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A collection of articles by Michael Daigneault, CEO of Quantum Governance, L3C

CU Management

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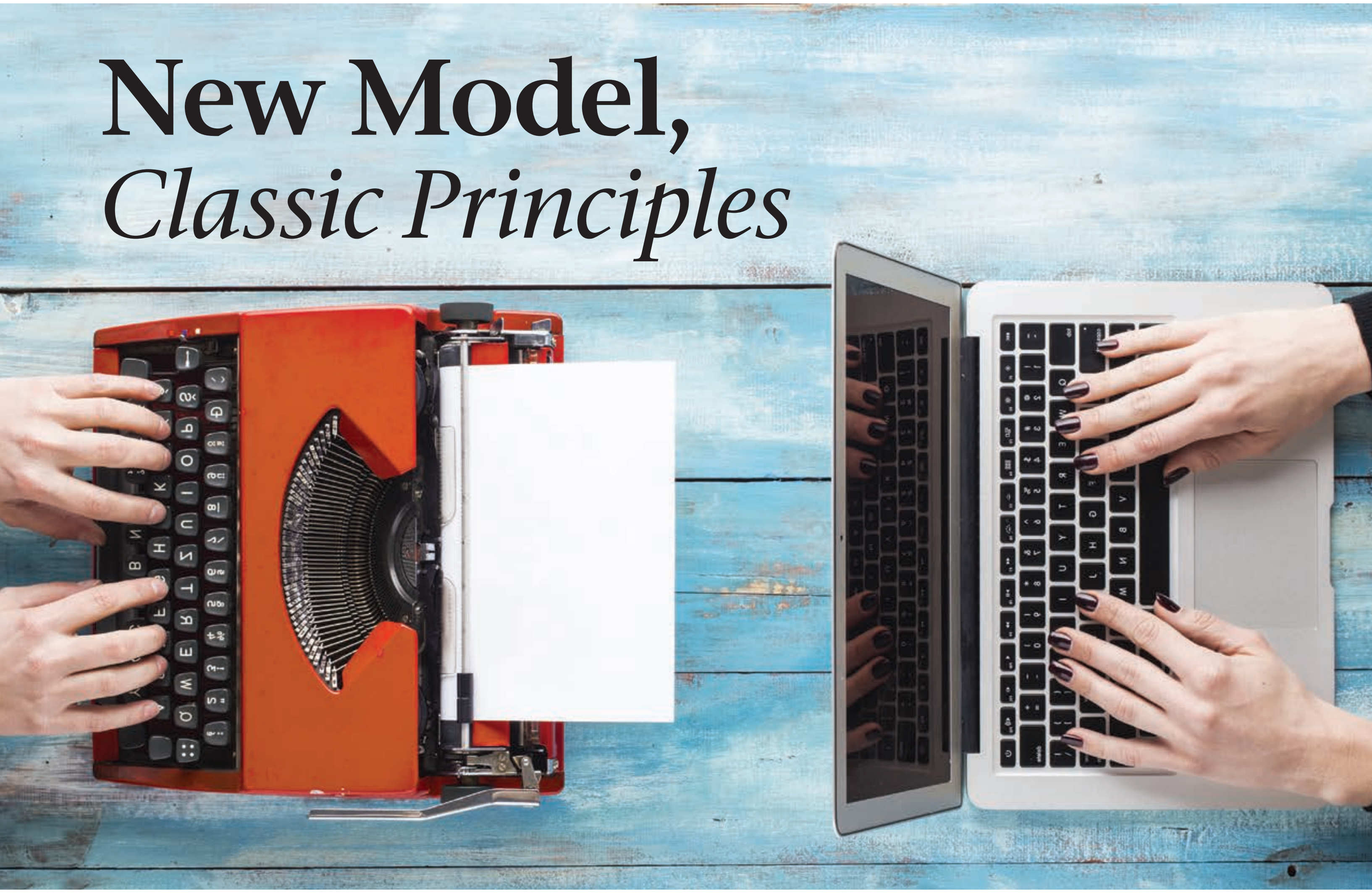
New Model, *Classic Principles*



RECLAIM THE 'WHY' OF CREDIT UNIONS BY DEEPLY EMBEDDING SOCIAL PURPOSE IN ALL YOUR ACTIVITIES.

BY MICHAEL G. DAIGNEAULT, CCD, AND CAITLIN CURRAN HATCH

Most modern credit unions significantly underleverage their cooperative model. A key reason for this is the way the leaders of most credit unions conceive of "success."

Our thinking a few years ago was that the perspective of *all* CU leaders about success fell somewhere along a spectrum we could define (see graphic).

On one end of this spectrum, CU leaders were very "member-centric" in their approach. "After all," they would say, "credit unions exist for their members. Success is providing member services and benefits that improve people's lives—sometimes at the expense of better financial results or ratios." These CUs' cause was to—first and foremost—benefit the member. They did so while prudently ensuring the ongoing viability of CU operations.

On the other end of the spectrum, CU leaders were strongly focused on their CUs' "financial performance"—fundamentally oriented toward financial success, growth and sustainability. "You can't help members if you don't exist" was a perspective such credit unions often shared. They did not ignore their members by any means, but ultimately, success for credit unions on this end of the spectrum was primarily based on classic financial measures, sometimes at the expense of rewarding members first. Their "cause" was to ensure the ongoing financial health of the credit union so that it might, in turn, offer products and services to members and their families.

Still other CUs were in the middle of our success spectrum and took a "balanced approach." These CUs did all they could to thoughtfully harmonize the member-centric and CU-centric approaches. They saw the essence of their success as an ongoing balance of excellent service *and* strong financial results. Sometimes service was paramount in their thinking. Sometimes financial strength had to be the priority. Overall, however, the careful balancing between the two would lead to true success. These CUs' "cause" was twofold: to benefit members *and* craft a strong financial cooperative.

More recently, as we have talked to other CUs about ways they could take greater advantage of their cooperative model (and what it truly means to be a CU today), we learned that a few were thinking in a new way about success.

These CUs reported that the essence of their approach was to include their relationship to their communities in their thinking about *every* one of their programs. These CUs have a new cause orientation and new success metrics. After talking with these CUs, did we need to revise the entire spectrum? The answer was a resounding *yes* and *no*. We'll explain.

'REVISING' THE SPECTRUM

The much more robust and comprehensive "community focus" that these CUs were taking didn't seem to fit well on our initial spectrum. On the other hand, this new approach remained closely related to the fundamental CU ideas of member service and financial strength.

What we ultimately learned is that by adding a third focal point—community —to the member-centric and financial performance focal points, a new way of framing success for credit unions emerged, one that is a direct descendant from the movement's foundational principle of people helping people.

At this point, some of you may be thinking, "Hey, maybe we are already a social purpose credit union. We already do lots of good things in the community." You are not alone in suggesting this, but the social purpose approach goes much farther than nearly all of the community engagement efforts we have seen to date.

As Coro Strandberg (*corostrandberg.com*), former chair of $21.7 billion Vancity (*vancity.com*), Vancouver, British Columbia, and a corporate social responsibility pioneer, explains, "It is not uncommon for credit unions to find that they are not as far along toward becoming a social purpose organization as they think they are. It is because they already have the philosophy built into their DNA. [But, because of that,] they think they are doing more than they actually are!"

THE SOCIAL PURPOSE MODEL

The social purpose approach—fully executed—means integrating social purpose into everything a CU does. It has a direct connection to the values and underlying principles that propelled the CU movement many years ago.

In this model, the CU commits "a substantial portion of its assets to social finance projects rather than having social investment as an ancillary corporate social responsibility plan," wrote Sean Geoby and Olaf Weber in a 2013 article in the *Journal of Sustainable Finance and Investment* (*tinyurl.com/socialcumodel*). In other words, the focus on community impact becomes the driving vision of the CU, which then embeds social purpose values into all aspects of its governance, strategy and operational efforts.

This does not mean that a CU should abandon its members nor the credit union's financial health. Rather, to really serve members and substantially grow the credit union's financial strengths, shifting to a broader focus on community can help rally many more people and organizations to the "cause" of the credit union.

To do this, Strandberg advises, "As a board and management team, you need to determine what your purpose is. Why are you here?" The answer, she suggests, should not be to just meet member financial needs, but to go beyond such needs and—in a targeted manner—address some of the broader societal issues negatively impacting members and their families. And yes, this may mean helping others in the community who are not yet connected with the CU.

As Simon Sinek challenges us all in his book, *Start With Why: How Great Leaders Inspire Everyone To Take Action* (*tinyurl.com/startwy*), organizations need to both examine and reclaim their "Why?" CUs should certainly serve their members and their families with excellent products and services—what Sinek terms the "what." They should also effectively execute their cooperative business model and maintain strong and sustainable financial fundamentals—which Sinek calls the "how." But they should also think deeply about their core societal purpose—the "why"—a societal purpose that embraces members' needs, but also extends far beyond just members in its ultimate reach and impact. This helps to transform the entity from one that simply provides a service or a commodity—like so many others in the marketplace—into a social movement. A cause!

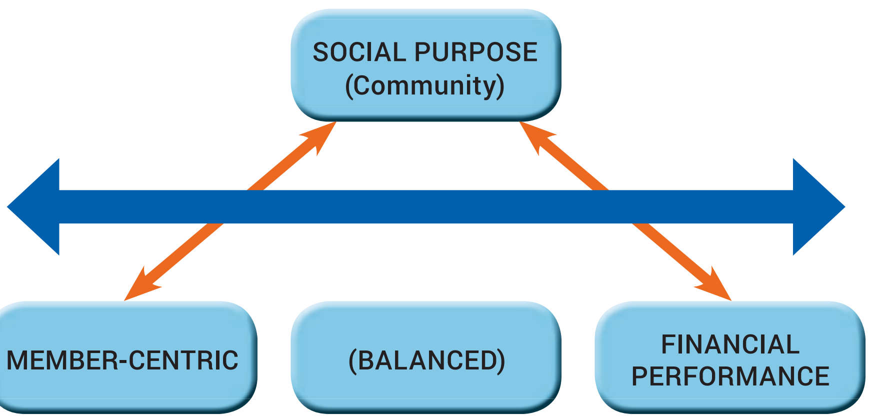
SOCIAL PURPOSE CUs

Vancity: Chief Governance Officer and Corporate Secretary Karen Hoffman says the CU defines success as "building healthy communities and increasing and preserving the well-being of our members." Under this vision, the CU has achieved 25 percent market share in one of Canada's most sophisticated and international financial cities.

Vancity does not focus on community simply because it has the "luxury to do so" due to its large asset base. It is so large today—and has gained such a passionate and loyal membership—due to its courageous decision to improve the Vancouver community. The CU has succeeded in transforming itself into a *cause* to improve Vancouver—a cause that many people in the city and its surrounding areas can truly believe in and actively seek to be a part of.

For example, one of the CU's most important efforts is its high-impact community investment loan that supports affordable housing; social

SPECTRUM OF CU THINKING ABOUT SUCCESS



GET MORE ON CU PURPOSE

The Corporate 'Why' (*cues.org/1117why*)

Why Choose Our Credit Union? (*cues.org/0218choose*)

The State of Credit Union Governance, 2018 (*cues.org/governancereport*)

CEO/Executive Team Network
Nov. 5-7, Nashville, Tenn. (*cues.org/cnet*)

CUES Symposium: A CEO/Chairman Exchange
Jan. 27-31, Nassau, The Bahamas (*cues.org/symposium*)

> **"When helping the community becomes part of your core product line, and you think about it that way and it is part of what you are doing ..., you are starting to arrive."**
> — Brett Martinez

purpose real estate; local, natural and organic food; the environment and energy efficiency; as well as social enterprises and social ventures. The CU's social finance portfolio dwarves traditional corporate social responsibility efforts at many institutions.

Vancity's journey toward the social purpose model was sometimes two steps forward and one step back. The CU's leaders had to experiment to see what would work. Other CUs can learn from its experience and take inspiration from its success.

University Federal Credit Union (*ufcu.org*), Austin, Texas: Under the banner of "When Our Community Is Strong, We Are Strong," $2.3 billion University FCU has elevated its already strong community efforts to a new level. "This demonstrates where the heart of UFCU is—with our members and our community," says Heather McKissick, VP/community impact and a CUES member. "In only its first year, our DO GOOD program has rallied our employees' efforts around our community partners and made a real impact on the people they serve."

The credit union's CEO, Tony Budet, understands that the model has its challenges. "We needed to attract new leaders to our board who were from within the community and had an interest in it, and it was a culture clash at first," the CUES member says. "It's difficult to go through that. A lot of credit unions will have this challenge if you don't have an anchor or a group of people on the board who are part of the community you serve. It needs to be board-driven."

Lake Trust Credit Union (*laketrust.org*), Brighton, Mich.: David Snodgrass, CCE, CEO and a CUES member, says: "We were talking about our strategy, culture and our business plan and we were wrestling with answering the question, 'Why?' We started reflecting on, 'Why we are here?' and 'What is our purpose beyond just the traditional banking services we offer?' It is still a journey we are on today."

$1.8 billion Lake Trust CU pursued a number of avenues, including forming a 501(c)(3) foundation to encourage charitable participation in some of its community endeavors, pursuing a grant from the U.S. Treasury's Community Development Financial Institutions Fund.

"Our CDFI grant request is to help seed a micro loan fund for small businesses in rural communities across the state of Michigan and to help us to take more risk than we would otherwise in our standard business practice—take a chance on a single mom who wants to open a hair salon, a young man who wants to open a pizza shop, in an effort to breathe economic opportunities into our smaller communities across the state," Snodgrass says.

