving and constant list of good potential candidates. Involve credit union staff in your search: branch managers can be a particularly good source for pinpointing good potential board members. Other critical parties to involve in developing this list are nominating committee, board of directors and the CEO.

3. Widen your search

⁴ See Appendix for a sample skills matrix

In many credit unions, the search for new board members is limited to acquaintances and colleagues of the existing board. This practice tends to create a new board that looks a lot like the old one and can also mean that new board members have allegiances that make it difficult for them to question the status quo. Look for ways to tap into the broader community through business and service organizations, referral agencies and advertising—both credit union-specific media and external.

4. *Ensure CEO-Board focus and attention*

Board members and the CEO must work diligently to create an atmosphere where information is shared, assumptions can be questioned, and divergent views are aired. In the case of board succession planning, a CEO-board partnership is a critical factor to ensuring the next board member is someone who can interface well with the board and CEO.

5. *Create an associate director program*

The credit union vignettes presented earlier provide qualitative evidence that a well-run associate director program can play a positive role in credit union board succession planning efforts. This type of program can be viewed as a proving ground for future board members in a low-cost and low-risk context.

6. *Institutionalize a board succession planning process*

There’s no denying the value of long-term board members. Their strong institutional knowledge and obvious commitment to the credit union are valuable and much appreciated. But it’s important to balance that longevity against the benefits of new perspectives and fresh energy. Consider implementing written policies (term limits, associate directors, etc.) to ensure a rigorous succession planning process for your credit union’s board. As credit union stewards, board members have a unique responsibility to put effective succession planning processes in place.

7. *(Re)consider term limits*

Term limits are not a common practice in credit unions today. Some reasons for this are legal while others are strategic. The credit unions highlighted before admit their initial aversion to term limits, but after several years’ experience they each believe term limits play a positive role in the health of the credit union’s board. Talk to credit union peers using term limits to further discuss the efficacy of this approach at your credit union.

8. *Use the credit union brand as a recruiting tool*

How is your credit union viewed in the community? Several of the credit unions we spoke to noted that their brand **drives potential volunteers to their doors** without much in recruiting efforts. If your credit union is not a widely recognized brand in your local community, chances are you haven’t effectively communicated the unique and inspiring value you represent. Develop specific tactics to brandish your image in a more aggressive manner. Your approach will be unique to your credit union; however, there

is no denying the power of potential volunteers coming to **you** because of a well-respected image of your credit union.

9. Implement director self-evaluation

Although self-evaluation is commonly used in the for-profit world, this tool could be a more commonly practiced behavior in the credit union system. Board self-evaluations allow you to create an objective conversation around board performance issues. These types of conversations don’t typically exist since most boards lack the information about said performance. And, perhaps, most difficult of all, you must be willing to remove members from the board who don’t meet performance goals.

10. Require continuing education

Although increased board diversity combined with professional expertise and experience will help you create a better board, there is strong consensus that these are not enough. Board members will only gain and maintain needed knowledge and proficiency with ongoing education. Two-thirds of the respondents to the Filene-CCBE Study reported that they have a continuing education policy in place, though it is a balancing act to determine how much can be required of a volunteer board. And continuing education policies aren’t just “feel good” measures—they appear to correlate strongly with good governance. The Filene-CCBE Study also reports that all credit unions in the top 10% governance scores had a continuing education policy in place while only 11% of those in the bottom 10% did.

CONCLUSION

Creating a more effective board is an ongoing process and one that demands flexibility and commitment. It won’t happen overnight and the board that’s “just right” today is unlikely to look the same even a year or two down the road. Key to a board that perennially meets its credit union’s needs in a highly dynamic world: true understanding of the credit union’s mission, vision and core values, and a commitment to do what’s needed to protect your credit union’s stability and viability. Because, after all, that is your board’s top priority.

⁵ Refer to Census 2010 Chart on Page 3

A broader view—how the corporate world handles succession planning

For-profit boards tend to implement a number of planning tools that have yet to be widely adopted among credit unions, yet they also struggle with many of the same issues facing credit unions in the succession planning process.

Mandatory retirement widespread

Recognizing that aging boards can present challenges, a growing number of S&P corporations (74% in 2010 vs. 58% in 2000) now set a mandatory retirement age, though, admittedly, this age has moved upward in recent years.

Also gender challenged

Corporations also struggle to add women to their boards. In 2010, just 16% of the independent directors at S&P 500 boards were women—vs. 12% in 2000—and 10% of these firms had no women on the board at all.¹

Slightly more ethnically diverse

Although 47% of S&P boards said that minority members would be welcome additions, the actual numbers proved that corporate boardrooms aren’t much more diverse than credit union ones: just 12% of new directors are African-American, Hispanic/Latino or Asian (Spencer Stuart 2010, 12).

