

# Governance: Art or Science?

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## About DDJ Myers

- **Founded:** 1989
- **Third Generation Serving Credit Unions**
  1. Executive Search
  2. Advancing Leadership Institute
  3. Strategic Organization
- **Philosophy:** Leadership from Within
- **Team:** Advanced practitioners and scholars providing customized development opportunities and processes

# Today's Conversation

1. Governance Perspective
2. Systematic Approach
3. New practices to take home

# Increased Scrutiny and Challenges

Every credit union should be lead by an effective and high-performing board which is collectively responsible for the success of the members.

# Good Governance is Both Difficult and Easy.

Being in the right practices creates a  
systematic approach to effective  
governance.

# Definition

A system designed to control and distribute power within an organization. – *WOCCU*

# Definition

“The leadership structure and the complex system of incentives, checks, and balances that makes sure the organization creates long-term sustainable value.” — *Hoel, 2011*

Research

# LACK OF SYSTEMATIC PROCESS



# Breakdowns

- ✓ “There is one thing all boards have in common, regardless of their legal position. They do not function.” — *Drucker, 1974*
- ✓ *The Fish Rots from the Head* — *Garrett, 2003*
- ✓ “Directors are largely figureheads who do not direct.” — *William Dougless, US Supreme Court & SEC Chair*

# Breakdowns

“Most boards aren’t very effective and many are completely ineffective. Boards spend too much time focusing on the past, on short-trend issues, and on trivial matters.” — *Carver*

# Breakdowns

Half of credit union CEOs feel that they deal with moderately to largely incompetent and inept boards and more than two board members have gone beyond their expiration date.

# Board Members are Often Misled

- Some CEOs dupe their board members.
- Flattery may be used as a distraction.
- Some CEOs misrepresent issues.
- Some CEOs believe two or more board members do not add positive value.

A strong, independent, and knowledgeable board can make a *significant* difference in the performance of any organization.

# Emphasize

Qualities of *strength of character*;  
An *inquiring* and *independent* mind;  
Practical *wisdom* and *mature* judgment.

*(Monks and Minnow, 2008)*



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# Biggest Challenge

Success!

Pattern of not changing anything!



# Research Conclusions

- Boards are usually the weak link in the governance process.
- Often easily manipulated by other participants in governance and/or have personal agendas.
- Good governance creates long-term value for members.
- Success often creates complacency.

Evaluate

# THREE LEVELS OF GOVERNANCE

# Three Levels of Governance

1. External Compliance
2. Internal to Credit Union
3. Individual Board Member

# External Compliance

- Transparency
  1. Activities
  2. Financial Statements
- Compliance
  1. Letter and Spirit
  2. Annual external audits
- Public Accountability
  1. Government Structures
  2. Media, Community, public

# Internal Governance

- Structure
  1. Odd number of members
  2. Rotation, standards adhered
- Continuity
  1. Competitiveness and sustainability
  2. Succession Plans, Disaster Management

# Internal Governance

- Balance
  1. Composition
  2. Diversity
- Accountability
  1. Roles and responsibilities
  2. Strategic direction

# Individual Governance

- Integrity
  1. Code of Conduct
  2. Background Checks
- Competence
  1. Basic financial literacy
  2. Individual specialized skills
- Commitment
  1. Thought and action
  2. Respect decisions

