

# IMPACT 2023

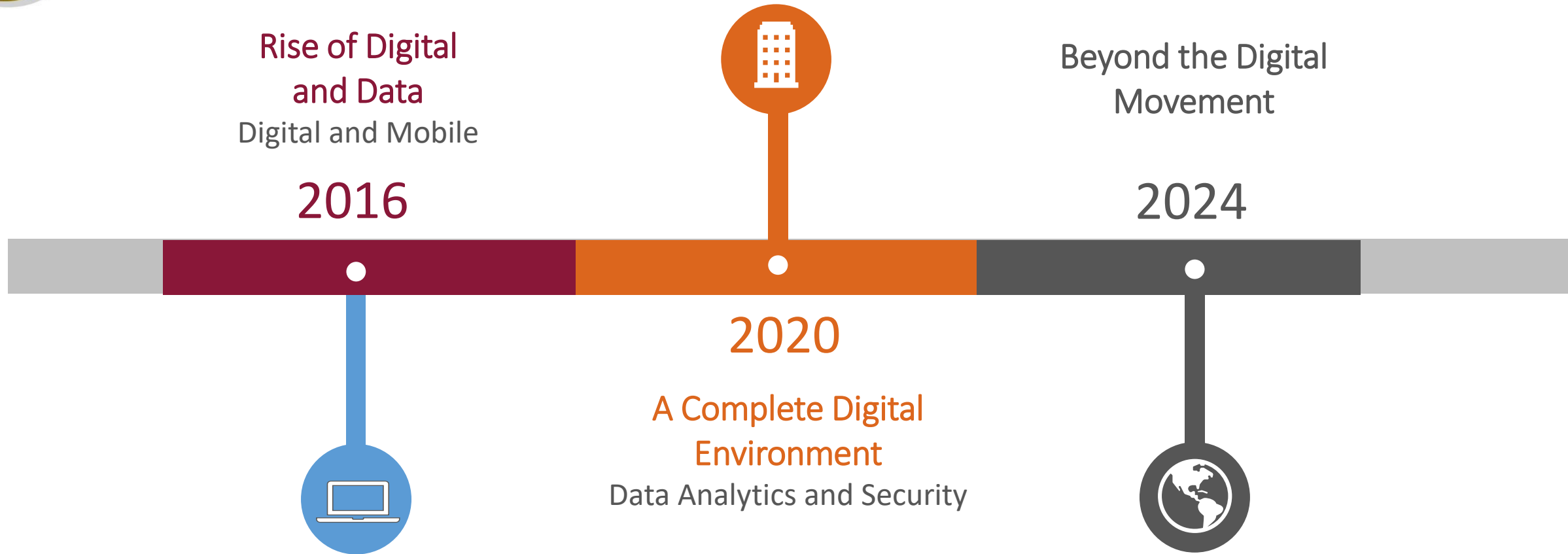
CORNERSTONE ANNUAL MEETING & COUNCIL FORUM

**Governance 2.0**

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# The Evolving Banking Environment

