

Building a Better Board

Recruiting and Improving your Credit Union Board

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Presented By Tim Harrington, CPA

Tim Harrington is a Certified Public Accountant who has worked with Directors and Management teams on issues of Strategy, Governance and Risk since 1988. Since 1996, Tim has been President of TEAM Resources, a firm that provides consulting, strategic planning and training to financial institution personnel from coast-to-coast. Tim is a faculty member of three national financial institution schools on finance, lending, and directors duties. He has spoken to tens of thousands of directors and staff and worked with thousands of financial institutions throughout the US.



What is a Board?

A group of 'peers',

Working on behalf of member/owners,

*Ensuring that the business achieves what
it should,*

*And avoids unacceptable situations and
actions!*

John Carver

Board,

*You can tell a CEO What to Do Or
How to do it...*

But Not BOTH

“What to do” builds leaders

“How to do it” builds followers

Worst Boards

- Focus on something other than Strategic Direction and accomplishment of that direction
- Interfere with operations/ accidentally and/or intentionally
- Tell the CEO how to do (not what to accomplish)
- Holding NO meetings without the CEO present
- No Recruitment committee in place
- Allowing the CEO to handpick directors
- Awarding contracts to family members (conflicts of interest)
- Too many directors on too many boards

A good board can't make a company,

but a bad one will inevitably kill it.

SO.....

Become a better board

Best Boards

- Independent and interested directors
- Remain on level of Strategy and Policy
- Plan with clear and measurable goals
- Monitor plan status regularly
- Hold periodic meetings without CEO present
- Develop effective Recruiting committee
- Avoid Conflicts of Interest and Nepotism
- Evaluate CEO based on achievement of plan
- Compensate CEO based on achievement of plan
- Evaluate their own performance
- Hold each other accountable

To Make it Simple

CEO is charged with running the company

The Board is charged with making sure that the company is being run properly

What has been said of Boards

“Effective governance by a board is a relatively rare and unnatural act.” Chait

“There is one thing all boards have in common...They do not function.” Drucker

“Boards tend to be incompetent groups of competent individuals.” Carver

Building a Better Board

1. A Better Board Recruits
2. A Better Board Nominates
3. A Better Board Evaluates
4. A Better Board “Governs”
5. The CEO and the Better Board
6. A Better Board is Independent
7. A Better Board Speaks with One Voice
8. A Better Board Rewards

A Better Board Recruits

2 methods:

1. **Wait** until someone comes to you and asks to volunteer
2. Identify and **recruit** qualified candidates

Both common, but one is by chance, the other by design.

A Better Board Recruits

- **Establish an Advisory Member position**
 - Invite potential directors to attend meetings
 - Give them a voice
 - Solicit their advice
 - Reward them with dinner or gift for service
 - Don't have to be members
- **Establish a Board Mentor Program**
 - Target members on current committees that show promise
 - Let them attend meetings with Mentor

A Better Board Nominates

- **Establish standing Recruiting Committee**
 - Committee members are assigned to work all year to identify prospects
- Create a 'Needs' matrix
- Make and keep an updated list of potential candidates who fit the 'Needs'
- Reach out to potential recruits

A Better Board Nominates

Nominating (Recruiting) Committee

- People who understand the board
 - Perhaps board members not running for next election
- Identify skills, qualities and experience needed
- Develop checklists and questionnaires
- Eliminate prospective candidates who do not meet criteria...This is a tough, demanding position

A Better Board Evaluates

An existing board can be improved thru:

- 1. Election process** (doesn't work)
- 2. Term limits** (don't work)
- 3. Self-evaluations** (Works! But tough to get boards to do this)

Boards tend to not want to hold themselves accountable. But this is **CRITICAL!!!**

A Better Board Evaluates

Evaluations

“Board evaluations are not important to board governance. They are ESSENTIAL to board governance.”

John Carver

Individual director assessments are widely recognized as a corporate governance best practice. This was recommended by the Conference Board’s 2003 Commission on Public Trust and Private Enterprise

A Better Board Evaluates

Evaluations

- ✓ Evaluation of Board as a Whole
- ✓ Evaluation of individual members by Peers
 - ✓ Peer evaluation of each director
 - ✓ Self-evaluation on same questions
 - ✓ Analysis of self versus peer results
- ✓ Evaluation of Board Meetings

A Better Board Evaluates

1. Define performance criteria for each Board member
2. Board should periodically conduct peer evaluations tied to criteria
3. If there is no change in behavior based on peer evaluation, it's time for the group's chairperson to step in and counsel the dysfunctional Board member
4. If the Board member is still exhibiting dysfunctional behavior, they should be voted off the Board per the group's by-laws.