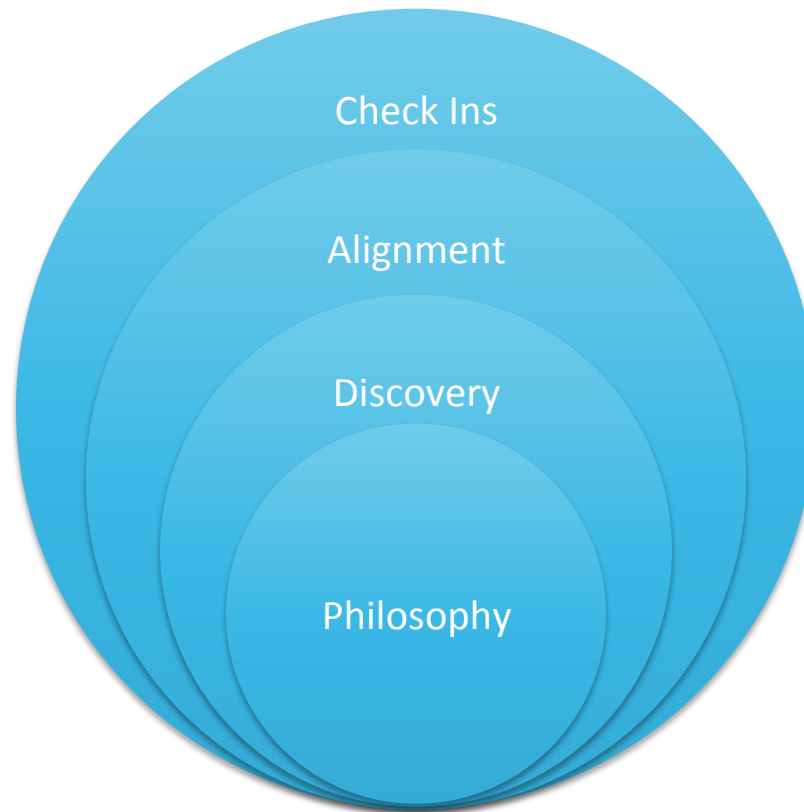
# SYSTEMATIC PROCESS TO SUSTAINABLE GOVERNANCE



# Governance Review

1. Mutually Commit to Philosophy
2. Establish Subject Matter Expert Committee
3. Assess External, Internal, Individual
4. Board Assessment
5. Refresh Board Member Prerequisites
6. Align Agenda with Philosophy
7. Annual Check In

# Mutual Commitment to Good Governance



# Mindset

1. What is your board's philosophy regarding governance?
2. How will you know you are living into that philosophy?

# Discovery to New Practices



# Board Member Prerequisites

- ✓ Basic knowledge and expertise to read, understand, and interpret financial statements
- ✓ Knowledge of risk measurement and management; A/LM, lending, collections, and marketing concepts
- ✓ Agree to and commit to credit union philosophy
- ✓ Understanding of laws governing the credit union

# Board Member Prerequisites

- ✓ Competent to be an effective team member
- ✓ Capacity to spend the required time to complete all board and committee responsibilities
- ✓ Proven oral communication skills

# Governance Guidelines

- The role of the Board
- The role of Senior Management
- Board Committees
- Director Nominations
- Director Responsibilities
- Board Size
- Service on other Boards

# Governance Guidelines

- Director Retirement
- Director Access to Officers and Employees
- Code of Conduct for Employees
- Code of Conduct for Board Members
- Director Compensation
- Director Orientation
- Director Continuing Education



# Governance Guidelines

- Board Member Evaluations
- Board Annual Performance Evaluation
- CEO Compensation and Evaluations
- Board Succession
- CEO Succession

# Agenda is Transparent

Focus in real time:

- Financial Position
- Strategic Opportunities
- Human Capital Issues
- Board Education

# Board Alignment Assessment



# Eight Board Room Disciplines

1. Board Composition
2. CEO Oversight
3. Strategic Planning
4. Board Procedures
5. Board Interaction
6. Board Information
7. Board Committees
8. Board & CEO Effectiveness

# Alignment Score 59/100

| Impact | Category                   | Performance |
|--------|----------------------------|-------------|
| 1      | Strategic Planning         | 64%         |
| 2      | Board Interaction          | 54%         |
| 3      | Board & CEO Effectiveness  | 65%         |
| 4      | Board Composition          | 45%         |
| 5      | CEO Compensation/Oversight | 73%         |
| 6      | Board Information          | 63%         |
| 7      | Board Procedures           | 61%         |
| 8      | Board Committees           | 53%         |

# Board Composition: In the **RED** Zone

- The board composition appropriately reflects the diversity of the membership: **0% agreed**
- The board has determined clear policies and criteria for selecting new members: **40% agreed**
- I am satisfied with the process we use for nominating new directors. **20% agreed**

# Board Information: 0% fully agreed

- The quality of Board information materials is excellent.
- Information and reports from committees are received in ample time for adequate preparation for Board meetings.
- The board provides a timely, comprehensive orientation for mentoring new Directors.

