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Quantum Governance, L3C
The Science and Art of Exceptional Governance

The State of Credit Union Governance, 2018

Five Data-Driven Recommendations for Future Success

By Michael G. Daigneault, Esq., CCD
and Jennie Boden
Quantum Governance, L3C

We wish to note that we are not providing legal services or offering legal advice of any kind.

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Thanks and Acknowledgments

Through our strategic partnership with the CUES, Quantum Governance has had the opportunity to survey thousands of credit union leaders—board members, supervisory committee members, CEOs and senior staff—throughout the past five years. We have learned a great deal in doing so—both about credit unions and about how valuable a great strategic partner can be. The folks at CUES remain the best partners and colleagues we could ask for. From funding initiatives like this credit union governance study, to sponsoring our participation in webinars, articles and conferences, we count our lucky stars for a partnership that's deep and wide. Your team is clever, committed, candid and cool. You are a great pleasure to work with. Each and every one of you.

A very special thanks and acknowledgment also goes to the thousands of credit union leaders who have participated in our surveys over the years. We are indebted to you all for the ideas you have given to us—as well as the insights you are now sharing with your credit union colleagues. This report is for you. We humbly hope it helps you learn and grow at least in some small measure, as you have helped us to do by leaps and bounds.

A huge thanks to Jeff Meyer and James Swartz, our partners and statisticians, who led the way, shined the light and crunched the numbers....and then crunched them again. You patiently took our calls and answered our emails and ensured we were always asking the right questions. Thank you. Thank you. Thank you.

To Alessandra Daigneault who reminds us daily what it means to be tough-minded yet full of compassion, bottom-line oriented while remaining open and flexible. Thank you for supporting new learning, growth and our dreams, all with an eye to our collective, ultimate success.

To Shannon Zayas, our True North. You keep us grounded and remain calm in the midst of the storm. You, too, crunched the numbers and asked the hard questions, ever-steadfast to a solid process that took us all the way through to the end.

To Caitlin Curran Hatch with her quick mind and sharp wit. Thank you for your willingness to lend your time, talents and always on-point thoughts to this project and the many credit union clients with which you have worked. Your abilities are a vital yin to our yang.

Thank you, finally, to Gisèle Manole, the newest member of our Quantum Governance team, for your willingness to jump in with both feet, pick up the pieces and run. The process began with your research and diligent work, and we're sure it won't end anytime soon.

Sincerely,

Michael G. Daigneault, Esq., CCD and Jennie Boden
Quantum Governance, L3C
January 2018

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Executive Summary

We've been regularly surveying credit union board members, supervisory committee[1] members, CEOs and senior staff[2] for the past five years. And for as many years as we've been surveying them, we've dreamed about the notion of pulling together a "state of the state" of credit union governance report—both to forward our own understanding of what we are seeing in terms of broad trends in the field, but also so that we can share the combined results with you, our friends, colleagues and clients in the credit union community.

This report is the culmination of that dream, and we are pleased to share its findings, as well as five central recommendations that emanate from them. We hope that you will be challenged by both—to increase the focus on effectiveness of governance and leadership at your credit union—all toward the betterment of your credit union and its members.

Methodology and Demographics Overview

This report is a summary of data collected by Quantum Governance, through three types of governance assessments, from 70 U.S.-based credit unions from December 2012 through August 2017, located in 31 states. The credit unions range in asset size from $38.5 million to $4.9 billion, with nearly 60% of the respondents reporting assets of $1 billion or greater. Seventy-five percent (75%) of respondents are board members, followed by 12% senior staff, 7% supervisory committee members and 5% CEOs.

The tool that was used to obtain the data is organized into five key survey sections: 1) Vision, Mission & Strategy; 2) Board Structure & Composition; 3) Fiduciary Oversight; 4) Governance & Leadership; and 5) Supervisory Committee.

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[1] For the purposes of this report, we use the term supervisory committee. However, we are aware that a number of credit unions use the term audit committee.

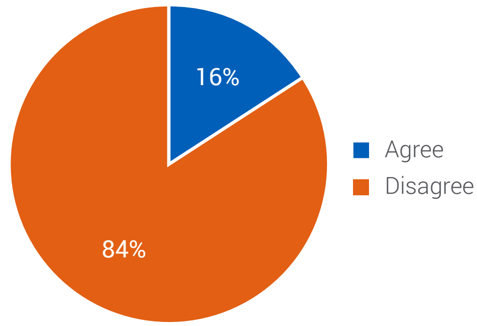
[2] For the purposes of this report, the term senior staff refers to members of a credit union's executive management team, excluding the CEO.