Like Budet, Snodgrass also emphasizes that a social purpose model needs to be driven at the board level. Lake Trust CU has recently added four new board members and two associate directors from the non-profit sector with very deep roots in the community.

"The contributions of our new board members have been multiple," he explains. "It has invigorated the leadership team ... to think even bigger about where we can go. They have opened up their networks to us and connected us to other thought leaders or other social purpose enterprises. That has been priceless. Having partners is part of this—we can't do it all ourselves."

Redwood Credit Union (*redwoodcu.org*), Santa Rosa, Calif.: Sometimes pressing circumstances demand new approaches. Last year $4.3 billion Redwood CU found itself at ground zero in one of the most destructive wildfires in California history. CUES member Brett Martinez, CEO, says that the CU's historic response was a result of having reacted to earlier fires in 2015 and 2016 and the recognition that the CU was able to react in an emergency to meet its communities' needs.

Because of its already deep relationships, Redwood CU was able to raise $32 million from 41,000 donors and help ensure the funds got to the right hands. "The state senator knew the areas, what the needs are, and the newspaper helped to communicate, get the word out and manage the communication, and that helped us being able to take in and distribute the money," Martinez says.

"Affordable housing is a huge issue," he adds. "We didn't do construction loans. We didn't do agriculture lending either. There were other people doing that, and there wasn't a need. Now, we are doing them, and we intend to keep doing them, even after recovery is completed. When helping the community becomes part of your core product line, and you think about it that way and it is part of what you are doing, focused on it on a daily basis, you are starting to arrive."

Redwood CU's response to the disastrous fires has helped to propel it to a whole new level. Its leaders acknowledge they will never be the same after this experience. Future plans include more fully integrating the lessons learned—a hallmark of a maturing social purpose model.

PURSUING THE MODEL

Snodgrass acknowledges that really understanding community needs and developing authentic relationships with community partners can be challenging.

"Deciding to do this requires a degree of humility," he says. "It's not about you—all of your energy is directed to others. We were meeting with a social purpose organization in downtown Detroit. They are doing some amazing things: employing homeless women, designing jewelry, creating products. We wanted to understand how we would could add value and support them. We were met with a degree of skepticism. When you start engaging in community organizations, they don't expect that somebody really cares. They expect that this is some sort of propaganda play."

Much work remains to be done to fulfill the promise of CUs' social purpose model, which offers a blend of classic CU principles, an innovative community-centered approach and the promise of re-energizing the "why" of CUs in a way that appeals to young people.

The approach also appears quite flexible and allows for both incremental development and a broad reach. It also stimulates innovation and a renewed passion from credit union leadership in how they design the credit union to be a meaningful cause—a cause that genuinely invites others to collectively reclaim the "why" of a credit union and create positive impact for members, their families and communities.

Michael Daigneault, CCD, *is CEO and founder of Quantum Governance L3C* (quantumgovernance.net), *in Vienna, Va., CUES' strategic provider of governance and board assessment services. Daigneault has more than 30 years of experience in the field of governance, management, strategy, planning and facilitation.* **Caitlin Curran Hatch** *is senior consultant for Quantum Governance, supporting the firm's clients with more than 25 years of experience in the business and legal sectors. The organization fields more engagements in the CU community than in any other, a total of 40 percent of its work.*

Closing *the Trust Gap*

5 WAYS TO UNITE STAFF AND VOLUNTEERS FOR GOOD GOVERNANCE

BY MICHAEL G. DAIGNEAULT, CCD, AND JENNIE BODEN

We had a colleague once who used to say that trust is "the residue of promises fulfilled." It's a pretty good working definition, as definitions go. It's simple, straightforward, and likely one that most people can identify with. You trust those that you can rely on; those that have come through for you in the past are *most likely* to come through for you in the future. You're probably more drawn to the types of people in your life who do what they say they are going to do, and we bet that you avoid the other type—the kind that disappoint and fail to follow through.

For years, we've been surveying credit union leaders around the country and, out of the more than 50 questions that we've been asking them, there's one we've always identified as among the most important: How effective is your board at building a leadership culture of trust?

Then, after years of surveying individual credit unions, we synthesized the data from multiple credit unions and learned a lot. (You can read the fruits of our labors in the recently published study entitled "The State of Credit Union Governance, 2018: Five Data-Driven Recommendations for Future Success," available at *cues.org/governancereport*.)

We found a significant difference in perceptions between credit unions' senior staff and volunteers (board and supervisory committee members) on matters of trust.

The numbers may surprise you; we know that they surprised us.

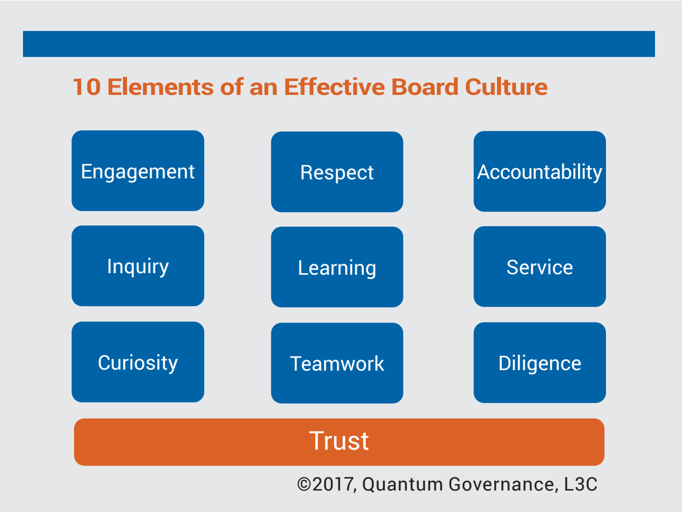
If you consider trust to be an essential building block of a cooperative's leadership culture, as we do, the numbers may also concern you.

While we identify 10 elements of an effective board culture including engagement, inquiry, curiosity, respect, learning, teamwork, accountability, service and diligence, it's the element of trust that undergirds them all. Without trust, you're likely in real trouble. Conflict spikes up, relationships fray, efficiency plummets and morale ends up in the basement.

Overall, just 27 percent of senior staff and 25 percent of CEOs that we surveyed reported that their boards were "very effective" at building leadership cultures of trust, and a critical mass of them (42 percent of senior staff and 48 percent of CEOs) thought that their boards were only "adequate," "ineffective" or "very ineffective" at doing so! (See charts, p. 12.)

There's also a clear gap between what the senior staff and volunteers think. More than 50 percent of supervisory committee members and 40 percent of board members we surveyed reported that the board was very effective at building a leadership culture of trust—indicating a significant perception gap between the two groups.

So, what's going on here and, more importantly, what should we do about it?



WHAT'S GOING ON?

A credit union board member recently described her board's culture as "toxic," and another suggested that there was a "cancer" within. While we certainly recognize that the culture described by these two volunteers is an extreme, we do know that all cultures, including your board's culture, are living, breathing things that require constant tending and care. And if you're not paying attention to yours, you're putting it at risk.

To understand more closely what may be driving these troubling findings on trust, let's turn back to our recent study and explore three more elements of an effective board culture:

1. Engagement. If trust is the primary element of an effective board culture, engagement runs a close second. You can't have an effective culture if your board members aren't engaged. How many times have we heard from our clients (and have you thought to yourself) that there's a group of board members who just come to board meetings and sit there, never talk, don't seem prepared and don't seem to care?

How much trust do you think those board members are engendering? If we go back to our definition of trust—the residue of promises fulfilled—are they keeping the promises they made when they joined the board? Are they serving their CUs to the best of their abilities? Are they engaged, active members of the board? Lending their time, talents and energies? Sadly, the answer is often a resounding, "No."

Our survey data shows that 41 percent of CU volunteers and staff rate their board members' engagement as only "adequate" or less than adequate. Board member engagement is—for some CUs—suffering, and such woes are likely having a negative impact on building trust.

2. Accountability. Merriam-Webster defines accountability as "an obligation or willingness to accept responsibility or to account for one's actions." There's some good news: Many supervisory committee members believe there is a fair bit of accountability on CU boards.

The not-so-good news is that those *actually in the boardroom* on a regular basis expressed a much greater degree of concern. Less than 25 percent of board members surveyed think that they're very effective at holding each other accountable—and the perspective from management is even more critical with only 16 percent of senior staff and 12 percent of CEOs finding boards very effective at holding fellow board members accountable.

Over time, this lack of accountability is surely having a negative impact on trust. It likely means that some directors are falling short on their promises and their colleagues aren't respectfully calling them on it.

3. Inquiry. We like to say that one of a board member's most important jobs is asking good questions. Volunteers will never be a top expert on the CU's operations, nor should they be. That's why directors rely on professional CU staff for help. Volunteers must trust but verify; ask questions that staff may not have considered; and provide advice, counsel and oversight that drives success.

Unfortunately, there is some evidence in our report that boards aren't measuring up in this area. More than a third of our study's respondents rated their boards as only "adequate" or "less than adequate" at asking the hard questions that need to be asked.

The key is to be sure that you're actively creating a culture of inquiry. Understand your role and speak up. But be careful. Ensure that your culture of inquiry doesn't become a culture of actual or apparent distrust. That is, trust but verify.

Your questions should be shared for supporting and furthering the CU, not a "got ya" mentality. And don't jump into the weeds. Keep your questions strategically focused or at the appropriately high end of fiduciary oversight.

WHAT CAN BE DONE?

If you've read carefully, at least some of the answers will have begun to emerge. We've listed them here in five suggestions for you to consider:

1. Assess your credit union's governance effectiveness and culture. If your board hasn't conducted a governance assessment recently, it's time to do so. Just like you go to a doctor regularly to evaluate your health, your CU's governance health and culture should receive its own checkup on a regular basis—usually every two years. This should include a formal assessment process to identify your strengths and challenges and the development of an action plan for improvement.

MORE ON TRUST AND GOVERNANCE

The Real Crisis Is Trust (*cues.org/0817trust*)

Skeptical? No, Strengthening (*cues.org/0814skeptical*)

Help Your New Chair Move Up (*cues.org/0717help*)

Board Chair Development Seminar, Sept. 10-11, Amelia Island, Fla. (*cues.org/bcds*)

Center for Credit Union Board Excellence (*cues.org/ccube*)

Figure 1 *Building a Leadership Culture of Trust by Position*

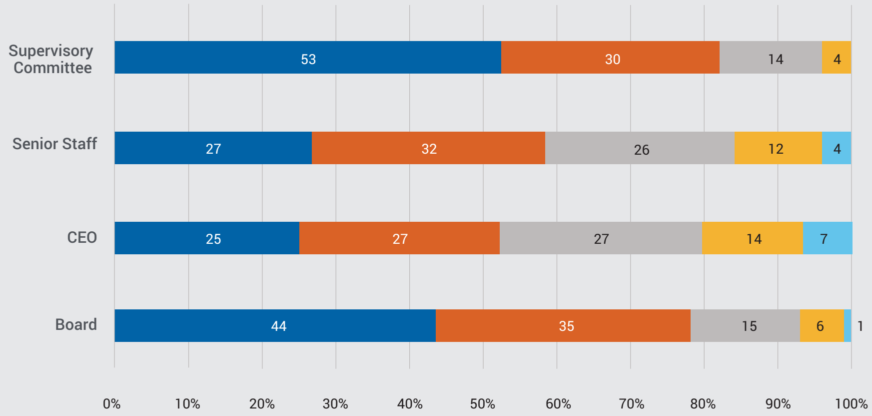


Figure 2 *Engaging All Board Members in the Work of the Board*

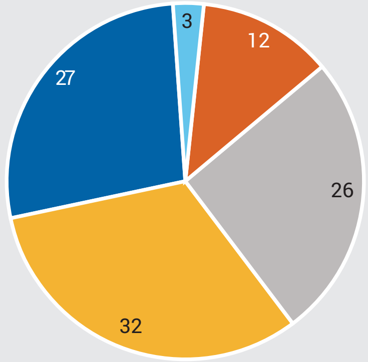


Figure 3 *Holding Each Other Accountable by Position*

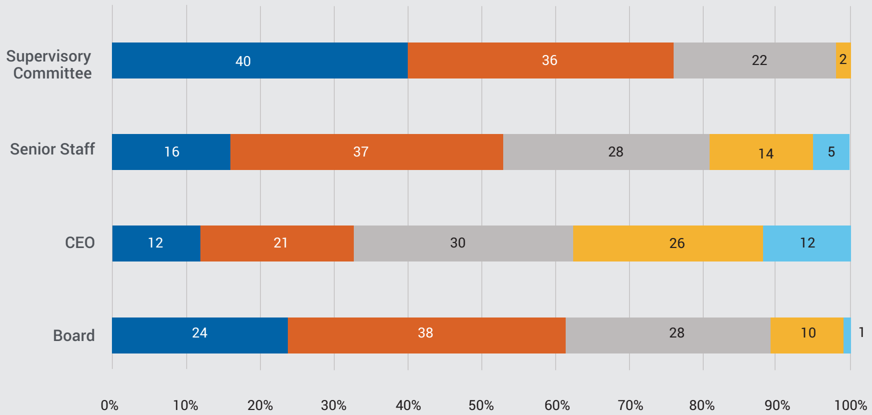
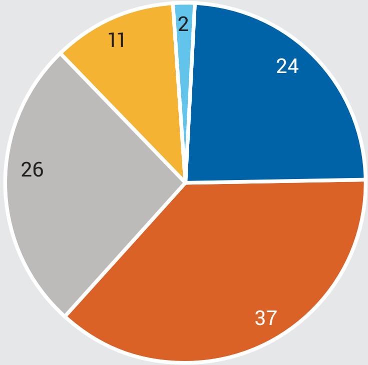


Figure 4 *Asking the Hard Questions That Need to Be Asked*



■ Very effective ■ Effective ■ Adequate ■ Ineffective ■ Very ineffective

2. *Keep your promises.* Say what you are going to do and then do it. Don't disappoint. Follow through, and if you can't, be clear why not.

