Credit Union
Directors
NEWSLETTER

December 2021
Volume 47
Issue 12

12 best practices for director development

Experience plays a role in determining board members' growth plans.

Effective board development programs enable credit unions of all sizes to channel their directors' insights and energy.

The goal is to have new directors make meaningful contributions as soon as possible while keeping experienced directors from settling for outmoded ideas, says Kevin Smith, consultant/publisher at TEAM Resources and co-author of "A Credit Union Guide to Strategic Governance."

"We can't expect new directors to sit on their hands and not have input while they learn over the course of years of service," says Smith, who advises adopting formal, written board development plans.

Leaders at three credit unions offer 12 best practices for board development:

1. Recruit lifelong learners. Solarity Credit Union seeks directors with a "growth mindset," says Merrilou Harris, board vice chair at the $832 million asset credit union in Yakima, Wash. "You don't fit on our board if you're not willing to learn, push your ideas, and grow."

2. Require financial literacy. NCUA Rule 701.4 requires directors to understand a balance sheet and be able to ask substantive questions within six months of joining the board. "We have a fiduciary responsibility to provide effective governance and leadership," says Greg Marchant, board chair at $26 billion asset SchoolsFirst Federal Credit Union in Santa Ana, Calif.

3. Appoint associate directors. Associate director programs allow credit unions to prepare future board members. Associates are nonvoting board members who get ready for board service by attending meetings and tapping educational resources.

4. Assign a mentor. Assigning an experienced director to serve as a mentor for an associate director or a rookie director on the full board can pay dividends. Solarity's "board buddy" helps associate directors by checking in by phone or text, sitting beside them at meetings, answering questions, and serving as a trusted resource.

> "BE AGILE AND EVOLVING so we're ready for whatever COMES AT US NEXT."
>
> Greg MARCHANT

5. Be intentional. Use recruitment and development to address specific needs and add desired expertise to the board. First Alliance Credit Union in Stewartville, Minn., hired a consultant to determine the board's "ideal makeup," says Michael Rosek, president/CEO at the $263 million asset credit union.

Conducting a gap analysis helped Solarity

QUICK TAKE for your next board meeting

Digital technologies improve risk management and customer experience

Advanced analytics and digital technologies make providing accurate, safe, real-time customer decisions and a frictionless experience increasingly possible. Seven in 10 businesses say they discuss the use of advanced analytics and artificial intelligence (AI) to better determine consumer credit risk and collections, according to the Experian Global Insights Report.

Digital technology use in past year

Adoption of AI increased from **69% to 74%**

Use of advanced analytics and AI grew from **77% to 81%**

75% of consumers report feeling most secure using physical biometrics

Source: Experian Global Insights Report identify and address areas where the board lacked expertise.

6. Offer flexibility. Solarity requires associate directors to attend asset/liability committee (ALCO) meetings. ALCO meetings are recorded for later viewing by associate directors who have conflicts with their work schedules.

Directors can also use credit union courses to meet continuing education requirements for their professional careers.

7. Follow up. When SchoolsFirst Federal directors attend conferences, they complete post-conference surveys to identify topics to address at future board meetings.

“Capturing that information is essential as those sessions are typically on the cutting edge,” Marchant says.

8. Scale up for size. Credit unions with more than $10 billion in assets must meet additional NCUA and Consumer Financial Protection Bureau development requirements, which may require a more robust in-house program.

9. Consider a consultant. Hiring outside expertise can help you assess whether your board recruitment and development approach prepares directors for current challenges. Rosek says a consultant helped the First Alliance board define the experience and expertise “dynamic” that ensures the board performs well in real time.

10. Keep score. Hold directors accountable for completing individualized development plans. Solarity keeps a scorecard that compares a director’s participation to the plan’s development goals. Harris calls this “gentle accountability” for keeping directors on track.

11. Tap your resources. State leagues and CUNA offer extensive training, materials, publications, and conferences. First Alliance relies on the Minnesota Credit Union Network to provide the framework for its board development program.

12. Stay nimble. Your development plan should be adaptable to emerging trends, an evolving marketplace, and unexpected challenges. The COVID-19 pandemic showed that directors and credit unions can adjust rapidly to changes in both board interactions and credit union operations.