Key Findings

We identify six key findings in total.

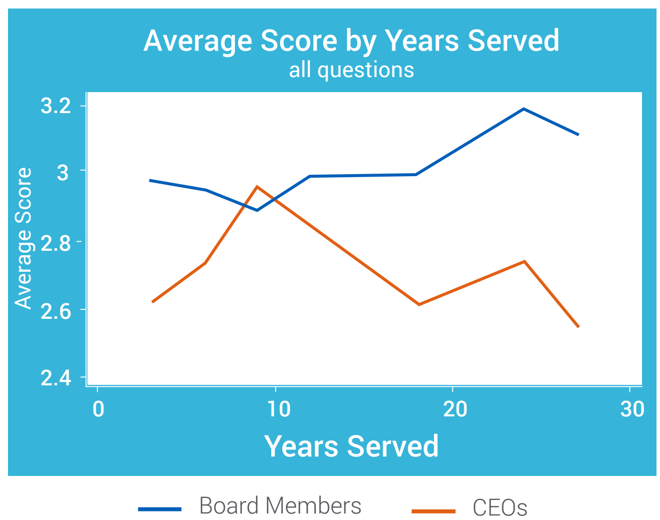
1 Board Members and CEOs Frequently Differ on Their Perceptions Regarding Governance. Board members and CEOs differ on 84%[3] of the survey's key questions,[4] agreeing on only 16% of the survey's key questions (with the exception of the Supervisory Committee survey section, where there is more agreement).

Figure 1 *Agreement/Disagreement Between the Board and CEO, All Survey Sections with the Exception of Supervisory Committee*



2 Board Member and CEO Perceptions Diverge Based on Tenure. Board members who have served on their boards for a long period of time have more positive view concerning governance than those board members who have less tenure. Conversely, CEOs with longer tenures tend to be more negative than CEOs with shorter tenures.

Figure 2 *Average Score by Years Served—All Questions*



3 Bigger Really May Be Better. For 18 of the 21 key questions asked, board members and CEOs of credit unions with assets of $1 billion or greater had **statistically and significantly** higher survey scores overall,[5,6] than those credit unions with assets ranging from $500 million to $999 million. That is, larger credit unions tend to rate their governance practices higher than those of smaller credit unions.