3. *Show up.* Be prepared. Participate. If you're not clear about what is needed, ask. Ensure you have job descriptions for directors and officers; make sure you have committee charters, too. These all help to clarify (and quantify) roles and responsibilities.

4. *Be accountable and hold others accountable, too.* Accountability is a two-way street. Just as we talked about keeping your promises, you need to be sure that your colleagues are keeping their promises, too. Once the roles and responsibilities are clear, and everyone knows them and agrees to them, commit to a culture of accountability. Ensure you have a chair in place who is bold enough and strong enough to lead the charge.

5. *Ask the hard questions that need to be asked (and have the hard conversations that need to be had).* This last suggestion is perhaps the most challenging of all. It will require you to be open and vulnerable at the same time ... to put your trust in your colleagues and to ask them to put their trust in you. But it's a must, and as we said, probably your most important role as a board member.

Michael Daigneault, *CCD, is CEO of Quantum Governance L3C* (quantumgovernance.net)*, Vienna, Va., CUES' strategic provider for governance services. He has more than 30 years of experience in governance, management, strategy, planning and facilitation, and served as an executive in residence at CUES Governance Leadership Institute* (cues.org/gli)*.* **Jennie Boden** *serves as the firm's managing director of strategic relationships and a senior consultant. She has 25 years of experience in the national nonprofit sector and served as the chief staff officer for two nonprofits before coming to Quantum Governance.*

Help Your New Chair Move Up

Here's what a top board leader needs to know to be successful —and what you need to know to help.

By Michael G. Daigneault, CCD, and Jennie Boden

Credit union boards often talk about ways to orient new directors. Many lament not having a defined process. Others have the CEO give an orientation on the credit union and its management team that doesn't go so deep as a true board orientation. Such limited approaches leave new board members adrift in uncharted seas, and it can take years for them to find their governance sea legs.

Another vital orientation process gets even less attention—the one for orienting new board chairs. Be honest. How much time have you given to thoughtfully defining the role of the chair and then—as objectively as possible—assessing and orienting the person who would best fit the role moving forward? If you are like most credit union boards, the answer is, unfortunately, "We really don't do that."

Most CUs—maybe including yours—can do better with chair orientation. A first step for all directors to consider (since they could all become chair eventually) is to define the responsibilities of a chair, so your CU can map training to what the chair needs to know. Here are six key things your "board manager in chief" needs to be able to do or support.

1. Build a Positive and Healthy Board Culture and Structure

Being able to meet this responsibility is driven partly by the chair's character, values and beliefs. The culture of your credit union over the years also plays a critical role. But do not rely on your credit union's culture alone. The incoming chair must buy into the current culture wholly and add to that his or her own commitment to a healthy and deepening culture.

On the structure front, ensure that your board chair commands a keen knowledge of governance best practices, including roles and responsibilities of board members and officers, committee structures and charters, board meetings and information architecture.

2. Inspire and Engage the Board

Inspiration is the ability to "fill someone with the urge or ability to do or feel something, especially to do something creative." Is your incoming chair an inspiration? Does he or she bring personality, charisma and values to the table? Are they, themselves, inspired to lead?

Beyond the personal, ensure that your board chair is adept at building relationships, reading people and identifying a match between skill level and challenge. Add to these skills the right committee structure, clear charters and appointments

to those committees based on talents and interest, and you have a great recipe for engagement.

3. Set and Model High Standards for the Board and Staff

Some education about ethics and compliance issues will be necessary. We are finding more and more that credit unions would benefit from maintaining a code of ethics (also called a code of conduct), and we encourage you and your board to consider the development of one. Ensure that your incoming chair understands the difference between *ethics* (standards of conduct or principles arising from an organization's core values about how we ought to act or decide) and *compliance* (following or obeying a law, rule, regulation, policy or procedure). Both are important and both need to be adhered to by the board and staff. Finally, ensure that your incoming chair embodies and adheres to the highest ethical standards and practices. Not only will your board members be watching, but the staff will take note (and follow suit), too.

4. Craft and Effectively Facilitate Meetings

Everyone thinks this is the easy part of the job. But trust us, it's not. Of the credit union board and staff that we've surveyed, only about a third believe that they do a very effective job of allocating enough time at board meetings to discuss important strategic issues, and more than a third of the same respondents report that they are doing a less than effective job of achieving the right balance between strategic versus operational discussions in the boardroom.

Effective board meetings begin with the creation of the board agenda—a task best practice assigns to the board chair and the credit union's CEO. How often do you ask "What's the purpose of the next board meeting?" A board chair should be trained in strategic thinking and planning, to ask good (and hard) questions, and to keep the big picture in mind.

Seldom, if ever, do board chairs receive formal training on meeting facilitation. This can be worthwhile. Also consider exposing potential chairs to leadership roles at the committee level. To help develop potential chairs, you might also identify

Is your incoming chair an inspiration? Does he or she bring personality, charisma and values to the table?

portions or segments of board meetings that could be facilitated by vice-chairs and other emerging leaders.

5. Act as the Key Liaison With the CEO

Some management experience or awareness of basic HR principles will be helpful as your board chair gets started in the role. This difficult task is made more challenging by the fact that the CEO does not report only to the board chair. The board as a whole has the power to hire or terminate the CEO, and thus, the CEO reports to the full board, not just one individual or committee. But the chair does play a critical role in the board-CEO relationship. He or she should serve as the coordinator of activities between the board and the CEO—setting a tone for communications, helping to identify priorities and providing high-level guidance and counsel as needed.

The chair should also ensure that a fair and effective process of evaluating the CEO's performance is regularly conducted. Such a process should be transparently agreed upon by the board as a whole—and the CEO. The evaluation should be one where all board members provide genuine input—not just the chair or a small subset of the board.

6. Serve as One of the Credit Union's Chief Ambassadors

In partnership with your credit union's CEO, your board chair will be expected to serve as an ambassador-in-chief. Rarely does a chair ascend to the position fully briefed and trained on how to deal with the public, let alone the media. This position will require that and much more. Consider formal training on dealing with the media and communicating with the public.

Ensure an 'Optimal' Chair

Now that you've defined the job, you will want to ensure that your incoming board chair's skill level matches the requirements of the job.

Do not just assume that the current vice-chair is ready to be chair or is the best person to assume the position at any given time. Some vice-chairs are great in the vice-chair role but falter when they take the helm. This is particularly the case if they have not had the experiences or training designed to assist in making the transition as smooth as possible.

Further, be mindful of the state of your credit union when identifying a new chair. If you are in the midst of a big merger or acquisition, it would be great to have someone in the chair role who has experience with such endeavors. Similarly, a candidate for chair with a background in human resources may not be the perfect person to lead the credit union through a financial crisis but might be a terrific resource if you are experiencing rapid growth or a major shift in the management team.

Clearly, a great chair for one period of time in your credit union's history might not be the right chair as circumstances change. It reminds us of the title of a great book by executive coach Marshall Goldsmith: *What Got You Here Won't Get You There*. Being board chair demands a high degree of responsiveness that is particularly vital in times of swift and unpredictable change. Credit unions need a chair that can effectively steer the board in a manner consistent with the rapid changes impacting your credit union, as well as being the right leader for where your credit union is on its unique journey.

Finally, be sure to institute a mentoring program for emerging leaders, including your chair. Consider including your immediate past chair or an effective chair emeritus in the process. Individuals who have "walked the path" can be tremendous resources for those just beginning their journey. It can be lonely to be chair. If a mentor is not available, consider a coach for your new chair. Much like executive coaches for CEOs and other credit union senior staff, coaches can be helpful in guiding new chairs to acclimate and flourish in their new role.

Very few board chairs come to the job fully trained and ready to go. Most of what your current board chair knows was likely learned on the job. But you can change that for future chairs and help them (and your credit union) step up to success.

Michael Daigneault, CCD, *is CEO of Quantum Governance L3C* (quantumgovernance.net), *Vienna, Va., CUES' strategic provider for governance services. Daigneault has more than 30 years of experience in the field of governance, management, strategy, planning and facilitation, and served as an executive in residence at CUES Governance Leadership Institute* (cues.org/gli).

Jennie Boden *is the firm's managing director of strategic relationships and a senior consultant. She has 25 years of experience in the national nonprofit sector and served as the chief staff officer for two nonprofits before coming to Quantum Governance.*

More on Board Officers

The CEO-Chair Pair (*cues.org/0117ceochairpair*)

Good Governance: A Quality CEO-Board Relationship (*cues.org/0716goodgovernance*)

Good Governance: Start Director Onboarding Pre-Election (*cues.org/1115goodgovernance*)

Good Governance: Director On-Boarding Post-Election (*cues.org/1215goodgovernance*)

Developing Director Development (*cues.org/1216devdirdev*)

Charting a New Direction: Six key assumptions about board officers that you should challenge (*cues.org/0416charting*)

Board Chair Development Seminar, Sept. 11-12 in Vancouver, British Columbia (*cues.org/bcds*)

CUES Director Development Seminar, Sept. 13-15 in Vancouver, British Columbia (*cues.org/dds*)

30-day free trial of CUES' Center for Credit Union Board Excellence, which includes Director Education Center (*email cues@cues.org*)

The Benefits of Board Committees

Get the most out of them by applying these bright ideas.

By Michael G. Daigneault, CCD, and Jennie Boden

If there's one thing that board members and management often share, it is a disturbing sense of uncertainty as to the real benefits of board committees.

From a board member's point of view, committee meetings can sometimes be seen as another meeting to travel to, one more report to read, or—worse yet—an additional PowerPoint presentation to sit through. To top it off, it can frequently appear to volunteer leaders that "all their hard work" on a committee is—at times—somewhat less than appreciated by both their fellow board members and management alike.

Of course, the challenge of committee work is not exclusive to board members or other volunteer leaders. Management has the responsibility of assigning staff (who already have full-time jobs) to assist the work of the committees, helping to gather information, coordinating schedules, writing reports, preparing presentations as well as developing motions and updating or crafting new policies for the committee's (and board's) final consideration. Staff is regularly "rewarded" for their efforts by then being asked to assist in implementing the to-do list of items that emerge from an affirmative vote at the board level.

You may ask, "Does this mean that board committees should be abolished?" "No," we would respond. "But," you might think, "to overcome the types of burdens described above, committees better have some real benefits!" Fortunately, if done well—they do provide some very real benefits. If not done well, however, they are not the "value-add" they are intended to be.

Do you know whether your committees are truly effective? When is the last time you evaluated your board committees (as well as the overall committee structure) to ensure that they are providing genuine value to your credit union?

When established, charged and composed effectively, board committees can be a valuable asset to both your board and your management team by helping to:

1. identify and examine key issues, concerns and questions ahead of board meetings.
2. give laser focus to a project delegated by the board and/or helping to get things done more quickly and efficiently than would be possible for the full board.

3. more equitably distribute the board's work, since committee assignments can be dispersed among board members.

4. facilitate trust-building between board members and management through their combined efforts. (It's always a good idea to include relevant members of your management team on your board committees, too!)

5. increase engagement among individual board members and help them make a more meaningful contribution to the board and to the credit union.

But, what does it take to establish, charge and compose your board's committees effectively?

The State of Your Committees

There's no right or wrong number or kind of committees for each CU board. In fact, we would argue that beyond supervisory committees for federal credit unions and some state-chartered CUs and audit committees for other state-chartered credit unions, there really isn't a must-have list of committees for credit unions.

In establishing or reviewing your board committee structure, the two rules of thumb that we would have you follow are these:

1. Board committees should be established to do the work of the board, not the work of the staff; and

2. Establish standing, board committees *only* when there is sustained, permanent, ongoing work for the committee members to undertake.

Otherwise, we encourage you to use ad-hoc committees and task forces to accomplish your work early and often.

Ad-hoc committees are likely to exist for more than a year, but not intended to be permanent. For example, a CU board may create a "new headquarters committee" that would exist for several years. Its purpose would be to help the board understand and oversee the important process of: 1) identifying the need for a new headquarters; 2) outlining the central benefits and challenges of doing so; 3) identifying or constructing the new building; 4) managing the financial implications of the new headquarters; and 5) overseeing the transition plan to move to the new building. At the end of its work, once the credit union has successfully moved into the new building, the committee would be dissolved.

Task forces are even more temporary. They almost always exist for less than a year, and they are generally subgroups made up of both board and staff, but they may also include other volunteers or even outside experts or consultants. Task forces are charged with focusing on (and learning more about) a particular issue, question, opportunity or challenge and then reporting back to the board their thoughts and findings within a defined period of time. Sometimes task forces may simply report back the information they have gathered. In other cases, they are also asked to provide one or more recommendations for the board's consideration. Once they have provided their recommendations, unless the board asks for further work from the task force, they are dissolved.

What's a Committee to Do?

Charging your committees—that is setting their course of action—is an important board responsibility. Did you notice that we said board responsibility and not management responsibility? This is key. Board members need to determine what you want your committees to accomplish. In the spirit of constructive partnership, we encourage you to ask your CEO and management team for their input.