Board meeting time is too precious and life is too short to let dysfunctional Board members continue to plague the Board.

Working Board	Managing Board	Governing Board	Ratifying Board	Failing Board
No CEO or Acting CEO	Board assumes CEO needs help running org	Competent CEO and experienced staff that knows more than board	Hire a good CEO and stay out of his/her way	High board turnover
Small CU	Board involved in minutiae, manager of CEO	Clear division between Ops and Governance	Organization OK but board in decline	Financial soundness issues
Board doing job of CEO	Board assigns tasks to CEO	Focused on Board Work, concerned with values	Board approves what CEO brings	Strife and distrust among board and staff
Focus on day-to-day operations	Board hands on and proud of it	Operates on future/strategic level	Out of touch, complacent, delegating Gov.	Looking to the past, way behind staff
Short time horizon	Focus on administration & Ops	Delegates Ops to CEO	Stale policies, little accountability	Not strategic, crippled by politics
Primary role is operations	Primary role is making decisions	Primary role is setting policy and general direction	Primary role is supporting CEO, rubber stamping	Primary role of board is keeping perks

A Better Board Evaluates

What do you do after evaluations

If they are all good?

- Pat yourself on the back and celebrate
- Check your level of honesty

A Better Board Evaluates

What do you do after evaluations If they are not so good?

- Meet with member who is falling short
- Explain to him or her what areas they are weak in
- Help them find education/conferences in that area
- Monitor that area ongoing

“There seems to be general agreement that once a performance issue has been brought to a director’s attention, fairness dictates that he should be given an opportunity to remedy the situation. However, if the problem persists or simply can’t be resolved, then the board leader must manage the process so that the director can depart with dignity.”

Recommended Committees

Governance

CEO Relations

Recruiting/Nominating

Supervisory (required by regulation)

Recommended Committees

Governance Committee

Develop Governance Policies for board approval

Keep Governance Policies up to date

Ensure board members obtain necessary education

Ensure board evaluations and self-evaluations are completed annually

Keep Governance Calendar and keeps board on schedule

Hold board members accountable for their self improvement

Recommended Committees

CEO Relations Committee

Remain in touch with CEO on important issues

Ensure the board evaluates the CEO at least annually

Monitor and plan CEO Compensation issues

- Salary via comparison or other process

- Retirement

- Incentive compensation – linked to Strategic Plan

Work with CEO on Annual Strategic Planning Process

Recommended Committees

Recruiting/Nominating Committee

Actively identifies and recruits potentially qualified candidates

Review evaluations of board members

Annually reviews potential board candidates and nominates qualified candidates

Responsible for orientation of new board members

A Better Board “Governs”

- Oversees and guides the credit union so that the members’ assets are as safe and productive as possible.
- Hires/replaces CEO
- Provides supportive oversight between hire/replace
- Remains independent of CEO and management

