BOARD SUCCESSION PLANNING

// KEY TO STRONG LEADERSHIP AND SUCCESSFUL CREDIT UNIONS

CUNA Credit Union National Association

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Introduction

The third white paper produced by the CUNA Volunteer Leadership Committee tackles the challenges of succession planning for boards. Boards need to be prepared to replace members whether it's due to emergency, term limits, or attrition.

It's important for boards to emphasize continuing education as they craft onboarding programs that set new directors up for success. Boards also need to commit time for self-reflection and evaluation. Consider using skills assessment tools like the ones Unitus Community Credit Union has to select strong board members.

"Building an excellent board is more art than science. There is no magic combination of expertise, personality, and demographics that will guarantee effective decisions or good governance," says Matt Fullbrook of David & Sharon Johnston Centre for Corporate Governance Innovation. But his research shows doing nothing is the worse option.

Are You Prepared?

Imagine for a moment you, as chair of the credit union's board of directors, receive this phone call from the credit union's CEO:

"Hello Bob? It's Mary. From the credit union. I'm so very sorry to let you know that we've received word four of our board members traveling to the league's convention have been seriously injured in a traffic accident. It's dreadful."

An unlikely scenario for your credit union? Possibly.

But are you prepared for even one or two directors abruptly unavailable for service because of an accident, serious illness, an untimely death, or on a happier note, a winning lottery ticket and a move to that proverbial tropical island?

Are you prepared if, for whatever reason, a director simply decides to not seek reelection?

Why You Need a Plan

Chances are, your board and management team have devoted a great deal of time and attention to a succession plan for not only your CEO, but also for key positions within the credit union.

According to Kim Santos, director of credit unions for the Wisconsin Department of Financial Institutions, lack of a succession plan has been a leading cause of mergers by smaller credit unions. She notes there are no specific requirements for board succession planning, but for Wisconsin's state-chartered credit unions, an open position must be filled within 60 days.

For federally chartered credit unions, there isn't a set time period to fill the vacancy. It is "as soon as possible," and only until the next annual meeting, according to Nancy DeGrandi, CUNA federal compliance information and research manager. The Federal Credit Union Act simply states: "Any vacancy occurring on the board shall be filled until the next annual election by appointment by the remainder of the directors."

For federally chartered credit unions, Article 4, Section VI of Appendix A to Part 701 does provide for the following: If all director positions become vacant simultaneously, the supervisory committee immediately becomes the temporary board of directors and must follow the procedures in Article IX, Section 3. The supervisory committee acting as the board may not act on policy matters.

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> **— Federal Credit Union Act**

If your credit union doesn't have a board succession plan—not just in case of emergency—how can you ensure your board is in a position to best represent the membership's interests?

Always a Need vs. No Need

Ynette Gibbs, CEO of $15 million asset Newrizons Federal Credit Union in Hoquiam, Wash., believes very few credit unions pay attention to board succession planning. "They either struggle

Using Associate Directors to Build a Bench

Some credit unions are using associate director programs where members serve limited terms with limited responsibilities. At Arvada, Colo.-based Sooper Credit Union, associate directors are appointed by the board for a one-year term and can serve an additional year, says President/CEO Dan Kester.

Sooper's bylaws allow two associate directors to serve simultaneously. Associates attend meetings but don't have a vote. They are expected to attend educational sessions each year.

Kester points out there's a lengthy learning process for board service, with the acronyms alone providing a challenge. "It's good to have people ready," he says, "but we have had individuals who decided it wasn't a good fit and left after one year as an associate."

SUCCESSIONapp CEO Yvonne Evers notes it's now common to have an associate director process in place. "Being an associate board member gives the person the opportunity to see what it would be like to be a board member, especially in terms of the time required," she says. "I worked with a credit union, where the youngest and newest board member decided she couldn't serve longer than one three-year term because of family obligations. She didn't realize how much time she needed to dedicate to her board role."

If a credit union has term limits, an associate director can see a path to becoming a board member, says Sally Myers, principal at c.myers.

