Corporate Governance in Canadian and US Credit Unions

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Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry’s top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i3, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the US credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.
Credit Union Central of Canada (Canadian Central) is the national trade association for the Canadian credit union system. Incorporated in 1953 by a special act of Parliament, and regulated under the Cooperative Credit Associations Act (Canada), Canadian Central provides a National Forum, a National Voice and National Services to support and expand the Canadian credit union system. In support of these national initiatives, and to facilitate knowledge transfer, members from provincial/regional Centrals and individual credit unions work on committees to further the aims of the Canadian credit union system. These committees encompass Finance, Legislative Affairs, Risk Management, Payments and Lending.

Canadian Central offices in Toronto and Ottawa employ 50 staff members who support trade association services, financial management and payments-related services. The Toronto office is also home to CUSOURCE Credit Union Knowledge Network, the national learning and management facility for the credit union system. The Ottawa team is focused on increasing its policy and advocacy activities and influence in the area of Federal Government relations. Canadian Central’s Mission and Vision guide the organization and enable the Canadian credit union system to compete, excel and achieve.
We would like to thank Credit Union Central of Canada for its generous support of this and other vital credit union research.
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My (Marc-André’s) grandfather was a bit of a mad scientist. Alone in the basement of his northern Ontario home, he pioneered and patented techniques to extract silver from x-ray fluid, developed path-breaking burn treatments deployed by the US military, and devised traction devices to help rehabilitate his many patients hurt in the nearby lumber camps (he was a doctor/surgeon).

The one invention I remember most fondly of all was his teeter-totter. In many ways, it was identical to your run-of-the-mill playground device: Two people of approximately equal weight sat on either end and bounced up and down. But there was a twist, literally: His teeter-totter sat on a large ball bearing that also allowed it to move circularly 360 degrees. Great fun for the kids; unimaginably dangerous from the point of view of a modern-day risk-averse parent.

The structure allowed all sorts of games but by far the most entertaining was the one where the protagonist would walk up one end of the teeter-totter to find the pivot point—roughly the middle—and balance the device such that the two edges stayed off the ground. Add in a bit of circular movement, and many contests ensued to see who could master three dimensions of gravity (up, down, and around) the longest.

Credit union governance can be likened to finding that pivot point on the teeter-totter, the sweet spot that balances three different dimensions—the interests of members/owners, the oversight responsibilities of directors, and the operational role of management. The governance literature refers to these three dimensions as a three-legged stool. In this report, the authors draw on the results from a first-of-its kind survey of North American credit union governance practices to put forward some radical recommendations to recapture the sweet spot in credit union governance.

What Was the Research About?

Governance should be the lifeblood of the credit union system. Democratic representation by a board of directors should guarantee two basic things: that members’ interests are served and protected and that the cooperative can serve them competitively and sustainably. With an aim for fruitful comparisons, this wide-ranging report draws on survey responses from hundreds of North American credit unions in the United States, the central-affiliated cohort in Canada, and the federated Desjardins Group.

This research—a collaborative effort between the Filene Research Institute and the Credit Union Central of Canada, with participation from the Desjardins Group—follows on two recent Filene
governance projects: *Tracking the Relationship Between Credit Union Governance and Performance* and a three-part series by Professor Robert Hoel about how boards can add more value. Beyond these, the academic literature of corporate governance is well developed, so this study includes an in-depth review of financial institution governance research and calls out the differences between credit unions and other firms. Also, because surveys can only go so far in teasing out insights, the authors followed up with a dozen interviews with credit unions of all sizes across all three major North American credit union systems.

What Are the Credit Union Implications?

Because the report is survey-based, large swaths of the findings compare major and minor details of different (and often not-so-different) approaches to governance in the three systems and among differently sized credit unions. From those comparisons, some interesting differences emerge. For example, as a federated system, Desjardins excels at some aspects of board development and system governance in ways that the more atomized US and Canadian credit union systems do not.

More important than the differences, however, is a troubling drift away from truly cooperative and democratic governance. This sample of findings and recommendations previews the extended discussion in the full report, especially Chapter 5, Observations and Recommendations:

- A majority of respondents in the United States and at centrally affiliated Canadian credit unions reported that management (not members, and not boards of directors) was the most important body in driving the change process at credit unions. Desjardins credit unions point to members as predominant initiators of change.
- There is little evidence from any of the three systems that the board holds itself or its individual members accountable for performance. Without such self-scrutiny, the only realistic check on governance competence is market failure or regulatory intervention—which, despite recent activism, should not be considered an integral part of healthy board governance.
- Effective boards cannot be built through the activities of a once-a-year nominating committee (few Desjardins caisses or US credit unions operate nominating committees) appointed by the board. Credit unions should consider replacing the nominating committee with a member-elected governance committee or augmenting the role of the nominating committee to function as a full
standing committee that embraces board development, improved board performance, and member engagement/education as an ongoing, year-round priority. Fully empowered supervisory committees also can play this role.

• The cooperative philosophy and ideals together with the credit union ethos are the very basis of cooperative governance. But this survey reveals that few members seem to acknowledge that basis, and without the endorsement of the membership, the validity of this governance structure must be questioned.

Based on an analysis of the current state of credit union governance (not simply what it ought to be or what it once was), the authors’ most important long-term recommendation is the establishment of a directly elected governance committee, which would hold the power to appoint members of a management board and monitor the effectiveness of the board and its members. Doing so, the authors argue, would support the dual goals of reengaging members about their rights and obligations and enhancing the capacity, training, and performance of the board. More controversially, the authors recommend that in the long run credit unions move toward an arrangement in which the independent governance committee acts as the only democratically elected governance link between credit union members/owners, the board of directors (which would be hired, not elected), and management. This structure would ensure that a credit union gets the board it needs in terms of the necessary skills while still maintaining owner/member oversight and control. The authors point out, however, that this redesign carries some risk in that it might inadvertently result in a qualified board that does not function within the cooperative philosophical framework.

If these seem like radical recommendations, it’s because they are. But half-measures, in the service of reinvigorating board governance, may not be enough to restore a lost sense of balance in the credit union system.
Peter Goth, MA, PhD, A.C.I.S.

In addition to his general consultancy career in private and public sector performance-based corporate governance and organizational development, Peter has worked extensively in the credit union movement in Canada, Ireland, and the United Kingdom. He has held positions as manager/CEO, director, president, and consultant with several Canadian credit unions.

His presentations to credit union directors and managers focus on governance issues: the extent and impact of member/owners’ involvement on credit union corporate governance and development; the relationships between director selection, director qualifications, and skill sets; board structure and composition; and credit union corporate governance.

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John Wilson

John Wilson is professor of banking and finance and director for the Centre for Responsible Banking and Finance at the University of St. Andrews. His research focuses on the areas of industrial organization, banking, and credit unions. He is the author or coauthor of many books, a monograph, chapters, and articles. His books include European Banking: Efficiency, Technology and Growth; Industrial Organisation: An Analysis of Competitive Markets; The Economics of Business Strategy; and Industrial Organization: Competition Strategy and Policy. John edited A Routledge Major Works in Banking. He also
coedited the *Oxford Handbook of Banking* (with Allen Berger and Phil Molyneux).

He is chair of the British Accounting and Finance Association Financial Markets and Institutions Special Interest Group. John served as treasurer (2009, 2010) and general secretary (2010, 2011) of the British Accounting and Finance Association. He serves as associate editor to the *British Accounting Review, European Journal of Finance*, and the *Journal of Money Credit and Banking*. He serves on the editorial board of a number of journals, including the *Journal of Business Finance and Accounting* and the *Journal of Financial Economic Policy*. In the period June 2011 to April 2012, John served as a full member of a commission on credit unions established by the Irish government. This commission reviewed the future of the credit union movement in Ireland and made recommendations in relation to the most effective regulatory structure for credit unions. The commission delivered interim and final reports to the Minister for Finance in September 2011 and April 2012, respectively.
This study examines governance practices among North American credit unions in the United States, centrally affiliated Canadian credit unions, and Desjardins caisses populaires. The aim is to better understand the historical structure of credit unions and to inform policy that will allow them to flourish in the future.
Introduction

The credit union system in North America is changing. Greater regulatory requirements, mergers, new products and services, and increased operational sophistication are all occurring simultaneously and within an increasingly competitive market. In this dynamic environment, corporate governance of credit unions takes on greater importance. This research project considers all aspects of credit union governance in the United States and Canada in order to better understand the historical structure of credit unions and inform policy that will allow them to flourish in the future.

The research is empirical in its approach. We used a review of the current academic literature as the basis for our quantitative component—a survey of credit unions in the United States and Canada. We then extracted key themes from the survey results and explored them in depth with credit union board representatives through a series of semi-structured interviews. The objective in analyzing the credit union systems in Canada and the United States was not to come to a view that governance mechanisms are better in one country than another, or in one system than another, but to capture a variety in both governance structures and views on governance that might not emerge in a single-country, single-movement investigation.

The results presented here extend the discussion of credit union governance commissioned by the Filene Research Institute of Madison, Wisconsin, in partnership with Credit Union Central of
Governance: Some Issues

The term \textit{corporate governance} tends to be overused and misunderstood. For many, the misunderstanding stems from a confusion between the concepts of corporate governance and corporate management, or indeed between governance and management. These are often viewed as synonymous and interchangeable, which blurs the specific governance roles of the three components of credit unions: management, the board of directors, and the members/owners. This contributes to a further erroneous assumption that, because statutory regulations and fiduciary law attribute sole responsibility for managing the affairs of the credit union to the board of directors, the board is also therefore the sole arbiter of corporate governance. But while the board of directors is indeed fully responsible for establishing and implementing an effective and functioning governance regime, it is neither its sole arbiter nor its primary component. It is simply “one leg of a three legged stool” (Monks and Minow 1995), on an equal footing with management and owners.

Corporate governance relates to the vision and objectives of the organization. The board of directors ensures that the organization functions in a manner that is in the best interests of the owners. Management, in turn, implements and initiates the actions and processes required to achieve the goals and objectives established by the board of directors. In essence, the board of directors is concerned with the governance of the credit union; management is concerned with managing the day-to-day activities of the credit union. Conflation of these distinctive functions contributes to deterioration in overall governance in many corporations, including credit unions. This can result in reduced and nebulous accountability by management to the board of directors, and, in turn, by the board of directors to the owners of the corporate assets, a situation that is further exacerbated when the owners of the assets—the members, in the case of credit unions—are unaware of their roles, duties, obligations, and, most important, rights.

Shareholders of private-sector corporations have long championed the development and vigorous application of corporate governance because as the providers of the capital, their investment and rate of return are intertwined with the long-term success of the corporation. Shareholders of credit unions, on the other hand, are likely to be less familiar with the governance aspects of the cooperative movement. The need for a robust governance system is therefore all the more pressing.

The board of directors is concerned with the governance of the credit union; management is concerned with managing the day-to-day activities of the credit union. Conflation of these distinctive functions contributes to deterioration in overall governance in many corporations.
return are what’s at risk in cases of bad management, bad corporate decisions, or fraud. In all probability, they will be even more diligent now, given recent corporate events and the unprecedented loss in the value of investments due in no small part to governance failures in the private sector of all three legs of the stool.

Figure 1 presents the organizational governance structure of the typical credit union (excluding committees). This structure resembles that of the majority of North American shareholder-owned corporate entities. The members (shareholders) own the assets of the organization, since they are the providers of the necessary equity capital. As such, they are entitled to the benefits generated by the use of that capital.

The members elect boards of directors, who become their agents, protecting the members’ interests and hiring management. The board also acts as an oversight body that monitors management’s use and control of the credit union’s assets. Given this supervisory function, it is evident that in this governance model, to be effective the board of directors must remain fully independent of management, an ideal that is challenged in both the credit union and the wider Anglo-Saxon governance models.\(^1\) In the credit union system, this challenge might have been overcome by effective use of the independent supervisory committee, as originally conceived, which creates an organizational structure more akin to the continental model of corporate governance.\(^2\)

Management, in turn, controls the use of the organization’s assets to the maximum benefit of members. This structure creates a regime that holds management accountable to the board of directors for the activities of the organization and, in turn, the board of directors is accountable to the membership (shareholders).

Given this structure, difficult questions arise when there is a failure by the asset owners to participate in running the organization, as is the case today in the vast majority of credit unions. For example, how does the board of directors obtain a meaningful or

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**Figure 1: Organizational Governance Structure and Roles**

The board of directors is solely responsible for the implementation of a governance regime in the credit union: both statutorily and fiduciarily.

- **Owners of the assets and beneficiaries of the performance**
- **Representatives of members monitoring the use of their capital ensuring that the board and management use those assets for the maximum benefits of the membership**
- **Control of organization’s assets**

A significant number of members may not realize that they are owners, and an even greater number are unaware of the credit union ideal.
representative mandate? On whose behalf and within what parameters are decisions made by that board? Some will answer that the board’s authority rests on the credit union’s governance structure, which is based on the implementation of the long-established beliefs, philosophy, and ethos of the credit union ideal. This assertion might well be challenged, given that a significant number of members may not realize that they are owners and an even greater number are unaware of the credit union ideal (as evidenced in the research data presented here).

When Roy Bergengren was drafting Canadian and US credit union legislation in the 1930s to put credit union beliefs, philosophies, and ethos into law, the average credit union had fewer than 200 members and was completely volunteer-operated. Unlike other financial institutions, the membership not only owned the assets of the credit union but was also in control of the use of those assets through its direct participation in the management of the organization. As credit union practitioners will appreciate, this business model was predicated on a field of common interest (a bond of association) and a common need for basic financial services. The geographic scope was narrow, with most members knowing each other. Through the education of the membership, a deep-rooted understanding of the cooperative philosophy and ideals was instilled.

In the subsequent highly successful decades, these characteristics have changed with the dilution of the common bond. Asset and membership sizes of individual credit unions have grown, as have the sophistication and complexity of the services offered. The need for professional management and expertise come up even as membership involvement has decreased. These changes have occurred in response to changing circumstances within credit unions and across the financial sector. But without the implementation of alternate controls, they have arguably resulted in a deficit in the validity of the credit union’s governance regime, business model, and organizational structure. It can be argued that the existing regime lacks a key governance requirement: the role of the members/owners. This is not to say that membership should be directly involved in day-to-day operations. But poor membership involvement has weakened the accountability structure and widened gaps between the owners of the assets (the membership), the monitors of asset utilization (the board of directors), and the controllers of the assets (management).

The limited fulfillment of members’ governance obligations increases the need for effective fiduciary and statutory oversight on the part of the board of directors. This, in turn, increases the importance of board member identification, selection, election, orientation, and professional development. But this represents a major challenge, given a model that requires directors to be selected from the limited
pool of participating members and in which managerial competencies and knowledge of directorial duties may vary widely. The need for a sophisticated board of directors may warrant the implementation of compulsory directorial training. And, in fact, such training has recently been introduced in the United States, whereas in Canada it is already an established practice. Over time, it may even support the shift away, in some jurisdictions, from the whole idea of postelectoral training toward a concept of overall board competencies, such that board candidates must already have certain competencies before they are eligible to stand in an election. The need for strong boards may also justify the increasing requirements by regulatory authorities for the training, succession planning, terms of office, skill sets, and qualifications of candidates and board members.

Indeed, many credit union practitioners may think that statutory and regulatory regimes, such as those imposed by the National Credit Union Administration (NCUA) and the provincial deposit insurance corporations in Canada, mitigate governance risk. But there may be a false sense of security in that understanding. The function of regulatory regimes should not be to provide a substitute governance mechanism for membership but rather to enhance the financial stability of credit unions and mitigate the need to draw on stabilization funds or the need for members to seek compensation from deposit insurance funds. Delegates at a recent private-sector governance conference were asked the following question: “What should corporate governance be about?” To this, 84% replied, “It is about improving confidence in the system, reducing the probability of organizational failure and driving good risk management.” This interpretation may be applicable to the cooperative and credit union sector, and we posit that it may also reflect the focus of regulatory authorities (i.e., the establishment of minimum financial criteria in areas of liquidity and capitalization to mitigate probability of credit union failure together with training and education standards that drive good risk management). However, these must be seen as minimum requirements focused only on the financial security of the credit union.
An overview of the operating environments of credit unions in Canada and the United States. Drawing on previous research, this chapter examines the structural changes affecting credit unions in these countries and assesses the impact of such changes on the strategies adopted by credit unions.
Introduction

The credit union is a unique institution that unites a consumer cooperative, a micro-financial intermediary, a legal corporation, a social movement, and a social philosophy. The Rochdale Society of Equitable Pioneers was formed in Rochdale, England, in 1844, and its rules provide the essential principles of consumer cooperation, including credit unions.\(^5\)

Hermann Schulze-Delitzsch, a politician and judge, founded the first urban credit cooperative in 1850 in Germany. Friedrich Wilhelm Raiffeisen, a mayor in Germany’s western Rhineland, formed the first rural credit cooperative in 1864. From this point on, cooperative financial institutions flourished in several other European countries. In Italy, for instance, there was a direct transference of the ideals of Schulze-Delitzsch by Luigi Luzzatti, an Italian scholar who promoted and formed people’s banks on the basis of the developments he had observed in Germany.

A close correspondent of Luzzatti was Alphonse Desjardins in Quebec, Canada, who organized the first Canadian credit union (caisse populaire) in his hometown of Lévis, Quebec, in 1901, thus bringing the credit union experience to North America. Desjardins’s motivation was a unique blend of Catholic revulsion of usury and the Quebec political and religious philosophy of “la survivance.” This philosophy was founded on three fundamentals: the church, the soil, and the hearth. The caisse populaire both buttressed and rested on these same three pillars (Thompson 1978). Thompson suggests that Desjardins was in contact with Luzzatti, Henry Wolff of Britain, and Charles Gide of France\(^6\) and that he had read of Raiffeisen, Schulze-Delitzsch, and the Rochdale Pioneers. Thompson proposes that Desjardins united all of these thinkers’ contributions when creating an institution that not only was unique to Quebec but also became the basis for the modern credit union structure and operation.
From Canada, the credit cooperative ideal spread to the United States, with Desjardins helping organize a credit union in Manchester, New Hampshire, for a Franco-American parish. During this time, Desjardins met with Pierre Jay, the commissioner of banks in Massachusetts, and Edward Filene, a Boston merchant, and the US credit union system was born. Overstreet and Rubin (1990, 1991) state that Jay is credited with drafting the first general credit union statute in the United States, the Massachusetts Credit Union Act of 1909, whereas Filene was largely responsible for promoting credit unions in Massachusetts and more generally in the nation. In 1921, Roy Bergengren, a Massachusetts lawyer and friend of Desjardins, along with Filene, formed the Credit Union National Extension Bureau, which they charged with spearheading credit union legislation in every US state, as well as at the federal level. Bergengren was the guiding spirit who was responsible for the drafting of and lobbying for credit union legislation in 39 states before writing the 1934 US Federal Credit Union Act. This act put much of his interpretation of what credit unions are, how they should be structured, and how they should operate into law. Bergengren also drafted the Canadian 1932 Nova Scotia Credit Union Act. It is against this historical background that we present a brief overview of the structural characteristics of Canadian and US credit union systems.

**Canadian Credit Union System**

As of September 30, 2010, the Canadian banking industry had 22 domestic banks, 26 foreign bank subsidiaries, 23 full-service foreign bank branches, and 7 foreign bank lending branches. Figure 2 provides a snapshot of the Canadian credit union system as of December 2010. There were 386 centrally affiliated credit unions, 450 Desjardins-affiliated caisses populaires, and 41 other affiliated and nonaffiliated credit unions and caisses populaires. The total

<table>
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<th>System</th>
<th>Number of credit unions</th>
<th>Assets ($M)</th>
<th>Average assets ($M)</th>
<th>Members</th>
<th>Average membership</th>
</tr>
</thead>
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<tr>
<td>Canada: CUCC centrally affiliated credit unions*</td>
<td>386</td>
<td>127,398</td>
<td>330</td>
<td>5,056,373</td>
<td>13,099</td>
</tr>
<tr>
<td>Desjardins**</td>
<td>450</td>
<td>121,575</td>
<td>270</td>
<td>5,592,697</td>
<td>12,428</td>
</tr>
<tr>
<td>Other***</td>
<td>41</td>
<td>7,199</td>
<td>175</td>
<td>414,864</td>
<td>10,118</td>
</tr>
<tr>
<td>Total</td>
<td>877</td>
<td>256,172</td>
<td>292</td>
<td>11,063,934</td>
<td>12,616</td>
</tr>
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Source: Data provided by Credit Union Central of Canada (CUCC).
Note: As of December 31, 2010, the Canadian dollar was trading at 1.003 US dollars. Thus, all dollar figures presented are considered to be at par.