Business acumen a priority

The for-profit world places an obvious premium on board members with senior management experience. More than a quarter of new S&P board members are active C-level executives while another 17% are retired from these types of positions. Many have previously held finance-related positions (Spencer Stuart 2010).

Director peer and self-evaluation common

An alternative to term and age limits, these evaluations have become increasingly common in the corporate world. They are best done by third parties to eliminate emotion from the process and, according to the National Association of Corporate Director (NACD) 2009 Public Governance Survey, they’re increasingly being used as tools for addressing board composition. In fact, the NACD survey found that individual director evaluations were used by 67.2 % of surveyed directors in 2009, up from 58.3 % in 2008.

REFERENCES

- Black, Dan, A., Seth G. Sanders, and Lowell J. Taylor. 2007. *The Economics of Lesbian and Gay Families*. Pittsburgh, PA: Journal of Economic Perspectives.
- Brown, William. 2005. *Board Recruitment and Selection Practices at Credit Union Boards*. Madison, WI: Filene Research Institute.
- Fox Business News. 2011. “Young Women Have More College Education Than Men, Government Says.” Accessed December 6, 2011. www.foxbusiness.com/markets/2011/02/10/young-women-college-education-men-government-says.
- Fullbrook, Matt. 2010. *Tracking the Relationship between Credit Union Governance and Performance*. Madison, WI: Filene Research Institute.
- Gates, Gary, J. 2011. *How Many People are Lesbian, Gay, Bisexual and Transgender?* Los Angeles, CA: The Williams Institute, UCLA School of Law.
- Hoel, Robert, F. 2011. *Power and Governance: Who Really Owns Credit Unions?* Madison, WI: Filene Research Institute.
- Hoel, Robert, F. 2011. *Boards and Leadership: How Boards Can Add More Value*. Madison, WI: Filene Research Institute.
- Kiplingers. 2011. “3 Companies That Will Benefit From Women's Growing Purchasing Power.” Accessed December 1, 2011. www.kiplinger.com/columns/picks/archive/companies-benefit-from-womens-purchasing-power.html
- National Association of Corporate Directors. “Building the Right Board.” Accessed December 1, 2011. www.directorship.com/how-to-build-the-right-board/
- Public Radio International. 2011. “More women working than men.” Accessed December 6, 2011. www.pri.org/business/economic-security/more-women-working-then-men1634.html
- Roberson, Quinetta, M. and Hyeon Jeong Park. 2006. *Examining the Link Between Diversity and Firm Performance: The Effects of Diversity Reputation and Leader Racial Diversity*. Ithaca, NY: Cornell University ILR School
- Rogers, Benjamin. 2008. *A Seat at the Table: Young Adult Directors and Board Advisors*. Madison, WI: Filene Research Institute.
- Spencer Stuart. 2011. “Boards and Governance.” Accessed November 22, 2011. www.spencerstuart.com/research/bg
- The Selig Center for Economic Growth. 2011. “Multicultural Economy.” Accessed December 1, 2011. www.terry.uga.edu/news/releases/2010/minority-buying-power-report.html
- United States’ Census 2010. 2010. Accessed November 22, 2011. 2010.census.gov/2010census/

APPENDIX

Credit Union Z

Sample Nominating Committee Policy

The Nominating Committee will oversee and administer the selection and election of candidates for the credit union’s Board of Directors. The committee will oversee and administer the selection and appointment of candidates for the Supervisory Committee. The Nominating Committee will be comprised of at least three individuals, at least one of whom is on the Board of Directors and is not up for re-election. The members of the Nominating Committee will be appointed by the Chairman of the Board.

1. The Nominating Committee will supply a volunteer information kit to new potential volunteers (not incumbents). The kit will include:
 - Volunteer Application
 - A copy of the credit union’s Board Governance policies
 - A copy of the Conflict of Interest Policy Statement
 - A copy of the bylaws
 - A copy of the credit union’s Mission Statement
2. A member may apply to the Nominating Committee to receive a nomination for election or appointment by completion of a Volunteer Application. Completion of the application will show that the applicant qualifies because he or she:
 - Possesses governance experience and/or strategic competencies pertinent to this credit union's future.
 - Has no felony convictions, and has no misdemeanor convictions of a nature the Nominating Committee believes is inconsistent with our values or Code of Ethics and Conduct.
 - Is a member *in good standing* of Credit Union Z.
 - Is at least eighteen (18) years of age.
 - Has read the election information kit and is willing to accept the responsibilities of office.
 - Will be able and willing to act independently and objectively.