At True Sky Credit Union, the associate director position has evolved, reports Vice Chair Judy Richey, who was an architect of the $613 million asset credit union's program. "When we started, it was like a first child, we didn't let them do anything," she says.

Now, associates actively participate on the board, and of the current seven directors, four have come from the ranks of associate directors. "We had a board member who passed away, and the associate director appointed to fill the vacancy could hit the ground running," says Richey of her Oklahoma City credit union. Associates serve one-year terms, and if it's been successful, they can be reappointed.

Richey notes that while the credit union hasn't experienced any problems of a bad fit, the one-year term provides an opportunity for a nonrenewal if things weren't working out.

Associate directors should sign the same confidentiality, conflict of interest, code of ethics, and code of conduct documents as directors, stresses iConsult's Charles Dallas.

Make sure your governance policies spell out what's expected, for example, attendance and participation in board meetings (but no voting powers nor attendance at executive sessions of the board), committee assignments, attendance at appropriate conferences or seminars, and completion of the same educational courses assigned to the board.

Service on an audit or supervisory committee is often used as a path to the board. Unitus Community Credit Union Board Chair Frank Chinn, for example, served on the audit committee for the $1.2 billion asset credit union in Portland, Ore., for one year prior to becoming a board member.

Ynette Gibbs, CEO of $15 million asset Newrizons Credit Union in Hoquiam, Wash., notes that service on the supervisory committee helps potential board members learn the numbers prior to taking on the strategic mindset as a director.

finding board members, or they have directors who never want to leave," she says. "They feel there's always a need or there's no need."

She points out if the board becomes too much like a family, directors don't want to leave. "It can be a curse and a blessing," she says, "and definitely, a challenge."

Board succession should be a concern for credit unions, says Judy Richey, board vice chair of $613 million asset True Sky Credit Union in Oklahoma City. "It's always in the back of your mind, but time can be a barrier with all the other things on your plate," she says.

Yvonne Evers, CEO of SUCCESSIONapp LLC, also served on the board of Madison, Wis.-based University of Wisconsin Credit Union (UW CU) for 20 years. She's seeing credit unions increasingly considering board succession planning.

Evers notes 10 years ago, hardly anyone was thinking about director succession planning until someone announced a departure.

"First of all, many long-term directors don't feel there will be any problems finding new directors because they haven't had problems finding them in the past," she says. "However, when I am speaking to groups, I find recruiting new board members is the No. 1 concern."

Evers says a common barrier that prevents boards from doing succession planning is that some board members feel like the process is just trying to get rid of long-term or "older" board members or judging their skill level.

"In actuality, it's about being ready for inevitable turnover and knowing what skills to look for in future directors," she says. "The majority of credit unions I work with find out they are going to have massive turnover in a short period of time. That's when they say, 'I'm glad we are doing this planning.' Most of them are pretty surprised when we model out their futures."

Forcing Turnover

Some credit unions use term limits or age limits to ensure that board vacancies occur. The 2015 Filene Research Institute report "Entrenched or Energetic: Improving Credit Union Board Renewal" found 18% of respondents had implemented term limits and 5% had age limits. A follow-up 2018 report, "Formalizing the Art of Board Composition," found 28% of its respondents had term limits, and 6% had age limits.

Other credit unions believe that these limitations are unnecessary restrictions.

According to the 2015 Filene report, "Such policies are often unpopular with boards of directors as they force fully capable—and sometimes hugely valuable—directors from the board based on factors that have nothing to do with their effectiveness."

Warns Sally Myers, principal at c.myers, a Phoenix-based consulting firm: "With term limits, valuable board members with experience can be forced off the board—to be replaced with inexperienced board members."

She stresses term limits shouldn't be used as a tool for effective board management. "In other words, they shouldn't be used as a vehicle to 'manage out' unproductive board members," Myers advises.

However, term limits can promote strategic discussions of what the board of the future needs to be to drive the strategy of the credit union, she says. "Term limits can help inform an active recruitment strategy and make board service more desirable as the time frame is limited."