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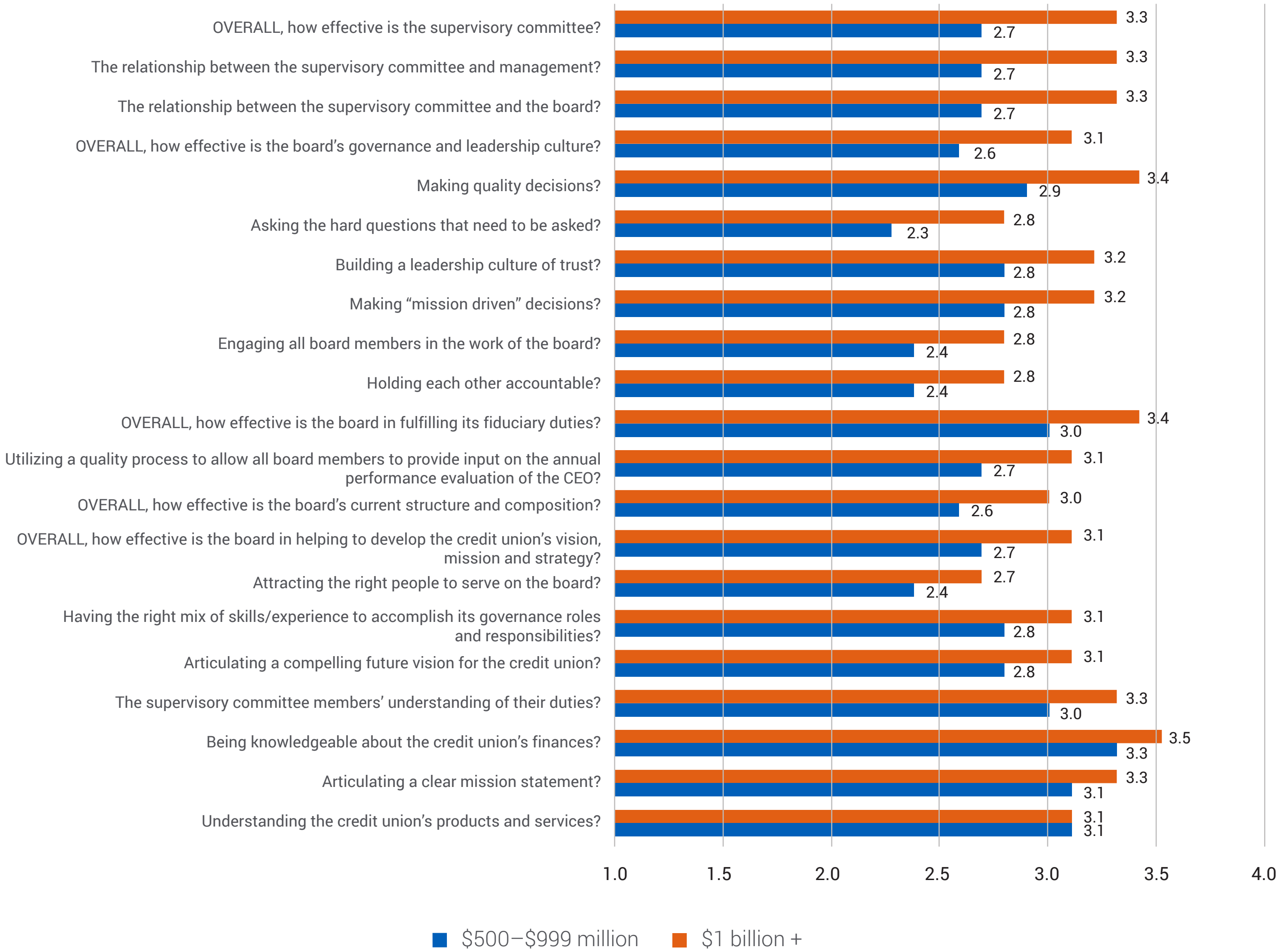
[3] Please note that percentages throughout the report are rounded up to the nearest decimal; therefore, figures may not total 100%.

[4] The governance survey contains 47 questions overall; however, we identify 21 questions as "key questions," meaning they are identified as most fundamental to good governance.

[5] The higher the scores on the survey, the more positive views of the credit union's governance overall. The highest possible score was 4.

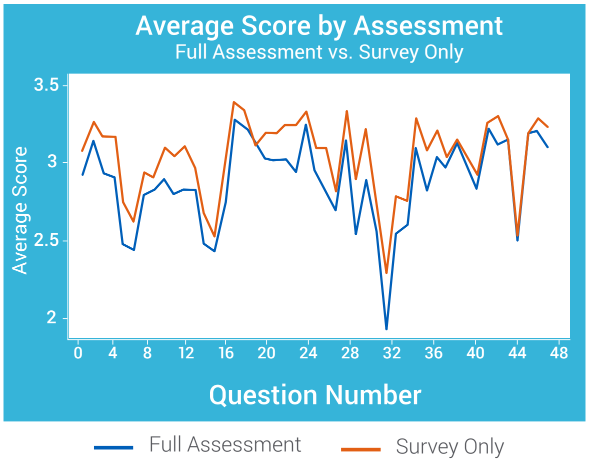
[6] The mean score for board members were higher than the mean scores for CEOs on all 21 of the key questions. Due to the variance of the mean scores, we can state that 18 of the 21 key questions were statistically significantly higher for board members as compared to CEOs using a p-value of 0.05.