- Is not an employee, employer, supervisor or subordinate of any director or any committee member now seated, or if is so related, why that would not diminish the applicant's or other party's ability to act independently and objectively.
 - Is not related by blood or marriage to any director or any committee member now seated, or if is so related, why that would not diminish the applicant's or other party's ability to act independently and objectively.
 - Is not related by blood or marriage to any employee of the credit union.
 - Has not been an employee of this credit union for at least 60 months prior to election date.
 - Able to complete 90 hours of volunteer service to the credit union annually.
3. The Nominating Committee chair will send a written notice to those members the Committee will not nominate. The notice, sent within ten days of the application closing date, will specify why the applicant was not selected as a candidate.
 4. Incumbent directors (elected or appointed after adoption) must complete the CUNA Volunteer Achievement Program (a.k.a. VAP) three-module core director track by the end of their first year of service on the Board of Directors to qualify for nomination for an additional term of office.
 5. Members who are campaigning for any office may do so at no expense to the credit union and may not campaign or display materials in any credit union office or at the annual meeting.
 6. All volunteers shall regularly attend meetings, in-house workshops, and planning meetings. When a director has missed excessive board meetings, the Chair will ask at a board meeting for a motion to declare the seat vacant.
 7. All volunteers should have governance or leadership experience and/or strategic competencies applicable to the future and current needs of the credit union.
 8. To remain on the Board, i.e., to qualify for nomination to subsequent terms, or to qualify for reappointment or reelection to any committee, the volunteer must complete at least one day of training each year measured from annual meeting to annual meeting.

Qualifying training activities for the annual requirement:

- Attendance at a credit union workshop, seminar, or conference with at least five hours of "class" time is a day's worth of workshops.
- Self-study credit union training courses are worth a half day each. For a course to qualify, it must lead to certification or is a part of a series of courses e.g. the CUNA Volunteer Achievement Program (VAP).

- This credit union's orientation and continuing education program (training provided by the management team specifically designed for volunteers). The amount of time the volunteer spends at the credit union and in training sessions will be credited to their continuing education development.
 - Audio and video tapes on credit union topics.
 - League Chapter meetings count two hours if there is a speaker. Volunteers are encouraged to network with other local credit union volunteers.
9. In recognition of the value of networking with other volunteers, each director will attend at least one state or national credit union conference, seminar, workshop or school during each three-year term of office. Such attendance counts as that year’s annual education requirement as outlined in the previous paragraph.
- Volunteers on the Board of Directors, excluding the Chairman, may attend a maximum of two conferences, seminars, workshops or schools per calendar year; attendance should be approved in advance by the Chairman.
 - Volunteers on the Supervisory Committee may attend a maximum of one conference, seminar, workshop or school per calendar year, which must be approved in advance by the Chairman of the Board. The Chairman of the Board may attend conferences, seminars, workshops and schools at his/her discretion.
10. The election of Directors will take place at the credit union’s annual meeting. If the election results end in a tie, the winner will be determined by a coin flip, conducted by a member of the Executive Committee who is not up for election at the time.
11. Directors are ineligible to be hired as employees of the credit union for a period of 24 months after completion of service on the Board.

Credit Union XYZ

Sample Associate Volunteer Program Policy

I. Introduction

The Associate Volunteer Program is designed to meet a strategic need and create a skilled/competent pool of volunteers who may later fill vacant positions on the XYZ CU Board of Directors, CUSO Board of Directors, and/or the Supervisory Committee by doing the following:

- Identifying and preparing individuals that wish to become better acquainted with XYZ CU, the credit union movement and the role of Associate Volunteer.
- Allow individuals a trial period for training and to participate and understand the responsibilities and time commitments required prior to making the full commitment to being elected to a position on one of the boards or committees.
- Provide an additional method for XYZ CU to target people with attributes the board needs and develop a pool of candidates that fit into the XYZ Group culture, for appointment or election.

Determination of Strategic Need:

The Board of Directors will determine when a strategic need exists that will activate this program. It is anticipated that the program will operate on an “as needed” basis, and that the existence of the program document does not require the use of an Associate Volunteer. In the event that a strategic need is identified then the board chair will appoint a committee to act as the Volunteer Succession Committee, if one does not exist, to carry out the responsibilities identified in Section III.

II. Identification of Current Recruiting Needs

The recruitment process begins with an analysis of the strengths sought in board and committee members on the XYZ CU Board of Directors, CUSO Board of Directors, and the Supervisory Committee. The strengths identified for the XYZ CU Board, CUSO Board, and Supervisory Committee are subject to change to ensure that the board members reflect the membership demographics. (Age, gender, ethnicity and geographic distribution are factors to be considered.)