Once you know what you want your committees to accomplish, we suggest you set it down in a committee charter. Include these key sections in the charter document:

- *Prologue*: A brief overview of the committee's key function.
- *Meetings*: A statement on how frequently the committee must meet.
- *Members*: The required number and qualifications of committee members. This may include restrictions on committee membership. For example, if you opt for an executive compensation committee, you would likely not want a member of the management team to serve on this committee.
- *Committee leadership*: Outline any position requirements and responsibilities for the committee chair and/or secretary
- *Role of the CEO*: Outline the roles and responsibilities of the CEO vis-à-vis this particular committee.
- *Charge*: Detail the roles and responsibilities of the committee, including reporting requirements to the board.

The most important thing to know about all of your board committees is this: Unless it's explicitly stated, your board's committees do not have decision-making authority; they can only provide recommendations to the full board for their action. Let us repeat that: Unless it's explicitly stated, your board's committees do not have decision-making authority; they can only provide recommendations to the board for their action.

Finding the Right People to Serve

Unless governmentally regulated (such as for supervisory or audit committees), there is no hard-and-fast rule about the number of members a committee should have. Three to five members is often optimal. Committees generally have more credibility if there is some diversity of opinions and experiences. Too many opinions and duplicative effort can result when a committee grows too large. This is particularly the case with credit unions that have fairly small boards. If the committee grows too large, efficiency may be lost.

The ideal composition of a committee depends on a variety of factors, such as the committee's purpose, charter, size, chair and even the experience of its members. It's best to have at least one board member on a committee. But including non-board members or community members on board committees can be an effective way of reaching out and potentially beginning to build your bench for future board members. Each committee should also have an official non-voting staff liaison appointed to help carry out its efforts.

Your board chair and the CEO should also be treated as ex-officio, non-voting members of all board committees unless the substance of the committee's deliberations would be in conflict with their attendance. (Consider our previous example where a CEO would not attend a meeting of a committee doing an analysis of his or her performance and compensation package.)

> Be bold. Cast your net widely, and don't assume that your strategic planning task force should be filled with strategic thinkers. Remember, there are other aspects to strategic planning that are important.

Other than these basic parameters, be bold. Cast your net widely, and don't assume that your strategic planning task force should be filled with only strategic thinkers. Remember, there are other aspects to strategic planning that are important, such as developing a realistic budget for those strategic goals. Thus, a financial mind would be a good addition to your strategic task force, too.

Our guess is that if you are like most credit union boards, you are probably secretly worrying about your board committees. Shed some needed light on them. Don't just carry on with the same committee structure that you've always had, just because you've always had it.

Board committees are a significant component of your credit union's governance structure. And they draw a significant number of staff resources. Be sure that you are using them wisely. Do you have the right committees? Tasked with the right responsibilities? Composed with the right folks and aided by the right staff?

Be brave. Ask yourselves these questions—and more questions like them. You'll be very glad you did.

Michael G. Daigneault, CCD, *is CEO of Quantum Governance L3C* (www.quantumgovernance.net), *Vienna, Va., CUES' strategic provider for governance services. Daigneault has more than 30 years of experience in the field of governance, management, strategy, planning and facilitation, and served as an executive in residence at CUES Governance Leadership Institute* (cues.org/gli).

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Resources

Members of the Center for Credit Union Board Excellence can read a bonus article, "Three Key Committees" at *cues.org/1016ccubeqg*. Not yet a member? Sign up for a 30-day free trial by emailing *cues@cues.org*.
Download a sample committee charter from Quantum Governance, CUES' strategic provider for governance services, at *cues.org/sgncc*.
Learn best practices in governance and earn the Certified Credit (Union) Director, or CCD, designation when you attend CUES Governance Leadership Institute™ (*cues.org/gli*). The program will next be offered June 11-14 at the University of Toronto.

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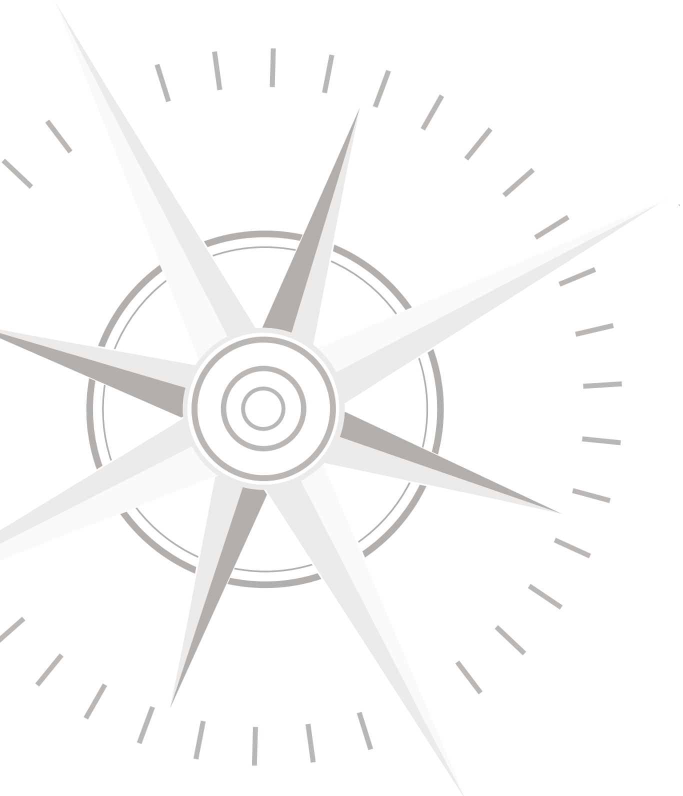
Charting a New Direction

Six key assumptions about board officers that you should challenge.

By Michael G. Daigneault, CCD

The roles of leadership in today's credit unions are changing; specifically, there's an important new way to think about key board leaders.



The ideal role of board treasurer was a recent topic of conversation on CUES Net™ (*cues.org/cuesnet*), the CUES-members-only listserve. Without identifying which CUES members were having the conversation, the CUES Net moderator asked for my input, and posted my thoughts back to the list. My thoughts stirred a bit of controversy, and I thought to myself, "Well, good. Let's have this discussion. Let's talk about the changing roles of leadership in today's credit union."

In this article—as I did in my comments to CUES Net—I'm going to challenge assumptions about the role of board treasurer—and the other officers. Get ready.

I've never been one to shy away from a good old-fashioned give and take, and I think it's time that we all push ourselves to go beyond the status quo when we think of the board officer positions that are leading our movement into the future.

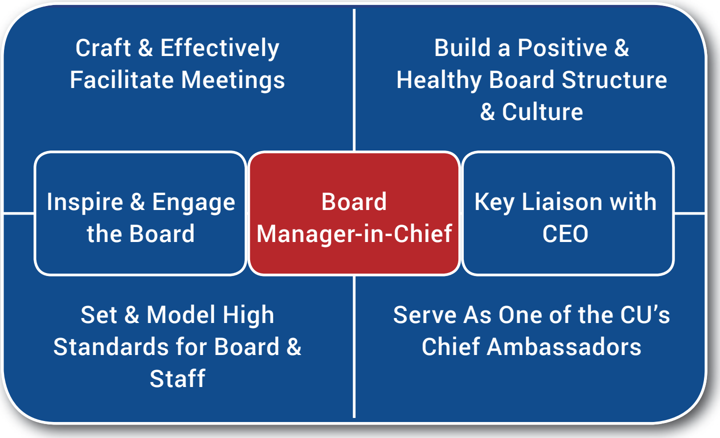
I've written and spoken in recent years about the nine key challenges facing the credit union of the future. (Read about them in my article at *cues.org/032415goodgovernance*). To be certain, you and your colleagues are facing a lot more challenges today than you were a decade or more ago when many of you signed up as board members.

So, if the world around you has changed, and continues to do so at a rapid pace, shouldn't some of our assumptions and approaches to leadership be open to change, too? I think so, and I'm encouraging you to revisit some long-standing assumptions you have about board leadership.

Assumption #1: Boards should never "manage" anything.

I love asking board retreat participants if boards should manage. The vast majority of board members (and nearly all CEOs) gasp and respond with a resounding and unequivocal, "no." So, I continue prodding, asking: "Are there no circumstances under which a board should manage?" I get silence—and blank stares. "None?" I ask.

Key Responsibilities: Chair of the Board



Ultimately, I'll have one brave individual who will posit that: "Boards should manage their one employee—the CEO." Another brave soul may offer, "Boards should manage themselves." And this becomes my opportunity—they are correct!

If a credit union board should be responsible for managing its own operations, then it would be logical to consider your chair as your board manager-in-chief. He or she is responsible for the overall, effective functioning of your credit union's board. Beyond crafting and facilitating your meetings in partnership with the CEO, your chair should ensure that your board is building a healthy governance structure and practices. (Of course, we recommend an active governance committee as an important partner in this endeavor, too.)

But, these are just the nuts and the bolts part of the job. The real key to what the board chair does is in fostering and then *managing* the right culture for your credit union board. Be sure that you and your colleagues appoint a chair who can inspire and engage your board members—one who sets and models high ethical standards, from both personal and professional points of view.

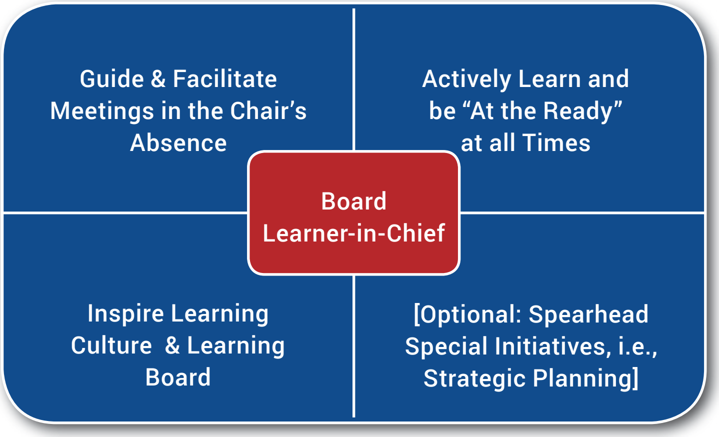
It's also important that he or she work well with the credit union's CEO—fostering a constructive partnership between the board and senior management.

Assumption #2: The vice chair's job is boring.

Much like the vice president of the United States, the position of vice chair used to be pretty boring. But it doesn't need to be. What if you reframed the vice chair role as your board learner-in-chief?

Yes, of course, this means your vice chair should be learning everything he or she can about the role of the chair should the vice chair be needed in that role some day. It is, after all, the

Key Responsibilities: Vice Chair



vice chair's role to be "at the ready" at all times. This means your vice chair should be ready to fill in for short-term absences and the potential long-term replacement of your chair.

But being the board learner-in-chief can mean so much more. And it should. To meet the challenges before you, you and your colleagues need to be constantly learning and growing. (Read coverage of my CUES Webinar, "Fostering a Culture of Board Learning," at *cues.org/* fosterbdlearn when you log in as a member of the Center for Credit Union Board Excellence—or email *cues@cues.org* for a 30-day free trial.)

There is no one better suited to lead this charge toward adopting the culture of a "learning board" than your vice chair. He or she should already be in full learning mode and can be a catalyst to encourage you and your colleagues to actively pursue learning on an ongoing basis.

Lastly, you can consider charging your vice chair with special projects or initiatives like being a public spokesperson at key events, coordinating board retreats, designing better board meetings, strengthening the strategic planning process, or even a successor CEO search.

The vice chair position lends a level of credibility to these initiatives, which is important, while allowing your chair to keep his or her eye on the overall management of your board.

Assumption #3: The board secretary's job is to take minutes. (That is, the secretary's role is even more boring and inconsequential than the vice chair's!)

This is perhaps my favorite board officer position to discuss. I always ask this very simple question: "What is the role of the board secretary?" And there are usually one of two answers given. The first is this: "To take the minutes." And the second: "To edit and approve the minutes taken by the *staff*."

Really? That's it? Boring...

But no–that's not it! For a little inspiration, we needn't look far.

In the corporate sector, the board secretary has a very, very important role. He or she is, as enumerated by the Canadian Society of Corporate Secretaries (*www.cscs.org*), responsible for ensuring the integrity of the governance framework, the efficient administration of the company, compliance with statutory and regulatory requirements, and implementing decisions made by the board of directors.

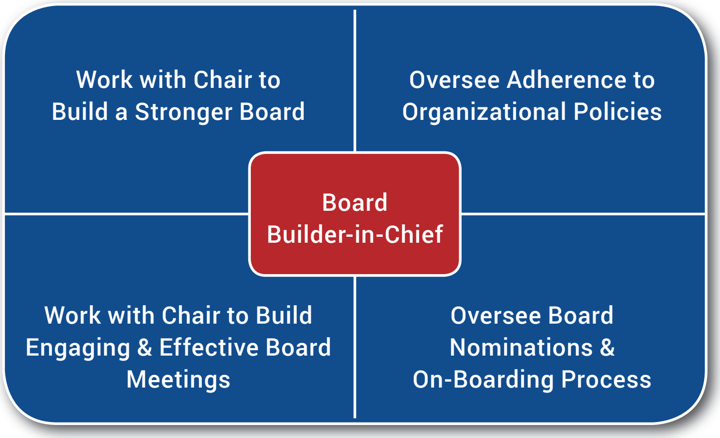
There. How does that sound? Boring? I don't think so. Now, that's a job I'd like to have as a volunteer board member. It goes pretty far beyond taking minutes, doesn't it?

Make no mistake. You are helping to lead an organization every bit as complicated or sophisticated as a corporation. While a credit union's structure may be different from its for-profit competitors, the stakes are just as high. And some could argue that the complexities you face as a credit union—with members' interests and a mission to balance—place even greater demands on your governance structure, policies and practices.

Consider your board secretary your board builder-in-chief (or, better yet—your chief governance officer), working hand in hand with your chair to build a stronger board. Your board secretary should be tasked with seeing that your board adheres to organizational policies, as well as national regulations.