*Includes Caisses Populaires de l’Ontario (13 caisses populaires, $1,112M in assets, and 77,656 members)

**Includes La Fédération des caisses populaires de l’Ontario (20 caisses populaires, $3,385M in assets, and 146,126 members)

***Includes Caisses Populaires Acadiennes, New Brunswick (25 caisses populaires, $2,835M in assets, and 197,222 members); Ontario unaffiliated independent credit unions (15 credit unions, $3,496M in assets, and 187,158 members); and Caisse Financial Group Manitoba (1 Federated Network—26 locations, $868 million in assets, and 30,484 members)
Canadian movement thus consists of 877 credit unions/caisses. These hold $256 billion (B) in assets and serve 11.1 million customer/members, with each unit averaging an asset base of $292 million (M) and a membership of 12,616. Credit unions in Canada are provincially chartered and incorporated.\(^8\)

In 2010 the Canadian federal government passed legislation (Bill C-9, discussed later in this section)\(^9\) that would allow credit unions to obtain a federal charter and operate across provincial borders, though as of this writing, the legislation is still not in force. The Canadian national credit union system is divided into two operational subsystems.\(^10\) The first is the more familiar North American credit union operating model referred to by Fischer (2000) as an atomized-competitive network in which the credit unions operate in a fully independent and autonomous manner with industry-wide trade services provided through the various credit union centrals.\(^11\) Credit unions in Canada were initially organized on a provincial basis, with each province having its own central. However, in a manner similar to mergers and amalgamations among credit unions, consolidation has occurred among the provincial centrals with the result that the centrals of the four Maritime Provinces have merged into Atlantic Central, while Ontario and British Columbia have combined to become Central One. The remaining provinces maintain one central each.

A central’s key financial role is management of the system’s liquidity reserve requirements and provision of centralized and investment banking services. Centrals may also provide additional trade association services to members, including risk management, human resources, consulting and support, and marketing and communications planning. Through a provincial central’s ties to the Credit Union Central of Canada (CUCC), it may also connect with other provincial centrals, federal and provincial regulatory agencies, and various affiliated organizations providing insurance, technology, education and wealth management services, and payment processing.

CUCC and several of the federally incorporated provincial centrals are subject to both provincial and federal credit union regulation (see Figure 3). The CUCC, incorporated by a special Act of Parliament in 1953 and regulated under the Cooperative Credit Associations Act, is the national trade association providing Canada’s credit unions with a forum
in which to work together on challenges and opportunities at the national level.

The second operational system in Canada, which Fischer (2000) refers to as a federated network model, consists of independent and autonomously incorporated entities that operate in a more structured, standardized, and closely interconnected environment with other affiliated caisses populaires. Operationally speaking, this creates a fully integrated system. Whereas other credit unions in Canada turn to the provincial centrals and the CUCC for services, these belong to a single network. This has become known as the Desjardins Group. This model is similar in structure to several movements in continental Europe. The Desjardins Group of caisses populaires is primarily concentrated in the province of Quebec and parts of Ontario.12

Owned by its affiliated caisses populaires, the Desjardins Group operates over 20 subsidiary organizations offering related products and services. These services include insurance (Desjardins Financial Security, Desjardins General Insurance), real estate (Place Desjardins), venture capital funds (Desjardins Venture Capital), and brokerage (Desjardins Securities). Through its subsidiary Dévelopement International Desjardins, the Desjardins Group is also active in more than 50 developing countries, providing technical assistance programs and various investments. Desjardins also continues to grow in North America outside the province of Quebec. In 1992 it opened the Desjardins Bank in Florida, and in December 2010 acquired Western Financial, giving it a presence in British Columbia, Alberta, Saskatchewan, and Manitoba.

For the caisses populaires, this operating environment provides significant economies of scale and high levels of industry presence and profile. Although there is some degree of autonomy at the individual caisse populaire, much of their strategic planning happens at the group level. Both financial and nonfinancial assets and resources are shared and maximized, and thus the Desjardins structure might be considered more effective and efficient. Desjardins is the largest retail financial intermediary in Quebec and a core part of the Canadian financial services industry.

Figure 4 outlines the Desjardins Group’s organization. The group’s foundation rests on the members/owners at the individual caisses populaires. The Desjardins Group is divided into 17 regions, each with a council of representatives. The council consists of 15 members, 10 of whom are elected caisse populaire representatives and 5 of whom are caisse populaire general managers. These individuals are elected by the individual caisses populaires on a proportional basis, with each caisse getting at least one vote, and additional delegates
being allocated by increments of 5,000 members to a maximum of six votes for a caisse populaire with 25,000 or more members.

Each regional council of representatives then elects a president, who automatically becomes one of the 17 members of the Desjardins Group’s board of directors. Additionally, all the regions together constitute the Assembly of Representatives. This body of 256 persons (17 regions × 15 representatives plus the president of the Desjardins Group board of directors) advises Desjardins management regarding strategic and operational planning as well as policy and bylaw issues. The group’s operational structure, as indicated in Figure 4, consists of Caisse Network, Business Sectors, Desjardins Group Functions, and Transformation and Performance.

In Figure 5 (Desjardins caisses populaires) and Figure 6 (centrally affiliated credit unions), we analyze the evolution of the Canadian credit union movement between 2005 and 2010 based on the two types of operational systems. In Figure 7, we present a size distribution of credit unions in the United States and Canada at the end of 2010. Between 2005 and 2010, the number of Desjardins-affiliated caisses populaires declined from 568 to 450. There has been little change in overall membership size but an increase in total assets of 45%.
From Figure 7 we can see that 71% of Desjardins caisses populaires have assets in excess of $100M, with only 1% having an asset base of less than $10M. Over the same period, the number of centrally affiliated credit unions declined from 524 to 386, whereas assets and membership increased by 50% and 4%, respectively (Figure 6). In Figure 7 we can see that in 2010 40% of centrally affiliated credit unions in Canada had assets greater than $100M, with 13% having less than $10M in assets.

Figure 8 shows the comparative growth rates in centrally affiliated Canadian credit unions for the period from the fourth quarter 2008 to the fourth quarter 2010. The bulk of the movement’s growth is concentrated in the top 100 credit unions, with most dramatic growth being evidenced in the top 10 credit unions.
A primary legislative objective at both the provincial and federal levels of government is consumer protection. Consequently, all provincial and federal credit union statutory regulations require the establishment of one or more organizations to protect the deposits of all credit union members through stabilization funds and direct member deposit insurance. The funds are capitalized via premiums or assessments levied on individual credit unions. The amount of the contribution varies among provinces and is set as a proportion of a credit union’s shares and deposits; shares, deposits, and liabilities; deposits and borrowings; gross revenues or interest income; or total assets. The amount of insurance coverage varies as well, but generally it covers all deposit accounts with the exception of equity share accounts.13

Most deposit protection organizations are Crown corporations14 operating under the direct auspices of their respective provincial credit union regulatory authority. These organizations not only collect premiums and pay out funds but also establish the minimum requirements regarding capitalization, reserves, liquidity, loan delinquency, asset quality, and asset and liability management. In addition, they establish and monitor “standards of best practice” to which credit unions are required to adhere. They are sanctioned to intervene at the early stages of any potential difficulty with authority that extends to direct management, supervision, and ordering amalgamation or dissolution of a credit union that is judged to be unable to achieve regulated performance results or meet minimum requirements. This level of regulation and member protection has gone a long way in establishing credit unions as a financially strong and

Figure 8: Comparative Growth Rates in Centrally Affiliated Canadian Credit Unions (fourth quarter 2008 to fourth quarter 2010)

Source: Reproduced courtesy of Credit Union Central Canada (CUCC).
secure player in the Canadian consumer finance sector and a model for credit union development throughout the world.

The Canadian government passed Bill C-9 on March 29, 2010. This legislation will permit credit unions to become national rather than provincial in scope. Under the new legislation, credit unions and caisses populaires can:

- Do business across Canada under the supervision of a single federal regulator, the Office of the Superintendent of Financial Institutions (OSFI);
- Amalgamate with other credit unions in different Canadian jurisdictions; and
- Issue nonmembership shares, providing opportunities for strategic investments, and permitting nonmembership shareholders the right to elect a limited number of directors to the board.

These changes will lead to major adjustments and opportunities for credit union growth and development, especially for the larger credit unions.

### US Credit Unions

The United States has one of the world’s most diverse banking markets that includes more than 8,000 banks and nearly 100,000 branches alongside 7,339 credit unions.\(^{15}\)

Figure 9 presents descriptive statistics that summarize the evolution of US credit unions between 2004 and 2010. During this period, the total number of credit unions declined from 9,020 to 7,339. As in Canada, this decline is part of a longer-term trend, with the size of the US credit union population having peaked at 23,866 in 1969. Numbers declined by 7.2% during the 1970s, 29.4% during the 1980s, 24.3% during the 1990s, and 27.4% during the 2000s.\(^{16}\) This reduction in numbers was not the result of credit union failures but primarily amalgamations and mergers. From 2004 to 2010, assets grew 42% overall, with those of the average credit union growing from $72M to $125M, an increase of 74%. Average membership grew from 9,264 to 12,335 in the same period, an increase of 33%, significantly greater membership growth than was seen in the Canadian credit union system.

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**Figure 9: US Credit Union Assets and Membership 2004–2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of credit unions</th>
<th>Assets (US$M)</th>
<th>Average asset size (US$M)</th>
<th>Members</th>
<th>Average membership size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>9,020</td>
<td>645,970</td>
<td>72</td>
<td>83,564,678</td>
<td>9,264</td>
</tr>
<tr>
<td>2005</td>
<td>8,697</td>
<td>678,665</td>
<td>78</td>
<td>84,506,880</td>
<td>9,716</td>
</tr>
<tr>
<td>2006</td>
<td>8,365</td>
<td>709,949</td>
<td>85</td>
<td>85,753,540</td>
<td>10,251</td>
</tr>
<tr>
<td>2007</td>
<td>8,102</td>
<td>753,464</td>
<td>93</td>
<td>86,837,478</td>
<td>10,718</td>
</tr>
<tr>
<td>2008</td>
<td>7,806</td>
<td>811,067</td>
<td>104</td>
<td>88,587,933</td>
<td>11,348</td>
</tr>
<tr>
<td>2009</td>
<td>7,553</td>
<td>884,604</td>
<td>117</td>
<td>89,918,956</td>
<td>11,905</td>
</tr>
<tr>
<td>2010</td>
<td>7,339</td>
<td>914,475</td>
<td>125</td>
<td>90,528,636</td>
<td>12,335</td>
</tr>
</tbody>
</table>
Figure 9 also profiles the asset size of US credit unions. It indicates that 18% (1,364) of credit unions in the United States are very large, with assets greater than $100M, whereas the majority (74%, or 5,404 credit unions) have assets between $10M and $100M and the minority (8%, or 566) have assets of less than $1M.

The US credit union system is organized in three tiers comprising consumer credit unions, corporate credit unions, and the corporate central credit union. Consumer credit unions have a structure, business model, and governance regime that parallels Canadian credit unions’ atomized-competitive network. Corporate credit unions are similar in function to the Canadian credit union centrals but are less operationally restricted and less regulated. They are nonprofit institutions owned by their respective member consumer credit unions via deposit (share) accounts. Each credit union has equal voting rights, a setup that differs from the proportional voting regime in Canadian credit union centrals. Created in the 1970s, these corporate credit unions act as a source of liquidity and provide services to their member credit unions, including loans, investment products, and processing services. Corporate credit unions can have a state or a federal charter. In recent years, however, they have played a lesser role in providing liquidity to members. Investments make up the vast majority of corporate credit union assets. Traditionally such investments were held at US Central Credit Union, a non-profit cooperative owned by its member corporate credit unions. State-chartered and based in Kansas, it provides wholesale financial services to corporate credit unions. It functions as a depository for corporate credit unions and a conduit between those institutions and capital markets.

Partly due to regulatory restrictions on their riskier activities and high levels of capital, US credit unions have generally weathered the current financial crisis better than many of their banking counterparts (Klinedinst 2010; Smith and Woodbury 2010). Nevertheless, in 2008 and 2009, 46 credit unions failed at a cost of $985M to the National Credit Union Share Insurance Fund (NCUSIF). In 2010, another 28 credit unions failed, representing a $221M loss. However, recent financial statements suggest that conditions are improving on average, with increased earnings, reduced loan losses, reduced charge-offs, and improved capitalization.

The National Credit Union Administration (NCUA) is the independent federal agency in the United States that supervises and charters federal credit unions. Governed by a three-member board appointed by the US president, NCUA is responsible for the NCUSIF, which is backed by the US government. As the insurer and regulator of federally chartered credit unions, NCUA oversees credit union financial safety and viability.
In the 1990s, deregulation expanded investment opportunities for corporate credit unions, altering their investment portfolios. Corporate credit unions increasingly competed with one another to attract funds from member credit unions. Along with the low returns on traditional types of investments, this caused corporate credit unions to shift to more risky investments, including real estate. For example, larger corporate credit unions began investing in more non–governmental agency–mortgage backed securities (many of which were repackaged subprime, Alt-A, and interest-only mortgage loan products). This led to an increase in the concentration of mortgage-related securities as a proportion of total investments, reaching 35% in 2007. NCUA issued supervisory directives in mid-2007 prohibiting corporate credit unions from further purchase of mortgage-backed securities. However, by that time the US financial system was experiencing a crisis caused by credit and liquidity issues associated with subprime mortgages. Some corporate credit unions experienced a significant reduction in the value of their investments, and liquidity disappeared as these assets became difficult or impossible to trade. In addition, fair value accounting rules affected financial statements as accumulated losses on “available for sale securities” were announced. In late 2008, it was estimated that corporate credit unions faced potential losses of $33B on their investments while having only $2.4B of retained earnings to cover them. The remainder would be covered by member credit unions’ paid-in and membership capital in the first instance, then the share insurance fund (for insured accounts only), with the rest (and majority) absorbed by consumer credit unions. Unsurprisingly, member consumer credit unions reduced their deposits at the corporate credit unions with the total declining from $91B in February 2008 to $59B in December 2008. According to NCUA estimates, without intervention the absorption by consumer credit unions of losses accrued by the corporate credit unions might have led to the failure of around 30% of U.S. credit unions. NCUA, in cooperation with the Federal Reserve Board and the Department of the Treasury, implemented a series of measures to stabilize the system and resolve problems at individual corporate credit unions by isolating distressed assets. In 2008, NCUA gained approval from Congress to increase the Central Liquidity Facility lending limit from $1.5B to $41.5B.

The passing of the Dodd-Frank Wall Street Reform and Consumer Protection Act by Congress on July 15, 2010, resulted in radical changes to the regulation and supervision of financial institutions in the United States. For credit unions, the law increases federal deposit insurance from $100,000 to $250,000 per account. In addition, NCUA has approved a new rule requiring all credit union directors to receive training in financial literacy. Additional changes at NCUA instituted new capital standards, a system of prompt corrective action
(see NCUA 2005, 2007, 2010), revisions to permissible investments, reforms of corporate governance, and increased disclosure.

A final note of comparison between US credit unions and their Canadian counterparts regarding corporate taxation: Credit unions in Canada are required to pay corporate tax, whereas credit unions in the United States are exempt. In 2005, congressional hearings reviewed this tax-exempt status, which has been justified by its proponents as a policy tool to tackle financial exclusion. However, some survey evidence (e.g., a Federal Reserve Board [2001] survey of consumer finance) suggests that US credit unions do not serve a higher proportion of low-income individuals than do mainstream financial institutions. An August 2010 report (and several previous reports) on tax reform suggested that it might be appropriate for credit unions to be subject to corporate taxation (Tatom 2005; US Government Accountability Office 2005; President’s Economic Recovery Advisory Board 2010). Despite lobbying by representatives of commercial banks, however, Congress chose to maintain the exemption.

Summary

The credit union systems in Canada and the United States are in a period of fundamental change, with concentration and rationalization in the number of credit unions accompanied by dramatic increases in assets and, for US credit unions, size of membership. These features, together with legislative and regulatory changes, permit both greater opportunities and challenges for the credit union systems. More size, diversity, and complexity will continue to raise questions about credit union corporate structure and the validity and robustness of its corporate governance regimes—questions that increasingly preoccupy regulators.
This chapter presents an overview of the results of a survey on attitudes to governance by credit unions in the United States and Canada. Results are analyzed by credit union location, jurisdiction, and size category.
Introduction

The literature review presented in Appendix 1 emphasizes that the analysis of corporate governance for cooperative organizations is more complex than it would be for traditional firms and banks. In the case of credit unions, where directors must be drawn from the membership, several issues potentially limit governance capacity. These include the nominal involvement of members in governance and the rule that directorial candidates cannot be credit union employees. These constraints limit the available pool of expertise from which candidates may be drawn, which may dramatically impact governance capacity.

In addition, at salient points, we provide data from the 11 semi-structured interviews conducted based on the survey. (For a summary profile of the credit unions that participated in the interviews, see Appendix 2).

Sample

In Canada, we invited nearly the full population of centrally affiliated credit unions in late 2011 (373) and a random sample of approximately 50% (253) of Desjardins caisses populaires to participate in the survey. In the United States, a sample of approximately 50% (3,500) of the population of credit unions was invited. Letters were sent by e-mail on October 1, 2011, requesting that either the credit union manager or an appointee of the board complete an online survey. The survey of US credit unions and centrally affiliated Canadian credit unions was organized through Queen’s University Belfast, and the survey of Desjardins caisses populaires was organized by the Mouvement des Caisses Desjardins, since this part of the survey was conducted in French. All survey returns were analyzed by the authors. Nonresponse bias is a potential problem. To test for this, chi-squared tests were used to identify whether there were significant differences between early and late responses (late respondents were used as surrogates for nonrespondents; Wallace and Mellor 1988; Babbie 1998). The results of the analysis of data from first respondents (early
respondents) were compared with that from others who participated after a second request was mailed (late respondents). No significant differences were found between the early and late respondents. The survey period ended on November 30, 2011. Figure 10 details the survey response rate.

Though an overall reasonable response rate to the survey form was obtained, participation was proportionally much lower in the United States than in Canada. This may relate to the fact that in Canada the survey was being advocated by Credit Union Central of Canada (CUCC) and the Mouvement des Caisses Desjardins, which play pivotal roles in Canadian credit unions. In the United States, the Filene Research Institute was the survey advocate, which, although it plays a crucial role in commissioning and producing research, does not have a similar administrative and governance role in the US system. Still, in terms of absolute numbers of useable questionnaire returns, a greater number pertain to US credit unions.

### Board Profile

#### Board Structure and Diversity

Figure 11 presents an overview of survey results with regard to the structure of credit union boards and membership size across jurisdictions. For size, results are expressed in two categories: more than 10,000 members and fewer than 10,000 members. This boundary was chosen to divide the survey returns into roughly equal numbers in each jurisdiction. The researchers decided not to further divide size analysis so as to ensure adequate representation within each category.

Information on average board of directors size and standard deviation also appears in Figure 11. Results show that as the size of the credit union increases, so does average board size. This appears to hold irrespective of the credit union grouping under consideration. The increase in size is to be expected, as larger credit unions are in all likelihood more complex, demanding a broader range of board expertise. Average board size was somewhat smaller among the US credit unions. It is difficult to say whether this is a disadvantage, even in the face of complex credit union operations. The literature reveals no universal agreement on the optimum size of boards of directors.22

Regarding boards’ gender makeup, it is clear from Figure 11 that irrespective of jurisdiction, women are underrepresented on credit

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**Figure 10: Survey Responses**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Surveys dispatched</th>
<th>Valid responses</th>
<th>% of total survey responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian (centrally affiliated)</td>
<td>373</td>
<td>103 (27.61%)</td>
<td>22.29</td>
</tr>
<tr>
<td>Canadian (Desjardins)</td>
<td>253</td>
<td>144 (56.92%)</td>
<td>31.17</td>
</tr>
<tr>
<td>US</td>
<td>3,500</td>
<td>215 (6.14%)</td>
<td>46.54</td>
</tr>
<tr>
<td>Total</td>
<td>4,126</td>
<td>462 (11.20%)</td>
<td>100.00</td>
</tr>
</tbody>
</table>

22
# Figure 11: Board Profile

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Number of credit unions</th>
<th>Number of members</th>
<th>Number of directors</th>
<th>Number of female directors</th>
<th>Number of directors (18 to 35 years)</th>
<th>Number of years of service</th>
<th>Is there a limit on terms of office?</th>
<th>If limit on terms of office, what is the number of years?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>54</td>
<td>3,867.8</td>
<td>2,377.0</td>
<td>8.291</td>
<td>1.242</td>
<td>2.436</td>
<td>1.525</td>
<td>0.745 - 0.775</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>49</td>
<td>63,989.0</td>
<td>98,473.0</td>
<td>10.580</td>
<td>2.061</td>
<td>3.120</td>
<td>1.722</td>
<td>0.440 - 0.644</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>103</td>
<td>32,194.1</td>
<td>73,697.3</td>
<td>9.381</td>
<td>2.030</td>
<td>2.762</td>
<td>1.650</td>
<td>0.600 - 0.729</td>
</tr>
<tr>
<td><strong>Canadian (Desjardins)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>74</td>
<td>5,854.59</td>
<td>2,414.2</td>
<td>8.635</td>
<td>1.948</td>
<td>2.824</td>
<td>1.556</td>
<td>0.878 - 0.921</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>70</td>
<td>22,330.0</td>
<td>13,168.3</td>
<td>11.6</td>
<td>2.312</td>
<td>3.686</td>
<td>1.814</td>
<td>1.60 - 1.159</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>144</td>
<td>13,863.5</td>
<td>12,447.0</td>
<td>10.076</td>
<td>2.594</td>
<td>3.243</td>
<td>1.735</td>
<td>1.229 - 1.101</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>83</td>
<td>4,860.3</td>
<td>2,813.5</td>
<td>7.277</td>
<td>1.468</td>
<td>2.265</td>
<td>1.449</td>
<td>0.301 - 0.535</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>132</td>
<td>70,223.9</td>
<td>92,256.3</td>
<td>8.561</td>
<td>2.009</td>
<td>2.412</td>
<td>1.324</td>
<td>0.318 - 0.702</td>
</tr>
<tr>
<td>All (US)</td>
<td>215</td>
<td>44,990.5</td>
<td>78,933.7</td>
<td>8.065</td>
<td>1.920</td>
<td>2.355</td>
<td>1.372</td>
<td>0.312 - 0.642</td>
</tr>
</tbody>
</table>
union boards. This finding is not unique. For example, an investigation by the Canadian Co-operative Association (1998) into board composition at its 35 member organizations revealed that women make up just 16.2% of the total number of board members. By industry sector, the investigation found that women comprise 2.9% of agricultural boards; 11.3% of retail/wholesale boards; 12.1% of insurance boards; 47.7% of service sector boards; and 22.4% of credit union boards. The latter finding for credit unions is broadly in line with the findings of this current study. Previous research, most notably Odendahl and Youmans (1994), has identified a further disparity with respect to nonprofit boards: Their work found that women enjoy greater representation on the boards of community-based open-bonded credit unions. Other research shows that men are attracted to serve in organizations with higher profile and community esteem. Because of this, we expected that men might have even more representation (and women less) at larger credit unions (>10,000 members) than at smaller credit unions. However, Figure 11 shows this does not appear to be the case in any of the jurisdictions considered.