1. Attributes that are required for all volunteer positions are:
 - Engaged in learning and becoming passionate about XYZ CU
 - Time available to commitment to XYZ CU
 - Team player – demonstrated ability to work toward common goal

2. Needs that have been identified for each of the individual board and committees include, but are not limited to:
 - XYZ CU Board Positions:
 - Community Involvement (Represent our Members)
 - Commitment to the Credit Union Movement
 - Business Skills
 - Business Owners/Entrepreneurial Experience
 - E-Commerce Experience
 - Geographic Diversity

 - CUSO Board Positions:
 - Experience in business lines currently offered or other strategic needs identified by the CUSO Board
 - Entrepreneurial skills with a for-profit mentality
 - Community & Business Involvement (i.e., Chambers of Commerce)

- Supervisory Committee Positions:
 - Executive Level Skills
 - Broad Ability for Community Involvement (high profile)
 - Industry Involvement (CPA, Audit, etc.)
 - Financial Expert
 - Legal Skills (desired)
 - Understanding of the Audit Process
 - Business Skills

III. Recruitment/Selection/Training Process

Board members and/or Senior Staff members of XYZ Credit Union will refer individuals that obtain the desired strengths to the Volunteer Succession Committee (VSC). The VSC will have the following responsibilities:

- Evaluate strengths of individual and reach agreement within the committee regarding the suitability
- Refer qualified applicants to the respective board or committee chair
- Selection of individuals for any position is made by the respective board or committee
- Assist with training and mentoring of the selected individual

Minimum Qualifications for Participants in the Program:

- Member must maintain a primary financial relationship with XYZ CU
- No past due loans or losses on any accounts with XYZ CU
- Complete an application
- Successfully pass a background check
- Sign a Conflict of Interest & Code of Ethics Statement
- Possess the skills necessary to use a laptop computer to access board/committee materials for review and to be capable of navigating the most commonly used programs utilized at a financial institution
- Meet all minimum requirements established by XYZ CU Policies or By-Laws

Program Term:

The Associate Volunteer generally serves a one-year term with a possible one-year additional term based on need. They serve at the pleasure of the respective board or committee and may be terminated at any time, for any reason. Appointment to the Associate Volunteer position is not a guarantee that the Associate Volunteer will be nominated or elected to the Board of Directors or Supervisory Committee.

Conflict of Interest & Code of Ethics Statement:

Each individual will be required to sign a Conflict of Interest & Code of Ethics Statement prior to his or her appointment as an Associate Volunteer.

Thereafter, while participating in the Associate Volunteer program, the confidentiality of member information and the processes of the board are to be held in strict confidence and are not to be divulged to others. Associate Volunteers are welcome to participate in Board/Supervisory Committee discussions, ask questions and voice perspectives; however, they are not permitted to vote on any matters or motions.

Associate Volunteer’s Responsibilities:

The Associate Volunteer will participate in the following type of activities and/or trainings, to be determined in the sole and absolute discretion of the Board of Directors.

- Meet with assigned mentor quarterly
- Attend appropriate board/committee meetings regularly--monthly (excluded from executive or closed committee meetings (i.e. HR Committee and/or CEO Compensation Committee)
- Board package materials will be available through a secure delivery method determined at the time of service based upon need
- Attend XYZ CU educational planning sessions
- Participate in training that will expand existing knowledge of Credit Union business.
- Education/training will vary based on background, but could include the following:
 - Credit Union Specific:
 - Credit Union History & Philosophy 101
 - Competitive Threats to Credit Union Industry
 - Today’s Key State/National Credit Union Issues
 - Top 10 Industry Issues for Credit Union Board Members
 - Volunteer Development:
 - Board Duties & Responsibilities
 - Defining the Role of Volunteers & Professional Staff
 - Other:
 - Disaster Preparedness & Recovery
 - Strategic Planning

Mentor Responsibilities:

The role of the mentor is to guide the Associate Volunteer in the successful integration into XYZ CU Group and to answer questions and assist with development. The role is not meant to be a reminder to the Associate for dates of meetings or follow up for identified responsibilities, but to provide support and guidance.

The chair of the board/or committee to which the Associate Volunteer is assigned will appoint each mentor whose role includes:

- Meeting with the Associate Volunteer quarterly or as needed
- Introduce Associate Volunteer to key staff & officials and provide contact information
- Provide the “XYZ CU Story” and an overview of the organization
- Prepare Associate Volunteer for board meetings (i.e., review packet materials)
- Provide feedback to appropriate committee or board on progress of Associate Volunteers development and cultural fit.