Figure 3 *Average Score by Asset Size—Key Questions for Board Members and CEOs*



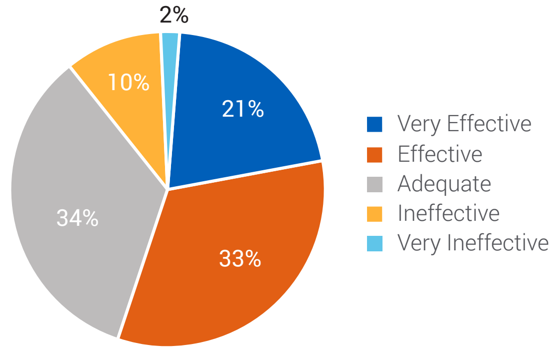
4 **Credit Unions That Don't Undertake a More Comprehensive Assessment May Receive a Skewed Perception.** Those credit unions that participated in a survey-only assessment, opting not to include interviews, a document review and a retreat as a part of their assessments, tend to have more positive scores in many of the areas assessed. While the exact reasons for this more positive viewpoint are unknown, it is a finding that is of genuine concern as it is simply not helpful to receive a "rosier" view of the credit union's governance efforts. Such a skewed—overly positive—viewpoint could cause some credit unions not to take corrective actions when, in fact, some action may be prudent.

Figure 4 *Average Score by Assessment Type—All Questions*



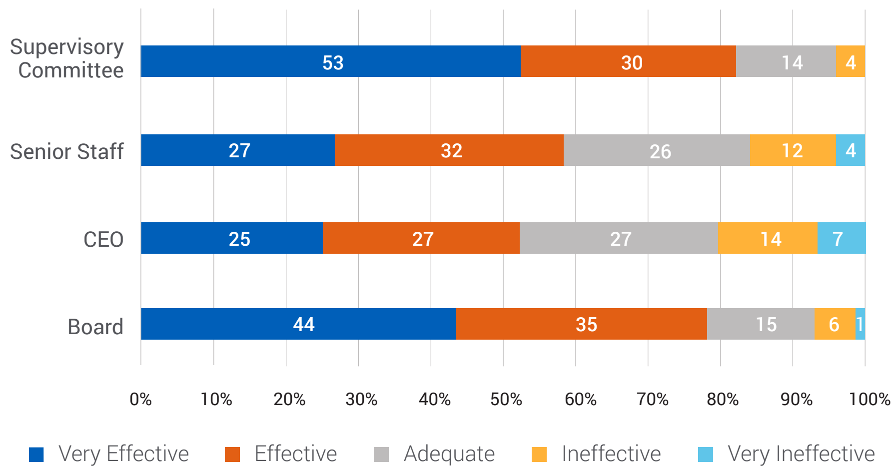
5 **Respondents are Concerned About Recruiting Future Board Members.** Survey participants expressed concern with the board's effectiveness in attracting the right people to serve on the board in the future, with a full 46% of respondents describing their effectiveness in finding, recruiting and nominating new talent as only adequate or less than adequate.

Figure 5 *Attracting The Right People To Serve On The Board—Overall*



6 **CEOs and Senior Staff Perceive Lower Levels of Trust.** Just 27% of senior staff and 25% of CEOs reported their boards were very effective at building a leadership culture of trust, compared to 53% of supervisory committee members and 44% of board members.

Figure 6 *Building a Leadership Culture of Trust—by Position*



Recommendations

With our key findings, as well as additional findings offered in the full report that follows, we offer five core recommendations to strengthen governance policies and practices at your credit union:

1. **Prioritize Governance Excellence at Your Credit Union.** If you haven't been taking governance seriously at your credit union, it's time to do so. And if you have been, it's time to kick it up a notch. Whether you're functioning at Governance 101 or 601, it's time to find out what Governance 201 or 701 looks like for your credit union. While many of the results in this report give cause for us to stand up and cheer, there are also many causes for concern.

2. **Eliminate any Perception Gaps Between Your Board, Supervisory Committee and Senior Staff.** If we know one thing, it's this: gaps between the board and senior staff will eventually be destructive. We highly recommend a strong, constructive partnership between the board, supervisory committee and the senior staff—all working collectively to govern and lead the credit union. There were so many gaps in perceptions between these positions throughout the report it surprised even us, and it should definitely concern you.

3. **Ensure You Have a Plan for Board (and Committee) Rejuvenation.** While it may sound like a positive finding—the longer a board member serves, the more positive his or her perception is—it does concern us. Are long-serving board members losing their ability to "ask the hard questions?" At the same time, the number of potential board members among us—if we look strictly at the census numbers—is shrinking. Ensure your credit union has a viable plan for leadership continuity. It is one of the most critical responsibilities a board holds.