Figure 11 also indicates a dearth of young people on credit union boards. This finding for the United States and Canada has also emerged from research into other credit union movements. For example, McCarthy, Briscoe, and Ward (2000) found that only 55% of Irish credit unions had any board members aged 30 years or younger at the time of their study. They argued that credit unions that fail to involve young people in decision making have greater difficulty in attracting young members. They also suggested that the benefits of youth involvement cannot be underestimated, given that young people provide continuity and sustainability to credit unions; offer different experiences and skills; and have fresh ideas, energy, and enthusiasm.

We explored the question of representation in the semi-structured interviews. Many respondents emphasized that their credit union had actively tried to increase the number of women and young people on the board of directors, with mixed results. Reasons given for the failure to do so included that young people hesitate to make a commitment to a board seat because they are busy with the early stages of their careers; people in their thirties are reluctant to join due to obligations to young families; and women especially juggle childrearing with community responsibilities and thus are harder to recruit.

“We try in each caisse to better balance our representativeness—between men and women, younger and less young. On my board, I do have some young people under 30. I have two. Three who are in their
thirties. I don’t have any in their forties. I jump into the fifties. It’s a mix in our case. I think every caisse is conscious of this.”

“Their [young people’s] own professional and personal development makes it so that they can’t reconcile community commitment as well. Nonetheless, we manage to have young people through our internship program. . . . My young recruits all came out of the program. Eventually, a seat opens and we turn automatically towards them because we know them. And we take them to the AGM and they get elected. So that’s how we rejuvenate.”

“We are conscious of the need for diversity on the board but we concentrate primarily on skills.”

“Although we try to have an increase of women and young people on the board, the nominating committee tends to look for candidates who are like the existing board.”

“In smaller communities it seems to me that the same core group of people are on most of the community-based boards . . . the hockey arena, the service clubs, and the credit union. . . . They tend to circulate.”

Board Tenure
Survey respondents were asked to identify the average number of “years of service” of the individuals currently serving on their board of directors by choosing one of six categories. In Figure 11 we have presented the modal choice. From the figure, we note that for credit unions with a membership of fewer than 10,000 people, the most frequent choice was 6–10 years. This also held true for Canadian centrally affiliated credit unions with more than 10,000 members. In contrast, for Desjardins and US credit unions with more than 10,000 members, the modal choice was 11–15 years. Figure 11 also highlights the percentage of credit unions reporting the identified modal range. This tended to trend around 40%, implying that the modal choice is quite pronounced in the respective categories. The fact that there was a tendency in both larger US credit unions and Desjardins caisses populaires for directors to remain on boards longer may be linked to the “prestige effect” within a local community of being a board member of a large credit union (McKillop et al. 2002). This raises the question of why a similar effect was not apparent for centrally affiliated credit unions in Canada. The answer may also lie in Figure 11, where information is presented on whether responding

For Desjardins and US credit unions, a very small number of credit unions (3 and 15, respectively) reported imposing a term limit. This contrasts with Canadian centrally affiliated credit unions, where 47 credit unions had a restriction on terms of office (56 had none).
credit unions have a limit on directors’ terms of office. For Desjardins and US credit unions, a very small number (3 and 15, respectively) reported imposing a term limit. This contrasts with Canadian centrally affiliated credit unions, where 47 had a restriction on terms of office (56 had none). For credit unions with restriction, term limits ranged from 9 to 15 years.

The supplementary interviews revealed a variety of viewpoints on the question of terms of office, with some respondents strongly opposed to the idea based on their belief that experience is essential to proper board functioning. Others, meanwhile, were concerned with directors who would not easily step aside to allow board renewal, and favored term limits as a means of highlighting the need for change.

“We currently have 9 years (3 years × 3 terms) but are considering going to 12 years (3 years × 4 terms) the reason being that given the amount of investment and time that we put into training 9 years is too short.”

“We have 12 years max (3 × 4) but the thinking is that this might be too long a period and we are now looking at reducing it to 9 years.”

“We have term limits 9 years but perhaps more important than the time frame is that it forces you to consider rejuvenation and succession planning... a healthy exercise.”

“For me, if I fix a period [for board membership], I’ve just created barriers. If a young person comes in at 22 or 25 years old, well, just when they reach the age when they’ll be the most representative of our setting, we’d be asking them to step out. I have a bit of discomfort with that... I would prefer to say to a board member, ‘Look, right now, I’d appreciate it if you left your seat for X reason,’ rather than to have a fixed term.”

Nominating Committee

Nomination committees deal with vacancies that arise on the board of directors and sometimes on key committees, like the supervisory committee, or for key positions, such as that of auditor. The presence of such a committee reflects a democratic impetus, given that in many jurisdictions legislation allows these posts to be filled by secret ballot at the annual general meeting (AGM). Earlier, we argued that in addition to the directorial selection process, the introduction of the independent nominating committee has been an important component of corporate governance. Leighton and Thain (1997) contend that the independent nominating committee injects a greater degree of independence into the board selection process. There are, however, others who question the effectiveness of nominating
committees, particularly for credit unions. Verespej (1994) argues that while these committees create an opportunity to change the process “from one of cronyism and good-old-boy networks to one of selection based on expertise,” substantial concerns remain as to their actual role and how effectively they are used.

**Board Nomination Process**

Figure 12 presents survey results on board nominations, identifying by jurisdiction and membership size the importance of nominating committees, how members of these committees are selected, the formal role of the committee, and whether directors are selected exclusively from the membership.

The first survey question on this topic asked whether the credit union has a formal nominating committee. For Canadian centrally affiliated and US credit unions, the answer was mostly yes. The statutory framework requires nominating committees in the United States, and while there is no such requirement in Canada, it is encouraged as a best practice by the deposit insurance corporations for centrally affiliated credit unions.24

In Figure 12 we present responses to the next survey question on nominations: “How are members of your credit union’s nominating committee selected?” Respondents were asked to select one of four choices. Given that this question is only relevant if a credit union operates a nominating committee, in the subsequent discussion we only consider responses for US and Canadian centrally affiliated credit unions. The dominant choice in Canada was that the nominating committee was appointed by the board of directors (64.0%). In the United States, while appointment by the board of directors was significant (39.8%), the dominant choice was that it was appointed by the chair of the board of directors (45.0%). As credit union size increased, appointment of the nominating committee by the chair of the board took on increasing importance in both jurisdictions (Canada: 2.8% for membership fewer than 10,000, 20.8% for membership more than 10,000; US: 39.2% for membership fewer than 10,000, 48.4% for membership more than 10,000). In both jurisdictions, responses also highlight relatively low membership involvement in the selection of nominating committee members. This does not appear to be consistent with the observation made in the literature that organizations are best served by the independence of the nominating committee. For example, Vafeas (1999) maintains that if the role of a new director is to monitor management, the members of the nominating committee themselves should be independent from management. Vafeas finds a negative relationship between the quality of the board of directors and the percentage of board insiders serving on the nominating committee. Furthermore,
**Figure 12: Nominating Committee**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Does credit union have a nominating committee?</th>
<th>How are nominating committee members selected? (identify the preferred choice)*</th>
<th>Candidates sought from all membership?</th>
<th>Candidates sought from outside membership?</th>
<th>Which function best describes role of nominating committee?**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (No.)</td>
<td>Yes (%)</td>
<td>Choice 1 (No.) (%)</td>
<td>Choice 2 (No.) (%)</td>
<td>Choice 3 (No.) (%)</td>
</tr>
<tr>
<td>Canadian (centrally affiliated)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>52</td>
<td>96.3</td>
<td>5 (9.6%)</td>
<td>36 (69.2%)</td>
<td>2 (3.8%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>48</td>
<td>98.0</td>
<td>3 (6.3%)</td>
<td>28 (58.3%)</td>
<td>10 (20.8%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>100</td>
<td>97.1</td>
<td>8 (8.0%)</td>
<td>64 (64.0%)</td>
<td>12 (12.0%)</td>
</tr>
<tr>
<td>Canadian (Desjardins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>12</td>
<td>10.8</td>
<td>5 (41.7%)</td>
<td>6 (50%)</td>
<td>1 (8.3%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>8</td>
<td>17.1</td>
<td>1 (12.5%)</td>
<td>6 (50%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>20</td>
<td>13.9</td>
<td>6 (30.0%)</td>
<td>12 (60.0%)</td>
<td>1 (5.0%)</td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>69</td>
<td>83.1</td>
<td>7 (10.1%)</td>
<td>28 (40.6%)</td>
<td>27 (39.2%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>122</td>
<td>92.4</td>
<td>4 (3.3%)</td>
<td>48 (39.3%)</td>
<td>59 (48.4%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>191</td>
<td>88.8</td>
<td>11 (5.8%)</td>
<td>76 (39.8%)</td>
<td>86 (45.0%)</td>
</tr>
</tbody>
</table>

*Choice 1: Elected by the membership at the AGM; Choice 2: Appointed by the board of directors; Choice 3: Appointed by the chair of the board of directors; Choice 4: Other.

**Function 1: Identify possible candidates only and advise/recommend to the board of directors; Function 2: Identify and interview all possible candidates and advise/recommend to the board of directors; Function 3: Screen all candidates to ensure that they possess the requisite qualifications and expertise identified by the board of directors or the governance committee.
Hautaluoma et al. (1993) note that US credit unions using nominating committees in their board selection processes perform better than counterparts not using this process.

Another comment on the information related to nominating committees detailed in Figure 12: A number of responding credit unions identified the category “other” for how committee members are selected (16% of Canadian centrally affiliated and 9.4% of US credit unions). In the case of US credit unions, “other” was invariably some variant on the choice being made by the board of directors. For Canadian credit unions, in many instances “other” reflected a greater incidence of member involvement. Some examples included “elected by total membership by mail-in ballots”; “elected by members at district meeting”; “elected by membership, but voting in branch or online (no voting at the AGM)”; “elected in a vote before the AGM”; “they are our member relations committee member, elected by the members at their regional meetings annually.” This suggests that certain Canadian credit unions are adopting a more innovative approach to encourage greater membership involvement in board selection in particular.

Figure 12 also shows how nominating committees seek nominations for directorial positions. In Canada, 90% of credit unions indicated that board candidates are sought from among the whole membership, whereas 12% said candidates are sought from outside the membership. There was some evidence of a size effect in Canada, with larger credit unions targeting both the membership and outside domains for directorial candidates. In the United States, meanwhile, 72.8% of credit unions reported seeking board candidates from the membership and 18.3% targeted candidates from outside that pool. In the United States, a size effect did not appear to be in evidence. The academic literature emphasizes the need for the “right” directors, who should be selected to match the needs, goals, and strategic objectives of the board and organization. Because most credit unions seek board candidates from among the membership by way of general invitation, they are often not able to identify directorial candidates with appropriate business acumen and management skills. This has required some credit unions to go outside the membership to obtain qualified directorial candidates. While this seems counter to the cooperative principles on which credit unions are based, it nevertheless minimizes the risk of unqualified or inappropriately qualified people being elected.

The following comments from the semi-structured interviews provide additional insights into the ways nominating committees seek nominations for directorial positions, pointing to a range of approaches, from increasingly strategic planning by some committees to minimal work by others.
“We have gone from seeking individual[s] where the primary consideration was that they were passionate about the credit union ideals and philosophies to a situation where the number one criteria is criteria such as strategic thinker, governance experience, financial and business acumen and that means that if they are not members of the credit union now we will get them to join, teach them that side of the credit union business and take advantage of the other skills that they bring.”

“If we have two vacancies the nomination committee would work hard until it had two candidates and then give up. . . . Two vacancies, two candidates . . . job done.”

“There is a definite need to determine exactly what skills we need in our directors, not only in our credit union, we seem to spend too much time trying to duplicate management skills rather than strategic and oversight skills.”

Function of Nominating Committee
Finaly, Figure 12 presents information on what credit unions view as the primary function of nominating committees. Respondents were asked to choose from one of three possible functions: Function 1, in which the committee sees its role as only identifying possible candidates and advising/recommending to the board of directors; Function 2, in which its role is to identify and interview all possible candidates and advise/recommend to the board; and Function 3, in which the committee screens all candidates to ensure that they possess the requisite qualifications and expertise identified by the board or governance committee.

For Canadian credit unions as a whole and by size group, there was a broadly equal spread of responses across the three functions. For US credit unions, there was also strong representation across these options. However, credit unions with a membership of more than 10,000 tended to opt in larger numbers for Function 3, whereas smaller credit unions (fewer than 10,000) tended to choose Function 1. The literature review (Appendix 1) stresses that the selection of directors is a critical factor in determining the effectiveness of corporate governance, with formalized recruitment processes highlighted as a best practice, including building a demographic profile of the board, identifying gaps in skills, and conducting interviews with potential candidates. To this end, it is important that nominating committees see their function as going beyond identification and recommendation of candidates, more than what was captured in
Function 1, to include at least interviewing (Function 2) or, preferably, screening (Function 3).

Skills and Competencies of Directors

Figure 13 details responses to a series of survey questions related to directors’ skills and competencies. The first question asked whether the credit union has a policy that establishes minimum skills/competencies for candidates for election to the board. As can be seen, minimum competency is not required for board candidates for most Desjardins caisses populaires, nor in US credit unions with fewer than 10,000 members. Among larger US credit unions and in the total number of responding Canadian centrally affiliated credit unions, approximately 50% indicated that they have a minimum competency requirement. Appropriate competencies help directors effectively fulfill their responsibilities and contribute to the safety and soundness of the credit union sector as a whole.

Respondents were also asked to what extent they agreed with the following statement: “The board of directors must possess the skills and qualifications relating to the functions of your credit union.” This question emerges in the context of greater emphasis being placed on skills in the credit union movement. For example, while they are not mandatory, the World Council of Credit Unions (WOCCU 2005) has detailed best practice skills sets for credit unions. They recommend required familiarity with general topic areas, such as general management, accounting, lending, marketing, and asset management. From Figure 13, we can see that by jurisdiction and for the respective membership groups, a majority of credit unions “agree completely” or “agree somewhat” that the board must possess skills and qualifications related to credit union functions. This is most pronounced for Desjardins caisses populaires (“agree completely,” 30.5%; “agree somewhat,” 47.5%), for which responding caisses mostly did not, however, have a minimum competencies requirement in place. Meanwhile, membership size across jurisdictions seems associated with agreement with this statement, with larger credit unions (10,000 or more members) in much greater agreement that the board must possess specific skills. For example, in the category “agree completely,” the differential is 9.3% and 34.7% for Canadian centrally affiliated credit unions, 25.4% and 35.7% for Desjardins caisses populaires, and 10.8% and 23.5% for US credit unions. These results are to be expected, given that greater size brings added sophistication in the credit union business model, which may well necessitate directors with more defined skills. Noticeably, a number of responding credit unions placed no importance on having directors with specified skills. For these, there is little evidence to suggest that they act in accordance with the view of Branch and
Figure 13: Skills and Competencies of Directors

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Yes (No.)</th>
<th>Yes (%)</th>
<th>Agree completely (No.) (%)</th>
<th>Agree somewhat (No.) (%)</th>
<th>Disagree somewhat (No.) (%)</th>
<th>Disagree completely (No.) (%)</th>
<th>Already in place (No.) (%)</th>
<th>Very useful (No.) (%)</th>
<th>Useful (No.) (%)</th>
<th>Of limited use (No.) (%)</th>
<th>Not Useful at All (No.) (%)</th>
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<tbody>
<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
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<tr>
<td>Members &lt;10,000</td>
<td>26</td>
<td>48.1</td>
<td>5 (9.3%)</td>
<td>27 (50.0%)</td>
<td>18 (33.3%)</td>
<td>4 (7.4%)</td>
<td>5 (9.3%)</td>
<td>8 (14.8%)</td>
<td>8 (14.8%)</td>
<td>25 (46.3%)</td>
<td>8 (14.8%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>23</td>
<td>46.9</td>
<td>17 (34.7%)</td>
<td>20 (40.8%)</td>
<td>8 (16.3%)</td>
<td>4 (8.2%)</td>
<td>4 (8.0%)</td>
<td>8 (16.0%)</td>
<td>23 (46.0%)</td>
<td>12 (24.0%)</td>
<td>3 (6.0%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>49</td>
<td>47.6</td>
<td>22 (21.4%)</td>
<td>47 (45.6%)</td>
<td>26 (25.2%)</td>
<td>8 (7.8%)</td>
<td>9 (8.7%)</td>
<td>16 (15.4%)</td>
<td>31 (29.8%)</td>
<td>37 (35.6%)</td>
<td>11 (10.5%)</td>
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<td><strong>Canadian (Desjardins)</strong></td>
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<tr>
<td>Members &lt;10,000</td>
<td>12</td>
<td>16.2</td>
<td>18 (25.4%)</td>
<td>37 (52.1%)</td>
<td>14 (19.7%)</td>
<td>2 (2.8%)</td>
<td>0 (0.0%)</td>
<td>6 (8.5%)</td>
<td>29 (40.8%)</td>
<td>27 (38.0%)</td>
<td>9 (12.7%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>10</td>
<td>14.3</td>
<td>25 (35.7%)</td>
<td>30 (42.9%)</td>
<td>12 (17.1%)</td>
<td>3 (4.3%)</td>
<td>1 (1.4%)</td>
<td>14 (20.0%)</td>
<td>20 (28.6%)</td>
<td>23 (32.9%)</td>
<td>12 (17.1%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>22</td>
<td>15.3</td>
<td>43 (30.5%)</td>
<td>67 (47.5%)</td>
<td>26 (18.5%)</td>
<td>5 (3.5%)</td>
<td>1 (0.7%)</td>
<td>20 (14.2%)</td>
<td>49 (34.8%)</td>
<td>50 (35.5%)</td>
<td>21 (14.8%)</td>
</tr>
<tr>
<td><strong>US</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>21</td>
<td>25.3</td>
<td>9 (10.8%)</td>
<td>46 (55.5%)</td>
<td>19 (22.9%)</td>
<td>9 (10.8%)</td>
<td>0 (0.0%)</td>
<td>10 (12.0%)</td>
<td>19 (22.9%)</td>
<td>39 (47.0%)</td>
<td>15 (18.1%)</td>
</tr>
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<td>Members &gt;10,000</td>
<td>72</td>
<td>54.5</td>
<td>31 (23.5%)</td>
<td>59 (44.7%)</td>
<td>36 (27.3%)</td>
<td>6 (4.5%)</td>
<td>7 (5.3%)</td>
<td>25 (18.9%)</td>
<td>41 (31.1%)</td>
<td>42 (31.8%)</td>
<td>17 (12.9%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>93</td>
<td>43.3</td>
<td>40 (18.6%)</td>
<td>105 (48.8%)</td>
<td>55 (25.6%)</td>
<td>15 (7.0%)</td>
<td>7 (3.2%)</td>
<td>35 (16.3%)</td>
<td>60 (27.9%)</td>
<td>81 (37.7%)</td>
<td>32 (14.9%)</td>
</tr>
</tbody>
</table>
Baker (2000), who contend that the ability of directors to monitor or control a credit union depends on those directors’ managerial skills.

In certain jurisdictions, nominees for election to the board are required to meet legislated or regulatory skill requirements before they can stand for election. The third survey question on the topic of skills thus asked how useful this approach would be for respondents’ credit unions. Less than 15% in each jurisdiction answered that such a mechanism would not be useful at all, while a broadly similar percentage suggested it would be very useful. The most favoured category was “of limited use,” with marginally more than 35% opting for this choice in each jurisdiction. Again, a dichotomy emerged in the two membership size groups, with smaller credit unions (fewer than 10,000 members) more often saying this requirement would be “of limited use.” Only in the case of Desjardins caisses populaires can it be argued that there is some evidence of an appetite for the introduction of skills requirements for potential directors before standing for election: 34.8% of Desjardins caisses populaires identified this requirement as “useful,” and 35.5% thought it would be of “limited use.”

A spectrum of views about the skills needs of board members emerged from the semi-structured interviews. Some respondents felt protective of the informal aptitudes that have traditionally been seen among credit union board members, and others saw a need to secure the organization’s stability by ensuring that directors have more formal skills.