Sample Board Member Job Description

Board Responsibilities

1. The Board should engage in ongoing planning activities as necessary to determine the mission of the organization and its strategic direction, to define specific goals and objectives related to the mission, and to evaluate the success of the organization’s services toward achieving the mission.
2. The Board should approve policies that further XYZ’s mission and goals while also ensuring the effective, efficient and cost-effective operation of the organization.
3. The Board should periodically review the aforementioned policies to assess their relevance to XYZ’s changing needs.
4. The Board should annually approve the organization’s budget and assess the organization’s financial performance in relation to the budget at least four times per year.
5. The Board should maintain the financial stability of XYZ while ensuring opportunities for long term growth.
6. The Board should hire, set compensation for, and annually evaluate (using mutually established goals) the performance of the CEO.
7. The Board should support the CEO as needed to accomplish XYZ’s mission and goals.
8. The Board should ensure that an annual monitoring of internal controls is conducted annually, and that a summary of the results of the review is provided to the entire Board.
9. The Board should periodically assess the need for insurance coverage in light of the nature and extend of the organization’s activities and its financial capacity.
10. The Board should consistently communicate information with Owners and seek their input on XYZ’s strategic issues.
11. Board members are responsible for the ongoing work of the Board, participating in committee work, being prepared for meetings, and attending related events.
12. The Board, together with the CEO, recruits Board candidates and jointly orients new Directors

Expectations

- Prepare for and attend all Board meetings, usually 10 to 12 per year.
- Attend the annual Board retreat.
- Serve on at least two Board committees.
- Attend the Annual Membership Meeting.
- Attend at least two XYZ Board events to promote visibility of the Board (i.e. Board/owner forums).
- Commit to the full term for which you are elected, usually three years.
- Commit 10-15 hours per month to XYZ business.
- Maintain confidentiality of all matters, as required.

Minimum Qualifications

- Be a member of XYZ in good standing.
- Proven ability to communicate in a clear, concise manner.
- Prior experience making decisions in a group setting.

Other Criteria That May Be Considered by the Nominations Committee

- Experience in at least two of the following:
 - Business - retail or wholesale
 - Finance - budget analysis, major financial decisions
 - Law
 - Real estate acquisition
 - Personnel management
 - Cooperative movement and philosophy
 - Non-profit management
 - Marketing
 - Service on other boards
 - Planning
 - Meeting Facilitation
 - Contract Negotiation

Sample of Existing Credit Union Board of Director Skills and Demographic Matrices

Skills and experience	Linda Bammann	John Cassaday	Gail Cook-Bennett	Donald Guloien	Thomas d’Aquino	Richard De Wolfe	Robert Dineen	Pierre Ducros	Scott Hand	Robert Harding	Luther Helms	Thomas Kierans	Lorna Marsden	John Palmer	Hugh Sloan	Gordon Thiessen
Senior executive ¹	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other directorships ²	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public sector ³			✓		✓							✓	✓	✓	✓	✓
Financial experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk management experience	✓		✓			✓			✓	✓		✓		✓		
Global financial services executive, knowledge of investment management	✓		✓	✓						✓	✓	✓				✓
Non-Canadian (Asia, U.S. operations/governance)	✓	✓		✓	✓	✓	✓		✓	✓	✓			✓	✓	
Information technology						✓		✓								
Marketing		✓		✓		✓					✓				✓	

¹ Any senior officer or chair of the board of a major organization.
² Director of a major organization (public, private, nonprofit).
³ Including a Crown Corporation, educational institution, or any nonpublic, nonprivate organization.

Source: Filene Research Institute

Board of Directors Demographic Matrix

	A	B	C	D	E	F	G	H	I
Demographic Variables									
Age – Under 35	X								
Age – 35 – 49 Years		X							
Age – 50 – 64 Years									X
Age – 65 Years and Over			X	X	X	X	X	X	
Gender – Male	X		X		X		X		
Gender – Female		X		X		X		X	X
Ethnicity – African-American	X								
Ethnicity – Caucasian		X	X	X	X	X		X	
Ethnicity – Asian							X		
Ethnicity – Hispanic									x
Ethnicity – Other									
Location – Urban			X						X
Location – Rural		X		X	X	X	X	X	
Location – Suburban	X								

Source: Filene Research Institute

* Credit Unions could define demographic variables that are meaningful to their particular situation, such as, but not limited to:

- Employee groups (legacy sponsor, SEGs, etc.)
- Household income levels (lower, middle, upper, etc.)
- Years as a Credit Union member (less than 5, 5-9, more than 10, etc.)