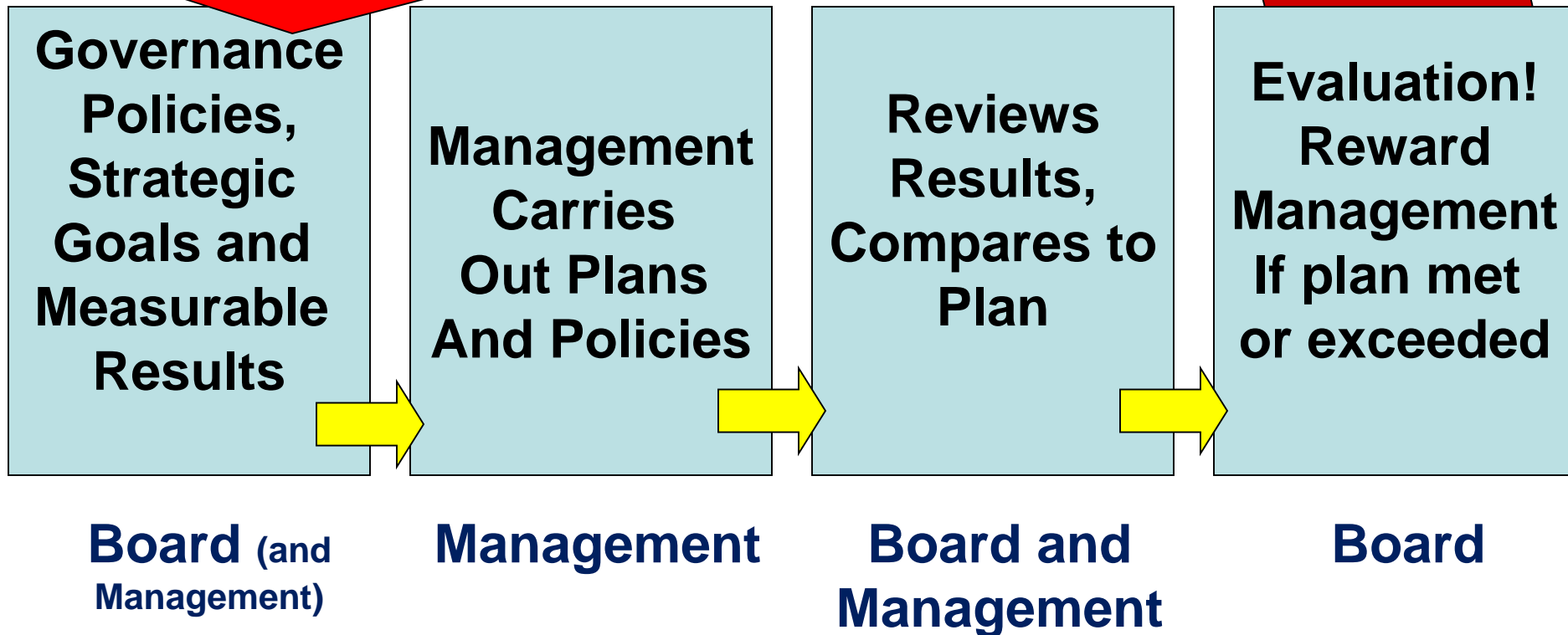
The role is to govern, not to operate the credit union

A Better Board “Governs”

- Establish clear expectations (Plan)
- Check whether those expectations have been met (Measurement and Evaluation)
- Respond appropriately to the results
- Tie CEO compensation to long-term success of company

Start all over again!

The Governance Process



Governance is working

“Outside the Box”

Purpose, Mission,
Values, Plans, Goals,
Policies



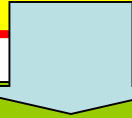
**Operations at the
control of
CEO**

Member survey
Staff survey
Mystery Shops
Fraud hotline

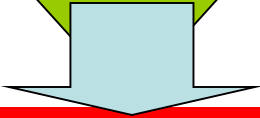
Monthly reports
Dash board
Other reports
Competitive
analysis

External Audit,
Internal Audit
Regulatory Exam

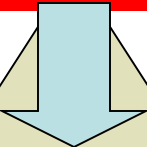
MEMBERS



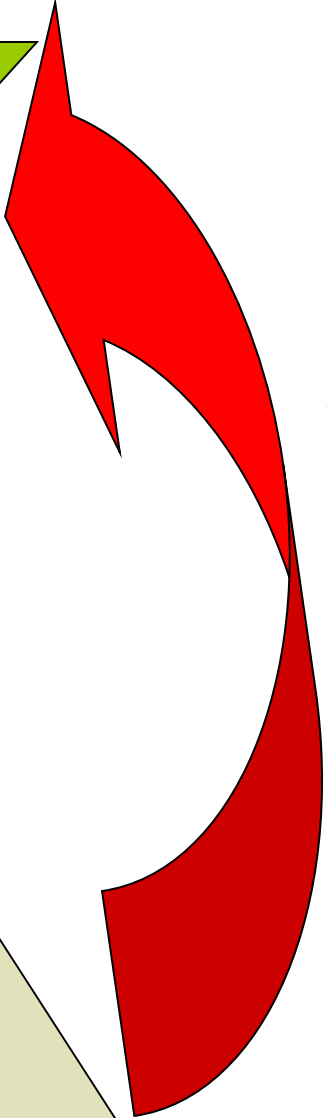
Board



CEO



**Credit
Union
Operations**



Accountability
and Feedback

A Better Board “Governs”

- CEO is the single point of delegation from the Board
 - Board has one employee
 - CEO has one boss, Board as a ‘whole’
- CEO is accountable for meeting the Pre-established expectations (Ends - Goals)
- CEO must be delegated all the authority needed to match this level of accountability (Means)

A Better Board “Governs”

- Board ensures that ENDS are determined
- CEO selects the MEANS within certain parameters of legality, ethics, conscientiousness and policy limits.