He or she should also oversee board nominations and a robust onboarding process by chairing the credit union's governance and nominations committee. And this committee, too, can be charged with working with the chair to build engaging board and committee meetings to effectively carry out the board's work.

Key Responsibilities: Secretary



Assumption #4: You have to be a numbers person to be the treasurer.

At last we come to the source of the controversy that sparked this article. In my response to CUES Net, I suggested that it is the role of the contemporary credit union treasurer to help fellow board members effectively *translate* complex financial reports and data into comprehensible and insightful information that can effectively support strategic decision-making at the board level.

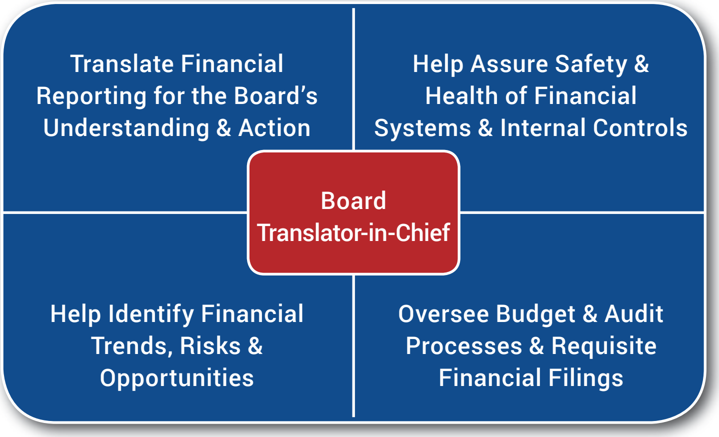
There was some concern raised that perhaps what I was suggesting was that board members (i.e., the treasurer) might have more experience in the financial realm than the credit union's CFO.

I wasn't. I was actually trying to make the *opposite* point.

If your credit union board is like most, it's not made up of financial whizzes and MBAs. It's made up of everyday people like you and me, representing the membership and, for whom their financial literacy and acumen may have been developed through their service on the credit union board.

And if they're like me, perhaps their eyes glaze over when they see 26 Excel spreadsheets coming their way.

Key Responsibilities: Treasurer



I see an effective treasurer working with the CFO and his or her staff—poring over those Excel spreadsheets—to ensure the board receives clearly discernible reports, dashboards, bar charts and graphs, all in an attempt to clarify and deliver the complex financial reports in a manner that everyone on your board can genuinely understand.

My colleague shared a story recently that made perfect sense to me. She said that the best treasurer she ever saw was a marketing guy. Yes, you read that correctly. A marketing guy. He didn't want the job, but no one else would take it. He was the last guy standing. And what made him good at the job (indeed, great at the job) was that he didn't fully understand the numbers at first, and he kept asking for clarification until he did. And, he was good at communications and visuals, so that was a plus. The joke around the boardroom was that if Jeff could understand the financial reports, anyone could. And they were right. He had them "translated" into a form he could genuinely understand. This helped Jeff—and everyone else on his board!

How crystal clear are your financial reports? Can your new board members truly understand them? Or are you still presenting 26 Excel spreadsheets (in the form in which the staff tends to understand them) to your board members and expecting them to read them like a CPA?

Assumption #5: Everyone deserves a chance to be chair.

Don't simply adopt an automatic ascension plan for the board member who "hasn't had a chance to be the chair yet." Many credit unions have a practically automatic process whereby directors begin as a regular board member, then become the secretary, then move to treasurer through to vice chair and right on up to chair.

Not everyone is cut out to be chair. Automatic ascension provides little to no wiggle room concerning needing a particular person to be chair because he or she has a particular skill set or capability; due to big changes being on the horizon for the CU; or because the board needs to focus in a new direction. Choose the right candidate for the right time, not simply because it's his or her "turn."

Assumption #6: You'll know what to do when the time comes.

One of the most important leadership assumptions I can help you challenge is that you will know what to do when the time comes. This relates directly to the notion that you should *always* have in place a leadership succession plan—and I'm not talking about a CEO succession plan (although I think you should always have one of those in place, too!).

Your board and its officers are some of your most important strategic assets. Treat them accordingly. Plan ahead for changes in board leadership—both the kind that can be anticipated and those that cannot.

I'm not talking about drawing up a 10-page, detailed plan. I'm talking about outlining the basics, including: who will serve as board officers on an interim basis; what roles certain committee(s) will play; and how the credit union's CEO may be impacted. Be sure any succession plans are in line with your credit union's bylaws, which may provide some direction on these issues.

Above all, be open to even the idea of change. Here's an example to explain what I mean.

I spent the better part of a recent training arguing the merits of having a board secretary play an increased role within the organization. Really? I could hardly believe it—here was someone before me, arguing against a more engaged, more robust role for a board officer. Arguing against a board volunteer filling a key need within the credit union. Why? Because the secretary was so busy reading and approving all of those meeting minutes? I hardly think so.

What's the downside? I wondered. Imagine the upside ...

Michael Daigneault, CCD, *is CEO of Quantum Governance L3C* (www.quantumgovernance.net)*, Vienna, Va., CUES' strategic provider for governance services. Daigneault has more than 30 years of experience in the field of governance, management, strategy, planning and facilitation, and served as an Executive in Residence at CUES Governance Leadership Institute™* (cues.org/gli)*. Quantum Governance fields more engagements in the credit union community than in any other, more than 40 percent of its total client projects.*

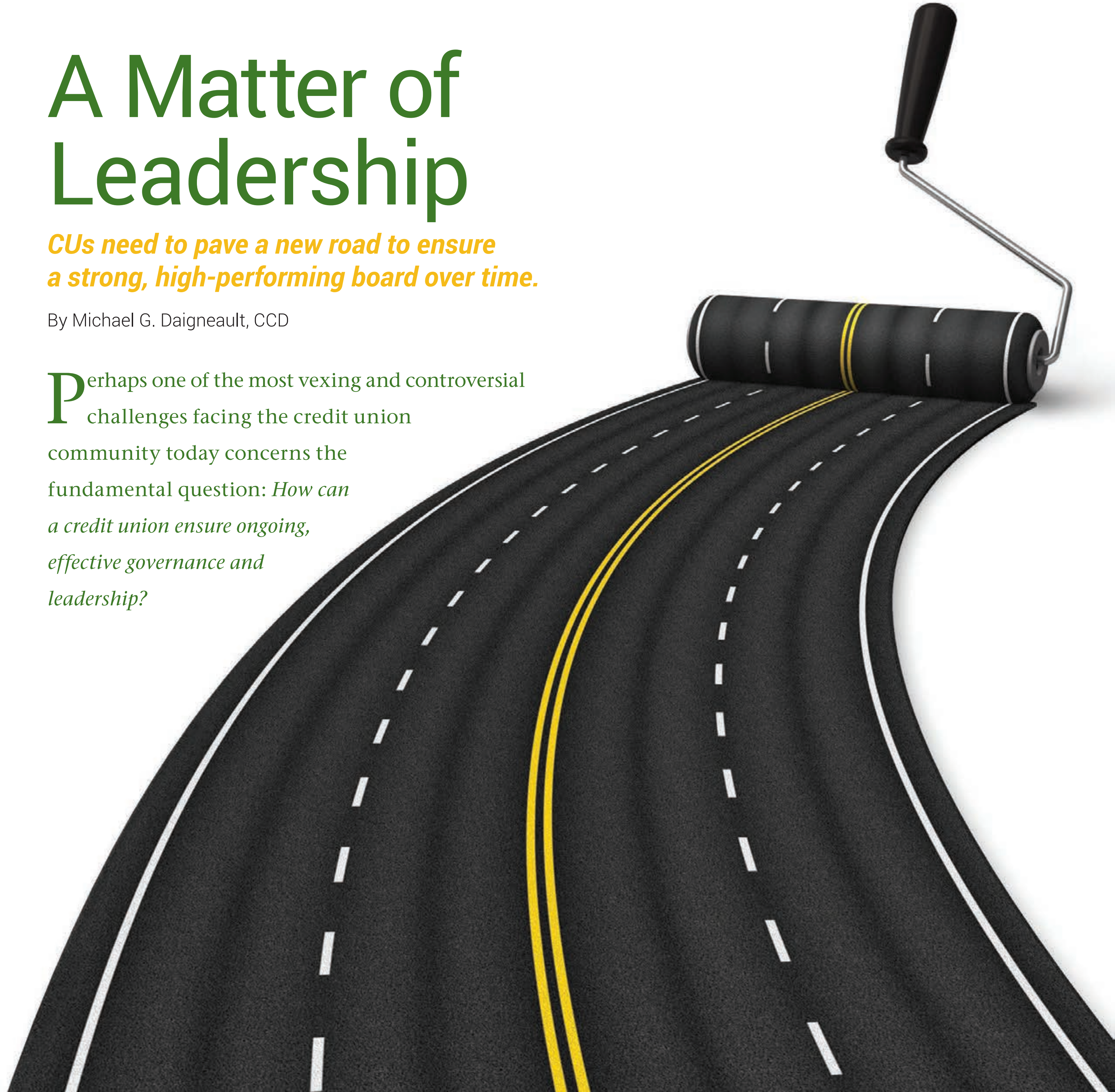
Resources

Read about nine key challenges facing today's credit union boards at *cues.org/032415goodgovernance.*
Also read about board officer development at *cues.org/022415goodgovernance* and about the role of the chair at *cues.org/110813goodgovernance.*
Read coverage of Daigneault's CUES Webinar, "Fostering a Culture of Board Learning," at *cues.org/fosterbdlearn* when you log in as a member to the Center for Credit Union Board Excellence—or email *cues@cues.org* for a 30-day free trial.
Board Chair Development Seminar (*cues.org/bdcs*) will be held Sept. 12-13 in Santa Fe, N.M. Plus, this June in Asheville, N.C., and September in Santa Fe, five other seminars tailored for director learning will be offered. Get all the details at *cues.org/seminars.*

A Matter of Leadership

CUs need to pave a new road to ensure a strong, high-performing board over time.

By Michael G. Daigneault, CCD



Perhaps one of the most vexing and controversial challenges facing the credit union community today concerns the fundamental question: *How can a credit union ensure ongoing, effective governance and leadership?*

One of the historical building blocks of a CU is that it is a cooperative. It has long been thought that financial cooperatives will be best led by members who have an actual financial stake—or share—in the CU itself. Since their own money is invested in the CU, it is widely assumed they will be aware of—and appropriately engaged in—the proper oversight of the credit union's financial affairs. CU members accomplish this by electing a board to take on a set of responsibilities designed to help ensure the safety and soundness of the members' resources, as well as the effective governance of the CU.

The current state of credit union governance is, however, being severely challenged by a rapidly changing environment and a sometimes stagnant board. (*Read a bonus article, "The Nine Leadership Challenges," at* cues.org/032415goodgovernance.)

One of my senior consultants came to Quantum Governance from the general nonprofit sector. She was stunned when assigned to her first credit union client. What she found was a group of directors, the majority of whom had been in their positions for well over 20 years.

Because of the long-time tenure of these board members, the institution was facing the wholesale turnover of both its board *and* its CEO in the next few years. By holding on so long, the board members actually ended up endangering leadership continuity—exacerbating the very problem they professed to be solving by their continued service.

The time has come for boards to reframe and "rebalance their responsibilities," as Ram Charan has noted in his new book, *Boards That Lead: When to Take Charge, When to Partner and When to Stay Out of the Way (www.boardsthatlead.com).* Yes, board monitoring and oversight are still important, but they are no longer sufficient. The reality is that for many CU boards, more effective leadership is needed.

What Leadership Leads To

At Quantum Governance, we talk with a lot of credit union board members and, unfortunately, what we're hearing from them about their ability to effectively lead and govern isn't altogether positive. The following data is from our 2014 credit union compendium:

- More than 25 percent of all board members we've surveyed think their board is "less than effective" at building a leadership culture of trust.
- Thirty-seven percent think they are "less than effective" at holding each other accountable.
- Only one in five board members thinks their board is "very effective" at asking the hard questions that need to be asked.
- Twenty percent of board members say they are "ineffective" or only "adequate" at acting decisively when necessary.
- Sadly, about one in three directors says their board leadership and governance culture are "less than adequate" overall.

Importantly, credit union boards are struggling to find the right people to serve—with only 18 percent saying they are "very effective" in doing so.

How to Get More Effective Leadership

So what's a credit union to do? Renewing the strength of your board and its leadership can be accomplished using various techniques. If you answer "no" to even a few of the questions in the following section, you've got some work to do. And you need to get moving, or you're likely to get left behind. Way, way behind.

Board assessment. Is your board working on strengthening its governance practices? Are you reflecting on what's going well and where you're struggling? How are your committees functioning—especially your supervisory committee? Have you and your colleagues committed to a regular process of board evaluation?

Training for needed competencies and strengths. Are you undertaking a robust training initiative that responds to your assessment results by strengthening your directors' intellectual capacities and stretching the boundaries of current discussions? Do your fellow directors return from the latest CUES or other conference full of ideas and enthusiasm? (*Read "Starting Point," about developing plans for director learning, on p. 24 of this issue.*)

Associate board member program. Have you considered an associate director program that will afford up-and-coming volunteers the ability to learn about your credit union's business "from the ground up?" Are your committee rosters creatively drawing from non-board members–those in the community who could foster a wider sense of support for the credit union and support your associate director program? Do your recruiting "tentacles" go beyond the supervisory committee? (*Also read "Working in the Governance Wings: Strategies for readying volunteers to give a good performance once on the board" at* cues.org/102714wings.)