“There is a general thought how do directors best govern if they don’t know as much about the business as management. . . . You can’t understand it all and if you feel that a director must, then you don’t belong on our board. We seek strategic thinkers whom understand the generals concepts of the issues that are in front of them, know what the questions are that need to be asked, if necessary seek expertise advice and strategically makes decisions.”

“If the goal of a director is to know as much as management then get a job as a manager and not as a director.”

“The role of the board is to ensure the financial security and sustain­ability of the credit union and to function in the best interest of the member. . . . We need to ensure that they have to skills to do so.”

“The correct skills that we have elected has been more good luck than good management.”

“To expect the general membership to elect the ‘right’ directors requires that they know what they should be looking for. . . . Members are looking for direction from the board as to whom to vote for.”
“And just because [some board members] don’t have a master’s or a PhD, that doesn’t mean they don’t have a judgment about the board’s development. If they can support a family, I say to myself... it’s similar work, just on a different scale. And to me, it’s important to respect that. ... As long as I’m with the caisse, it will be important to represent all sectors, whether it be people who have just their high school education, they can still do excellent work.”

Training of Directors

Given that many credit unions do not have minimum competency requirements for board candidates, one might surmise that training and orientation of new directors would take on an enhanced importance. In the academic literature, Leighton and Thain (1997) have emphasized the value of introducing new directors to the organization. They argue that without appropriate orientation, the contribution made by a director to the board and the organization is deferred. Multiculturalism and Citizenship Canada (1992; now Citizenship and Immigration Canada) has supported this view, contending that for new directors to volunteer-based organizations, “his/her comfort level is lessened with limited training and orientation: which, in turn, is cited as a detriment and impediment to the development of successful boards.” The survey sought to explore the issue of director orientation and training with, first, a question as to whether responding credit unions had a formal program for this purpose. Responses are detailed in Figure 14. A majority in each jurisdiction offered training for new directors (US, 67.9%; Canadian centrally affiliated, 84.5%; and Desjardins, 52.1%). For credit unions in the United States and those in the Canadian centrally affiliated system, there was some evidence that larger credit unions invested more in training than their smaller counterparts (US more than 10,000 members, 77.3%; Canadian centrally affiliated more than 10,000, 93.9%).

Next, the survey asked whether credit unions use external professionals for training and orientation. In the Desjardins system, training was almost exclusively external (90.6%)—an obvious advantage of their federated system, in which standardized training can be readily provided and coordinated among member caisses populaires. Among the other Canadian respondents, at smaller centrally affiliated credit unions (with fewer than 10,000 members) training was again almost exclusively provided by externals (90.2%), but this was less the case for their larger centrally affiliated counterparts (more
**Figure 14: Training of Directors**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Does credit union have a training policy?</th>
<th>Hours training per director per year</th>
<th>Existing board of director training provides directors with the skill sets necessary to fulfill their roles, duties, responsibilities and obligations</th>
<th>In certain jurisdictions, nominees for election to the credit union board of directors are required to meet legislated or regulatory skill requirements before they can stand for election. How useful would this approach be for your credit union?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (No.) (%)</td>
<td>Modal value and (%)</td>
<td>Agree completely (No.) (%)</td>
<td>Agree somewhat (No.) (%)</td>
</tr>
<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>41 (75.9%)</td>
<td>6–10 hrs (29.6%)</td>
<td>12 (22.2%)</td>
<td>32 (59.3%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>46 (93.9%)</td>
<td>11–15 hrs (22.4%)</td>
<td>8 (16.3%)</td>
<td>33 (67.3%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>87 (84.5%)</td>
<td>6–10 hrs; 11–15 hrs (23.3%)</td>
<td>20 (19.4%)</td>
<td>65 (63.1%)</td>
</tr>
<tr>
<td><strong>Canadian (Desjardins)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>38 (51.4%)</td>
<td>0–5 hrs (54.1%)</td>
<td>14 (19.7%)</td>
<td>38 (53.5%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>37 (50.0%)</td>
<td>0–5 hrs (51.4%)</td>
<td>11 (15.7%)</td>
<td>45 (64.3%)</td>
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<tr>
<td>All (Desjardins)</td>
<td>75 (52.1%)</td>
<td>0–5 hrs (52.7%)</td>
<td>25 (17.7%)</td>
<td>83 (58.9%)</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Members &lt;10,000</td>
<td>44 (53.0%)</td>
<td>0–5 hrs (48.2%)</td>
<td>26 (31.3%)</td>
<td>41 (49.4%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>102 (77.3%)</td>
<td>0–5 hrs and 6–10 hrs (17.4%)</td>
<td>48 (36.4%)</td>
<td>64 (48.5%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>146 (67.9%)</td>
<td>0–5 hrs (29.3%)</td>
<td>74 (34.5%)</td>
<td>105 (48.8%)</td>
</tr>
</tbody>
</table>
than 10,000 members, 67.4%). This may reflect the fact that larger credit unions have the in-house resources to provide their own training. The same trend differential by membership size was apparent in the United States, although US credit unions tended to use externals much less (49.3%) than their Canadian counterparts. This may be a result of the US regulatory system only recently requiring that all credit union directors receive training and professional development, whereas in Canada it has been a long-standing requirement.

We also investigated the number of hours of training, in-house or external, provided to each board member in an average year. Respondents were asked to choose one of six options, from 0 to 5 hours to more than 25 hours. In Figure 14, we see that the modal choice for Desjardins caisses populaires overall and by membership size was 0–5 hours. In the United States it was 0–5 hours for credit unions with membership of fewer than 10,000, whereas a similar number of larger credit unions (membership above 10,000) chose 0–5 hours and 6–10 hours. This suggests that there are more training hours at larger organizations. A similar size effect was apparent among Canadian centrally affiliated credit unions. In addition, these credit unions tended to devote considerably more hours to the training of directors overall (modal value was 6–10 hours for credit unions with membership of fewer than 10,000, and 11–15 hours for those with a membership more than 10,000).

In the review of the literature (Appendix 1) we point out that Hoyt (2003) argues for director orientation as an effective way for new board members to learn key board practices, processes, and policies. Hoyt further contends that boards should demonstrate their commitment to director training by allocating sufficient financial and time resources to allow directors to take advantage of such opportunities. Yet with perhaps the exception of Canadian centrally affiliated credit unions, the number of training hours per year among survey respondents appears low. We followed the question of training hours by asking “whether existing board of director training provides them with the skill sets necessary to fulfill their roles, duties, responsibilities and obligations as directors.” Even with the relatively low number of training hours reported, only around 3% of respondents in each jurisdiction completely disagreed with this statement. Furthermore, in each jurisdiction, a sizable number of respondents agreed completely with the statement (19.4% Canadian centrally affiliated, 17.7% Desjardins, and 34.5% US).

The final question analyzed in Figure 14 was whether “it would be useful to second qualified individuals, who are not members of the credit union, to serve on the board of directors and who become members at the time they are seconded.” The dominant responses were that such an approach would be either “not useful at all” or “of
limited use” (67% Canadian centrally affiliated, 78.4% Desjardins, 72.1% US). This is reinforced when we consider the number of respondents who reported that such an approach would be “very useful”: just 6% in each jurisdiction held this view.

Despite this, in our subsequent interviews, we received a diverse range of opinions on the value of director training.

“So, all of that means that, for me, I wouldn’t want to fix a number of hours, but say to my board members, and this is what I do, what’s important is, ‘you have a mandate, you’ve been elected to do a job with a cooperative, and you have to give yourself all the tools necessary to fulfill that mandate.’ . . . Obviously, training is important, and [Desjardins] has a great line-up of courses. . . . But again, you have to be ready, willing and able. You have to want to go. Because for me, to impose training, it’s a waste of time for my directors and a cost to my caisse.”

“Not a good past record . . . perhaps due to us [the credit union] not emphasizing professional development expectations and not specifically allocating financial resources for board development. . . . We do it for staff but not for directors. . . . We are changing.”

“No one sits on our board for the money and so it becomes difficult to expect volunteers to commit a significant amount of time to training.”

“They tend to think that good common sense is adequate qualification. . . . It might be that this is the expectation that is presented by the nominating committee.”

Member Participation

As credit unions are member-focused institutions, it would be expected that the AGM would be considered vital both to efficient control of the credit union and as the vehicle for members to use their voice to exercise the “one member, one vote” principle. Indeed, some research suggests that from a governance perspective, the AGM may be more important for credit unions than other organizations (Briscoe, Ward, and McCarthy 1982).

AGM Participation

In the survey, we asked whether credit unions use any special activities to encourage membership participation at their AGM and, if so, which activities are the most effective. At 69.4%, Desjardins
caisses populaires most commonly responded that they use special activities, with more larger caisses (78.6% of those with more than 10,000 members) reporting that they use them. For Canadian centrally affiliated and US credit unions, the overall number using such activities was 62.1% and 44.6%, respectively. Interestingly, unlike at Desjardins, smaller centrally affiliated and US credit unions (fewer than 10,000 members) were more likely to use activities to encourage attendance than their larger counterparts; the reason for this variance isn’t clear.

Activities described as most effective in encouraging attendance included social events centered on dinner and drinks and prize drawings. Both appeared important across all jurisdictions and membership size bands (many respondents reported using both activities, which means that the numbers detailed in Figure 15 may sum to more than the number of credit unions that acknowledged providing attendance incentives). One difference was seen among jurisdictions, however. Some Desjardins caisses populaires award second- and third-level educational bursary awards at their AGMs (23.0% of those providing attendance incentives said they award such bursaries). This type of incentive fits well with the cooperative principle of member education. Meanwhile, this method was rarely reported as being used in the other jurisdictions. An alternative applied in the United States and by Canadian centrally affiliated credit unions (but not Desjardins) was to bring in guest speakers.

The survey’s next question on membership participation was whether credit union bylaws require individuals to have been members of the credit union for a specified period of time before they are entitled to vote at membership meetings. For most Desjardins caisses populaires (81.3%), this was the case, as can be seen in Figure 15, while minimum time periods were somewhat in place for Canadian centrally affiliated credit unions (54.4%), and rare for US credit unions (12.1%). There is a trade-off in requiring a minimum periods prior to voting rights. On the one hand, they provide member with an opportunity to become comfortable with a credit union’s operations and structure. On the other hand, they limit, at least for a period, participation in governance.

Figure 15 also presents figures on attendance at the most recent AGM. Information is presented on average attendance and the linked standard deviation value. In the final column of Figure 15 and depicted below in Figure 16, is average attendance at AGM as a proportion of the average number of members.

With the exception of smaller Desjardins caisses populaires of fewer than 10,000 members, AGM attendance was less than 2%, with the lowest attendance (0.8%) seen among larger US credit unions (more
### Figure 15: Membership Interaction and the AGM (Part One)

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Does your credit union use any activities to encourage membership participation at AGM?</th>
<th>Minimum period before members eligible to vote</th>
<th>Minimum acceptable voting percentage</th>
<th>Number at AGM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (No.) (%)</td>
<td>Dinner/drinks/meal (No.) (%)</td>
<td>Prize draws (No.) (%)</td>
<td>Guest speakers (No.) (%)</td>
</tr>
<tr>
<td>Canadian (centrally affiliated)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>37 (68.5%)</td>
<td>19 (51.3%)</td>
<td>14 (37.8%)</td>
<td>3 (8.1%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>27 (55.1%)</td>
<td>12 (44.4%)</td>
<td>9 (33.3%)</td>
<td>7 (25.9%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>64 (62.1%)</td>
<td>31 (48.4%)</td>
<td>23 (35.9%)</td>
<td>10 (15.6%)</td>
</tr>
<tr>
<td>Canadian (Desjardins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>45 (60.8%)</td>
<td>14 (31.1%)</td>
<td>14 (31.1%)</td>
<td>10 (22.2%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>55 (78.6%)</td>
<td>10 (18.2%)</td>
<td>12 (21.8%)</td>
<td>13 (23.6%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>100 (69.4%)</td>
<td>24 (24.0%)</td>
<td>26 (26.0%)</td>
<td>23 (23.0%)</td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>50 (60.2%)</td>
<td>26 (52.0%)</td>
<td>32 (64.0%)</td>
<td>3 (6.0%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>46 (34.8%)</td>
<td>18 (39.0%)</td>
<td>30 (65.2%)</td>
<td>4 (8.7%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>96 (44.6%)</td>
<td>44 (45.8%)</td>
<td>62 (64.6%)</td>
<td>7 (7.3%)</td>
</tr>
</tbody>
</table>
than 10,000 members). We can compare this level of attendance with what credit unions considered to be the minimum voting percentage of the entire membership necessary to grant the board of directors a meaningful mandate. Figure 15 presents the modal response to this question. For the most part, it was 1%–5%. Exceptions were found among Canadian centrally affiliated respondents with more than 10,000 members, who felt that voting by 10%–20% of the membership was necessary, and Desjardins caisses populaires with fewer than 10,000 members, which had two modal values: 1%–5% and 5%–10%. Clearly, the larger percentages are well above current levels of membership attendance. Yet the reported attendance figures are broadly similar to those found elsewhere. For Irish credit unions, McKillop et al. (2002) found that on average, 2% of members attended and voted at the AGM. And Spear (2002), who looked at AGM attendance at consumer cooperatives, suggested that only 1% of members voted at the AGM.

No consistent attendance pattern emerged across jurisdictions based on membership size. This tends to nullify the argument that as credit unions become sophisticated financial intermediaries (more bank-like, less credit union-like), the cooperative philosophy weakens, contributing to a decrease in membership involvement. Clearly, membership involvement is weak across the board. Frustration emerged in the semi-structured interviews with regard to this lack of involvement, with some respondents unhappy to be asked about member participation and others expressing overall disappointment with AGM attendance.

“We believe that we are competing with every other financial institution to provide value added financial services and that is where we need to engage our members and have them become loyal followers and not because of some philosophy. . . . A philosophy helps but it is our services and our delivery that matters.”

“If we get 7 people to turn up at our AGM, we do not consider that as a benchmark that we feel measures the engagement of our client base in areas that we want to measure.”

“Over thirty years, I’ve tried everything [to get members to participate]! [laughs] Generally, at my AGM I have between 200–250 members if it’s nice out that day, and if the Canadians aren’t
in the finals that evening. But it’s a pretty lively AGM. I get a lot of questions, it’s interesting. But I’ve never gotten over 250.”

“We’ve also noted that there have been so many changes within Desjardins in recent years that we’ve realized that more people want to come out to get explanations and ask questions than before. People are better informed. But you have to take measures to attract people—but not just for the sake of attracting them. I’ve always been of the opinion, and my colleagues are too . . . that it’s better to have fewer people, but people who come for the right reasons, but not just to win [a car]. That doesn’t give us anything.”

“Up to December 2011, we had attendance that varied between 250–300 people [at the AGM]. For us, that was good because we’re working more in a working-persons’ setting than one of professionals, and to have 300 members in a room, getting information, there to get all the tools they need to make decisions and to orient their cooperative, I find that extraordinary!”

**Voting Systems**

Figure 17 reports survey results on whether credit unions use in-person, electronic (by web or e-mail) and/or proxy voting systems during their board elections. We also asked about the use of these mechanisms for other resolutions presented at the AGM and/or special meetings of the membership.

For credit unions with fewer than 10,000 members, in-person attendance is exercised for the election of directors and other resolutions by almost all credit unions, while electronic voting is rarely offered and proxy voting is only offered in sizable numbers by Desjardins caisses populaires (36.5% for election of directors, 33.8% for other resolutions). For credit unions with membership of more than 10,000 there is some drop in the importance of in-person attendance among US and Canadian centrally affiliated credit unions, and proxy voting increases with size in importance for all jurisdictions. This is particularly important for Desjardins credit unions (see Figure 18).

Electronic voting is becoming an important tool in the election of directors for credit unions with membership of more than 10,000 in the United States (28.8%) and Canada among centrally affiliated credit unions (36.7%) (see Figure 19). That credit unions increasingly explore different and perhaps more efficient methods of member participation as they increase in size is perhaps unsurprising; electronic voting by web or e-mail may, for example, add particular...
### Figure 17: Membership Interaction and the AGM (Part Two)

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>In person attendance</th>
<th>Electronic voting</th>
<th>Proxy voting</th>
<th>In person attendance</th>
<th>Electronic voting</th>
<th>Proxy voting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>50 (92.6%)</td>
<td>4 (7.4%)</td>
<td>3 (5.6%)</td>
<td>52 (96.3%)</td>
<td>3 (5.6%)</td>
<td>5 (9.3%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>30 (61.2%)</td>
<td>18 (36.7%)</td>
<td>8 (16.3%)</td>
<td>45 (91.8%)</td>
<td>9 (18.4%)</td>
<td>10 (20.4%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>80 (77.7%)</td>
<td>22 (21.4%)</td>
<td>11 (10.7%)</td>
<td>97 (94.2%)</td>
<td>12 (11.7%)</td>
<td>15 (14.6%)</td>
</tr>
<tr>
<td><strong>Canadian (Desjardins)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>71 (95.9%)</td>
<td>2 (2.7%)</td>
<td>27 (36.5%)</td>
<td>70 (94.6%)</td>
<td>1 (1.4%)</td>
<td>25 (33.8%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>70 (100.0%)</td>
<td>2 (2.9%)</td>
<td>38 (54.3%)</td>
<td>70 (100.0%)</td>
<td>1 (1.4%)</td>
<td>40 (57.1%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>141 (97.9%)</td>
<td>4 (2.8%)</td>
<td>65 (45.1%)</td>
<td>140 (97.2%)</td>
<td>2 (1.4%)</td>
<td>65 (45.1%)</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>74 (89.2%)</td>
<td>6 (7.2%)</td>
<td>5 (6.0%)</td>
<td>75 (90.4%)</td>
<td>2 (2.4%)</td>
<td>3 (3.6%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>79 (59.8%)</td>
<td>38 (28.8%)</td>
<td>27(20.5%)</td>
<td>95 (72.0%)</td>
<td>19 (14.4%)</td>
<td>17 (12.9%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>153 (71.2%)</td>
<td>44 (20.5%)</td>
<td>32 (14.9%)</td>
<td>170 (79.1%)</td>
<td>21 (9.8%)</td>
<td>20 (9.3%)</td>
</tr>
</tbody>
</table>
benefit to member participation in large credit unions with a wide geographic membership spread that would make in-person attendance difficult for some members.

Comments from the semi-structured interviews on alternative voting mechanisms included the following:

“About twelve years ago, we tried once to have people in the room and people participating through the Internet. Obviously, everyone who was online was young, and everyone in the room was old. That’s when I really saw the generation gap. We didn’t do it again because it was technologically difficult to organize. It’s not impossible that we’d do it again, because the technology’s improved. We might also try web conferences—without letting people vote if they’re not present.”

“In a cooperative, there’s no such thing as proxy voting. That’s really against our values. It’s one person, one vote, and that takes a person who votes. You have to be physically present. Proxy does not exist.”

“I think an AGM can be done in many ways, and I think that’s something we’re going to have to work on. We have all the tools to hold distance-AGMs. And I think we should work on that. I’m a bit against the idea of distance-voting. But at the same time, everything else, presenting results that can be done on a website, and members could have access online. You click on a link and right away you’re at your AGM, you’ve got your reports. I find that amazing! So it’s not always important to have that physical presence, except to make decisions [voting].”

Agency Issues
Agency theorists posit that industrial relations are dominated by distrust. Agency theory therefore emphasizes that principals (a board of directors) must monitor and control agents (salaried management). In addition, as noted in the literature review (Appendix 1), Staatz (1987) suggests that agency problems are more likely to occur in cooperatives than in investor-owned firms, perhaps due to reduced monitoring of management by members/owners of the cooperatives than by investor/owners in the private sector. In this regard, it would seem like good practice to ensure that management is not involved in the directorial selection process. To gauge one aspect of agency issues, the survey asked: “To what extent is management involved
in seeking possible candidates for election to the board of directors of your credit union?” Responses are detailed in Figure 17. For US and Canadian centrally affiliated credit unions, the dominant choice among the four identified options was “somewhat involved,” whereas for Desjardins caisses populaires, it was “totally involved.” Only a very few credit unions in each jurisdiction suggested that management was “not involved at all” in seeking possible candidates for election to the board (Canadian centrally affiliated 8.7%; Desjardins 5.0%; US 8.7%). Of course, these findings do not imply that the candidates going forward for potential election to the board are inappropriate. The analysis simply suggests that with management involved, the potential exists to put forward candidates who are more conducive to managerial viewpoints. The principal–agent relationship would be best served if management were totally excluded from the directorial selection process.

The final question analyzed in Figure 17 is whether, at the most recent AGM, there were: more nominees for election to the board of directors than there were vacancies (Choice 1); an equal number of nominees as there were vacancies (Choice 2); or vacancies left unfilled (Choice 3). For Desjardins and US credit unions, the dominant response was Choice 2 (Desjardins 83.6%; US 79.9%). Among Canadian centrally affiliated credit unions, 45.9% indicated Choice 2, but a somewhat greater proportion, 49.4%, identified Choice 1 as the situation they experienced. Overall, these findings suggest that competition for board positions, particularly at US and Desjardins caisses populaires, is not intense. The implication is that once one is nominated, achieving a position on the board is a formality, which again raises a question about the influence of credit union members in the selection of directors.