4. **Focus on Your Credit Union's Leadership Culture** While you may be spending countless hours ensuring your board members have the requisite training; your committee structure is in place and operating well; and your plan for board rejuvenation is fully up-to-date, don't forget about building a positive board culture. It takes time and conscious cultivation to ensure a positive outcome.

5. **Charter a Governance and Nominations Committee...Fast.** Over the years, nominations committees have morphed—first into board development committees and now into what is considered best practice governance and nominations committees. If your credit union doesn't have one, it's behind the curve, and you need to get one, fast. Today's governance and nominations committee is chartered to address: board roles and responsibilities; composition; knowledge and learning; effectiveness and leadership. We believe this recommendation is so important a sample *Governance and Nominations Committee Charter* has been provided as an appendix to this report.

The Survey

Overview

The data contained in this report were collected by Quantum Governance between December 2012 and August 2017 as a result of governance assessments conducted by Quantum Governance on behalf of 70 credit union clients located in 31 states. The credit unions range in asset size from $38.5 million to $4.9 billion.

The data was collected online via a third-party survey tool, SurveyGizmo, and through three different types of governance assessments:[7]

1. **Survey-Only Assessments,** where clients participated in an online, quantitative survey[8] only.

2. **Mini Assessments,** where clients participated in the same online, quantitative survey; a limited number of interviews, generally with the board chair and CEO; a high-level review of key governance documents; and a retreat.[9]

3. **Full Assessments,** where clients participated in the same online, quantitative survey; in-depth interviews with board members and the CEO, and often times additional members of the senior staff; a review of central governance documents, including bylaws, board meeting minutes, committee charters; and a retreat.[10]

The Survey Tool

Quantum Governance's governance assessment survey is organized into five key survey sections: 1) Vision, Mission & Strategy; 2) Board Structure & Composition; 3) Fiduciary Oversight; 4) Governance & Leadership; and 5) Supervisory Committee. Each of the five survey sections includes multiple choice questions derived from good governance and best practices in the field. The responses to all survey questions are directional on a five point Likert11 scale. The survey asked a series of questions testing the board's effectiveness using a five-point scale with 0 being "Very Ineffective;" 1 being "Effective;" 2 being "Adequate;" 3 being "Effective;" and 4 being "Very Effective." The survey also includes seven narrative questions which have not been analyzed as a part of this report.

Collecting the Data

Individual links to complete the survey through an online survey tool, SurveyGizmo, are sent via email to board members, supervisory committee members, CEOs and senior staff. Upon receipt of the link, the respondents were asked to complete the survey within approximately two weeks' time. Not all credit unions opted to include any and all members of their supervisory committee and senior staff, and some credit unions only opted to include their board members in the process.

Compiling the Data

Data from the survey respondents was exported from SurveyGizmo into Microsoft Excel and compiled by credit union, with the following information tracked: credit union name; respondent's role; asset size; and the year the assessment was conducted.

To ensure data integrity, aggregated survey results exported from SurveyGizmo for this report were compared to data originally reported to each individual credit union.

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[7] Differences in findings between these three different types of assessments will be discussed further in this report.

[8] Please note that the underlying model for this survey has not changed from 2012 to 2017; however, we have made some minor modifications to the question set in terms of language only.

[9] Please note that we use the word retreat, here suggesting that the assessments results were presented typically in a special meeting of the board. There were some occasions however, when an expanded agenda during a regularly-scheduled board meeting was developed to allow for the presentation of the results. Retreats often included the participation of the credit union's CEO and members of the senior staff.

[10] On occasions, other methodologies may also have been employed for full assessments, including, but not limited to, focus groups and board meeting observations.

[11] A Likert scale is the most widely used approach for survey research because it allows respondents the ability to choose to which degree they agree or disagree with the survey question. The Likert scale generally offers the survey respondent five or seven choices, with the middle choice being a neutral response, neither agreeing or disagreeing.

Analyzing the Data

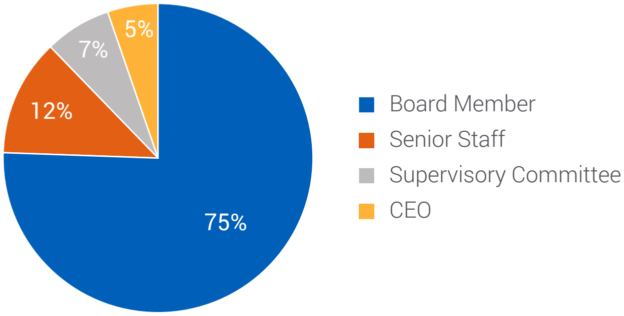
In situations where a credit union responded to the survey for multiple years, the most recent year's data were used for the analysis. The exception to this rule was the use of a previous survey if there were significantly more missing responses in the most recent year as compared to the previous year. This occurred with only four of the 70 credit unions in the analysis.