Term limits. This practice is rooted in one of the central principles of maintaining board effectiveness over time and the idea of creating (and sustaining) a careful balance between historical continuity and rejuvenation. A big potential benefit of limiting the length of service of credit union directors is fostering an influx of new talents, skills and energy to the board as a whole, as well as among board officers.

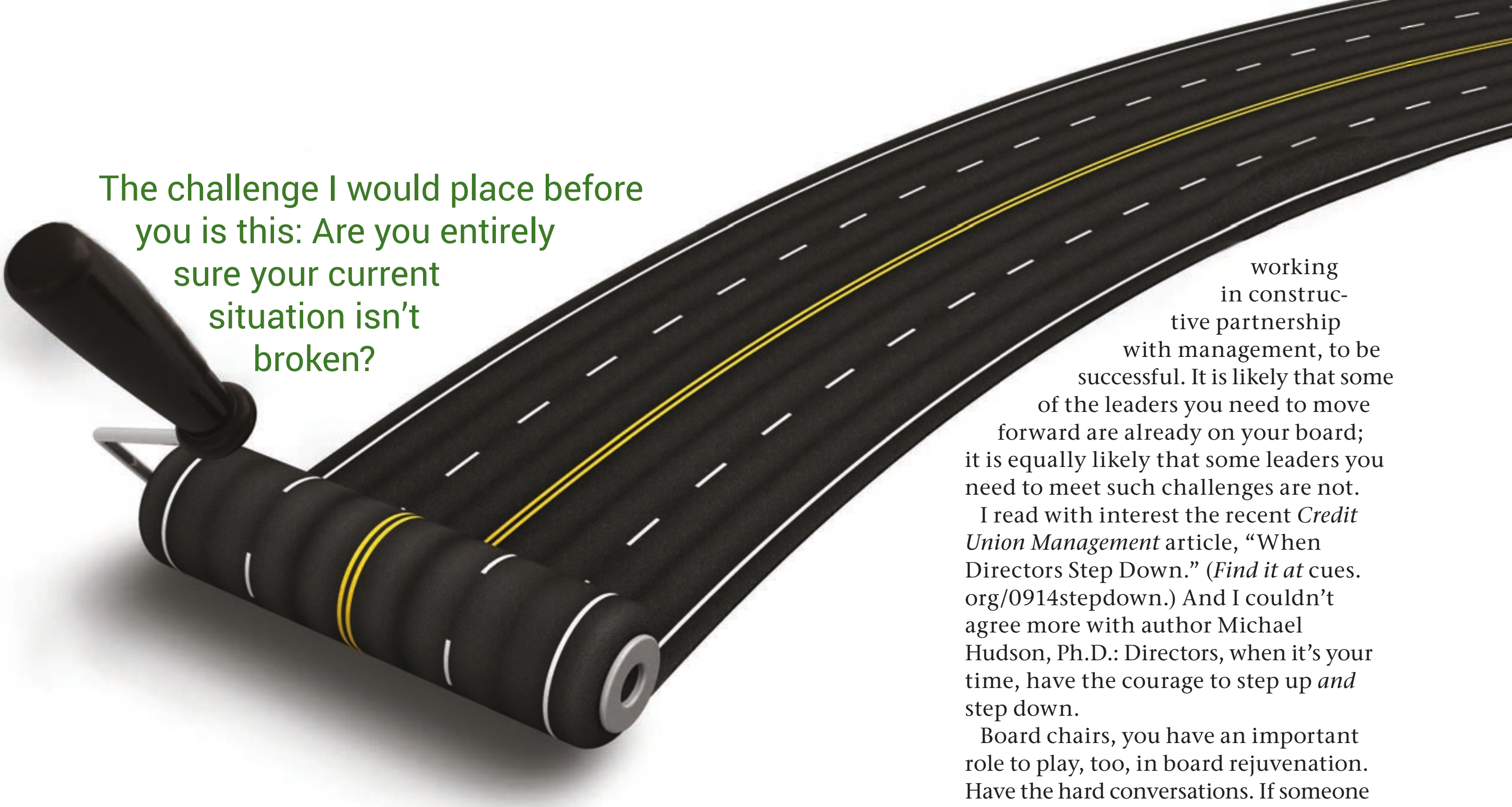
Of course, there are a number of traditional challenges raised concerning term limits. Some credit unions fear losing valuable board leadership and institutional knowledge. (*Get ideas for minimizing this risk in this video:* http://tinyurl.com/captureknowledge.*)*

It takes time to really understand the issues at play within an organization—and credit unions are complex financial organizations. Some believe it imprudent and inefficient to spend valuable time and energy getting board leadership "up to speed," only to then urge them to move on at the close of their tenure.

Another frequently raised concern is an actual or perceived shortage of suitable or willing candidates. Such a shortage of qualified candidates can be an authentic challenge—or simply the net result of very low turnover. Of course, if a board officer or member has proved effective, there are some who would suggest it is entirely appropriate to maintain the status quo because "if it ain't broke, don't fix it!"

Certainly, I'm not saying that term limits are the answer. They are, clearly, only one tool. But they can be a helpful tool for your board's leaders. (*Read more about term limits in "Finely Tuned Terms" at* cues.org/0413finelytunedterms.)

Rotation of officers. Additionally, it is helpful to periodically rotate directors through board officer positions so a sustained concentration of power in a limited number of individuals (either actual *or* perceived) does not occur. Rotating board officers also helps an organization from getting stuck with just one leadership style.



The challenge I would place before you is this: Are you entirely sure your current situation isn't broken?

Board officer rotation is also thought to strengthen the pool of candidates willing to serve. This is due to the common occurrence that some will naturally aspire to board leadership roles—but only if it is perceived there is an authentic opportunity to attain a leadership role after a reasonable period of time and service. Finally, a lasting concentration of authority in a select, few individuals is, I believe, contrary to cooperative governance principles.

Know the true role of the board chair. While there are courageous conversations that need to happen at the chair's level when a board member is failing to live up to his or her fiduciary responsibilities, strengthening the leadership of the board is not just your chair's responsibility. (*Read "Good Governance: Board Chair Development" at* cues.org/022415goodgovernance.)

As a board member, it's your responsibility to truly be engaged. Don't simply attend the meetings and go through the motions; be an active player. A board member recently told me that he estimated about 70 percent of his colleagues *barely even spoke* at his CU's board meetings. Is that leadership? Your members are depending on you.

More Than Incremental Improvement

The challenge I would place before you is this: Are you entirely sure your current situation isn't broken?

Fundamental or truly transformational changes—not just incremental—are what your credit union must undertake to craft the exceptional board of the future. A board that can truly help to overcome the types of challenges facing credit unions.

It will take exceptional board leaders, working in constructive partnership with management, to be successful. It is likely that some of the leaders you need to move forward are already on your board; it is equally likely that some leaders you need to meet such challenges are not.

I read with interest the recent *Credit Union Management* article, "When Directors Step Down." (*Find it at* cues.org/0914stepdown.) And I couldn't agree more with author Michael Hudson, Ph.D.: Directors, when it's your time, have the courage to step up *and* step down.

Board chairs, you have an important role to play, too, in board rejuvenation. Have the hard conversations. If someone isn't participating or truly adding value, it's your job to find out why, and—if need be—help find someone who will.

In the end, no single tool, technique or individual strategy is a substitute for what is needed most at this pivotal time in the credit union community and that is, of course, courageous leadership on the part of every member of the board.

Michael Daigneault, CCD, *is CEO of Quantum Governance L3C (*www.quantumgovernance.net*), Vienna, Va., CUES' strategic provider for governance services.* Daigneault *has more than 30 years of experience in the field of governance, management, strategy, planning and facilitation, and served as an Executive in Residence at CUES Governance Leadership Institute (*cues.org/gli*). Quantum Governance fields more engagements in the credit union community than in any other, more than 40 percent of its total client projects.*

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A Matter of Culture

What drives yours? Here are 10 elements to shoot for in your board room.

By Michael Daigneault, CCD

I ask credit union leaders a lot of questions…

Indeed, asking questions is one of the best things effective consultants do. Some of my questions have proved fairly easy to answer; some, much more difficult. In recent years, one of the most challenging questions for many credit union CEOs and board leaders has been:

"What type of organizational culture are you trying to foster at your credit union?"

The difficulty in answering this question has led me to ask a second question, which has proved even more vexing:

"What type of leadership or governance culture are you trying to foster at your credit union?"

I have tried to discover what makes it is such a challenge for leaders to answer to these fundamental questions—particularly at the CEO and board levels. Perhaps the notion of organizational or leadership culture is something they haven't had the chance to think a great deal about? Perhaps they have been focused on other things—like survival, economic shifts, new regulations or financial ratios? Maybe culture is something credit union leaders simply accept as-is—or take for granted? Maybe the very notion of organizational culture—as applied to a credit union or its governance—is confusing and needs to be clarified? (It is a fairly new construct, dating back perhaps just a few decades.) Or maybe it is all of the above?

Uncovering why it is so difficult to answer the "governance culture question" has taken me on a recent quest to figure out what organizational culture is at a deeper level—and to try to better understand why many experts feel culture is so important to organizational success.

For example, in 2010 organizational culture guru Edgar Schein warned that "cultural understanding is desirable for all of us, but it is essential to leaders if they are to lead." Jim Dougherty wrote in a 2014 *Harvard Business Review* article that "company culture is part of your business model," and "the single most important attribute to successful companies."

If these experts are right—and culture is somehow central to success—then we should try to uncover the hurdles CU leaders face in understanding, articulating and building the culture of their institutions. In particular, we should try to identify and overcome any leadership and governance culture challenges leaders may face.

What is 'Organizational Culture?'

Every credit union has a culture. Just what that culture *is* can be hard for its leaders to describe—even if they have been with the credit union for a long time. Although long-tenured board members often feel

they understand their CU well, they are frequently too close to it to really take a step back and identify the unconscious beliefs and assumptions that have been guiding their decision-making.

It is, as such, a real challenge for board leaders to really see their own organizational culture. This can be the case concerning the CU overall (where leaders do not always have the kind of institutional access to pick up key cultural cues) *and* at the governance level (where leaders may be too personally involved to identify the underlying assumptions with any degree of objectivity). In his book *Organizational Culture and Leadership*, Edgar Schein formulates a formal definition of organizational culture, the essence of which is this: "what a group learns over a period of time as it solves its problems of survival in an external environment and its problems of internal integration.'

This leads us then to a new pair of questions you should yourself ask about your credit union: How much is your organizational culture simply an unconscious by-product of your founders' or key leaders' leadership style? And, on the other side of the coin: How much is your organizational culture the result of a conscious attempt to shape its values and assumptions? This last question brings us to look deeper into how credit union leaders can work together to improve their organizational and leadership culture.

How Do Leaders Create or Change Culture?

If you have been trying to make changes in how your organization works, you need to find out how the existing culture helps

> "The only thing of real importance that leaders do is to create and manage culture. If you do not manage culture, it manages you, and you may not even be aware of the extent to which this is happening."
>
> Edgar Schein, professor
> MIT Sloan School of Management

or hinders you. Accordingly, you need to determine what assumptions operate within the existing culture.

Schein groups assumptions into three basic levels: 1) artifacts—all of the surface things you would first observe, see, hear or feel when you encounter an organization; 2) stated beliefs and values; and 3) basic underlying assumptions—the unconscious, taken-for-granted beliefs and values of the group. In 1983, Schein wrote that when organizations first form, there are usually dominant figures or "founders" whose own beliefs, values and assumptions provide a visible and articulated model for how the group should be structured and how it should function.

As these beliefs are put into practice, some work out and some do not. The group learns what parts of the founder's belief system work and which should be left behind. This learning gradually creates shared assumptions. Founders and subsequent leaders continue to attempt to embed their own assumptions, but increasingly they find that other parts of the organization have their own experiences to draw on and, thus, cannot be changed.

Increasingly the learning process is shared, and the resulting cultural assumptions reflect the total group's experience, not only the leader's initial assumptions. But leaders continue to try to embed their own views of how things should be and, if they are powerful enough, continue to have a dominant effect on the emerging culture.

Board members need to be able to take a step back and reflect on how your organization either challenges (or doesn't) these assumptions. Be aware that your response will be tainted by your own influence on the culture you have helped to build. This is where an unbiased third party who can remain objective and observe your board's dynamics may be helpful.

If you are trying to examine (or change) your governance culture, you may also find yourself fighting against the organization's design and structure; organizational systems and procedures; the design of physical space, facades and buildings; stories, legends, myths and symbols; and formal statements of organizational philosophy, creeds and charters.

Changing culture can be difficult, particularly because sometimes culture can act as a protective mechanism, with each existing assumption working to reinforce and support the other. If you try to change one assumption in isolation, the others will push back to reinforce the status quo.

Assumptions are also driven by the individuals or groups who have influence within the organization. If you want to change the culture, you sometimes have to foster a culture change within your organization's current leaders, or modify the organization's core governance philosophy as well as its policies and procedures.

While often the most effective, changing the behavior of key leaders can be so hard that modifying the core governance philosophy is often the best opening move. When all else fails, a change in personnel may be required.

But there is hope. Change can happen. It takes a focused effort and commitment to the following types of primary mechanisms: what leaders pay attention to, measure and control; how leaders react to critical incidents and organizational crises; deliberate role modeling and coaching; operational criteria for the allocation of rewards and status; and operational criteria for recruitment, selection, promotion, retirement and expulsion.