Summary

This chapter provides a discussion of survey results related to attitudes to governance by credit unions in the United States and Canada. Findings suggest that:

- Board size increases with the size of the credit union.
- Women are underrepresented relative to their male counterparts.
- Younger members are underrepresented relative to their older counterparts.
- Nominating committees are used extensively by atomized credit unions in the United States and Canada, but not in the Desjardins system.
- There is a generally low level of involvement by members in the selection of nominating committee members.
• Many credit unions stipulate minimum skills and competence requirements prior to the commencement of tenure.
• Most credit unions provide training programs for directors.
• For most credit unions, the number of director training hours appears low.
• Competition for positions on credit union boards of directors is not intense, with most credit unions having an equal number of nominees for election as there are board vacancies.
This chapter explores the prevalence and function of governance committees, as well as types of performance assessment currently practiced in the US and Canadian credit union systems, and the relationship between operational and strategic assessment and planning.
Introduction

Here, we further analyze results from our survey, this time on issues surrounding credit union operations. Given the changes to credit unions that we describe in Chapters 1 and 2—including mergers, heightened sophistication, and new regulatory frameworks—we also look at what credit union representatives think drives change within credit unions and the relevance and suitability of the cooperative models to today’s modern credit union.

The Governance Committee

Figure 20 presents data emerging from a survey question about whether responding credit unions operate a governance committee.

**Figure 20: Governance Committee**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Does credit union operate a governance committee?</th>
<th>If “yes,” is it responsible for:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (%), (No.) (%)</td>
<td>A (%), (No.) (%)</td>
</tr>
<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>21 (38.9%)</td>
<td>16 (76.2%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>43 (87.8%)</td>
<td>31 (72.1%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>64 (62.1%)</td>
<td>47 (73.4%)</td>
</tr>
<tr>
<td><strong>Canadian (Desjardins)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>6 (8.1%)</td>
<td>2 (33.3%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>7 (10.0%)</td>
<td>2 (28.6%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>13 (9.0%)</td>
<td>4 (30.8%)</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>5 (6.0%)</td>
<td>4 (80.0%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>44 (33.3%)</td>
<td>32 (72.7%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>49 (22.8%)</td>
<td>36 (73.5%)</td>
</tr>
</tbody>
</table>

Responsibilities include: A: Developing a long-term plan for qualification composition of the board of directors; B: Functioning as a board of directors nominating committee; C: Monitoring the orientation of new directors and the ongoing professional development of existing directors; D: Notifying and advising the board of directors of all corporate governance issues that ought to be considered by them; E: Regularly reviewing the credit union’s bylaws, and the board of directors’ policies and procedures and recommending changes as appropriate; F: Administering the process for assessing the effectiveness of the board of directors, its committees, and of individual members of the board of directors; G: Making recommendations regarding compensation and remuneration for the board of directors.
Results show that this is commonly the case (87.8%) for Canadian centrally affiliated credit unions with more than 10,000 members. Approximately one third of smaller centrally affiliated Canadian credit unions (with fewer than 10,000 members) also reported using such a committee, as did larger US credit unions (more than 10,000 members), whereas smaller US credit unions (fewer than 10,000 members) and Desjardins caisses populaires tended to say they don’t use one. With regards to the United States, we should note that supervisory committees are still a requirement, and many consider this a form of governance committee.

Recruitment and board composition are one aspect of governance, but in credit unions these tasks tend to be undertaken by a specifically mandated nominating committee. In some credit unions, this specific function is assigned to a more generally mandated governance committee. In Figure 20 we identify a range of activities that may be carried out by a governance committee, either alone or in conjunction with the board of directors. These include endeavoring to (1) develop a long-term plan for qualification composition of the board; (2) function as a board nominating committee; (3) monitor the orientation of new directors and the ongoing professional development of existing directors; (4) notify and advise the board of all corporate governance issues they ought to consider; (5) regularly review the credit union’s bylaws and board policies and procedures, and recommend changes as appropriate; (6) administer assessments of the board’s effectiveness, that of its various committees, and of individual directors; and (7) make recommendations regarding compensation and remuneration for the board. Concentrating first on centrally affiliated Canadian and large US credit unions (more than 10,000 members), it appears that in Canada, all of these activities, with the exception of functioning as a nominating committee, are undertaken by almost all respondents who operate a governance committee. A broadly similar picture holds for large US credit unions, with the additional comment that in the United States, governance committees tend not to be used to make recommendations regarding compensation and remuneration for the board.

Most of the credit unions participating in the semi-structured interviews did not use a governance committee; there was nonetheless recognition that governance was a fundamental issue, and these credit unions appeared to be increasingly of the view that such committees should be formed. The following were typical comments:

“We don’t have that, but we’re talking more and more about governance today, and now, with the study [a Desjardins sponsored study on governance] on the role of directors of boards, we’re going to talk even more about it. Governance has become more important. We
have a document that talks about the 7 zones of responsibility for board members and the board overall. And now, I just learned this week that in the report that's going to come out, they'll add an 8th zone, and it'll be about governance. And we have a web presentation coming up about the role of board members, and we're expecting new developments about that. It's not surprising because we've been talking more and more about governance for about 4–5 years.”

“Ideally we would like a governance committee but to be effective it would have to be fully independent of management and the board and that has been a hard sell and it is felt that it would be another level of organization.”

Evaluation of Board and Director Performance

If a credit union undertakes a self-assessment of its performance and the performance of its board and directors, the expectation might be that this would occur in the context of both strategic and business plans, which would form the basis for the assessment. Bradshaw, Murray, and Wolpin (1992) state that that chief among board functions is that they “are deeply involved in strategic planning, developing a common vision of the organization’s activities.” Leighton and Thain (1997) suggest that among the board’s strategic management functions, the first and most important involvement comes with the approval of a strategic plan. This is the cornerstone and starting point for “a progression from the very broad (the strategic plan) to the very specific (individual operating budgets, capital appropriation requests, and the annual performance review and compensation decisions).” More generally, strategic visions are mapped out for a three- to five-year time frame supplemented by annual operating targets and an annual performance assessment of how well targets are being met.25

Our survey therefore asked whether participating credit unions have a business (operating) plan and strategic plan. Almost without exception, respondents reported that they do have an annual business plan, as can be seen in Figure 21. Almost all Desjardins caisses populaires also reported that they have a strategic plans, as did the larger atomized credit unions in the United States and Canada. Among centrally affiliated Canadian and US credit unions with fewer than 10,000 members, approximately 30% said they do not have a strategic plan. Strategic management is the process of managing the mix of ends and means.
### Figure 21: Evaluation of Board and Director Performance

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Does credit union have a strategic plan?</th>
<th>Does credit union have a business (operating) plan?</th>
<th>Does credit union board evaluate its own performance?</th>
<th>If “yes” against what criteria is this evaluations made?</th>
<th>Does the board of directors of your credit union annually evaluate the performance of individual directors?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (No.) (%)</td>
<td>Yes (No.) (%)</td>
<td>Yes (No.) (%)</td>
<td>A (No.) (%)</td>
<td>B (No.) (%)</td>
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<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
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<tr>
<td>Members &lt;1,000</td>
<td>38 (71.7%)</td>
<td>52 (96.3%)</td>
<td>35 (64.8%)</td>
<td>12 (34.3%)</td>
<td>13 (37.1%)</td>
</tr>
<tr>
<td>Members &gt;1,000</td>
<td>46 (93.9%)</td>
<td>49 (100.0%)</td>
<td>43 (88.8%)</td>
<td>11 (22.4%)</td>
<td>8 (16.3%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>83 (80.6%)</td>
<td>101 (98.1%)</td>
<td>78 (75.7%)</td>
<td>23 (29.5%)</td>
<td>21 (26.9%)</td>
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<tr>
<td><strong>Canadian (Desjardins)</strong></td>
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<tr>
<td>Members &lt;1,000</td>
<td>66 (89.2%)</td>
<td>70 (94.6%)</td>
<td>44 (59.5%)</td>
<td>29 (65.9%)</td>
<td>38 (86.4%)</td>
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<td>Members &gt;1,000</td>
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<td>47 (67.1%)</td>
<td>35 (74.5%)</td>
<td>40 (85.1%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>136 (94.4%)</td>
<td>140 (97.2%)</td>
<td>91 (63.2%)</td>
<td>64 (70.3%)</td>
<td>78 (85.7%)</td>
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<tr>
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<tr>
<td>Members &lt;1,000</td>
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<td>75 (90.4%)</td>
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<td>105 (79.5%)</td>
<td>129 (97.7%)</td>
<td>40 (30.3%)</td>
<td>16 (30.0%)</td>
<td>7 (17.5%)</td>
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<tr>
<td>All (US)</td>
<td>162 (75.3%)</td>
<td>204 (94.9%)</td>
<td>52 (24.2%)</td>
<td>20 (38.5%)</td>
<td>9 (17.3%)</td>
</tr>
</tbody>
</table>

A: The credit union’s strategic plan; B: The credit union’s business plan; C: A board of directors’ established performance criteria; D: Other (please specify).
that serves to define what an organization is, where it is going, when it wants to get there, and how it is going to get there. For this reason, it is slightly disconcerting that a number of credit unions do not appear to engage in this process.

We next asked whether credit union boards assess their own performance as a collective. For those reporting that they do, we went further, asking what criteria they use to make that assessment. As can be noted in Figure 21, in Canada self-assessment is carried out by a majority of credit union boards, with some evidence of a greater propensity to self-assess among boards of larger credit unions. In contrast, a minority of US credit unions reported board self-assessments. For Desjardins caisses populaires, the assessment is commonly based on existing strategic and business plans, while for centrally affiliated Canadian credit unions, the assessment tends to be benchmarked against established performance criteria. These findings for Canadian credit unions tend to be at odds with findings by Sheehan (1996), who, in a study of philanthropic organizations, observed that although most had clear mission statements, very few developed performance measurement systems that could reveal whether the organization was delivering on that mission. In effect, the organizations had no way to tell whether their strategy was succeeding or failing. The Canadian credit unions seem to have assessment criteria that would allow them to measure board progress. However, Sheehan’s comments do have some resonance in the case of US credit unions.

Figure 21 also details responses to the survey question of whether boards of directors annually evaluate the performance of individual directors. Results show little evidence of this level of assessment, with perhaps the exception of larger Canadian centrally affiliated credit unions, 31.1% of which indicated that they do undertake individual director assessment. While the assessment of individual directors may add value, there is also the risk that it can create divisiveness among the board if not carried out in the correct manner. Indeed, in the semi-structured interviews none of the participating representatives said that their credit union assessed individual director performance; they all viewed it as too uncomfortable. The following comments are reflective of the general nature of interview responses:

“Yes the board assesses itself collectively but not on an individual director basis. . . . For $100 a month are you prepared to put up with criticism? . . . But then it might be said is there any value in having such a director on the board. . . . It’s a delicate balance.”

“The board assesses itself and I, as CEO, assess the board, as per thinking strategically, providing oversight and do they add value, and we then bring in a facilitator to address any major issues of variance. . . . We don’t do this on an individual director basis.”
In the Desjardins system, meanwhile, there was some evidence of self-assessment by individual members of the board:

“For [evaluating board of directors performance], we have a questionnaire that’s used to evaluate the way our board works in relation to the caisse. As well, there’s a self-evaluation sheet so that members can evaluate, for themselves, what are their abilities in relation to the board. Are they competent? Do they meet all ethical standards? So we work with that tool. It allows us to conduct a fair evaluation that’s the same for all of our board members.”

Evaluation of Credit Union Performance

Forbes (1998) points out that the question of performance measurement for not-for-profit organizations has been extensively visited but generally inconclusively. Forbes suggests that not-for-profit organizations “lack the simple elegance of a financial measure—such as profitability or shareholder returns—used by for-profit organisations to assess their performance.” Herzlinger (1996) argues that not-for-profit organizations should disclose nonfinancial quantitative measures of the quantity and quality of services provided but does not offer guidance on how such measures should be selected. Duncan and Elliott (2002) argue that member satisfaction is a common goal for not-for-profits and that there should be a “positive relationship between financial performance and customer (member) service quality, needs, and requirements.” Hautaluoma et al. (1993) note that in the United States, more effective credit unions place greater emphasis on evaluating member services, which included collecting information about members’ satisfaction, reviewing survey information from the membership, looking for new and better services, and questioning how the credit union could serve more of its potential members.

In Figure 22 we present information on the relative importance of various metrics that could be used in the assessment of credit union performance. A selection of measures is detailed based on responses to a survey question that asked whether these measures are used in assessments and for them to rate the relative importance of the measures they do use. For ease of exposition, in the latter situation, we present only two pieces of information for each of the measures: (1) the percentage of respondents that ranked the measure in question first; and (2) the percentage that ranked it first or second.

From Figure 22 it is clear that credit unions across size classes and jurisdictions use most of the identified measures extensively in the assessment of performance. The most heavily used are asset growth, return on assets (ROA), and efficiency. Membership growth is also
Figure 22: Evaluation of Credit Union Performance

When the board of directors is assessing the performance of your credit union are the following performance measures utilized?

- Asset growth
- ROA
- Dividend rate
- Efficiency ratio
- Member growth
- Other measure(s)

In order of their importance for assessing credit union performance, please rank the performance measures, 1st, 2nd, 3rd, 4th, 5th & 6th with 1st being the most important and 6th being the least important.

<table>
<thead>
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<th>Jurisdiction</th>
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<th>No. (%)</th>
<th>Yes (%)</th>
<th>No. (%)</th>
<th>Yes (%)</th>
<th>No. (%)</th>
<th>Yes (%)</th>
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<th>Yes (%)</th>
<th>No. (%)</th>
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<td>Efficiency</td>
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<td>121 (84.0%)</td>
<td>103 (71.5%)</td>
<td>121 (84.0%)</td>
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<td>95 (72.0%)</td>
<td>10.2</td>
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<tr>
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<td>200 (93.0%)</td>
<td>82 (38.1%)</td>
<td>163 (75.8%)</td>
<td>176 (81.9%)</td>
<td>149 (69.3%)</td>
<td>9.2</td>
<td>22.7</td>
<td>49.5</td>
<td>72.5</td>
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<td>22.0</td>
<td>12.3</td>
<td>43.6</td>
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</tbody>
</table>
heavily used by US and centrally affiliated Canadian credit unions, but less so in the case of Desjardins caisses populaires, with the reverse being true in the case of the dividend rate or patronage refund. A significant proportion of US credit unions also highlighted that they use other measure(s), as did larger Desjardins caisses populaires (those with more than 10,000 members). The other measure most frequently used was “membership satisfaction,” with delinquency metrics also considered to be of some importance.

In Figure 22, the ranking of the relative importance of performance measures reveals that asset growth, ROA, or efficiency was invariably one of the two most important for most responding credit unions. Other measure(s) were also ranked highly for all credit union categories. Given that for many credit unions other measure(s) center on member satisfaction, this finding resonates positively with the Hautaluoma et al. (1993) research described earlier, in which more effective credit unions were found to place greater emphasis on service evaluation.

The semi-structured interviews confirm that credit unions used an array of measures, including membership satisfaction and community involvement metrics, to evaluate credit union performance. There was also evidence that performance assessment has become increasingly important in recent times. The following is a typical comment:

“W ell look at performance reports: is the caisse profitable? Do we have a surplus? That’s one thing. We do surveys on general member satisfaction. We also do surveys on the satisfaction with service delivery. General satisfaction surveys are a question of perception, but when you call someone and say, ‘you just met with a representative about an investment, or about a loan.’ Then you can verify the quality of service the person has had. Were they satisfied? Would they recommend the service to someone else? There’s also the question of community commitment. We have to look at whether the caisse has a strong community commitment, whether its membership is growing or shrinking. Are we sufficiently supporting organizations from the area? So there’s a lot of different measures — on top of those at the financial level that we have at our disposal now with the new financial standards in place.”

Managerial Performance and Compensation

An integral part of corporate governance is the assessment of managerial performance. Much of the debate and literature in this area has centered on the principal–agent paradigm, which we touched on in
Chapter 3. This paradigm has as its underlying belief that workers are selfish and utility-maximizing, always trying to do as little as possible and benefiting from avoiding or shirking work. Theorists thus focus on what incentives are needed to bring about a desired amount and intensity of work, as principals (board of directors) monitor and control agents (management).

Few studies exist on managerial assessment and remuneration in credit unions. Yancey (1999), who considered remuneration of managers in US credit unions, found that most credit unions purchase salary surveys that report executive pay in the credit union system. These salary surveys usually divide data into categories, such as geographic region, large and small metropolitan areas, and asset size, and Yancey notes that “categories that measure organisational size are most strongly related to executive pay.” Rosen, Lusk, and Kim (1996), who also considered salary structures in US credit unions, likewise found “a strong positive relationship between chief executive officer’s compensation and credit union asset, membership, and loan portfolio size.” Branch and Baker (2000), looking at managerial adequacy within US credit unions, argue that credit unions tend to offer lower salaries than other financial institutions. They also suggest that “credit unions would benefit from financial incentives that link management remuneration partly to the credit union’s financial performance,” as a means of both rewarding better performing managers and bringing compensation of credit union management into line with that of the retail financial sector.

The survey asked whether the credit union’s manager is required to meet performance targets. We listed six considerations (asset size, salary surveys, financial performance of credit union, years of experience, prespecified performance targets, and other considerations) that might impact on management’s compensation and remuneration. Respondents were asked to identify whether some or all of these considerations are used in their organization, and then rank the relative importance of the measures used. As before, in Figure 23 we present two sets of results for each of the measures: (1) the percentage of respondents that ranked the measure in question first and (2) the percentage that ranked it first or second.

As the figure shows, across almost all credit union size classes and jurisdictions managers are required to meet performance targets (95.1% Canadian centrally affiliated, 94.4% Desjardins, 86.1% US). Compensation and remuneration assessments, meanwhile, are based on a wide array of considerations. Each assessment metric is used extensively. When we looked the relative importance of the respective considerations, financial performance of the credit union appeared to be most important, closely followed by most of the other considerations (asset size, salary surveys, and prespecified performance
### Figure 23: Credit Union Management

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Is the manager required to meet performance targets?</th>
<th>Which of the following considerations have an impact on the manager’s compensation and remuneration package (salary and benefits)?</th>
<th>In order of their importance for assessing manager’s compensation and remuneration package please rank the highlighted criteria, 1st, 2nd, 3rd, 4th, 5th &amp; 6th with 1st being the most important and 6th being the least important.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (No.) (%)</td>
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<td></td>
<td>Yes (%)</td>
<td>Yes (%)</td>
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<tr>
<td>Members &lt;10,000</td>
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<td>48 (98.0%)</td>
<td>49 (100.0%)</td>
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<td>46 (93.9%)</td>
<td>47 (95.9%)</td>
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<tr>
<td>All (centrally affiliated)</td>
<td>98 (95.1%)</td>
<td>94 (95.9%)</td>
<td>96 (98.0%)</td>
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<td>Members &lt;10,000</td>
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<td>All (Desjardins)</td>
<td>136 (94.4%)</td>
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<td><strong>US</strong></td>
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<tr>
<td>Members &lt;10,000</td>
<td>64 (77.1%)</td>
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<tr>
<td>All (US)</td>
<td>185 (86.1%)</td>
<td>172 (93.0%)</td>
<td>179 (96.8%)</td>
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</tbody>
</table>

A: The asset size of your credit union; B: Credit union salary surveys; C: Financial performance of credit union; D: Years of experience; E: Pre-specified performance targets.
targets). The only exception was years of experience, which tended not to be regarded as an important determinant of managerial compensation and remuneration.

This analysis suggests that performance targeting and incentive mechanisms for management are commonly used. One could argue that this may be because the principal–agent paradigm, with its emphasis on the dominant distrust and need for principals to monitor and control agents, is as pertinent for credit unions as for other financial forms. One could also argue that given the use of business and strategic plans among credit unions—a use that emerged clearly in this survey—one might expect a fundamental element of such plans to be the basis for the operational targets and the performance assessment of the credit union manager.

Drivers of Change

In Figure 24 we present results of a relative ranking exercise in which respondents were asked to rank prespecified bodies in order of their importance in driving the change process in their credit union. As before, we present two sets of results for each of the measures: (1) percentage of respondents ranking the body in question first, and (2) percentage ranking it first or second. Focusing first on respondents who ranked the body in question first, we can see that the key drivers of change were, in order of importance: management, board of directors, and membership. This applied across jurisdictions and size bands, with perhaps marginal ambiguity in the case of US credit unions, where members could arguably be considered as second in importance, with the board coming third.

For some credit unions, there is a risk that as the credit union grows and becomes more complex, knowledge and information will be increasingly vested in the hands of the salaried management, and that, in such a situation, boards could become little more than a rubber-stamping mechanism for decisions made by management.

In the literature review, we note that as credit unions have developed and increased in sophistication, professional management has replaced volunteers in managing the day-to-day operations of the credit union. This has resulted in the two-component structure of members and the board being replaced by a three-component structure of members, the board, and management. In this situation, the board’s function should be strategic in nature, with emphasis placed on the oversight, control, and monitoring of management. We also showed that some observers believe that for some credit unions, there is a risk that as the credit union grows and becomes more complex,
### Figure 24: Drivers of Change

Please assess the relative importance of the following bodies in driving the change process in your credit union.