Portland, Ore.-based Unitus Community Credit Union instituted term limits for its board to four three-year terms in 2014, reports Board Chair Frank Chinn. "Serving as a board member isn't necessarily a job for life," he says.

> "Don't be afraid to make **demographic diversity** an explicit **priority."**
>
> **— Matt Fullbrook**

The $1.2 billion asset credit union does have an emeritus board position, providing for an additional three-year term. Emeritus directors can also re-apply for a board seat after a one-year break. "Term limits can bring new life and new thoughts to the board," Chinn says.

According to President/CEO Dan Kester, Arvada, Colo.-based Sooper Credit Union also has term limits of four three-year terms. "The board imposed the limits on itself after attending a conference, noting directors' average ages, and vowing 'that's not going to happen here,'" Kester says.

To ensure the board's institutional memory, the board of the $400 million asset credit union has an emeritus position, Kester explains. This director can serve an additional three-year term, serving on committees, participating in discussions, but not voting. "The emeritus director helps with onboarding and serves as a mentor to new directors," Kester says.

Term limits help reduce the risk of a board becoming too comfortable and evolving into a rubber-stamp board, says Charles Dallas, president and owner of iConsult based in Shawano, Wis.

Sooper's Kester agrees. "Term limits can force difficult conversations to take place," he says. "Boards can get comfortable and find it hard to police subpar performance. Term limits keep boards fresh, and new people can help keep the board dynamic."

According to the 2015 Filene report, "the accumulation of institutional knowledge is critical to board effectiveness, but so is regular director turnover. These two realities are difficult to balance."

Author Matt Fullbrook, who is manager at the David & Sharon Johnston Centre for Corporate Governance Innovation, followed up with "Formalizing the Art of Board Composition."

He notes: "To be fair, the issue here isn't really about tenure. It's about credit union boards refocusing on the needs of the credit union rather than the feelings of individual board members."

Fullbrook points out directors don't suddenly become ineffective simply because they have hit some arbitrary tenure marker any more than new directors are excellent simply because they are fresh off the shelf.

"However, the general lack of board renewal in the credit union system is largely a result of a dearth of formal process and a lack of willingness to make difficult personal decisions," Fullbrook writes.

UW CU doesn't have term limits, but attention is paid to assuring the right people with the right skills are in place to confidently lead the credit union forward, according to Marion Brown, board secretary of the $3 billion asset credit union.

Each year, directors are asked to write down when they think they will be ready to leave the board, then the board lines up skill sets to map out how gaps might be filled. Evers led the process planning and development along with the board's Development Committee.

UW CU has used it for the past six years. "It's proven to be surprisingly effective and is helpful when recruiting younger directors," she says. "The plan allows for flexibility, and if needed, directors may be asked to extend their terms."

Onboarding and Continuing Education

If you're a long-term director, it's easy to forget the steep learning curve board service requires. You now speak credit union fluently, from ALM to ZIRP. But new directors joining the board may need to not only learn the lingo, but also understand how the credit union goes about serving members, its key business partners, financials, and much more.

For example, Unitus Community's orientation packet for board and committee members is extensive, with some 50 pages reviewed in a two-hour session prior to a board meeting.

Continuing education is also stressed with board members encouraged to attend two conferences each year, in addition to CUNA's Governmental Affairs Conference, according to Chinn.

In his 2018 report, Fullbrook notes that development dollars should be tied to credit union strategic objectives. He recommends defining expectations by requiring board members to provide a summary of the development sessions they attend, recommendations for the credit union, and/or a network of new contacts the credit union should pursue.

That's the case at Unitus Community, Chinn says. "Directors are given plenty of notice about what conferences are available, and they are expected to make an effort to attend. When they report back on the conference, they describe what they think can we use at Unitus," he says.

How Are We Doing?

At your monthly meetings, your board reviews management's reports and the credit union's financials: capital and loan-to-share ratios, delinquency rate, net income, and more.

Among other items, you also may go over concentration risk profiles, get reports on the action steps stemming from your strategic plan, and hear committee reports. There may be an educational component, such as an economic update or Bank Secrecy Act training.