“Whoever is directly responsible for achieving the ends must decide which means to use.”

John Carver

Ends and Limitations

- Purpose
- Mission
- Values/Limitations
- Strategic Plan with Measurements
- Policies
- Laws and By-Laws
- Ethics and Conflict of Interest Policies

The Better Board and the CEO

- A zealous, over-conscientious board can micro-manage
- A trusting board can become a rubber stamp
- The key is finding the Right Balance



The Better Board and the CEO

The Board and the CEO must trust each other and get along.

If not, somebody must leave.

Let's make sure the most competent stays.

The Better Board and the CEO

- Board oversees and governs the credit union
- The CEO operates the credit union
- Boards need to define what information they need to ascertain that the credit union is heading in the right direction
- But, Boards need to make sure they do not step into managing the credit union
- CEO is always accountable to the Board

The Better Board and the CEO

- Set measurable goals or Reality Checks
- Make sure they are fair and achievable
- Make sure goals are Balanced
 - Balanced Goals approach
- Use these goals as part of CEO Evaluation
- Make sure that no unethical practices are tolerated to reach goals
- Reward long term achievement of goals
 - Links CEO to the Plan

A Better Board is Independent

Boards should meet regularly WITHOUT the CEO present – in Executive Session

- Gives board time to discuss board (governance) issues
- Allows candid discussion that may be stifled with CEO present
- Allows Boards to recognize their independence

BUT:

- Should be focused on Governance Issues (not operational issues)
- Inform the CEO what the meeting generally covered
- This is not a 'get the CEO' session
- Keep general minutes

A Better Board is Independent

What might be discussed in an Executive Session

- CEO Standard issues:
 - Evaluation of the executive director, and establishing the executive director's salary
 - Review of salary schedule, compensation policy, etc.
- Annual meeting with the auditor
- Conflicts between two board members, or serious criticism of a board member by another
- Investigation into concerns about the CEO or a report from a management consultant

Share the agenda with your CEO

Chair should update the CEO afterwards on the nature of the discussions

Board Speaks with One Voice

Statements by individual board members
have NO AUTHORITY

Board speaks authoritatively when it passes
an official motion or makes an official
strategy

One Voice or None at All

Linkage example

“Only officially passed motions of the Board are binding on the CEO. Individual Board Member requests or comments will not be considered as binding. Individual board members are peers of the CEO, nothing more.”

PUT THIS IN POLICY

Board Speaks with One Voice

Of key importance is that Board members should agree to support all Board decisions...

...not just the ones they agree with.

When a Board member says “Well, I voted against it, but they out-voted me” it kills a Board’s effectiveness and dramatically reduces the chance that decisions will be implemented.

Every Board member should memorize the following statements when they communicate Board decisions:

1. “We thoroughly discussed the issue...”
2. “The Board agreed it was the right thing to do...”
3. “I plan to support the decision...”
4. “And you should too.”

A Better Board Rewards

If CEO performs at minimum acceptable levels, CEO should get paid.

If CEO performs at a high level, CEO should get paid more.

If CEO doesn't meet minimum level, there should be consequences.

Balanced Goals Approach

Establish a group of Balanced Goals that, if all reached, will lead to stable, healthy growth.



Unbalanced Goals

If Goals are set without proper balance, achieving the goal could actually lead to trouble.