**Rank in order of importance 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th & 9th**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% ranked 1st or 2nd</strong></td>
<td>% ranked 1st or 2nd</td>
<td>% ranked 1st or 2nd</td>
<td>% ranked 1st or 2nd</td>
<td>% ranked 1st or 2nd</td>
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<td>% ranked 1st or 2nd</td>
<td>% ranked 1st or 2nd</td>
<td>% ranked 1st or 2nd</td>
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<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>57.4</td>
<td>16.7</td>
<td>N/A</td>
<td>3.7</td>
<td>7.4</td>
<td>14.8</td>
<td>0.0</td>
<td>1.9</td>
<td>1.9</td>
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<tr>
<td></td>
<td>79.6</td>
<td>59.3</td>
<td>N/A</td>
<td>14.8</td>
<td>14.8</td>
<td>25.9</td>
<td>1.9</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
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<td>18.4</td>
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<td>10.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td></td>
<td>89.8</td>
<td>73.5</td>
<td>N/A</td>
<td>4.1</td>
<td>6.1</td>
<td>20.4</td>
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<td>2.0</td>
<td>2.0</td>
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<td>1.9</td>
<td>4.9</td>
<td>12.6</td>
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<td>1.0</td>
<td>0.0</td>
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<tr>
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<td>23.3</td>
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<td>1.9</td>
<td>0.0</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Members &lt;10,000</td>
<td>56.8</td>
<td>20.3</td>
<td>N/A</td>
<td>0.0</td>
<td>5.4</td>
<td>12.2</td>
<td>6.7</td>
<td>0.0</td>
<td>1.4</td>
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<tr>
<td></td>
<td>73.0</td>
<td>75.7</td>
<td>N/A</td>
<td>1.4</td>
<td>9.5</td>
<td>21.6</td>
<td>13.5</td>
<td>1.4</td>
<td>1.4</td>
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<tr>
<td>Members &gt;10,000</td>
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<td>35.7</td>
<td>N/A</td>
<td>2.9</td>
<td>5.7</td>
<td>20.0</td>
<td>8.6</td>
<td>0.0</td>
<td>1.4</td>
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<td>74.3</td>
<td>78.6</td>
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<td>4.3</td>
<td>15.7</td>
<td>21.4</td>
<td>20.0</td>
<td>0.0</td>
<td>1.4</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>50.0</td>
<td>27.8</td>
<td>N/A</td>
<td>2.4</td>
<td>5.6</td>
<td>16.0</td>
<td>7.6</td>
<td>0.0</td>
<td>1.4</td>
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<tr>
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<td>77.1</td>
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<td>2.8</td>
<td>12.5</td>
<td>21.5</td>
<td>16.7</td>
<td>0.0</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Members &lt;10,000</td>
<td>59.0</td>
<td>4.8</td>
<td>3.6</td>
<td>0.0</td>
<td>3.6</td>
<td>25.3</td>
<td>N/A</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>77.1</td>
<td>43.4</td>
<td>10.8</td>
<td>0.0</td>
<td>18.1</td>
<td>39.8</td>
<td>N/A</td>
<td>2.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>59.8</td>
<td>8.3</td>
<td>3.0</td>
<td>0.0</td>
<td>2.3</td>
<td>23.5</td>
<td>N/A</td>
<td>0.0</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>83.3</td>
<td>52.3</td>
<td>6.8</td>
<td>0.8</td>
<td>7.8</td>
<td>38.6</td>
<td>N/A</td>
<td>3.8</td>
<td>2.3</td>
</tr>
<tr>
<td>All (US)</td>
<td>59.5</td>
<td>7.0</td>
<td>3.3</td>
<td>0.0</td>
<td>2.8</td>
<td>24.2</td>
<td>N/A</td>
<td>0.0</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>80.9</td>
<td>48.8</td>
<td>9.3</td>
<td>0.5</td>
<td>11.6</td>
<td>39.1</td>
<td>N/A</td>
<td>3.3</td>
<td>1.4</td>
</tr>
</tbody>
</table>

A: Management of the credit union; B: Board of directors; C: NCUA (not applicable Canada); D: Deposit insurer; E: Regulatory authorities; F: Members; G: The Credit Union Centrals/Desjardins (not applicable US); H: The larger asset-sized credit unions; I: Other consideration..
knowledge and information will be increasingly vested in the hands of the salaried management, and that, in such a situation, boards could become little more than a rubber-stamping mechanism for decisions made by management, which may not always be in the best interests of the members. While we have no evidence that this is the case, in the jurisdictions we surveyed it is nevertheless somewhat of a concern that 62.1% of Canadian centrally affiliated credit unions, 50.0% of Desjardins caisses populaires, and 59.5% of US credit unions identified management as the most important body in driving the change process. Our prior expectation was that the board, as the members’ representative body tasked with providing a strategic vision for the credit union, should in perception and actuality be viewed as instrumental in driving change. In fact, the survey returns tell a different story. They show that the credit union board is viewed as most important in driving the change process by just 17.5% of Canadian centrally affiliated credit unions, 27.8% of Desjardins caisses populaires, and 7.0% of US credit unions (see Figure 24).

Figures 25 to 27 depict the percentage of respondents who ranked the bodies in question either first or second. For centrally affiliated credit unions in Canada, the same picture as before emerges. For Desjardins caisses populaires, however, the board becomes slightly more important than management, with members a distant third, and for US credit unions management is most important, followed by the board and then the regulatory authorities, with members ranking fourth in importance.
Changing Times

In Figure 28 we show results from a survey inquiry into respondents’ level of agreement with three questions. First, to what extent do they feel that the majority of their membership understands the cooperative principles on which the credit union is based? Second, to what extent do they feel that the majority of their membership continues to value the cooperative principles upon which the credit union is based (Figure 29)? Third, to what extent do they feel that the existing credit union business model is restrictive to the maximization of their credit union’s development potential?

For the first two questions, concerning cooperative principles, a majority of respondents in each jurisdiction “somewhat agreed” that members understood and valued cooperative principles. The following is a representative sample of some of the viewpoints that emerged from the semi-structured interviews on this issue. In essence, the comments showed that the cooperative model is seen as offering significant advantages over other models of financial service provision, but effort is needed to ensure that this message is being conveyed and understood by the membership.

“I think that the value of one person-one vote, which came from the local level, is still relevant because it brings to the new financial universe a human dimension that’s richer, from my point of view.”

“We need to find a 21st century interpretation of the credit union model incorporating the credit union ideals into our operations in order to accommodate future generations rather than past generations. . . . If we continue to resist change, which I think many credit unions are, we will lose the window of opportunity. . . . I think that there is a collective action required.”

“It’s what the president of Desjardins has said in several speeches, which is that the cooperative model allows us to humanize economics and finance and to place them in service of people, and not the other way around. I hope we succeed in doing that.”

“What’s changing a lot now relates to something I realized recently, which is that there’s a strong proportion of our members who never step foot in the caisse. They do everything online. So, for human relations, it becomes a bit more problematic. You have to find a way to bring them in so we know who they are, what they really need, so that we can evolve with them.”

The final set of results shown in Figure 28 relates to the question of whether the credit union model allows maximal development. These results did not have the same uniformity across jurisdictions. In the Canadian systems, the majority answer to the question of whether
Figure 28: Changing Times

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>To what extent do you agree that the majority of the membership of your credit union understands the cooperative principles upon which the credit union is based?</th>
<th>To what extent do you agree that the majority of the membership of your credit union continues to value the cooperative principles upon which the credit union is based?</th>
<th>To what extent do you agree that the existing credit union business model is restrictive to the maximization of your credit union's development potential?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agree completely (No.) (%)</td>
<td>Agree somewhat (No.) (%)</td>
<td>Disagree somewhat (No.) (%)</td>
</tr>
<tr>
<td><strong>Canadian (centrally affiliated)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>3 (5.6%)</td>
<td>28 (51.9%)</td>
<td>14 (25.9%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>2 (4.1%)</td>
<td>23 (46.9%)</td>
<td>13 (26.5%)</td>
</tr>
<tr>
<td>All (centrally affiliated)</td>
<td>5 (4.9%)</td>
<td>51 (49.5%)</td>
<td>27 (26.2%)</td>
</tr>
<tr>
<td><strong>Canadian (Desjardins)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>8 (10.8%)</td>
<td>42 (56.8%)</td>
<td>18 (24.3%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>4 (5.7%)</td>
<td>30 (42.9%)</td>
<td>34 (48.6%)</td>
</tr>
<tr>
<td>All (Desjardins)</td>
<td>12 (8.3%)</td>
<td>72 (50.0%)</td>
<td>52 (36.1%)</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members &lt;10,000</td>
<td>4 (4.8%)</td>
<td>33 (39.8%)</td>
<td>31 (37.3%)</td>
</tr>
<tr>
<td>Members &gt;10,000</td>
<td>5 (3.8%)</td>
<td>57 (43.2%)</td>
<td>52 (39.4%)</td>
</tr>
<tr>
<td>All (US)</td>
<td>9 (4.2%)</td>
<td>90 (41.9%)</td>
<td>83 (38.6%)</td>
</tr>
</tbody>
</table>
the existing credit union business model is restrictive of maximal development was that they somewhat disagreed, with around 20% more disagreeing completely. This is a positive result for the currency of the credit union business model in Canada. For the United States, the dominant response was to agree somewhat, with an additional 21.9% of respondents agreeing completely that the model restricts maximal development potential. Why there should be a dichotomy in response between the United States and Canada is not immediately obvious, although we wonder whether it may center around a difference in the importance of community in the two countries.

In the semi-structured interviews, when asked about the relevance of the credit union business model, a mixed range of takes and comments were forthcoming from respondents:

“The business model causes us to maintain our difference; without it we would be simply another bank and the world doesn’t need any more banks.”

“Competition is very strong now. And caisses, like banks, offer pretty much the same services. And costs are about the same. So what becomes more and more important is the quality of relationships between the person who wants a service and the person offering it. So relational dynamics take on more and more importance.”

“We can’t be all things to all people, that’s the role of the banks, and we can’t compete head to head with the banks nor should we. . . . Credit unions started serving a niche market . . . individuals who could not otherwise access credit. . . . Today the niche opportunities are differing but we are still serving a specific niche market.”

“If you had a situation where the CEO and the board do not have the best interests of the credit union at heart, I am not sure that the model really creates a mechanism where the board and management are going to be pressured to respond to the needs and wants of the membership.”

Summary

Our survey and interviews about governance and performance at the board, managerial, and institutional levels in credit unions suggest that strategic planning and performance targeting and assessment play crucial roles within credit unions, despite variations observed.
based on credit union size and jurisdiction. Specifically, we found that:

- The prevalence of governance committees varies by credit union size and jurisdiction.
- Governance committees play an important role in nominating and advising boards of directors.
- The extent and type of performance assessment of boards of directors varies across jurisdictions.
- A variety of performance metrics are used to measure performance at an institutional level.
- Performance targets and incentive mechanisms are used by most credit unions.
- There is little evidence that the performance of individual directors is measured.
- Management, the board, and the members are all integral to driving the change process, although in a majority of credit unions, management is viewed as the most important driver.
- Cooperative principles are well understood by members in all jurisdictions analyzed.
- Cooperative principles aid the development of credit unions in some jurisdictions (Canada), but slow it in others (United States).
Synthesizing the survey findings from the previous chapters and the literature review in the appendix, the authors acknowledge the increasingly sophisticated needs of credit union boards while calling for a more serious governance structure that protects and promotes the democratic structure of credit unions.
Introduction

This research project has considered the corporate governance of credit unions in the United States and Canada. The analysis has been informed by a literature review (Appendix 1), an examination of the structural characteristics of the US and Canadian systems, an online survey, and subsequent semi-structured interviews. The objective in including both the atomized and federated systems in Canada and the atomized US system was to capture a variety of both governance structures and views on governance that might not emerge from a narrower investigation. We also hoped that credit unions, in learning about different approaches through this report, might learn from one another.

Framework

The following aspects of credit union governance have emerged from our research. Taken as a whole, they express the broad framework that informed the recommendations we put forward later in the chapter.

- The board of directors, members/owners, and management are each a support of what has become a “three-legged stool,” each with an essential role to play in an effective governance regime. However, statutory legislation that charges the board with sole responsibility to manage the affairs of the credit union, together with its fiduciary responsibilities, makes the board of directors fully and solely responsible for the establishment and implementation of an effective governance regime within the credit union. Legislation does not, however, make it the sole or primary arbiter of governance.

- No “one leg of the stool” can be removed on the assumption that its role and responsibilities can be assumed by one of the remaining legs. The vital governance and oversight roles and obligations of the owners/members in any governance regime cannot be offset by adding them to those of the board of directors. Likewise,
the board cannot take a paternalistic view of governance where they reassure others not to worry and that they look after the members’ interests. Each of the three components is unique, and each governs and ensures oversight of the others.

- We must ensure that we do not import and implement a governance model from either the private or public sectors on the grounds of convenience. Rather, we must develop a model that acknowledges a balance between, on one hand, effective corporate governance and, on the other, recognition and maintenance of the philosophies, ethos, and ideals of the cooperative and credit union systems. Without this safeguard, we risk becoming indistinguishable from other financial organizations.

- Given the diversity in size, operational environment, available resources, and atomized or federated network structures among North American credit unions, a single standardized governance model would be inappropriate. Our analysis reveals differences in governance and operational structures depending on credit union size, country of origin, and system within which they function.

- Federated networks have several advantages in the implementation of change: standardization, resources, a delivery network, training facilities, and centrally focused strategic planning. For atomized credit unions, meanwhile, change is implemented either on a voluntary, individual credit union basis via adaptation of best practices, or alternatively by way of generalized regulation. The former is preferred, because it permits customization and recognition of individual circumstances, but there exists justification for the latter to safeguard the interests of the depositors and mitigate unnecessary risk exposure for the credit unions’ common stabilization and deposit insurance facilities.

- Regarding the previous point, it is posited that the fundamental function of the credit union regulatory authorities is not, as many credit union practitioners appear to consider, to provide governance to the credit union but to implement regulations and standards to protect the deposit insurance system and the credit union stabilization funds. The minimum financial requirements and minimum directorial competencies established by the regulators are to provide this protection. Externally determined regulation should not be confused with internally driven governance; on the contrary, external regulation may be seen as a response to failures of internal governance.
Significant recognition exists among US and Canadian credit unions of the value of corporate governance committees. Many have realized that effective boards cannot be built through the activities of a once-a-year nominating committee (few Desjardins caisses populaires or US credit unions operate nominating committees). Many credit unions have replaced the nominating committee with a governance committee or augmented the role of the nominating committee to function as a full standing committee of the board that embraces board development and improved board performance as an ongoing, year-round priority. Even among those who don’t currently have a governance committee in place, there is significant recognition, especially among larger credit unions, that governance is a fundamental issue, and they are increasingly of the view that such committees should be formed. The challenge with all governance committees is the extent of their independence from both the board of directors and management in the fulfillment of their obligations to the owners/members.

An often neglected component of the traditional credit union structure is the member-elected supervisory committee, of which few operate in many Canadian centrally affiliated credit unions, and whose influence has been reduced elsewhere. Some of the ascribed functions of governance committees were probably previously performed by supervisory committees. In fact, the structure of the supervisory committee possesses the fundamental characteristics required for an effective governance and oversight committee: It was, and in some instances still is, elected directly by and answerable solely to the membership, and is thus independent of both the board and management.

One challenge for credit unions appears to be finding qualified directors within the membership. A majority tend to have the same number of candidates standing for the board as there are vacancies, suggesting little choice for credit union members. This situation is not helped by the decline in the number of members attending AGMs.

Many credit unions also appear to face a challenge in encouraging young and female members to volunteer as directors. The Canadian federated movement (Desjardins) operates an effective director “apprenticeship program” that brings in young members to mitigate part of this problem.

The vast majority of credit unions access education programs for their directors, and in all jurisdictions this is now a regulatory component.
requirement. However, there appears to be a significant diversity in the interpretation of training requirements. Training hours range from 0 to 15 hours per year. Debate remains over the effectiveness of a maximum of two days of training a year for conveying the necessary skills to directors of sophisticated financial intermediaries. Nonetheless, very few credit unions (3%) see the possibility of undertrained directors as an issue.

• Further to professional development, the evaluation of directors on a collective and individual basis is a critical component of board effectiveness and quality of governance for the organization. Although the majority of credit unions in Canada conduct global board evaluations, a much lower number evaluate individual directors.

• Effective credit union governance depends heavily on the willingness of the members to exercise their rights of ownership, express their views to the board of directors, and hold directors accountable for the credit union’s progress. The original credit union model accomplished this by positioning the member as the key control element of the actions of the credit union. This has been somewhat diluted as credit unions have developed into professionally managed, multiproduct financial organizations.

• Most credit unions feel that the minimum voting percentage of members necessary to grant the board of directors a meaningful mandate is 1%–5%. While low, this is still somewhat higher than the levels of attendance/participation achieved by most credit unions at their AGMs, resulting in a potential gap in the legitimizing power of member voting.

• Few credit unions are convinced that their membership continues to value cooperative principles. This perception raises certain governance-related questions. The cooperative philosophy and ideals together with the credit union ethos is the very basis of cooperative governance, but without the endorsement of the membership, the validity of this governance structure must be questioned.

• Many credit unions use special activities to encourage membership participation at the AGM and are experimenting with alternative voting methods (web-based, in-branch, and proxy, where permitted) to numerically enhance participation in the selection of directorial candidates and for special resolutions.

• Finally, efforts to increase participation by the members/owners must be supported, but it is equally important that this translates into increased levels of oversight and additional demand for
accountability. Simple attendance at the AGM is no substitute for meaningful member involvement. Our research indicated that many larger US and Canadian centrally affiliated credit unions are experimenting with alternate voting methods including electronic and in-branch voting prior to the AGM. This should be considered a practical approach to marginally increasing the percentage of membership voting for directors or specific resolutions, but as it potentially restricts the discussion, debate, and review of the open membership forum, which is the cornerstone of the traditional credit union model, it may further diminish the governance role, responsibilities, and active participation of the owner/members.

Recommendations
The following recommendations are not meant to reiterate existing roles, responsibilities, or duties of credit union boards of directors. Those, along with policies and procedures, relate primarily to the board’s operational functions, rather than to its position in the credit union’s overall governance framework. Instead, we want to define duties and responsibilities from a governance perspective and support the need for compliance and adherence to them. Verification of adherence and assessment of performance are the principal governance functions of the members/owners. However, the academic literature, supported by this research, clearly indicates that members/owners are somewhat “deficient” in their involvement in this function. Given such a potential weakness in oversight, a risk exists for diminished effectiveness and suboptimal performance by the board of directors and, in turn, management. In some instances, the absence of rigid oversight will open opportunities for both directorial and managerial self-interest and hegemony.

Our recommendations thus center on three areas in which we believe further consideration and discussion by credit unions are warranted (both individually and collectively at the level of the US and Canadian systems):

- The establishment of an independent governance committee elected directly by the membership.
- Improvement of members’ awareness of their rights and obligations.
- Enhancement of director qualifications, professional development, and performance.
Recommendation 1 (Establishment of an Independent Governance Committee): The Separation of Operational and Stewardship Functions

A credit union governance committee elected directly by the membership, solely answerable to members, and independent of both the board of directors and management would address the aforementioned lack of effective oversight by members/owners. Alternately, for credit unions that maintain a traditional independent supervisory committee (US and Desjardins-affiliated Canadian), the activities and function of this committee could be expanded to accommodate governance and board oversight functions since it already meets the key criteria of independence from the board and management. The following points further outline the unique structure and use of the recommended independent governance committee.

For credit unions that maintain a traditional independent supervisory committee, the activities and function of a supervisory committee could be expanded to accommodate governance and board oversight functions since it already meets the key criteria of independence from the board and management.

- Committees of the board of directors are generally created to assist the board in carrying out its duties and responsibilities. Committees therefore reflect the position and thoughts of the board. The purpose of board committees is not to challenge or provide oversight of the board’s activities, but to recommend, support, endorse, and ratify its decisions.

Long-term recommendation: that the independent governance committee act as the only democratically elected governance link between credit union members/owners; the board of directors, which would become unelected and hired; and management.

- The recommended independent governance committee should not act as a proxy for the board of directors, but as a proxy for members/owners in fulfilling their governance responsibilities.
- Governance duties of the independent governance committee should include:
  - Developing a long-term plan for board of directors qualifications and composition (in conjunction with the board).
  - Identifying potential candidates for the board and make subsequent recommendation to the members, thereby fulfilling an independent nominations function.
- Monitoring the orientation and ongoing professional development of directors.
- Notifying and advising the board of directors of all corporate governance issues that ought to be considered by them.
- Regularly reviewing credit union bylaws and board of directors’ policies and procedures, and recommending changes as needed.
- Assessing the effectiveness of the board of directors, its committees, and individual directors—a key capacity emerging from the committee’s independence.
- Making recommendations regarding compensation and remuneration for the board of directors.
- Acting as an independent proxy for the governance functions of the members/owners while working in close harmony with the board of directors and remaining accountable to it for specific tasks directly related to the activities of the board.
- Functioning in close liaison with the membership (possibly via newsletters and seminars), and report activities and governance recommendations directly to them on an annual basis.

