



DCU BULLETIN

Division of Credit Unions

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Corporate Governance Task Force Summary of Characteristics of Good Corporate Governance

The Washington Credit Union League recently sponsored a series of meetings to identify the key elements of good corporate governance in credit unions. Board members, credit union management, a credit union member, League staff, and Division of Credit Unions staff participated in the discussion. The group agreed there is no one path to effective corporate governance. The Carver model of corporate governance was discussed at length. The Carver model would need to be adapted significantly to comply with statutory and regulatory requirements incumbent upon credit unions. Other governance methods seem equally good, particularly if they exhibit the following characteristics identified by the Corporate Governance Task Force:

Member Representation. A well governed credit union should plan for and periodically evaluate how well the profile of the board represents the profile of the membership at large. A credit union's field of membership may contain groups of occupational, associational, and communities. Each group in the field of membership may have specific issues as a priority. How well those issues translate into products and services desired by the membership will have a significant impact on the viability of the credit union.

Ethics Policy. A well-governed credit union should establish an ethics policy (or policies) that establish a framework for the ethical culture of the organization. The policies should address issues such as: corporate ethics, fraud, conflict of interest, confidentiality, and fiduciary responsibilities. The Board remains responsible to ensure their action and conduct complies with the policies approved for the credit union. The Board should hold the CEO responsible for implementing these policies throughout the organization.

Volunteer Training Policy and Plan. A well-governed credit union should have a plan for the orientation of new volunteers (both board and supervisory committee members), and for the on-going training of volunteers. The training policy should include measurable results: such as the number of credit union focused educational manuals completed in a year, webinars attended, or conference participation with written reports provided to the entire board. Volunteers must be held accountable for carrying out their own individual training plans.

Board Succession and Recruitment Policies and Plan. A well-governed credit union should regularly assess its own weaknesses and plan to bolster those weaknesses by recruiting volunteers with talents and

experience in the areas of the weaknesses. If recruitment cannot augment the credit union's weaknesses, the credit union's training plan (see above) should address these weaknesses.

Governance Process Policies. A well-governed credit union will adopt policies on how the Board will govern itself, the philosophy of the board, and the specifics of the job of the Board.

Self-Evaluation Process. A well-governed credit union Board will be self-evaluative. It will regularly consider its own governance processes; assess whether these processes are working well, and whether the processes are appropriately strategic. This bulletin and the questions in Appendix A could be the basis for initiating those conversations.

Strategic Objectives. A well-governed credit union will establish measurable strategic objectives for the organization. (These objectives might be called strategic objectives, mission, vision, performance criteria, goals, etc. but essentially they map where the Board wants the credit union to go.) Strategic objectives must be realistic, and the CEO must be held accountable for achieving the objectives. Good governance requires the ability to measure the success or failure of the credit union to achieve the goals and objectives set by the Board. The credit union's business plan and budget should be a reflection of the strategic objectives established for the organization by the Board.

Knowledgeable Oversight. A well-governed credit union's Board will not be involved in day-to-day tactical issues. However, the credit union's board should exercise knowledgeable oversight over management decisions. The Board should clearly understand the fundamental principles and risks associated with running a credit union. The Board should validate management-supplied data using internal and external sources of information when necessary. The Board must have the competence to adequately manage the credit union's CEO.

Evaluation of CEO Performance. A well-governed credit union evaluates the performance of the CEO against the strategic objectives set forth by the Board and clearly communicated to the CEO. The CEO's evaluation should drive performance that exceeds expectations, and should hold the CEO accountable for a failure to meet any realistic strategic objectives established by the Board.

Enterprise Risk Management. A well-governed credit union must manage and balance risk-taking behaviors. The Board and management of the credit union must understand and acknowledge risks before the organization can make a knowledgeable choice about which risks to take, and how to prudently spread risk throughout the organization.

Speaking Publicly with One Voice. A well-governed credit union will have a good decision making process that requires participation from Board members and an opportunity for all members to discuss and debate controversial issues. Once issues are vetted and decided, all Board members will represent the organization's final determination on an issue—the will of the organization rather than the will of the individual. The "one voice" principle does not require a unanimous vote and Board members who voted in the minority may have their vote recorded in the minutes. Even if a Board member does not fully support the Board's position on a given issue, the Board member should do his or her best to assist with the implementation of the policy, because it represents the will of the organization. A Board member, who intends to express disagreement with or criticize a Board decision outside of the Board room runs the risk of violating his or her fiduciary duties and should seek advice of the credit union's legal counsel before doing so. Board decisions can be changed by the Board, but never by an individual Board member, regardless of his or her official position.

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## Key Governance Issues

1. How does the board ensure it is representative of the membership at large?
2. How does the board set a high ethical standard for the credit union?
  - a. Ethics policy
  - b. Conflicts of interest
3. How does the board fairly evaluate the need for specific knowledge, skills, and abilities when considering the risks facing the credit union?
  - a. Board & other volunteers
  - b. CEO
4. How does the board address the deficiencies in knowledge, skills, and abilities?
  - a. Board & other volunteers
  - b. CEO
5. How does the board balance provision of strategic vision vs. excessive oversight in the operation of the credit union?
  - a. Strategic plan
  - b. Business plan
  - c. Budget
  - d. Succession plans
6. How does the board establish non-financial benchmarks to measure their strategic success?
7. How does the board ensure risks undertaken by the credit union are being managed or mitigated appropriately?
  - a. Risk assessment
  - b. Policies
  - c. Reporting
  - d. Audit & internal audit