The goal is to be “agile and evolving as we go so we're ready for whatever comes at us next,” Marchant says.

Preparing the board for 2022

4 tips to holding a successful virtual meeting.

The pandemic has brought massive changes to how credit unions hold board meetings. They've gone from traditional monthly, in-person gatherings to video conferences where board members log on from home.

This won't likely change soon. According to a PwC survey, 54% of boards say they plan to keep at least some virtual board and committee meetings, and 34% say directors will have the flexibility to choose how they attend meetings.

During “Preparing the Board for 2022,” a webinar that explored how to run effective board meetings in a virtual environment, OnBoard CEO Paroon Chadha provides four characteristics of successful board meetings:

1. Active agenda. The best board meetings have agendas that are clear and are geared toward accomplishing actions. This will prevent participants from getting distracted and allow them to pay attention to the meeting’s focus.

2. Digital interactions. Create interactions in the virtual board world that mimic the engagement and conversation board members experience in an in-person environment.

3. Intentional hybrid. Meetings with some participants present in the room and others appearing virtually can be difficult, Chadha says. Don’t focus the attention solely on those who are in the room and forget about virtual participants. Include and engage virtual participants.

4. Warm openings. Keep the spirit of the board alive and increase engagement by continuing to include friendly conversation and chit chat. Start meetings with a “warm” opening. Begin with an open-ended question—such as asking directors to list three adjectives that best describe themselves—that allows board members to share information about themselves.

“Create interactions in the virtual board world that mimic the engagement experienced in an in-person environment.”

Credit Union National Association
CUNA

73%

of credit unions with assets of $1 million or more provided variable pay—bonuses and/or incentives—to at least some of their full-time employees by year-end 2020.

Optimize credit union compensation

CUNA
Compensation
RESOURCES

2021-2022 CUNA Compensation Resources provide credit union CEOs and senior executives with data they need to make informed decisions to attract and retain the best candidates in the current volatile labor market. Determine your strategy to meet these needs while staying on budget.

CUNA Compensation Resources provide data from nearly 1,000 credit unions nationwide for 90 job titles, to offer competitive compensation packages.

cuna.org/compensation

Credit Union National Association
CUNA

Connecting credit union board & committee members

CUNA
Credit Union Board of Directors
COMMUNITY

Looking for a way to connect with your fellow board and committee members virtually? Join the CUNA Credit Union Board of Directors Community, an online platform for you to connect with your peers to solve problems and build knowledge to help you in your role.

What is it?

- Online platform to connect you with your peers nationwide
- Ask and answer questions that come up at board meetings
- Participate in discussions on topics that matter to you
- A space to access files for on-the-go resources

community.cuna.org

What to do when you get an activist director

Harness the individual's enthusiasm as an opportunity to focus on process improvement.

When a company fails to deliver on shareholder expectations, investors may look to install new directors who will be more effective.

In the corporate world, these new board members are often called activist directors. These individuals are elected to the board by a block of shareholders who want change.

This often happens when shareholders believe the company is heading in the wrong direction. Activist directors are sometimes met with reservations by other directors.

Activist directors can be found at both for-profit corporations and not-for-profit organizations. They're motivated for the same reasons: Both want to see changes occur in the institution.

When an activist director seeks a board seat, emotions can run high. The current board may be offended that others think they can do a better job.

The activist candidates often must find public fault with the current board to validate their candidacy. How a credit union handles an activist's campaign can be a delicate governance matter.

> "An activist director can bring new energy to a credit union board."

The rise of an activist candidate is not altogether a negative occurrence. A credit union member who identifies weaknesses in the institution benefits the whole membership if their intentions are sincere. Their ideas may initiate a useful dialogue that could lead to better outcomes.

Activist directors also tend to be some of the credit union's more outspoken members. These individuals' passion for the credit union can be a useful catalyst for productive change.

An activist candidate may need information from the credit union to mount a campaign for an open board seat. The candidate may request a list of credit union members, financial reports, and board minutes.

Some state laws give members a right to inspection. Under these statutes, members may legally ask for and receive data needed for their campaign.