Finally, we make the following longer term recommendation/proposal: that the independent governance committee act as the only democratically elected governance link between credit union members/owners; the board of directors, which would become unelected and hired; and management. The governance committee would appoint individuals to a “management board” (and dismiss them as needed) rather than the current practice of election to a board of directors. The managerial role and function of the new management board might remain similar to that of the current board of directors with regard to its relationship with the credit union management. However, the current overall governance functions of the board of directors would become the responsibility of the elected governance committee. Appointments by the governance committee to the management board (hiring from inside and outside the credit union membership) would be based on identified managerial and directorial expertise requirements without the need for ratification by the members/owners. This would address the current and, at times, restrictive and mandatory practice of directly associating directorial selection (and directorial skill sets) with credit union membership, while still maintaining owner/member oversight and control. However, a note of caution arises from the practice of seeking directorial candidates in this manner in that it may address the requisite skill set issue but might inadvertently result in a “qualified” board that does not “function” within the cooperative philosophical framework.
One supplementary note is that to be effective, the governance committee will need the cooperation and support of the board of directors and should be provided with adequate resources for its independent operations, to train its committee members in governance practices, and for hiring outside expertise when required.

**Recommendation 2 (Improvement of Members’ Awareness of Their Rights and Obligations)**

This second recommendation would require three main actions:

1. **Activities should be undertaken that foster membership awareness of its rights and responsibilities as owners of the credit union, with greater emphasis placed on members/owners’ rights to accountability and the meeting of their oversight obligations;**

2. **Members/owners should be provided with user-friendly standardized and comparative (to other peer-group credit unions) financial and nonfinancial performance information regarding their credit union; and**

3. **Recognition should be granted of the rights to accountability and input by the credit union equity investor/members in the governance regime.**

We see an additional role for the governance committee in carrying out the first of these actions. From a governance perspective, the board (as solely responsible for the implementation of governance within the credit union) must consider the governance rights and obligations of the members/owners. We consider credit unions democratic organizations, so that responsibility could extend to members/owners’ governance education. From an operational perspective, a governance-indifferent membership that feels “safe and secure” in their financial interactions with the credit union might suffice. From a governance perspective, however, the involvement of the membership as owners of the assets is of critical importance. It could be the role of the governance committee to address this issue.

Regarding the second action, ownership rights include the right to information about the credit union and the right to express an opinion on its performance. There are obvious restrictions to these rights: that the obligation to provide information to the member does not detract from the credit union’s ability to compete in the marketplace, and that the members’ right to influence the credit union does not translate into behavior that will paralyze it.
As for the third action, the equity investor/members (previously an alien concept to the credit union model and also to its ideals) have become an important source of capital for many credit unions. Their involvement may be additionally solicited in the future, given the required percentage increases in credit union capitalization under jurisdictional and Basel III regulations. Although not currently permitted voting rights under the majority of credit union acts, the increasing involvement of equity investor/members in the credit union will undoubtedly be accompanied by increased expectations and demands for participation in the governance regime. Perhaps governance access could be akin to the proposed Canadian Federal Credit Union Act for Federally Chartered Credit Unions, which allows credit unions “the flexibility to issue non-membership shares, providing opportunities for strategic investments, which may include the right to elect a limited number of directors” (Elliott et al. 2010).

**Recommendation 3 (Enhancement of Directorial Qualifications, Professional Development, and Performance)**

This third recommendation can be broken down into five elements:

1. Nomination criteria for candidates to the board of directors should be based on predetermined skills, knowledge, and attributes, and candidates should contribute current and future value and benefit to the credit union;

2. If the above criterion cannot be met within the existing membership, then the credit union must seek, by best practice or regulatory requirement, qualified individuals from outside the membership;

3. Until such time as recommendation 1 is implemented, and based on the financial capacity of the individual credit union, significantly more credit union resources should be devoted to the professional development of its directors and committee members, including governance training and education; however, hiring qualified directors would alleviate the need for the credit union to “train” new directors;

4. Consideration should be made, based on the financial capacities of the individual credit union, for appropriate remuneration for qualified directors and committee members; and

5. Less emphasis should be placed on terms served by credit union directors, because this potentially creates an impression of

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Although the principles for its function already exist, governance is a dynamic discipline that will continue to present implementation challenges to the credit union system. We must remain open to new governance ideas, interpretations, and considerations.
entitlement, whereas election and reelection to the board should be based strictly on the current and ongoing added value and contribution of the individual candidate. This reversal in thinking would be offset by the annual assessment of directors by the recommended governance committee.

A Final Comment

Governance is about confidence in the system. Given the nature of our cooperative philosophy and credit union ideals, we must be leaders, not the reluctant followers, in the development of corporate governance regimes for cooperatives and social enterprises, ensuring their strengths and commercial integrity. Although the principles for its function already exist, governance is a dynamic discipline that will continue to present implementation challenges to the credit union system. We must remain open to new governance ideas, interpretations, and considerations.

We recognize that smaller credit unions may not have the resources to implement these additional structural changes. However, they should still be aware of governance issues and incorporate remedial action into the policies and activities of their boards of directors and committees. They can also develop job descriptions of individual directors and committee members.

Given credit unions’ open ownership structure (one member, one vote) and the challenges and benefits this presents, a possible future research opportunity would be to examine the viability of introducing the two-tiered board structure of the continental governance system to the North American credit union system as an alternative to the Anglo-Saxon governance model currently in place. Many researchers and proponents consider that this model works well in “wide” ownership structures, such as cooperatives, with their numerous individual owners.

The discussion of whether a one-tier or a two-tier board system leads to better corporate governance is ongoing in Germany and other countries. Improvements in corporate governance are often the result of shareholders (or in the case of credit unions, the member/owners) holding to account the boards (whether one- or two-tier) of companies in which they invest.

Proponents of two-tier boards argue that the role of directors is presently confused and at times conflicting. It is posited that a single-tier board has three distinct functions: supervision, control (implementation of management policies), and management oversight (the actual conduct of the business). Proponents suggest that separating the board’s operational and stewardship functions would focus
the responsibilities of both boards/committees and enhance overall governance. This would be achieved by passing down management oversight functions to the operating committee: the management committee (the second tier).

The first tier, the supervisory board/committee, comprises shareholders—credit union members and nonmember investors (and in some instances employees)—and is elected by and responsible to the owners/members. It provides the stewardship of the organization. It is responsible for the conduct of the company, and it hires and fires members of the management committee and defines that committee’s responsibilities and monitors its performance. Management board members are usually appointed for five years, and their contracts are renewed at the discretion of the supervisory committee.

One point often raised when proposals are put forward to develop governance and managerial capacities within the credit union system is that many credit unions are already struggling to attract qualified individuals to their boards and committees, and therefore, increasing the demand for expertise will only exacerbate the existing board quality conundrum. Yet the vast majority of credit unions in North America must be considered full-service, large-asset, complex, sophisticated financial intermediaries operating in a highly competitive financial services sector; we must view ourselves as such. We can no longer rely on the historical and, at times, parochial approach of solely seeking necessary expertise from among the membership. Likewise, we cannot dismiss the implementation of a governance requirement simply because we are unable to find the requisite skill sets; we must review the method we use to seek that expertise. As identified in the literature and reinforced in recent research undertaken on behalf of the British Columbia Credit Union Governance Task Force (2012, 16), credit unions need to establish a remuneration system “that is adequate to attract and retain the directors the credit union requires and reflects the professionalism they are expected to bring to the position.” Perhaps unfortunately, it might well be said that the era of the North American credit union volunteer is rapidly ending, as is the environment in which the credit union traditionally operated.

We have built a highly successful system based on social principles; we must ensure that we continue to evolve a governance model that affirms those principles to sustain the credit union movement into the twenty-first century and beyond.

It might well be said that the era of the North American credit union volunteer is rapidly ending, as is the environment in which the credit union traditionally operated.
APPENDIX 1

Corporate Governance of Credit Unions: A Literature Review
Introduction

The extent to which sound corporate governance and ethical policies prevail within financial institutions has important implications for the financial system and the wider real economy. Financial institutions are of central importance for economic growth, capital allocation, and financial stability. However, since 2007 many financial institutions have suffered large losses, with banks in particular often bailed out by national governments at great cost to taxpayers. The general causes of the financial crisis are relatively well documented and relate to a number of issues, including macroeconomic imbalances, faulty regulatory structures and lax supervision, faults in banks’ internal risk models, and misaligned incentives leading to excessive risk-taking behaviour, which ultimately increased the variability in bank returns (Brunnermeir 2009; Diamond and Rajan 2009). The crisis has forced academics, practitioners, and policymakers to reevaluate the governance of financial institutions. Against this backdrop, we present the following review of previous literature on the corporate governance of financial institutions.

Perhaps the best place to start is by answering the question, What do we mean by governance? At its most fundamental, we can say that corporate governance is about aligning the actions and choices of managers with the interests of shareholders (Leighton and Thain 1997; Core, Guay, and Larcker 2003). A good governance structure allows an organization to achieve its desired results in a manner that is consistent with the normative values of the organization. To do this means addressing two basic issues: where the organization is going (setting goals, objectives, and a mission), and how the organization will get there (through strategic planning, policies, and structures) (Lowndes and Skelcher 1998; World Council of Credit Unions 2005).
We first consider the research into where organizations go and how they get there by reviewing the literature on governance among financial institutions other than credit unions. This is useful since most recent research has focused on other financial forms, particularly banks, given their central role in the financial crisis, and also because an understanding of nonfinancial corporate governance provides a context for aspects of research into the governance of credit unions.

Corporate Governance of Banks

The impact of corporate governance on the conduct and performance of nonfinancial firms has received considerable attention in the economics and corporate finance literature in recent years. This has partly been motivated by the corporate scandals (such as WorldCom and Enron) that rocked the US economy in the early 2000s (Coffee 2006; Aggarwal et al. 2010). John, Litov, and Yeung (2008), for example, examine the relationship between investor protection and corporate insiders’ incentives to take value-enhancing risk. The authors find empirical evidence that corporate risk taking and firm growth rates are positively related to the quality of investor protection. Lemmon and Lins (2003) use empirical evidence to show that ownership structure plays an important role in determining whether insiders expropriate minority shareholders.

Current debates over the role of corporate governance in the financial crisis and on potential reforms that could be implemented have again renewed attention to the topic of governance among nonfinancial firms. Despite a proliferation of studies, disagreement remains as to the impact that governance in general (and more specifically the role of the board of directors) has on firm conduct and performance and overall risk profile.

Financial institutions, particularly banks, are subject to control mechanisms that differ from corporate governance features in nonfinancial firms. This is due to the specific role played by banks in the economy (Adams and Mehran 2003; Cocris and Ungureanu 2007). Bank corporate governance is shaped by prudential regulation and market discipline mechanisms (Flannery 2010; Ferreira, Kirchmaier, and Metzger 2010). Such mechanisms have severe drawbacks. Prudential regulation greatly relies on accounting measures, which may be opaque and misleading. Errors or even fraud in financial reporting can prevent regulators from carrying out effective supervision.
Market discipline varies across countries depending on a range of factors, such as the legal framework, the level of stock market development, and the market for corporate control.

With regard to the efficient use of resources, Allen and Gale (2000) point out that board size and composition, executive compensation, bank ownership and cross-holdings, and the market for corporate control are all relevant and, therefore, part of the corporate governance mechanism. In particular, executives’ personal and professional attitudes, such as power, entrenchment, and ethics, play a role in aligning executive and shareholder interests—the core governance challenge—and in maximizing shareholders’ value. The incentive for shareholders to monitor banks depends on how effectively their rights are protected (Levine 2004; Adams and Mehran 2008; Adams, Hermalin, and Weisbach 2010). This perhaps explains why banks with dispersed (unconcentrated) ownership structures are more prevalent in countries with stronger shareholder protection laws. Overall, depositors, shareholders, and regulators are concerned with the robustness of corporate governance mechanisms. The added regulatory dimension makes the analysis of corporate governance of opaque banking firms more complex than in nonfinancial firms (Adams and Mehran 2003; Adams 2009).

Most studies of corporate governance in banking have examined how risk and performance are affected by investor protection laws, bank regulations, and the extent of ownership concentration. Most of the available evidence examines US banks. Elyasiani and Jia (2008) found that the stability of institutional ownership increases US bank holding company performance, while Vyas (2009a, 2009b) noted that banks with strong corporate governance (measured as an index of attributes, including board structure and composition and executive compensation practices) are more likely to make timely write-downs of losses. Drawing on a sample of US bank holding companies over the period 1997–2004, Pathan (2009) found that boards where CEOs have power to control board decisions are riskier. Most recently, Cornett, McNutt, and Tehrani (2010) have examined corporate governance mechanisms and the performance of publicly traded US banks before and during the financial crisis. They found that CEO pay–performance linkages and insider ownership weakened significantly just before and during the financial crisis. Overall, banks with the strongest corporate governance controls performed best. Berger, Kick, and Schaeck (2012) have since examined the extent to which board composition (in

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Concentrated ownership structures appear to increase bank values, whereas weak shareholder protection laws lead to the reverse. Research has found that risk is higher in banks that have large owners with substantial cash flow rights.
terms of age, gender, and education) affect the risk-taking appetites of banks in Germany. The authors find that boards comprising higher proportions of younger and female executives tend to take more risk, whereas those with more PhD holders reduce risk.

Several recent cross-country studies make notable contributions to understanding the corporate governance of banks. In an analysis of 244 banks across 44 countries, Caprio, Laeven, and Levine (2007) note that banks typically do not have dispersed ownership; they are often controlled by families, foundations, or the state. Concentrated ownership structures appear to increase bank values, whereas weak shareholder protection laws lead to the reverse. Building on these insights, Laeven and Levine (2009) found that risk is higher in banks that have large owners with substantial cash flow rights. However, this effect is weaker in countries with strong shareholder protection laws. This implies that large cash flow rights are crucial in reducing the adverse effects on bank valuations associated with weak shareholder protection laws. Beltratti and Stulz (2010) found that banks with more shareholder-friendly boards performed worse during the crisis. At the national level, banks in countries with stricter capital requirement regulations and with more independent supervisors performed better.

The structure of executive compensation is likely to affect the behaviour of senior managers when formulating bank strategy (Houston and James 1995; Bolton, Mehran, and Shapiro 2010). John and Qian (2003, 109) contend, “Managerial ownership of equity and options in the firm, as well as other incentive features in managers’ compensation structures (such as performance-related bonuses and performance-contingent promotions and dismissals), serves to align managerial incentives with shareholder interests.”

Recent work has tested whether there is an observed empirical relationship between compensation and bank behaviour by using measures related to the value of executive share options or some ratio of share options to total compensation. For example, Chen, Steiner, and Whyte (2006) found that the structure of managerial compensation (proxied by the ratio of the value of share options to total compensation) leads to increased risk taking. Evidence presented by Mehran and Rosenberg (2008) and DeYoung, Peng, and Yan (2012) showed that share options lead CEOs to undertake riskier investments. Fahlenbrach and Stulz (2011), meanwhile, found that banks with CEOs whose incentives were closely aligned with the interests of their shareholders performed poorly during the recent credit crisis. Such poor performance was not anticipated by senior managers and subsequently led to large wealth losses.
Cheng, Hong, and Scheinkman (2009) investigated the link between compensation and risk taking among finance firms during the period 1992–2008, finding that payouts to top executives are positively related to bank risk. Balachandran, Kogut, and Harnal (2011) used a sample of 113 financial firms from 1995 to 2008 to show that equity-based pay (in the form of stock options) increases the probability of default, whereas nonequity pay (in the form of cash bonuses) decreases it. John, Mehran, and Qian (2010) tested two hypotheses on CEO compensation: whether the pay-for-performance sensitivity of bank CEO compensation decreases with the leverage ratio, and whether this sensitivity increases with outside monitoring by subordinated debtholders and regulators. The authors found support for both hypotheses for a sample of 143 bank holding companies over the period 1993–2007.

On the subject of executive retention, a few studies have examined the links between performance and executive turnover. One notable example is the work of Schaeck et al. (2012), which assessed turnover drivers for a sample of US banks. They present clear evidence that executives in charge of risky banks or banks that have incurred losses are more likely to be dismissed. However, such dismissals do not lead to improved bank performance. In another recent contribution, Erkens, Hung, and Matos (2009) found that CEOs employed by banks with boards comprising high proportions of independent directors and institutional investors are more likely to be replaced following large losses than counterparts employed by banks with insider blockholders.

Corporate Governance of Credit Unions

Overview

Less attention has been paid by researchers to corporate governance in the nonprofit cooperative and credit union sectors. These sectors have a very different ethos than publicly traded companies. Yet they face similar challenges in the area of governance, in particular, the need to ensure director and board competence and effective member control over management. Acknowledging that there are questions about whether research on private corporation directors can be applied to a cooperative context, Axworthy (1990) pointed out that the duties are essentially the same in both sectors, but four fundamental differences separate cooperatives and corporations that may impact governance and how directors perceive their role: Cooperatives are member-owned; they do not exist solely for the purpose of making profit; they are democratically controlled; and their directors are elected and not necessarily trained in business and finance.
Similarly, although credit unions have a structure comparable to the corporate tripod of owners, directors, and management (Monks and Minow 1995), they are characterized by several significant ownership and governance features that differentiate them from both general cooperatives and investor-owned firms. These are as follows. First, credit unions are owned by the membership, which is traditionally limited to individuals who are bound together by a common bond of association. Second, ownership entitlements are ill-defined and nontransferable; no secondary market exists for member shares. Thus, members/owners severing links with a credit union have no entitlement to a share of its accumulated communal wealth. Third, nonwithdrawable share capital is traditionally generated by retention of surpluses derived from transactions with members. Fourth, governance is based on a principle of one member, one vote. For credit unions that are structured in a manner in which members have only one share, and where all deposits are interest-based rather than dividend-based, shares present a different dynamic than in credit unions where all savings deposits are share-based. In the former, all members have only one share and all at the same value; in the latter, members may have significant variations in their equity stake in the credit union, but still just one vote. Fifth and finally, directors of a credit union are drawn from and elected by the membership. They serve on a voluntary basis within the aforementioned cooperative-based voting structure of one member, one vote. They have no recognizably greater stake in the credit union than does any other member. The pool of directorial candidates is thus limited by the number of members who participate in the governance process of the credit union and, more particularly, by the directorial voting process at the credit union’s AGM. The level of member participation therefore determines the number of directorial candidates as well as their level of qualification.

Over the past few decades, credit unions have undergone significant changes. These changes pose significant challenges for those concerned with the issue of governance in credit unions. First, they have grown in terms of the number of members and the financial sophistication of their operations (Hautaluoma et al. 1993; Ferguson and McKillop 1997; Branch and Baker 2000; Likens 2002; Goddard, McKillop, and Wilson 2008). In general, they have moved away from a more traditional structure of a volunteer-based cooperative organization in which governance encompassed a credit union’s members and their elected volunteer board of directors, toward one that involves a third component—professional management—that replaces volunteer based management of day-to-day operations (Spear 2002). Some observers now expect that these changes will result in a change in the role of the board of directors, from a hands-on working board involved in the day-to-day activities of the credit
union, to a strategic board with a managerial oversight function (Wood 1992).

Underlying the developments within the sector is a fundamental tension between credit union efforts to provide high-quality services to their members and the promotion of the cooperative and democratic nature of their organizations (Labie and Perilleux 2008). Within credit unions the challenge is to balance two pressures: one coming from the cooperative ethos, with its philosophy, ideals, and social objectives, and one from market-based economics, with its rules and realities. Laidlaw (1978) characterized this duality as one of democracy and efficiency, where efficiency relates to the operational aspects and democracy to the interaction between organizational stakeholders. The efforts of the wider cooperative family to resolve these tensions has led some to suggest that these organizations have lost their way and are no longer within the control of their members (Gorton and Schmid 1999; Hinson and Juras 2002; Munker 2004).

Governance Mechanisms
Governance practices can be examined in three general categories: external, intermediate, and internal governance mechanisms. Below we define each of these, with the discussion drawing from the work of Ketilson and Brown (2011).

External Governance Mechanisms
External governance mechanisms are those structures and practices that set the parameters within which the credit union must operate, such as legislative and regulatory frameworks. Regulations and rules play an important role in shaping credit union governance structures and practices. For example, legislation may be used to provide regulatory bodies with the powers to set statutory standards of fitness and probity targeted primarily at credit union boards and management. Legislation may also be used to detail the reporting arrangements of credit unions with the regulatory authorities, as well as the composition and role of the board, key individuals (such as the chairperson, treasurer, and manager), and both board and board oversight committees.

Intermediate Governance Mechanisms
Intermediate governance mechanisms are those structures and practices that facilitate member engagement and participation in the
governance system. Within credit unions, democracy is a defining feature and offers both a decision-making method and a transformative activity that promotes the development of human capacity and cooperation among competing groups (International Joint Project on Co-operative Democracy 1995). The representative structures of credit unions give individuals authority to make decisions on behalf of members, but also allow members to hold their representatives to account. The participatory structures of credit unions mean that occasionally members are called on to make decisions or, at the very least, express their views and opinions. In practice, both structures exist side by side in cooperative organizations. These structures provide members with meaningful opportunities to participate in the decision-making process and thus in the governance of their cooperative.

Across credit unions there are three basic ways that representatives are selected, and these control structures impact on the extent of their decision-making power. In a centralized control structure, credit union members elect individuals to the board of directors. Within this type of structure, members have direct access to the board of directors, decreasing the distance between them and the central decision-making body. This type of structure is not associated with high levels of member participation at election time and does not provide a training ground for future board members (Credit Union Central of Saskatchewan 1977).