All of these provide a sense of how the credit union is doing and are part of your fiduciary responsibilities as a board member.

But are you also taking the pulse of how the board is doing? The basic purpose of self-assessment is to answer the question "Are we doing what we said we will do?" If the answer is "not really" or "mostly," what can be done to improve performance?

According to the 2015 Filene report, only 40% of respondents conducted formal board evaluations. In Fullbrook's 2018 report, he found little improvement with a new set of respondents.

But evaluations can identify strengths and areas where improvements can be made. They can help you understand where you are, and where you need to be. Evaluations identify skill gaps in the board's current composition and ways to fill them in future boards.

At Unitus Community, the board regularly conducts three evaluations: one for the board as a whole, a self-assessment, and a peer evaluation. Additional samples can be found online by searching on "board evaluation forms" and "self evaluations and board of directors." For quick check-ins, use online survey sites such as surveymonkey.com, typeform,com, or sogosurvey.com. All have a basic, free account as well as more-feature rich options for a fee.

If your board has never undertaken a self-evaluation or performed peer evaluations, there may be some directors who are reluctant to participate. Those in the "if-it's-not-broke-don't-fix-it" camp may view a self-evaluation as unnecessary. Some may feel threatened or defensive about any weaknesses the evaluation may reveal.

To overcome objections, the board chair should emphasize how unless the board recognizes where improvements may be needed, the credit union's members aren't getting the representation they deserve.

When budgets allow, engage a third party to conduct a confidential survey, interviews, or a focus group to find the areas board performance can be significantly improved. The interviews allow open-ended questions such as:

- **What** are the major risks facing the credit union?
- **If** you could change one thing about this board, what would it be? Why so?
- **What** do you feel the board should focus on in the next year?
- **What** should be the board's top priorities?

Because a third-party survey emphasizes anonymity, directors may feel they can speak more freely and obtain more valuable insights.

Evaluations are key to understanding what a high-functioning board looks like and to understand if your board is doing the best job it can in serving the membership.

Adds Fullbrook, a yearly evaluation of each board member's effectiveness can "prevent the entrenched board member problem and keep board members accountable for their performance."

Recruit, Recruit, Recruit

In real estate, it's location, location, location. For boards with a viable succession plan, it's recruit, recruit, recruit.

And it's constant. President/CEO Jenni Strama of $70 million asset Hayward (Wis.) Community Credit Union points out that if a prospective board member is required to have been a member for at least a year, and your nomination committee is only working out six months that could be an issue. "Start earlier than you think you need to," she recommends.

Before you can recruit, however, you need to understand the types of individuals you believe would best serve your membership. Filling any position—be it human resources hiring a new member service representative to your nomination committee selecting candidates to stand for election—requires describing the duties, responsibilities, and desired skills.

An application and job description are essential tools to gain this information. For example, on its website, Unitus Community provides a list of desired characteristics the ideal candidates possess including the ability to think strategically and work well with others. A downloadable application is posted to the site.

Dallas notes that credit union staff can be helpful in recruitment. "They know the people who've been members a long time, and who are using the credit union's services," he says.

He also recommends looking to groups that develop community leaders. "Most larger cities have these organizations," he says. In more rural areas, they may be county-based, or even statewide. (To find one, search on "leadership" and your community. For example, "leadership Minneapolis," "leadership Monroe County," or "leadership Maine.")

In the 2015 Filene study, 85% of boards in its sample reported using a nominating committee to identify new board members. "When selecting new board candidates, this committee relies on word of mouth from current directors and staff and also draws candidates from non-board committees," the report notes.

But relying exclusively on this type of recommendation can lead to the recruitment of new members similar to incumbents, which can lead to a lack of diversity, the report points out.

"Start **earlier** than you think you **need** to."

— Jenni Strama

While birds of a feather may enjoy their friendships and working together, the result can be the board doesn't necessarily reflect the credit union's membership and may not have the right combination of skill sets and competencies to move the credit union forward.