# INCREASE YOUR LONG TERM VALUE

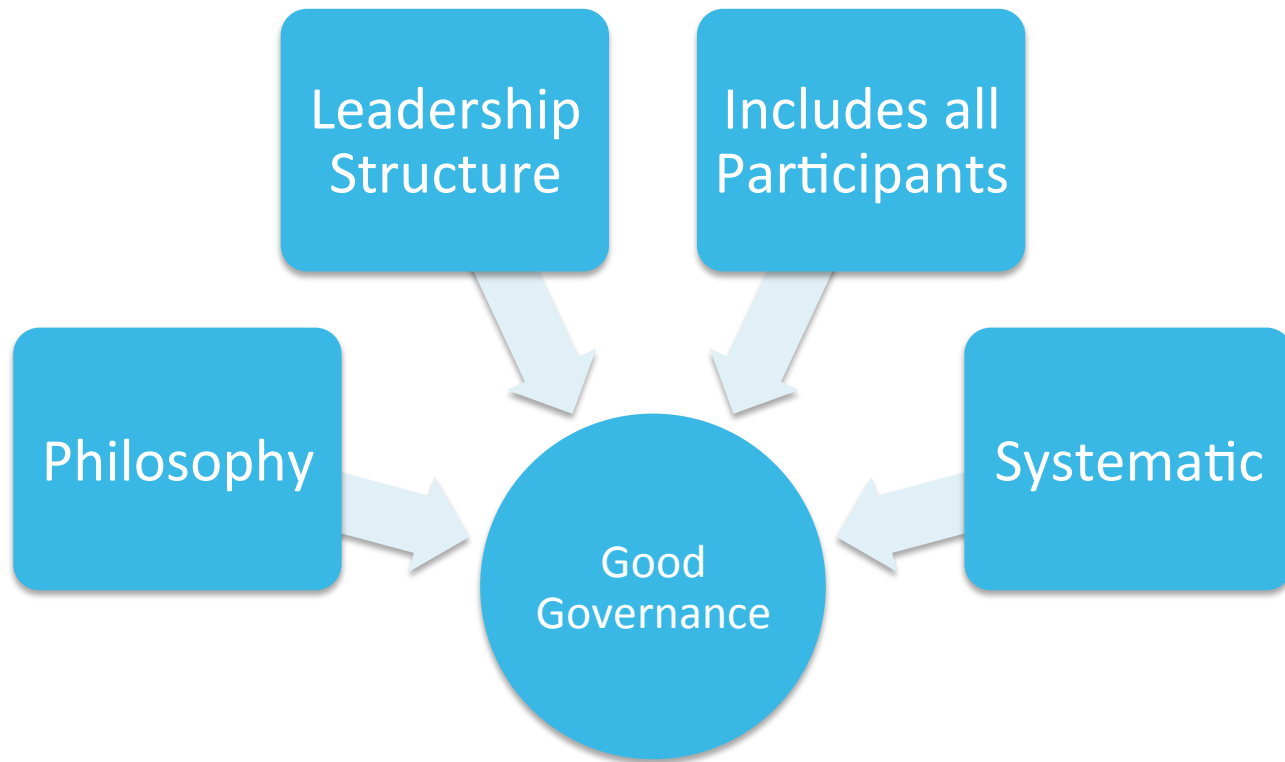
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# Thank you!

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