Inspection laws often require members seeking information to have a "proper purpose." Court rulings are not specific on what determines a purpose to be "proper."

In general, a purpose that appears to be a fishing expedition and has no justification may be rejected. A purpose that is reasonably connected to an activist candidate's campaign would likely be considered a proper purpose by a court.

Credit union leaders may ask what happens if an activist candidate lands a seat on the board. The new director must receive the same onboarding process as other new directors.

In some instances, an activist director joins a board over dissatisfaction with a single issue. Once elected, the new director learns credit union governance requires attention to many more matters.

Activist directors should be educated on the entire scope of governance responsibilities. This exposure is necessary for directors to live up to their fiduciary duties.

An activist director can bring new energy to a credit union board. The board should harness the new director's enthusiasm as an opportunity to focus on process improvement.

MAURICE R. SMITH *is CEO of Local Government Federal Credit Union and Civic Federal Credit Union, Raleigh, N.C., and chair of the CUNA CEO Council.*

Resources

CUNA board and committee resources: *cuna.org/board*

CUNA Board of Directors Community: *community.cuna.org*

CUNA learning events: *cuna.org/learn*

CUNA News Podcast: *news.cuna.org/podcasts*

Connecting with lawmakers

Build key relationships with lawmakers to advocate and tell the credit union story.

Credit unions across the country work to build better communities. Sharing stories of support is a critical component of Advancing Communities, an initiative launched by America's Credit Unions *(advancingcommunity.com)*.

It's also important to share these stories so lawmakers understand the vital roles credit unions fulfill in their communities.

As a credit union board member for more than 20 years, Illinois State Senator David Koehler is uniquely positioned to understand the credit union difference. He says his board service provided him with a learning experience he has carried with him as a legislator.

"I was always extremely impressed with how well-functioning our credit union was and how the members became the focus of everything. That's such an important aspect of how credit unions work," Koehler says in an episode of the CUNA News Podcast. "That translates into being a legislator because instead of members, you have constituents. It's the same responsibility though. How do my constituents feel? Are we servicing them? Are they getting what they need?"

It's key for credit unions to forge relationships with lawmakers, Koehler says.

"Building a relationship with legislators is important for credit unions," Koehler says. "Credit unions are part of the constituency legislators relate to."

The first step, Koehler says, is to identify your representative and then reach out to arrange a meeting—whether it's in person or via Zoom. These conversations are opportunities for lawmakers to get to know their constituents as individuals.

The conversations also allow people to explain their needs and show they're passionate about being represented by their lawmaker.

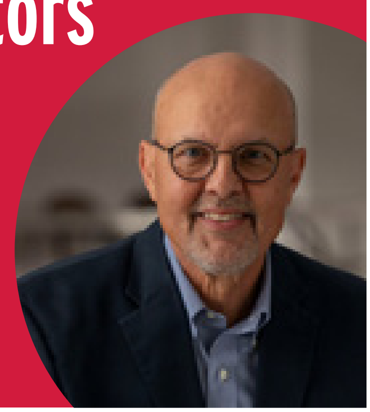
These relationships also are a chance to educate lawmakers about the impact credit unions have in their communities.

Koehler encourages credit unions to continue to advocate for their needs both in Washington, D.C., and in statehouses.

"Continue to do what you do—you're the backbone of our communities," he says. "Families depend upon financial institutions like credit unions to help them fulfill their lives."

"Credit unions are part of the constituency legislators relate to."

David KOEHLER



CREDIT UNION DIRECTORS NEWSLETTER
(ISSN 1058-1561) is published monthly for $150 per year by the Credit Union National Association, 5710 Mineral Point Road, Madison, WI 53705-4454. (Multiple-copy discounts available.) Also available as a downloadable PDF for an annual subscription rate of $737. Periodical postage paid at Madison, Wis.

POSTMASTER
Send address changes to CREDIT UNION DIRECTORS NEWSLETTER, P.O. Box 431, Madison, WI 53701-0431. Advertising is accepted only from reputable firms, but inclusion of advertising does not imply endorsement by the newsletter or CUNA Inc.

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