10 Elements of an Effective Culture

Once you and your colleagues—both the board *and* the senior staff leaders–have effectively recognized and thoughtfully discussed the underlying assumptions driving your current credit union leadership culture, you can turn your attention to identifying any weaknesses or gaps and shape a more effective leadership culture for the future. I challenge you to address each of the following 10 key elements to build an effective board culture for your credit union.

1. Commit to a *culture of engagement.* Nothing really improves unless the board and senior staff are *actively engaged* in the process. This means leaders have to do more than just attend monthly meetings and listen. It means they have to do their homework, and be genuinely prepared. It means they have to show up and actively engage in discussions. That way, they can co-create with senior management the future of their credit union. It's the responsibility of senior staff leaders and all board members to be familiar with the credit union's key programs and strategic initiatives. It's also the responsibility of leadership to work together to improve them. To do so, you must be engaged.

2. Join with management to foster *a culture of teamwork.* There is a lot of literature in the business world on the importance of teamwork, but seldom is it applied directly to boards. Taking a page from Management 101, you and your colleagues must join together to foster a culture of teamwork. And not just among yourselves—be sure to include members of your credit union's senior leadership. Who else will work with you, shoulder to shoulder, during times of challenge? Evaluate opportunities with you? Celebrate the successes with you? Share the burdens?

3. Build *a culture of curiosity*. Socrates was recognized by Oracle at Delphi as one of the wisest men on earth because he was a genuinely curious man who was open about what he knew and—perhaps more importantly—what he did not know. Bring your own humility to the board room. Come with an open mind and learn from both your board and senior staff colleagues. Curiosity is one of the most important attributes a director—and a board as a whole—can have.

4. If you are able to develop a culture of curiosity, you'll likely also **foster a *culture of learning*.** You and your colleagues will bring to the table your own personal curiosities and, combined together, you will move in the direction of what Peter Senge, a leading 21st century management theorist, has called a "learning organization." Indeed, you can then begin to look at board room (and many committee meeting) experiences not through the lens of "necessary data

exchange," but the lens of "collective learning." Culture is a learned experience and learning models should help us to better understand culture creation and change.

5. To support your learning, you and your colleagues will need to **foster a *culture of inquiry***. You will need to revise the very nature of your board meetings so they encourage a genuine dialogue and exchange of ideas, a culture in which great questions are recognized and appreciated. Gone should be the days of stale committee reports or—worse yet—committee reports that simply mirror the written briefing materials.

6. All this communication requires that CU leaders **maintain a sincere *culture of respect***. Respect does not mean agreeing to everything anyone else suggests. It does not simply mean being "nice." It does mean deeply listening to—and honoring—other leaders' voices in the process of decision-making. It also means valuing others' contributions and knowing the boundaries of the role you each are carrying out.

7. Be mindful that you have all committed your time, talents and expertise to the CU board for the same reason—to be of service. Focus on that commitment. **Build *a culture of service***, remembering that the roots of the CU movement are deep. For more than 100 years, credit unions have been providing quality financial services to their members. Above all else, we are driven as a movement by our commitment to cooperative principles. Voluntary and open membership, member economic participation and rewards are at least as—or more important than—the bottom line.

8. Because you are stewards of other people's funds and have committed to a culture of service, you and your colleagues should—and will—be held to a very high standard. You will need to, therefore, **build a strong *culture of diligence***. Some components of this part of your culture will be informal. Together you and your colleagues will determine mutually agreed-upon standards and expectations for how you will act and govern the CU. Other, more formal standards will be imposed upon your CU by regulators. In either case, you and your colleagues must pledge that together you will be eternally vigilant on both the formal *and* the informal standards guiding your decisions and actions.

9. As stewards of other people's funds, and because as a CU you are committed not only to a culture of service but also to cooperative principles, you must **commit to *a culture of accountability.*** Of course, you must hold each other accountable and, clearly, accountability extends to your credit union's CEO and, ultimately, the staff. You must model a culture of respect from the top-down, the same way you must model accountability.

10. Ultimately what every organization wants to build is a ***culture of trust***. You want a trusting relationship with your members, your staff, your regulators and with the public. It's the right thing to do and can only benefit your business bottom line as well.

In all, building a culture that breeds success for your CU will not be an easy journey, but is certainly one that's worthy of the effort. Challenge your organization's long-held assumptions. Commit yourself. Be engaged. Ask your questions. Leave your ego at the door. Respect one another. Hold each other accountable. And do the right thing. Having done so, you will earn the trust that your members place in your leadership!

Michael G. Daigneault, CCD, *is CEO of Quantum Governance, L3C (*www.quantumgovernance.net*), a low-profit limited liability service organization dedicated to the public good. It is one of the very first such legal entities in the United States. A CUES strategic partner,* Quantum Governance *provides thoughtful governance and strategy assessments—as well as dynamic retreats—to credit unions, leagues and nonprofits throughout the United States.*

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A Matter of Foresight

Six key challenges to promoting strategic thought in your credit union's boardroom.

By Michael G. Daigneault

In today's highly conceptual age, it is crucial for credit union boards—in constructive partnership with senior management—to advance and sustain their level of strategic thinking.

While fiduciary thinking about oversight remains vital, having the foresight to make strategic thinking a priority is more essential than ever. Boards must help credit unions stay relevant to their members—and competitive with the vast array of other financial service providers. CU boards must do so by consistently meeting, planning and thinking in a more strategic manner.

What can—and should—credit union leaders do to raise the level of strategic thought in the boardroom, and make strategic deliberations a more central part of the credit union's leadership culture? Six primary impediments to strategic deliberations at the board level must first be identified so they can be effectively addressed.

Challenges to Effective Strategic Deliberations

Thinking strategically in an open, effective and sustained way is easier said than done. The six hurdles my team and I frequently experience as the most vexing to credit union leaders trying to foresee the future and "think more strategically" (beyond a general reluctance to change) are:

1. The design of board meetings. To be truly effective at strategic thought, board members need to be regularly involved in discussing fundamental strategic issues and questions. Historically, most credit union board meetings have focused on fiduciary oversight, such as the credit union's financial condition, and operational, regulatory, and internal control matters. Such issues effectively fulfill the need to ensure safety and soundness, but are often mechanical and require little of the kind of deep thinking necessary to promote the long-term success of the credit union.

Similarly, vital strategic discussions are sometimes delegated to executive committees, senior management, a "once every 'x' number of years" retreat or even the "parking lot."

Board meetings must be structured to foster the board's strategic engagement. One thing that can be done is to make sure board members perceive that they have enough time to engage in strategic dialog. Accordingly, specific time in board meetings should be set aside for strategic questions to be discussed. This should take place throughout the year—not just in preparation for, or as a part of, a strategic planning exercise.

2. The flood and complexity of information. The sheer volume and nature of the information now presented to credit union boards (sometimes as required by regulators) have increased steadily over the past decade. As such, one of the keys to help ensure board meeting success is to ensure directors get "the right information in the right format at the right time," as suggested by corporate governance expert Ram Charan in his book *Boards That Deliver: Advancing Corporate Governance From Compliance to Competitive Advantage*.

As Charan appropriately notes, even the best "group dynamics are not much use when the directors lack information for a productive discussion." Bottom-line: Charan suggests your volunteer and management leadership need to take a very hard look at each of the primary ways in which your board receives information pertinent to its central

Identify what the ‘ideal board of the credit union of the future’ would look like and build it!

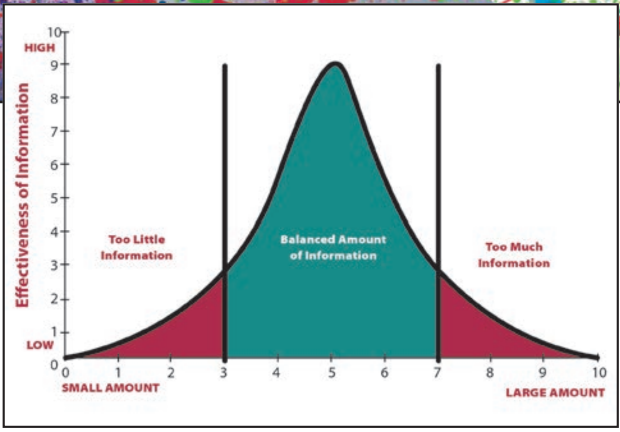

Figure 1 - Amount of Information Provided to the Board

responsibilities—what he terms your "information architecture."

In particular, ask yourself these two questions: 1) What is the best way to present information to the board? and 2) How much information should be presented?

Presentation of information: Board packet materials can be unreasonably detailed, poorly organized or focused, overly demanding or complex, unclear as to statistical significance, or just plain difficult (if not impossible) to read due to format. Indeed, information and data are often offered in the manner in which management (or even one key staff member) typically understands or uses it.

Instead, information needs to be presented to credit union board members in a manner that best suits their ability to grasp its meaning and then effectively execute their fiduciary and strategic responsibilities.

Volume of information: Fearing the potential accusation that they "withheld something important," many senior staff members (and even CEOs) often provide large amounts of data to the board. A thoughtful conversation between the board and senior management about the most effective level of information flow is needed to prevent this.

Some might suggest that giving "too much information" is certainly better than the alternative and, that by providing the additional information, "no real harm" is done. Experience with a multitude of boards, however, suggests otherwise.

Too much information can be just as harmful as too little. At the risk of oversimplifying the process of deciding what should be—and not be—presented to the board, Aristotle's sage advice of a balance between two extremes comes to mind. (See Figure 1, at left.)

3. The tendency of most credit union leaders to think in a predominantly operational and fiduciary manner. The empirical reality is that most of us—board members or not—default to thinking about issues that confront us in a fairly operational or problem-solving manner. This mode of thought is heavily emphasized on credit union boards due to the weighty fiduciary and oversight obligations. Regulations foster focusing more time and attention on oversight—often at the expense of strategic thought.

Thinking into the future and crafting an effective strategic vision is—for the vast majority of us—an ability learned over time. More time has to be devoted regularly to strategic dialogue for credit union leaders to truly become more adept at doing it.

4. The problem of reliably differentiating between "operational" and "strategic" thought. One of the most common challenges of trying to raise the level of strategic thought is arriving at a working consensus of the difference between "operational" and "strategic." A potent way senior management can close down a board member's inquiry into a particular area is to (rightly or wrongly) accuse the board member of "micromanaging." This is frequently done by suggesting the board member is asking an "operational question" that is perceived to be in the sphere of management's authority to manage or decide. There is regularly a good faith perception by management that a particular question by a board member is "in our area of expertise" or is "in the weeds." Of course, sometimes that simply is the case! It is difficult for most of us not to try to problem solve at the operational level.

The real challenge arrives when the board appropriately asks what the boundaries are between "operational" and "strategic." Even though they have a strong intuitive feel for the areas they are responsible for, most management teams have no more of a clear sense of where "the line should be drawn" than do board members! Why? Because management is immersed in operational thought each and every day. It is a habit of mind that serves them well and is very hard to break away from. The fact is that there is some genuine overlap between the board and senior management's responsibilities when it comes to strategic questions.

Even more problematic is that the same question can be phrased (or even just thought about) in a predominantly operational or strategic manner, depending on subtle nuances. Consider the situation when someone in the boardroom asks, "Should our credit union implement proposed new service X?"

A staff member may translate that question to "Will this new service contribute to our bottom line?" Questions or concerns by the board may be well-meaning but perceived to be out of place.

In contrast, a board member may translate that question to, "In light of our credit union's mission and brand, is such a service an appropriate direction for us?" Ultimate approval of new lines of service are the board's responsibility, but you can see the tension created and the careful handling required here.

5. The traditional composition and structure of many credit union boards. While assembling a representative board from their members is a commendable

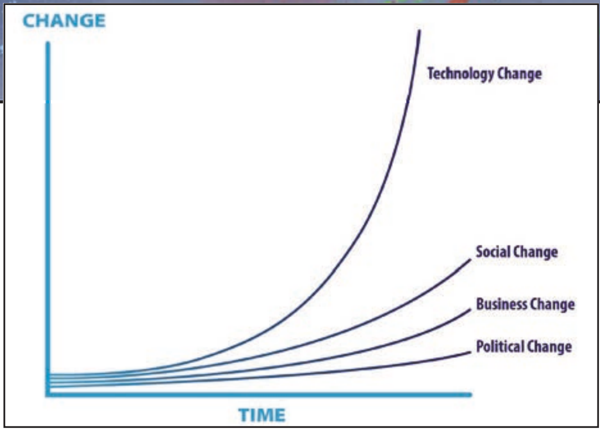

Figure 2 - Pace of Technology Change

democratic principle, credit unions that do so can be faced with having a properly elected—but inexperienced—board. The natural propensity for operational thought, the fiduciary emphasis of regulators, and a lack of sophisticated financial experience can create a challenging situation for credit union leaders to really be in touch with the overarching strategic realities facing them.

Combine this with the fact that many board members have little (or no) experience with conceptualizing, instigating, sustaining, monitoring and evaluating strategic initiatives over time, and you have a need to take a hard look at the composition of some credit union boards. Of course, there are exceptions, but board members inside and outside the credit union community struggle with doing something with excellence that has not been a characteristic feature of their personal, academic, civic or work experience.

What needs to be done? Identify what the "ideal board of the credit union in the future" would look like and build it! Design and use a strong onboarding process incorporating everything from initial identification of potential candidates to training and mentoring such folks after they have joined the board.

6. The significant ambiguities caused by quickly evolving technology. Tech-nology is changing so quickly it is hard for anyone to keep up! (See Figure 2, above right.)

Technology questions certainly have important operational implications, but they are now playing such a significant role in financial services operations—both for credit unions and their competitors—that they have become a very real strategic matter.