Fullbrook adds, "Instead of identifying candidates from within the personal networks of board members and staff, try formalizing your outreach beyond who you know. If an accountant is resigning from your board, don't default to finding another accountant regardless of her or his personality, style, and leadership strengths or weaknesses.

"Don't be afraid to make demographic diversity an explicit priority. At the very least, it will force your board to try new things," he says.

When its manufacturing firm sponsor closed its doors, Newrizons converted to a community charter, then sought and received low-income and community development financial institution status.

"All of our board members were from our original sponsor, and they all knew each other," Gibbs says. "The charter conversion was the genesis of change: we knew we had to have people on the board who represented the membership.

We invited members to sit in on board meetings, to watch what goes on behind the curtain, and get them interested in a board position."

It's up to your credit union to identify what you view as qualifications for service. But be wary of pigeon-holing directors. While there can be benefits to having "experts" on boards, there is a danger in overemphasizing recruiting for "experts" in specific areas, warns Myers because boards run the risk of stifling the thoughts of others with broad expertise.

"Other board members may assume the 'expert' knows it all, which can lead to filtering decisions through one person's experience," she notes. "This limits the depth of thought and also puts too much pressure and responsibility on that one person, 'the expert.' We believe it is better that boards focus on understanding their unique business models so they can ask relevant questions to help ensure the vibrancy and viability of their credit union."

Unitus Community's Chinn notes its skills assessment tool plays a role in recruitment. "Although we have a diverse board, there may be professional or experience areas that may need to be strengthened as we recruit new board and/or audit (supervisory) committee members," he says. "The skills assessment is another tool the nominating committee can use in addition to applications, recommendations, and interviews to select strong board members."

In her work, Evers has found that when they focus on it, credit unions are attracting younger and more diverse board members when they are actually doing the work of succession planning. They're not only looking at the types of competencies and skills they would like on their board, but also looking at the diversity they currently have and need for the future.

She notes some credit unions have been successful using a "job fair" type event. People are invited to attend an event to learn more about being a board member, and they hear from current board members about their experiences.

> "Succession planning is even **more important** when you have a **younger board."**
>
> **— Yvonne Evers**

Another successful technique often used by nonprofit boards is to invite community leaders to a coffee or cocktail hour not to specifically recruit them, but to ask for three to five names of people they think would add value to your board. Your nominating committee now has a list of potential candidates, and by drafting off these referrals they are like bicyclists who save 40% of their energy by riding in a peloton.

"I think more credit unions are realizing that younger board members are busy with their growing families," Evers says. "Therefore, they won't commit to board roles if meetings are lengthy."

Tools such as board portals, consent agendas, video conferencing, and other technology can make governance more efficient and effective.

"Succession planning is even more important when you have a younger board because it's likely younger board members won't serve on the board for as many years as we have seen for past board members," Evers points out.

Your Board's Success-ion Plan

It's important to remember that "success" and "succession" are members of the same word family. A board succession plan is as critical to the long-term success of your credit union as a management succession plan.

From his research, Fullbrook concludes: "Building an excellent board is more art than science. There is no magic combination of expertise, personality, and demographics that will guarantee effective decisions or good governance."

But his research shows doing nothing is the worse option.

UW CU's Brown advises to not be afraid of change, but don't go too fast, and don't make too many changes at one time. "Pay attention to your process, and trust it," she says.

Appendix

Credit Union National Association, cuna.org/board, Certified Credit Union Board Member certification

Yvonne Evers, SUCCESSIONapp.com

Filene Research Institute, Formalizing the Art of Board Composition (video),
Formalizing the Art of Board Composition (PDF discussion guide)

Unitus Community Credit Union, Serving on Our Board of Directors, Board Candidate Packet Request

About the author

Lucy Harr is an experienced writer, editor and public relations consultant, with a passion for credit unions who live in Stoughton, Wis. She is vice chair of the Madison, Wis.-based Heartland Credit Union; a white-knuckled sailor who once served as commodore of a sailing club, and an avid curler who is chairing a 75th anniversary celebration committee for the U.S. Women's Curling Association.