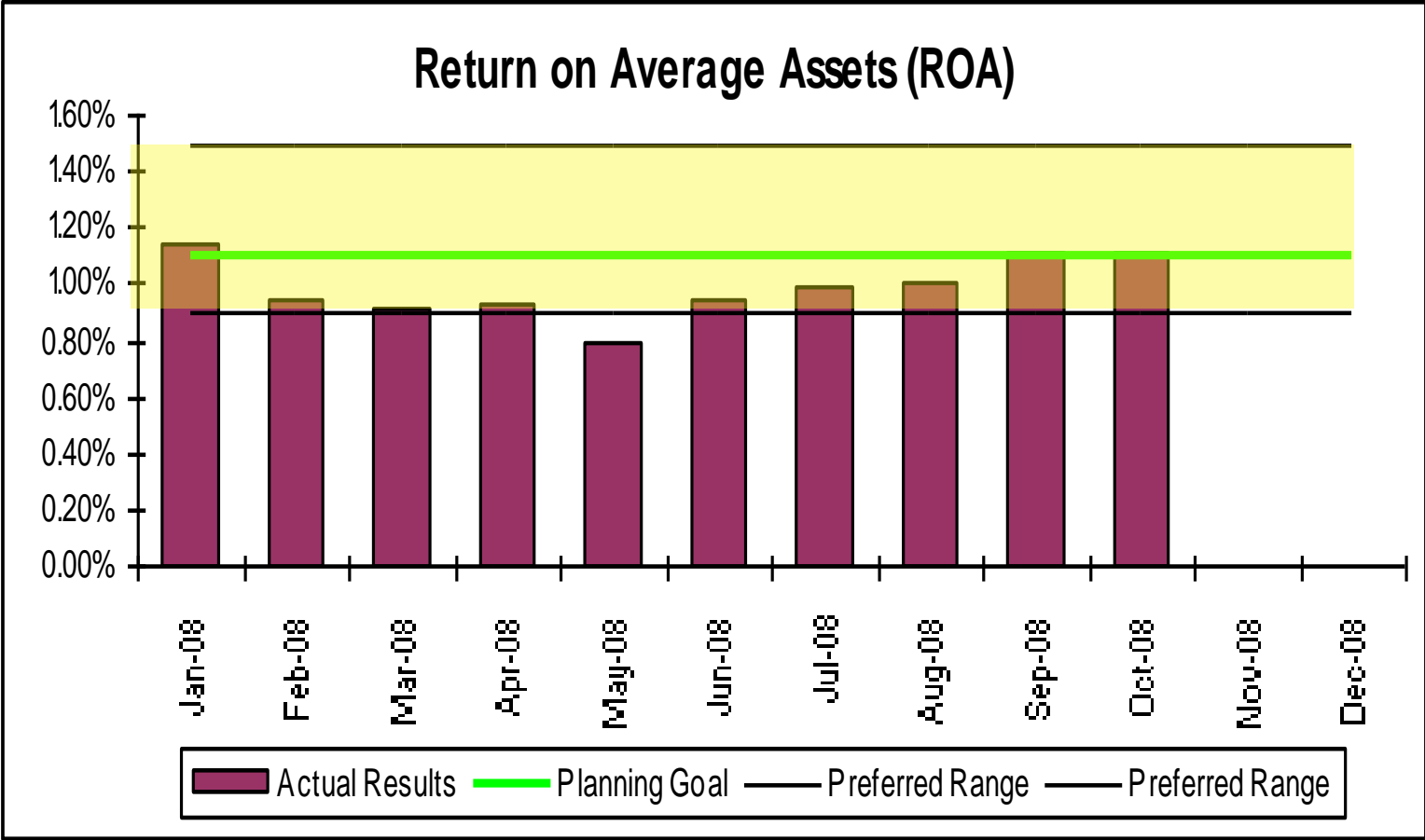
Balanced Goals Approach

PERFORMANCE AREAS		1			2			3			4			5			6			Loan Share		
RANKING		2nd			1st			2nd			2nd			1st			2nd			1st		
Weighting		8.5 Points			12.5 Points			8.5 Points			8.5 Points			12.5 Points			8.5 Points			12		
YTD 2013		13.06%			1.16%			6.11%			77.02%			4.10%			\$9,447			58.2		
2013 Strategic Goals		12.50% or more			1.00% or more			5.95% or less			77.50% or less			2.25% or less			\$9,500 or more			57.0		
	X	12.90%	10	10	X	1.10%	14	14	5.85%	10	-	X	77.00%	10	10	2.20%	14	-	9,600	10	-	59.00
		12.80%	8.5	-		1.00%	12.5	-	5.90%	8.5	-		77.50%	8.5	-	2.25%	12.5	-	9,500	8.5	-	X 58.00
		12.70%	6	-		0.95%	7	-	5.95%	4	-		78.00%	4	-	2.30%	7	-	X 9,400	4	4	57.00
		12.60%	4	-		0.90%	4	-	6.00%	2	-		78.50%	2	-	2.40%	4	-	9,350	2	-	56.00
		12.50%	0	-		0.85%	0	0	6.05%	0	0		79.00%	0	0	2.50%	0	0	9,275	0	0	55.00
		12.40%	(2)	-		0.80%	(3)	-	X 6.10%	(2)	(2)		79.50%	(2)	-	3.00%	(3)	-	9,200	(2)	-	54.00
		12.30%	(4)	-		0.75%	(5)	-	6.15%	(4)	-		80.00%	(4)	-	3.10%	(5)	-	9,100	(4)	-	53.00
		12.20%	(6)	-		0.70%	(8)	-	6.20%	(6)	-		80.50%	(6)	-	3.20%	(8)	-	9,000	(6)	-	52.00
		12.10%	(7)	-		0.65%	(10)	-	6.25%	(7)	-		81.00%	(7)	-	X 3.30%	(10)	(10)	8,900	(7)	-	51.00
Actual 12/31/12		12.53%			1.37%			6.05%			78.96%			2.36%			\$9,278			55.0		
Peer at 9/30/12		10.88%			0.49			5.86%			N/A			1.83%			N/A			60.48		
MAXIMUM BONUS = 15% OF NET PROFIT																						
NET PROFIT		\$907,954																				
15% (Maximum)		\$136,193																				
Percent eligible		66.5%																				
BONUS		\$ 90,568																				
(1)		ROA not including the Corporate Stabilization expense and does include the Bonus accrual																				
Note:		x is placed in front of the result that it is closest to.																				