All this creates "strategic ambiguity" about what the future will likely bring. Even assuming a credit union is fully committed to serving its members' needs—and doing so through leading-edge technology—just what that technology is going to be in future years is—realistically—an unknown.

Final Analysis

In the end all this means that for credit union boards and senior management teams to be ultimately successful in overcoming the challenges to strategic thinking, they must be willing to work more effectively together and embrace:

- **A different view of credit union governance and leadership.** The board should be framed as a strategic or "constructive partner" that creates added value and competitive advantage for the credit union.
- **A different framework for credit union leadership.** The board is critical to long-term success and must be composed of folks who can genuinely help the credit union meet the strategic challenges faced in today's world. The board (and senior management) must be able to talk about higher-order problems and questions. They must be able to ask questions that focus more on catalytic or transformational ideas than technical or operational issues.
- **A different mindset and way of thinking.** The board must move beyond a predominantly oversight focus to fully embrace strategic and—ultimately—generative deliberations and thought, which get at the core of what the credit union's purpose for existing really is.

When they do this, exceptional boards and management teams will combine the benefits of being both logical and linear as well as having the foresight to be creative and innovative.

Michael G. Daigneault *is CEO of Quantum Governance, L3C, a low-profit limited liability service organization dedicated to the public good. It is one of the very first such legal entities in the United States. A CUES strategic partner, Quantum Governance* (www.quantumgov-ernance.net) *provides thoughtful governance and strategy assessments—as well as dynamic retreats—to credit unions, leagues and non profits throughout the United States.*

Resources

Read the first part in this series by Daigneault about developing board thinking at *cumanagement.org/0413matterofthought*.

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A Matter of Thought

The latest in social science research suggests credit union boards—and senior managers—need to start thinking in new ways.

By Michael G. Daigneault

Over the last 25 years, I've had the honor of working with many credit union and charitable nonprofit boards and their CEOs. In recent years, I have become increasingly concerned that many of us—myself included—have been asking ourselves the wrong types of questions when it comes to the governance and leadership of boards.

The focal point of a great deal of my work to date has been to assist credit union board members and senior management in answering a central question: "What should we do to take our board governance to the next level?" and such subsidiary questions as:

- What should the core roles and responsibilities of our credit union's board be in today's challenging environment?
- What are the appropriate boundaries between our board and management?
- What should our board committee structure look like?
- What should our supervisory committee really be doing?
- What should our board's role be in developing the credit union's strategy?

These are important questions—every one of them—and questions that need to be addressed to help ensure a credit union's leadership is governing as effectively as possible. Yet, underlying these questions is a vital question that I seldom—if ever—hear asked.

The question I have in mind (and the important efforts to answer it) strikes at the very heart of determining the ultimate effectiveness and value-add of a CU's board. It is a deceptively simple question, and yet it often emerges as a key indicator of whether a board is striving to be an even more significant leadership asset to the credit union. The question is:

How can our CU board, in partnership with senior management, think more effectively?

The very essence of why CUs have boards is to represent the cooperative efforts of the membership and to ensure the institution's safety and soundness. So much emphasis has been placed on these responsibilities that they largely dominate the efforts of many boards. Certainly ensuring the safety and soundness of a credit union is—and should remain—vital to the success of its board. But is doing so enough? A representative mindset is, of course, necessary and appropriate ... but is it really a robust enough strategic catalyst for a credit union to genuinely succeed in today's quickly changing environment?

Bottom-line, a central governance challenge that emerges is whether the "representative" and "fiduciary oversight" mindsets shared by many boards are sufficient to enable CUs to flourish today and into the future. As you might surmise, I am skeptical. As such, I suggest CU boards (and senior management) must begin to think in fundamentally new and innovative ways to meet the unique challenges confronting them. A brief sojourn into social science—and the ways in which thought patterns are changing in the world today—will help establish the context for the suggestion that boards must begin to think in new ways.

Two Minds

In the 1950s, Caltech professor Roger Sperry studied a group of patients with such severe epileptic seizures that trying to control their illness required severing the nerve fibers connecting the two hemispheres of their brains. This created a set of genuinely "split-brain" patients who could be studied to see how the two different hemispheres of the brain work.

Before Sperry, scientists thought language was what separated man from animals and, since language abilities were largely centered on the left side of the brain, that the left side of the brain was somehow superior and made us "distinctly human."

With his research, Sperry found that the right side of the brain was actually superior to the left side for certain mental tasks. He won the Nobel Prize in medicine for discovering that the right hemisphere is not inferior to the left, just different.

Sperry's observations about the unconscious basis of many conscious thoughts have been carried forward by the more recent work of Nobel Prize winning economist Daniel Kahneman in his 2011 book *Thinking Fast and Slow*, in which he states:

"You believe you know what goes on in your mind, which often consists of one conscious thought leading to another in an orderly way to another. But that is not the only way the mind works, nor indeed is it the typical way. Most impressions and thoughts arise in your conscious experience without you knowing how they got there."

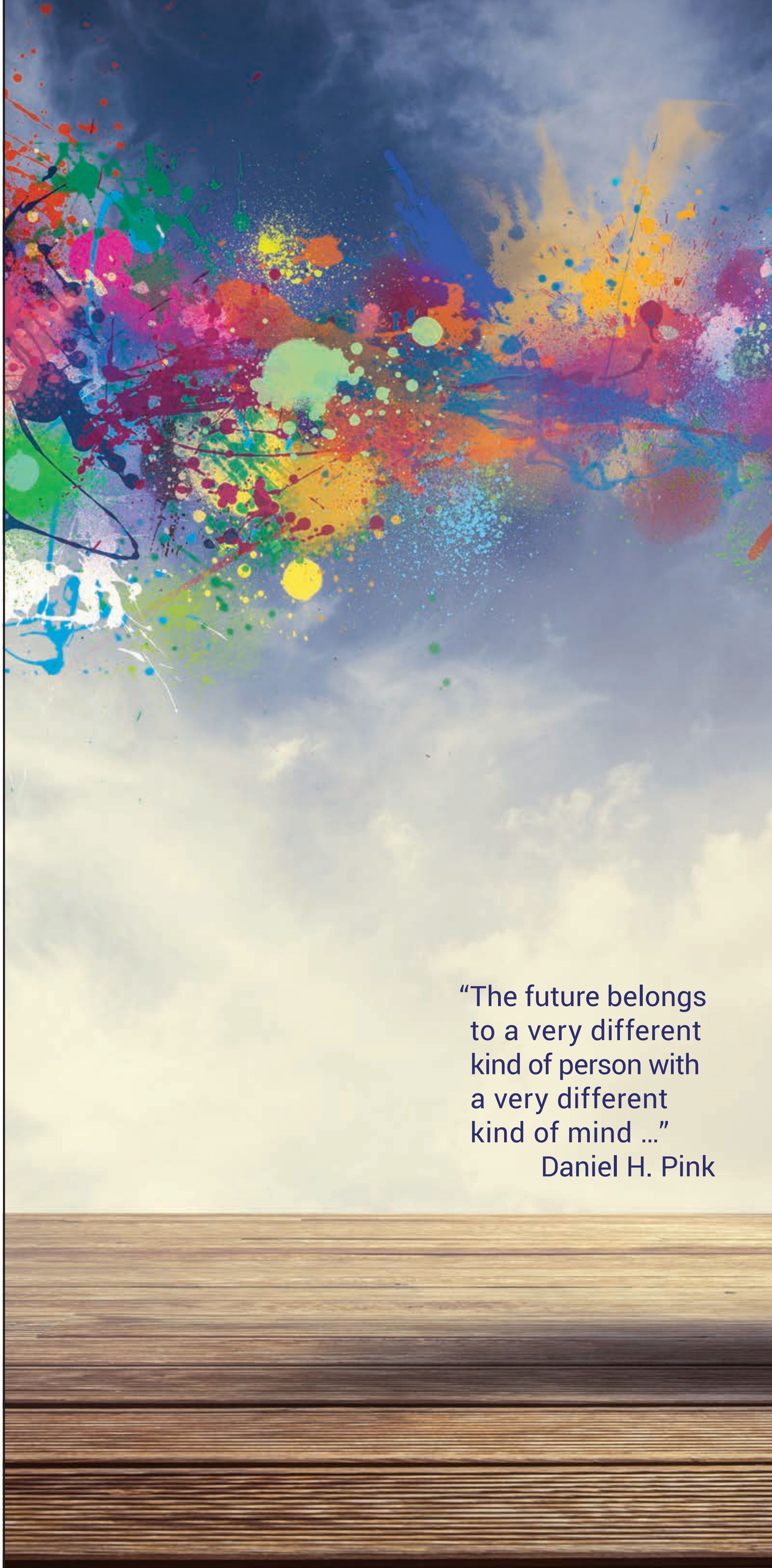
Along with the unconscious origins of left-brain "rational thoughts," Kahneman says the genesis of right-brain thinking is equally mysterious, with decisions often being made well before we become consciously aware we are thinking at all! He goes on to note that "as we navigate our lives, we normally allow ourselves to be guided by our impressions and feelings, and the confidence we have in our intuitive beliefs is usually justified."

And then he lowers the hammer: "But not always. We are often confident even when we are wrong, and an objective observer is more likely to detect our errors than we are."

How, then, should a well-meaning board conduct its business? Might CU leaders need to "unlearn what they have learned" as Yoda counsels Luke Skywalker in the Star Wars series? If you're hungry to read how boards can apply these ideas, jump to the section "Governance as Leadership," below. Or, if you can bear with me for a moment, let's take one more side trip before we go on to application.

A New Age

In light of the above insights by social scientists, the last few decades have seen a huge increase in the number of studies dedicated to the way we think and decide. Among them is Daniel Pink's provocative book, *A Whole New Mind: Why Right*



Brainers Will Rule the Future, in which he describes a fundamental societal shift in the way we think: from a predominant focus on "logical, linear, computer-like capabilities of the Information Age" to, instead, "an economy and a society built on the inventive, empathetic, big-picture capabilities of what's rising in its place, the Conceptual Age."

To the extent you might think Pink may be off the mark, note that the core leadership, design and advertising concept embraced by Steve Jobs in recent years was "Think Different." Pink begins the introduction of his book:

"The last few decades have belonged to a certain kind of person with a certain kind of mind—computer programmers who could crank code, lawyers who could craft contracts, MBAs who could crunch numbers. But the keys to the kingdom are changing hands. The future belongs to a very different kind of person with a very different kind of mind—creators and empathizers, pattern recognizers, and meaning makers. These people—artists, inventors, designers, storytellers, caregivers, consolers, big-picture thinkers—will now reap society's richest rewards and share its greatest joys."

Pink goes on to suggest that, for nearly a century, Western society, "and American society in particular, has been dominated by a form of thinking and an approach to life that is narrowly reductive and deeply analytical."

Of course this should all sound vaguely familiar, as the shift Pink suggests is based squarely on Sperry's core insights about how our brain functions. Some question the idea of attributing forms of thought to different parts of the brain—but few question that "a mind" can think in different ways! Pink urges us to transition from using left-brain thinking almost exclusively in decision-making matters to also embracing the intuitions and insights characteristic of right-side thinking.

Governance as Leadership...

In recent years, no one has applied the insights flowing from social science more aptly to nonprofit boards than Richard Chait, William Ryan and Barbara Taylor. In "Governance as Leadership: Reframing the Work of Nonprofit Boards" (read a summary at *http://tinyurl.com/govsumm*), they argue persuasively that, to be truly effective, boards of the future must think in three fundamental ways:

1. Fiduciary thought is board thinking concerned primarily with oversight matters and the stewardship of tangible assets. Typical questions pertain to compliance, legal matters, risk mitigation, performance evaluation, and accountability.

2. Strategic thought is board thinking in strategic or "constructive partnership" with management to visualize, plan and bring into existence the future of an organization. A key insight offered by Chait, Ryan and Taylor is that strategic thinking ought not be an overly "formal, analytical or technical process." Indeed, they suggest that "leaders can arrive at strategy another way: through insight, intuition and improvisation."

3. Generative thought is board thinking that helps to "frame" or "make sense" of the most critical questions or problems facing an organization. The former CEO of Herman Miller, Max DePree, often remarked, "The first responsibility of the leader is to define reality." Generative questions sometimes operate at a very conscious level, such as "What is the purpose of a credit union?" Often, however, important generative questions are more subtle and exist at the level of unconscious assumptions, emotions or values that need to be brought to light to fully understand the context and direction of an organization.

Daniel H. Pink's Evolution of Thinking

UP TO 19TH CENTURY

Agriculture Age

Physical Strength

19TH CENTURY

Industrial Age

Machines

20TH CENTURY

Information Age

Logical/Reasoning

21ST CENTURY

Conceptual Age

Creative
Empathetic
Big Picture
Transcendent

By suggesting that boards need to more often think strategically and generatively than they do now, Chait and his colleagues have leveraged social science research to point the way toward the new kinds of thinking CU boards must leverage to be truly effective. In the July issue of this magazine, I will explore how CU boards can get into the practice of doing more of this kind of thinking. Stay tuned!

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Resources

Watch the video, "Discover the Role Education can Play in Making a Board More Effective" featuring Michael Daigneault at *cues.org/pages/director-advantage-video*.

Read about how one board applied generative thinking to arrive at a better decision in the CUES Skybox blog post at *http://tinyurl.com/daigneaultcasestudy*.

Receive a free 10-point governance assessment by completing the online interest form at *cues.org/quantum-governance*. CUES members only, purchase Quantum Governance's assessment and retreat services and get a free supervisory committee assessment, valued at over $1,500. For more information, email *p&s@cues.org* or call 800. 252.2664 or 608.271.2664, ext. 332.

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