The second structure is a delegate control structure, in which members elect delegates on an at-large or regional basis, after which delegates elect a board of directors. This type of structure facilitates more member involvement, spreads control over a wide range of members, and increases opportunities for leadership training and development for future board members. However, it also limits members’ access to the board, requires more organizational resources to operate, and is more complex and difficult for members to understand (Credit Union Central of Saskatchewan 1977).

Under the third structure, constituency control, members directly elect individuals to the board, but on a regional (or district) basis. This type of structure emphasizes local identity and creates closer relationships between members and their representatives, tends to facilitate greater member participation, and spreads control over a broad range of members. However, constituency control structures are more complex and may be more difficult for members to understand when compared to the centralized model. Furthermore, it also limits members’ access to the board, requires greater organizational resources to maintain, and overemphasizes local concerns at the expense of organizational needs (Credit Union Central of Saskatchewan 1977).
Fairbairn (2003) has contended that focusing solely on the democratic structure of credit unions may miss the key point of the cooperative movement, which is to establish, develop, and maintain a strong relationship between members and their cooperative. There are three aspects of this relationship. The first is the reciprocal linkage with members, in which credit unions must meet the needs of their members, and the members must also perceive that their credit union is meeting their needs. The second aspect is transparency, which requires that members understand the credit union and the specific benefits the credit union provides to them in the context of a choice of financial service providers. The final aspect of the relationship is cognition, that is, credit unions must recognize and adapt to changes in their membership, industry, and environment; they must collect and analyze information; and they must be willing to revise and revisit organizational objectives and promote and encourage innovation within the organization.

While recognizing the importance of the democratic structure, the willingness or otherwise of members to participate in the credit union is nonetheless an important issue. Member voting is the fundamental mechanism through which credit union corporate governance is exercised. The AGM offers an important means for members and the credit union to communicate with one another, as well as an opportunity for members to voice their concerns, learn about the credit union and its activities, and learn about and vote for board candidates. The importance of member participation was highlighted by Labie and Perilleux (2008), who noted that the democratic nature of credit unions means that the mission of the organization is defined by the members, but problems of governance arise when members fail to exercise control over the organization. The reality of participation by credit union members is in sharp contrast with the formal statements of democratic ownership. Davis (2001) described a myth of democratic governance, and a number of studies have specifically highlighted the unwillingness of members to participate at AGMs (Fama and Jensen 1983; Rasmusen 1988; Davis 2001; Spear 2002; Cornforth 2003). Goth, McKillop, and Ferguson (2006), in a study of Canadian and Irish credit unions, found that the percentage of membership participation at the AGM decreases as membership grows. As growth occurs, members may come to see themselves as customers, which may lead to complacency about membership issues and less concern with monitoring management. Together with management, shareholders, committees, and other stakeholders, the board participates in the distribution of rights and responsibilities among the various participants in the corporation.
come to see themselves as customers, which may lead to complacency about membership issues and less concern with monitoring manage-
ment (Spear 2002; Leggett and Strand 2002).

Internal Governance Mechanisms
Internal governance mechanisms are the governance structures and practices that help the board of directors achieve objectives and fulfill responsibilities to the membership. The board of directors is an important element of the governance system. Common to all definitions of the role of the board are the functions of monitoring, advising, and leadership (O’Neal and Thomas 1995; Leighton and Thain 1997). The board helps establish the organization’s goals and objectives as well as the means of attaining and monitoring them. However, it should not be viewed as the system of governance itself. Together with management, shareholders, committees, and other stakeholders, the board participates in the distribution of rights and responsibilities among the various participants in the corporation (Cadbury 1992). The final section explores board structure, board development, and the relationship between the board and the credit union’s professional managers and staff.

Board Structure
There is no definitive number of members that a board should have. A board that is too small may lack diverse viewpoints, independent thought, and sufficient deliberation, and a board that is too large may lack active participation by all members or may confront unruliness at meetings (Canadian Co-operative Association and Brown Governance 2004). Recent research suggests that boards should have between 5 and 15 members, although between 9 and 13 board members is often considered optimal.

The issue of director terms and tenure arises in discussions of board renewal and stable turnover. There is a need to incorporate fresh ideas and new perspectives as well as board experience in the decision-making process. A more serious debate arises around the issue of director tenure limits (the length of time or number of terms a director may serve before being required to step down). Some suggest that limits on tenure are ineffective tools for achieving better board performance through director turnover, whereas others argue that tenure limits can successfully facilitate the participation of members of underrepresented groups on the board by ensuring that long-time board members step down to make room for them (Canadian Co-operative Association and Brown Governance 2004).
Board Development

Board development refers to building a board of directors capable of effectively carrying out its roles and responsibilities. There are three key components to board development: recruitment, education, and evaluation. The continuing training and education of directors is relevant for all directors, regardless of their skills, expertise, or experience, and is critical for the success of credit union boards. One of the first educational experiences that new directors should have is an orientation exercise that introduces them to the credit union’s affairs and other board members. Hoyt (2003) argues that director orientation permits new board members to learn board practices, processes, and policies efficiently. Furthermore, Hoyt suggests that boards should show their commitment to director training and education by devoting resources and time to allowing directors to carry out both, with training and education activities aimed at developing individual and group capacities in strategic areas.

Given the importance of the board of directors, the selection of directors is a critical factor in determining how effectively a corporation is governed (Mace 1971; Andrews 1987; Eaton 1990; Wood 1992; O’Neal and Thomas 1995; Leighton and Thain 1997; Biggins 1999; Grady 1999; Van der Walt, Diack, and Ingley 2002). Salient literature highlights the importance of formalized recruitment strategies and processes. These include building a demographic profile of the board; identifying gaps in skills, knowledge, expertise, or demographic characteristics and communicating these gaps to members; staging information sessions outlining the roles and responsibilities of board members; conducting interviews with potential candidates; and having existing directors who are not up for reelection endorse certain candidates prior to board elections.

Vafeas (1999) notes that the quality of a board of directors’ monitoring effectiveness is determined by the quality of the directors who are appointed (Hautaluoma et al. 1993; Biggins 1999; Grady 1999; Branch and Baker 2000). The introduction of a nominating committee into the selection process has been an important innovation in corporate governance in that it introduces greater independence from the existing board and improves board quality (Verespej 1994; Leight- ton and Thain 1997; Vafeas 1999). However, the democratic election of credit union boards poses challenges to the ability of directors to fulfill their role. While volunteer nonprofessionals may be responsive...
to local community and social issues, they may not have the required financial and business expertise to direct a financial institution. The democratic governance of credit unions relies on electing people to decision-making positions who have appropriate business acumen and management skills. There is a risk that unqualified people may be elected (Stone 1991; Westphal and Zajac 1995; Branch and Baker 1998, 2000). Goth, McKillop, and Ferguson (2006) surveyed Canadian and Irish credit unions, finding that for over two thirds of respondents, the board’s skill requirements and organizational needs had “little” or “no influence” on the selection criteria for directors. Just 1% reported that it “greatly” impacted on the process. This goes against the view that as credit union membership grows, board members with more managerial and professional qualifications will be recruited (Mathiasen 1990; Wood 1992; Dart et al. 1996).

Finally, board evaluation is an issue that credit unions need to consider (Brown 2007). While some boards use director attendance at committee and board meetings as a measure of performance, few engage in regular, formal evaluation exercises. Board evaluation can be a key element of board development and learning in that it allows the board to review its overall board performance. Individual self-assessments by directors are also useful in that they facilitate self-reflection (Zimbelman 1996). Lakey and Hofheimer (2004) concur, suggesting that one of the best ways to improve board performance is through the board’s assessment of its own performance.

However, the evaluation of individual board members by their peers is discouraged, since the ultimate goal of board evaluations is to assess group, not individual performance. The aim of the evaluation should be to refresh board members’ understanding of the board’s role and responsibilities, identify areas for improvement, develop a shared understanding of good governance among directors, and serve as a tool for nominating committees in their recruitment efforts (Zimbelman 1996). Using surveys of 672 executives and 379 board members representing 713 credit unions from across the United States, Brown (2005) found that credit unions rely on existing volunteers and board members to recruit directors to the board.

Two further impacts of the professionalization of day-to-day operations at credit unions is a new attitude among paid staff, who may see volunteers as “enthusiastic amateurs” committed to the traditions of the movement, and a diminishment of the highly personal nature of service.

The Board of the Credit Union and the Professional Managers and Staff

As the credit union grows and engages in more complex and sophisticated operations, so too does the need for more qualified staff. From the perspective of corporate governance, credit union growth
has meant that the board of directors’ control over the credit union has diminished as operations have become the responsibility of professional management and staff (Sibbald, Ferguson, and McKillop 2002). This is important given that boards of cooperatives are less likely than boards of publicly traded corporations to monitor or replace management (Fama and Jensen 1983; Rasmusen 1988). Two further impacts of the professionalization of day-to-day operations at credit unions are a new attitude among paid staff, who may see volunteers as “enthusiastic amateurs” committed to the traditions of the movement, and a diminishment of the highly personal nature of service (Black and Duggar 1981; D’Amours 1998; Likens 2002; Sibbald, Ferguson, and McKillop 2002). As Oster (1995) noted, within the nonprofit sector the issue of executive compensation can also lead to complications, since these organizations follow the model of endeavoring to fulfill their missions in response to demands from a variety of stakeholders (Rosen, Lusk, and Kim 1996; Oster 1998; Yancey 1999; Branch and Baker 2000).

Management and member interests can diverge in a cooperative environment because management performance cannot be monitored through market values, and members have a claim on residuals earnings only as long as they are active participants in the organization.

The differing perspectives of managers and volunteers can contribute to a divergence of interests, conflict between owners and managers, and, ultimately, a shift away from cooperative governance toward managerial hegemony (Spear 1998; Leggett and Strand 1999; Branch and Baker 2000; Likens 2002; Sibbald, Ferguson, and McKillop 2002; Labie and Perilleux 2008). Staatz (1987) contended that management and member interests can diverge in a cooperative environment because management performance cannot be monitored through market values, and members have a claim on residuals earnings only as long as they are active participants in the organization. According to Spear (2004), external factors, such as legislative frameworks and the professionalization of cooperative managers, may also tilt the balance of power toward managers and away from members. Branch and Baker (2000), meanwhile, contended that problems can arise in credit unions when there is a lack of clear rules separating decision oversight from decision making; an unqualified person in a position of decision oversight; a failure of the membership and board to exercise fiduciary responsibilities; and the system of one person, one vote. This perhaps explains why a recent analysis of US credit unions failed to find any clear link between credit union governance and performance (Chen, Spizzirri, and Fullbrook 2010). Hoel (2010) contended that a healthy tension between the CEO and the board of directors is crucial to the smooth functioning and
performance of credit unions, concluding that “nobody wants an autocrat and nobody wants a rubber stamp.”

Summary

In this literature review, we have explored the importance of corporate governance for commercial banks and credit unions. The literature suggests that for commercial banks, there is a clear link between corporate governance and incentive mechanisms (such as executive compensation packages) and business policy choices, risk-taking behaviour, and performance. Credit unions, meanwhile, are characterized by member-based ownership and governance features that differentiate them from both commercial banks and nonfinancial firms. This increases the complexity of their governance structures.
APPENDIX 2

Semi-Structured Interviews (Participating Credit Unions)
The 11 credit unions that took part in the interviews represent the three jurisdictions (US, Canadian centrally affiliated, and Desjardins Group affiliated) studied in the survey portion of this research. Each had previously responded to the survey. Six have a membership of more than 10,000 members, and the rest (five) have fewer than 10,000 members. The majority of the interviewees (eight) held the position of CEO/general manager at the time of the interview, with the balance (three) serving as chair of the boards of directors. The objective of the selection was to achieve a cross-section of thoughts and opinions from within the three credit union jurisdictions. The topic areas discussed included:

- General governance.
- Board profile.
- Nominating/governance/supervisory committees.
- Skills, competencies, and professional development of directors.
- Membership participation and involvement.
- Credit union operations.

**Figure 30: Asset Bands of Interviewed Credit Unions**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1B and higher</td>
<td>$100M to $1B</td>
<td>$10M to $100M</td>
<td>$1M to $10M</td>
<td>Below $1M</td>
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</tbody>
</table>

**Credit Union 1**

This credit union operates in both a rural and an urban environment with a community bond and focus. It has fewer than 10,000 members and falls into asset band B. Members of its 12-seat board of directors have an average of 6–10 years of service. The credit union operates two branches and a nominating committee but no formal governance committee. Its stated primary current financial performance measure is return on assets.
Credit Union 2
This credit union operates in both a rural and an urban environment with a community bond and focus. It has more than 10,000 members and falls into asset band B. The credit union developed through the mergers of a large number of original and merged credit unions and thus operates an extensive branch system. Members of its 12-seat board of directors have served an average of zero to three years based on the last merger. However, the overall service of the directors is significantly longer. Board committees include a formal nominating committee but not a formal governance committee. The stated primary current financial performance measure is return on assets.

Credit Union 3
This credit union operates primarily in a rural environment with a community bond and focus, serving a large agricultural membership base. There are 10,000 members and two branches. Its assets place it in band C. The nine-member board of directors is elected from the membership via an informal nominating committee assisted by a supervisory committee. The stated primary current financial performance measure for this credit union is financial efficiency.

Credit Union 4
This credit union operates in an urban environment with a community bond and focus. It has more than 10,000 members and falls into asset band A. The credit union is the result of mergers and operates with a board of 12 directors with three to five years of experience. Nominating and governance committees are in currently in use, with the nominating committee seeking directorial candidates both within and outside the membership. The stated primary current financial performance measure of the credit union is maximizing net income.

Credit Union 5
This credit union operates in an urban environment and is “closed bond,” serving a geographically diverse, specific employee base and their families. It has more than 10,000 members and falls into asset band A. Average service on its nine-member board is 11–15 years. Being closed bond, it seeks its directorial candidates strictly from within its membership. The stated primary current financial performance measure of this credit union is asset growth.
Credit Union 6
This credit union operates in an urban environment with a community bond and focus. It has fewer than 10,000 members and falls into asset band B. Average service on its 15-member board of directors is 11–15 years. The stated primary current financial performance measure of the credit union is loan growth.

Credit Union 7
This credit union operates in an urban environment with a community bond and an identified niche membership focus. With more than 10,000 members, it falls into asset band A. Average service on its 12-member board of directors ranges from 11 to 15 years. The nominating committee concentrates on searching for specifically qualified directorial candidates, both within and outside of the membership. The credit union’s currently stated primary financial performance measure is operational efficiency.

Credit Union 8
This credit union operates in an urban environment with a community bond and focus. It has fewer than 10,000 members and falls into asset band C. It operates a 14-member board without terms of office, with directorial service ranging from 16 to 20 years. The stated primary current financial performance measure of the credit union is loan growth.

Credit Union 9
This credit union operates both in a rural and an urban environment with a community bond and focus. With more than 10,000 members and assets that fall into band B, it operates a 15-member board and a 4-member independent supervisory committee. Both the board of directors and the supervisory committee are involved in the identification of directorial candidate and independent committee members. The currently stated primary financial performance measure of the credit union is return on assets.

Credit Union 10
This credit union operates as the sole financial intermediary in an isolated rural environment with a community bond and focus. It has fewer than 10,000 members and falls into asset band D. The credit union operates with part-time paid staff and volunteers. It has a nine-member board of directors who have served 11–15 years. The currently stated primary financial performance measure of the credit
union is operational efficiency to maintain financial viability and independence.

**Credit Union 11**

This credit union operates both in a rural and an urban environment with a community bond and focus, but was originally closed bond. It has more than 10,000 members and falls into asset band B. Members of its nine-member board of directors have served from 16 to 20 years and maintain close association with the original employer bond. The currently stated primary financial performance measure of the credit union is return on assets.
1. A single-tier board in which executive and nonexecutive directors sit together. The chair works closely with the CEO, and there are board committees for audit, remuneration, nominations, and so on.

2. A two-tiered board in which a supervisory board consists solely of nonexecutives and a lower board consists of full-time managing directors, with the supervisory board totally independent from the management board.

3. Roy Bergengren was a credit union pioneer at the forefront of securing a legal framework for the credit union system in the United States. By 1929, his leadership resulted in the passage of 32 state-level credit union–related laws. He also led the fight to pass the federal credit union act and was the first executive officer of CUNA & Affiliates and CUNA Mutual. He helped build the foundation of the US national credit union organization and in so doing established the foundation for the worldwide credit union system. He participated in drafting the 1932 Nova Scotia Credit Union Act and the US Federal Credit Union Act of 1934.


5. The Rochdale Principles of Cooperation include open, voluntary membership; democratic control; limited return, if any, on equity capital; net surplus belongs to user-owners; education; and cooperation among cooperatives.

6. Henry Wolff was the founder of the International Cooperative Alliance. Charles Gide was a French economist and held professorships at the universities of Bordeaux, Montpellier, and Paris. Gide was an expert on international monetary problems (see Gide and Rist 1948; Gide 1902, 1921).

7. June 26, 1934 (Chapter 750), “An Act to establish a Federal Credit Union system to establish a further market for securities of the United States and to make available to people of small means credit for provident purposes through a national system of co-operative credit thereby helping to stabilize the credit structure of the United States.”

8. The provinces of Canada are from east to west: Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia.

9. Although the legislation has been passed, regulation is still pending.
10. “Networks” refers to the relationship between participating entities. Two major trends can be outlined. First, there are networks in which the entities have relatively weak links and only share resources to a small extent. In this case, the focus is on the base entities while limiting integration to representation, lobbying, and public relations. This has been referred to as the atomized-competitive network model (Fischer 2000). Second, there are networks, often with many components, that are highly interrelated and equipped with apex organizations providing significant integration. These are referred to as federated networks (Fischer 2000). Sharing of resources is raised to a high level of partnership, and the supervision of base units is highly integrated. The Desjardins Group is an exemplary model of a highly integrated network.

11. Although structurally different, centrals provide services to the individual credit unions in a manner similar to those of corporate credit unions in the United States.

12. Desjardins’s total assets are CDN$175B. The difference with information reported in Figure 2 represents subsidiary corporations owned by the Desjardins Group caisses populaires: insurance companies, capital leasing companies, real estate, two banks—one “real” bank in Florida and one virtual bank. Between 2008 and 2010 total assets at Desjardins Group grew over 15% from CDN$151.9B (when it ranked sixth in Canada and first in Quebec) to over CDN$175B in 2010.

13. For example, coverage in Ontario is up to a maximum of $100,000, Nova Scotia $250,000, and British Columbia 100% of eligible deposits. In Canada, virtually all credit union member accounts are interest-based and not dividend-based. A member purchases a one-time single share account in the credit union for an established price (generally $10–$100). These share/capital accounts are not covered by the deposit insurance mechanisms.

14. Canadian Crown corporations are corporations owned 100% by the relevant provincial governments.


17. The National Credit Union Share Insurance Fund is administered by the National Credit Union Administration for the purpose of providing deposit insurance to protect deposits of credit union members at insured institutions in the United States.
18. NCUA permitted corporate credit unions with a federal charter to expand nationwide, which brought them into direct competition with their state-chartered counterparts. This led to credit unions joining more than one corporate credit union in search of the best services.

19. The securities purchased by corporate credit unions were typically AAA and AA rated. However, these ratings, which were assigned by nationally recognized statistical ratings organizations, used historical data and consequently proved unreliable.

20. Problems emerged in March 2009 when the two largest corporate credit unions, US Central and Western Corporate, experienced liquidity problems and were placed under conservatorship with NCUA. Later in 2009 and in 2010, this occurred with Constitution, Members United, and South West Credit Unions as well. These five corporate credit unions represent 70% of the entire industry assets and more than 98% of investment losses.

21. Data collected routinely by US organizations such as Datatrac and Bankrate suggest that on average, credit unions charge lower rates on virtually all types of loans, while offering higher rates on investments than comparable mainstream banking organizations.

22. Ning, Davidson, and Wang (2010) find that the most common board size for US publicly traded firms ranges from 8 to 11 directors. Over time, small boards with 7 or fewer directors tend to increase their size, but large boards with 12 or more directors tend to shrink. This result suggests a significant mean reversion trend in board size over time. The authors also suggest that there may be a trade-off in the costs and benefits of various board sizes that motivates board size selection. The findings in the present analysis conform to the board sizes identified by Ning, Davidson, and Wang (2010).

23. Modal choice is the most frequent choice made by respondents.

24. The presence of these committees may also be driven by the fact that in recent years, many community credit unions in the Canadian centrally affiliated system have merged, and for these credit unions an element of board selection may be based on geographical representation. This reality requires additional coordination and monitoring, which may best be undertaken by a nominating committee.


26. A detailed review of corporate governance for nonfinancial firms is outside the scope of this report. Useful contributions on the determinants of board structure include those of
Hermalin and Weisbach (1988), Boone et al. (2007), Coles, Daniel, and Naveen (2008), and Linck, Netter, and Yang (2008), and contributions on the links between board structure and performance include those of Dahya and McConnell (2007), Adams and Ferreira (2009), and Adams, Gray, and Nowland (2011). Empirical evidence suggests that board structure varies according to firm age, size, growth opportunities, and industry classification. Furthermore, the structure and composition of the board matter for the conduct and performance of firms (Bradshaw, Murray, and Wolpin 1996). Adams, Hermalin, and Weisbach (2010) provide a useful overview of the literature.


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