Better Board's Dashboard

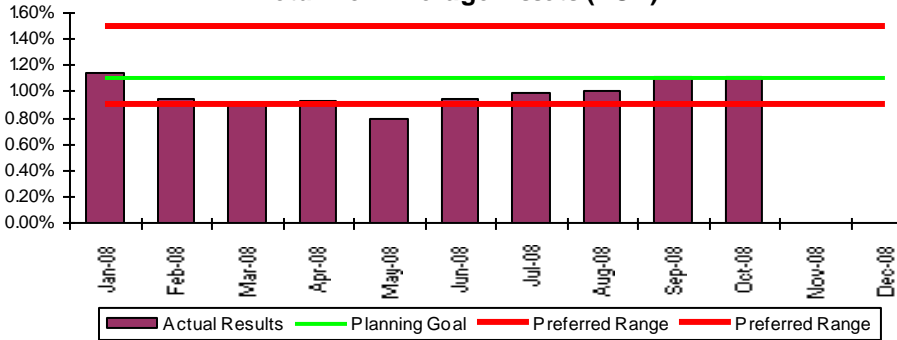


Monitoring Financial Goals - Graphs

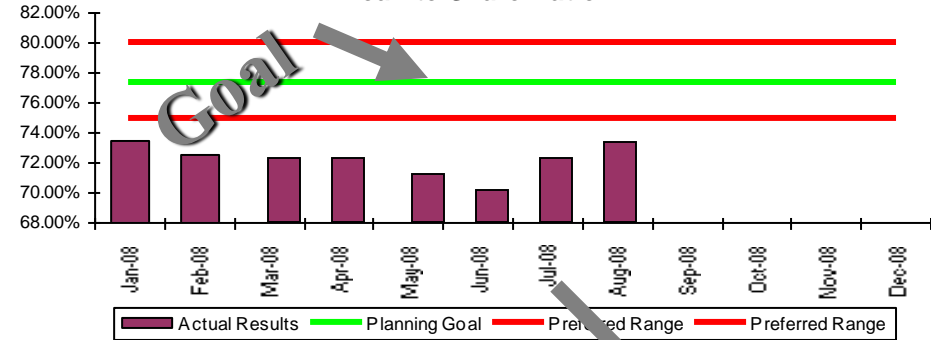


Using an Instrument Panel to Govern

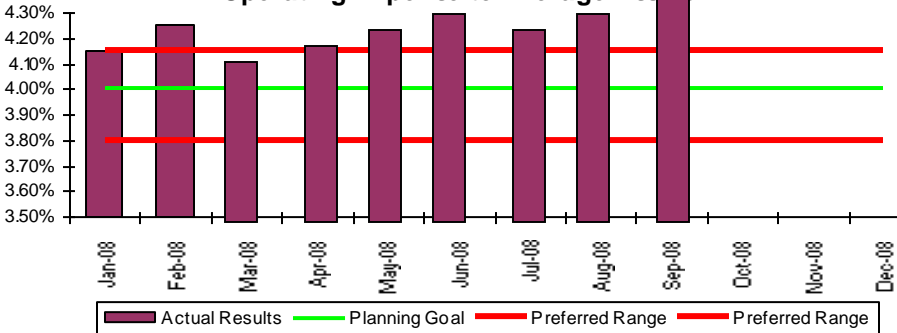
Return on Average Assets (ROA)



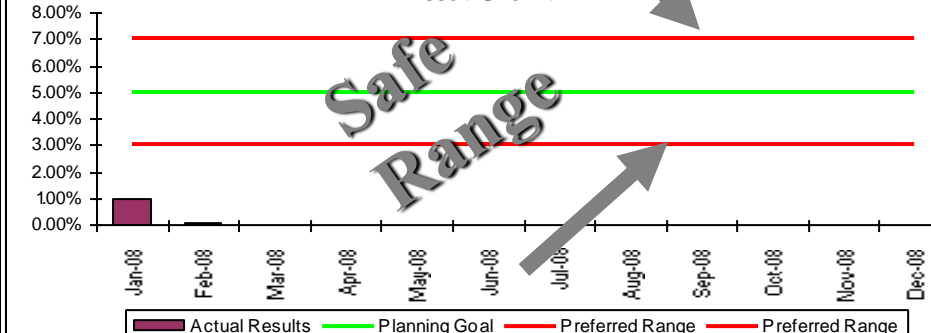
Loan to Share Ratio



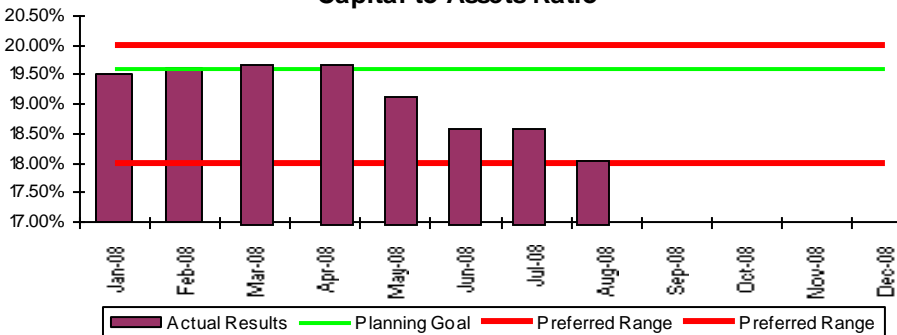
Operating Expense to Average Assets



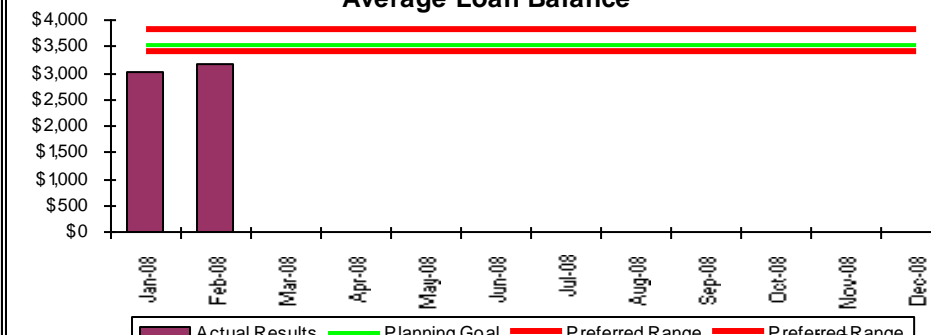
Asset Growth



Capital to Assets Ratio



Average Loan Balance



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Go into Products/Free Downloads and select:

- DashBoard template
- Board of Directors evaluation form
- Board meeting evaluation form

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