When comparing responses between board members and CEOs, an ordinal logistic mixed effects model was used to determine whether the differences were statistically significant. An ordinal logistic model was used because the survey responses were on a five-point scale. A mixed effects model controls for the fact that responses of members on the same board or senior staff within the same credit union are not independent of each other. If the non-independence is not controlled for, some non-significant differences could be assessed as significant leading to false positives. A significance level of $p<.05$ was used to determine statistical significance. Please note that percentages throughout the report are rounded up to the nearest decimal; therefore, figures may not total 100%.

Percentage of Respondents by Position

Seventy-five percent (75%) of respondents were board members, followed by 12% senior staff, 7% supervisory committee members and 5% CEOs.

Figure 7 *Percentage of Respondents—by Position*



Years Served by Position

Position	Average Years Served	Minimum Years Served	Maximum Years Served
CEO	13	1	38
Board Member	12	1	50
Supervisory Committee	9	1	35
Senior Staff	8	1	35

Figure 8 *Years Served—by Position*

Age by Position

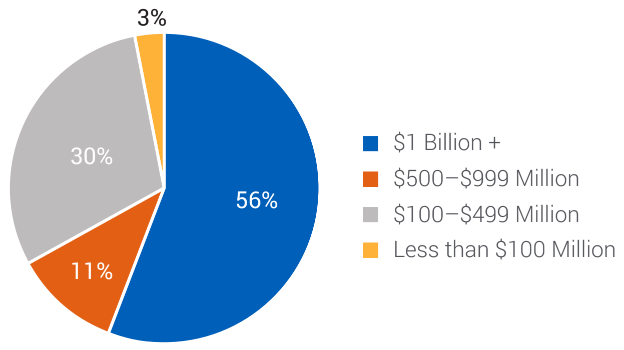
Position	Average Age	Minimum Age	Maximum Age
Board Member	60	27	93
Supervisory Committee	61	32	85
CEO	55	37	71
Senior Staff	52	29	71

Figure 9 *Age—by Position*

Asset Size

Nearly 60% of the credit unions in the dataset have assets of $1 billion or greater.

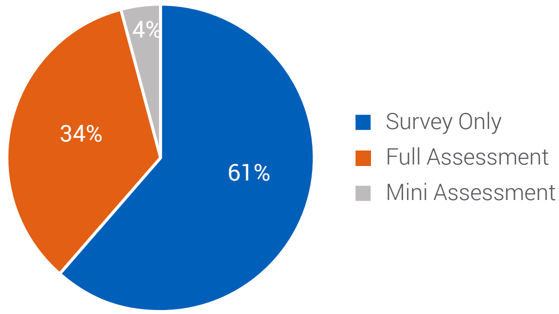
Figure 10 *Asset Size–All Credit Unions in the Dataset*



Assessment Type

(See Overview Above)

Figure 11 *Assessment Type[12]—All Credit Unions in the Dataset*



Credit Union Location

State	%	State	%	State	%
California	12	Illinois	3	Kansas	1
Texas	10	Indiana	3	Maryland	1
Michigan	6	Kentucky	3	New Mexico	1
Virginia	6	Washington	3	Oregon	1
Alabama	5	North Carolina	2	Pennsylvania	1
Missouri	5	Oklahoma	2	Rhode Island	1
New Jersey	5	Washington, DC	2	South Carolina	1
New York	5	Wisconsin	2	Tennessee	1
Massachusetts	4	Colorado	1	West Virginia	1
Minnesota	4	Connecticut	1	Wyoming	1
Arizona	3				

Figure 12 *Credit Union Location*

[12] Survey-only assessments are those assessments where clients participated in an online, quantitative survey only; mini assessments are those where clients participated in the same online, quantitative survey; a limited number of interviews, generally with the board chair and CEO; a high-level review of key governance documents; and a retreat; and full assessments are those where clients participated in the same online, quantitative survey; in-depth interviews with board members and the CEO, and often times additional members of the senior staff; a review of central governance documents, including bylaws, board meeting minutes, committee charters; and a retreat.

About the Team

About Quantum Governance, L3C

Quantum Governance, LC3 is a low-profit, limited liability corporation dedicated to the public good. The firm was founded by Michael G. Daigneault and Alessandra Daigneault in 2012. Then, Michael and Alessandra joined forces to capitalize on their distinguished careers spanning more than 55 years collectively as a nationally-renowned trainer, consultant and motivational speaker and one of the brightest legal minds in corporate America, respectively. Driven by a strong commitment to impact organizations at the highest level, Quantum Governance focuses its work in the boardroom, with the board, CEO and other members of the senior staff—knowing these individuals have the greatest impact on organizational governance and strategic effectiveness. In the firm's short tenure, Quantum Governance has built a reputation as a leading consulting practice among credit unions, nonprofits, professional associations, security organizations, governmental entities, foundations and corporations. Today, the firm works with more than 100 clients located across the United States and internationally, including Bermuda, Guatemala, India, South Korea and the United Kingdom. Learn more at **quantumgovernance.net**.

About CUES

CUES is a Madison, Wisconsin-based, independent, not-for-profit, international membership association for credit union executives. Our mission is to educate and develop credit union CEOs, executives, directors and future leaders. Our offerings—from highly acclaimed institutes, to an array of online services and progressive strategic solutions—are the premier professional development programs in the industry today helping credit union leaders reach their greatest potential. Learn more at **cues.org**.

Michael G. Daigneault

Michael is the CEO of Quantum Governance, L3C. He brings more than 30 years of experience as a thought-provoking consultant, dynamic speaker and an engaging facilitator. Michael regularly works with the leadership of credit unions, nonprofits, foundations and corporations to improve the effectiveness of their governance and leadership efforts. He has provided governance direction, strategy and facilitation services to boards, executive committees and governance committees—as well as to senior executives worldwide. Michael is a three-time graduate of Georgetown University, holding a B.A. from the College of Arts & Sciences where he was the top graduate in Philosophy; and holds from the J.D. Law Center and a Master's Degree in Law from the Law Center. He was the first person to graduate from Georgetown University Law Center with a Masters in Law, with a concentration in Legal Ethics and Professional Responsibility.

Jeff Meyer

Jeff is a statistical consultant, author and instructor for *The Analysis Factor*. Jeff has an M.B.A. from Thunderbird School of Global Management and an M.P.A. with a focus on public policy from New York University Wagner School of Public Service.

James Swartz

James is a professor in the Jane Addams College of Social Work at the University of Illinois at Chicago (UIC). He attained his Ph.D. in clinical psychology from Northwestern University Feinberg School of Medicine and also holds an M.A. in behavioral research from Loyola University in Chicago. At UIC he teaches intermediate and beginning statistics to social work doctoral students and program evaluation to masters' students. His research interests include using advanced statistical methods to study substance abuse and mental illness in service of advising public health policy.

Jennie Boden

Jennie is the Managing Director of Strategic Relationships and Senior Consultant at Quantum Governance. She brings to the position more than 25 years of leadership and management experience in the nonprofit sector. She has held jobs ranging from executive assistant to executive director during the course of her career, and she currently serves as the point person for Quantum Governance's strategic relationship with CUES, as well as a senior consultant for credit union and nonprofit clients at Quantum Governance. Jennie received a B.A. from the University of California at Berkeley.

Shannon Zayas

Shannon is Quantum Governance's Operations & Survey Manager. She also works as a project coordinator for many of Quantum Governance's largest clients. She oversees the development, fielding and coordination of all Quantum Governance's surveys and data intake. Shannon graduated from Virginia Tech in 2001 with a B.S. in Finance and in 2004 with a M.S. in Accounting.

Gisèle Manole

Gisèle is the Director of Communications and Associate Consultant at Quantum Governance. Gisèle has spent the last 17 years developing her communications skills in New York working for the titans of media in the world of magazine publishing and digital communications. At Quantum Governance, Gisèle is in charge of outreach and communications, as well as supporting client work at the associate consultant level. She graduated from Villanova University in 1999 with a B.A. in English Literature and Political Science.

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