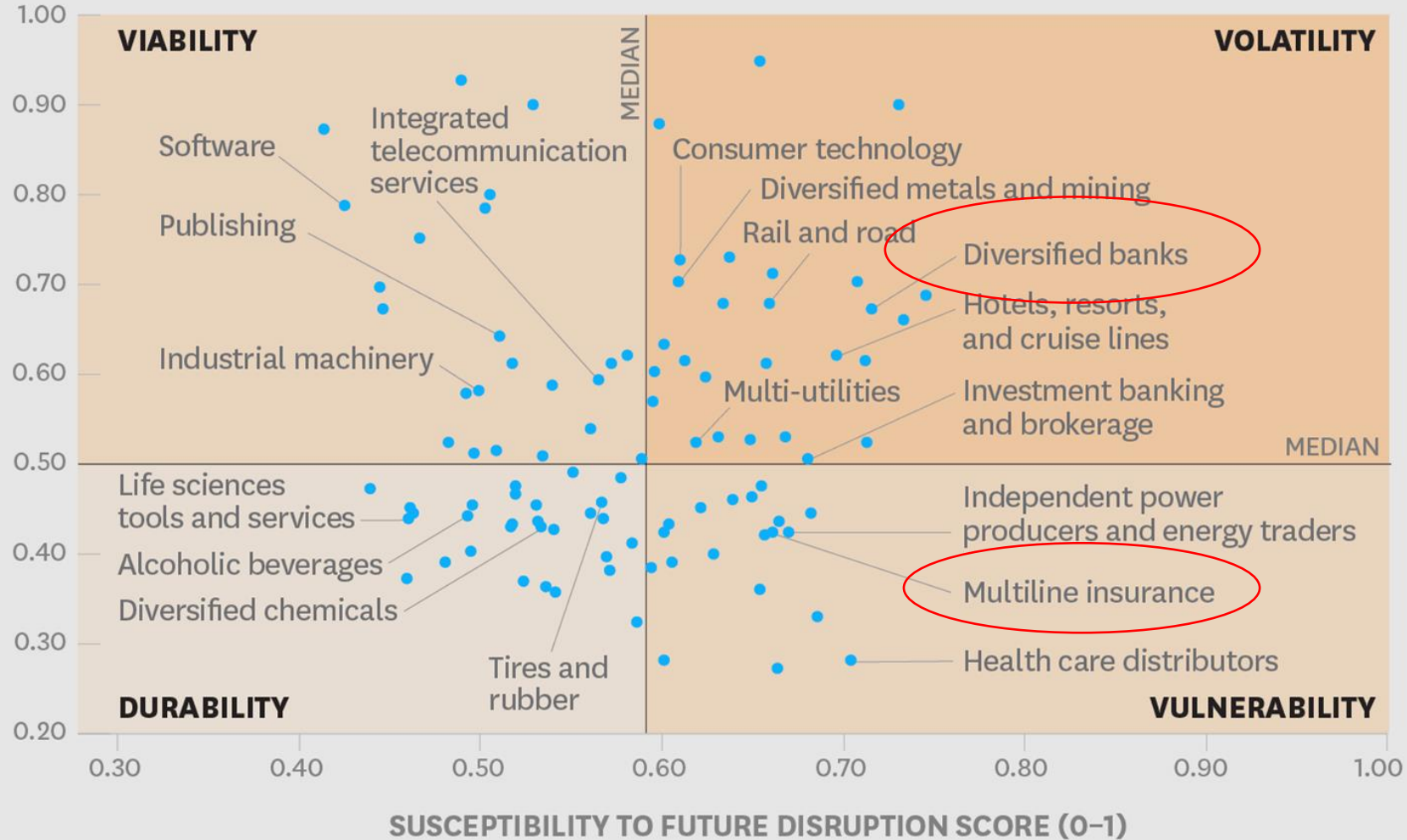




# The Four States of Disruption

How susceptible is your industry?

CURRENT LEVEL OF DISRUPTION SCORE (0-1)





# Guidance from Fortune 500 Boards

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- Focus on value.
  - ✓ Member growth; member loyalty; future investments.
- Look to the most significant results.
  - ✓ Financial; experiential; market share; advantages.
- Understand the future direction.
  - ✓ Footprint; major markets; lines of business; model.
- Aim to build a legacy.
  - ✓ Always evolving; always improving; focus for CEO.



# Strategic Conversations

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Business model;  
major markets; lines  
of business.



Longer-term projects  
and investments.



Sustainable  
advantages; long-  
term profitability.



Executive-level areas  
of focus.



# Traits of High ROE Credit Unions

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- High **loans-to-shares**; high average loan balances.
- 2X industry average for **non-interest income** metrics.
  - ✓ Interchange; overdraft; insurance are primary sources.
- **Lower expense ratio**, but higher education and marketing costs.
- **More capital** (about 20 percent more than industry).
- Higher dividend rates; lower loan rates (**aggressive pricing**).
- Higher penetration in **money market and checking** accounts.
- Lots and lots and **lots of electronic/digital services**. Lots.
- **New business units**: commercial; insurance; wealth management; trust; cannabis, etc.



# Where are We Adding New...

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- Members?
- Markets?
- Lines of business?
- Products?
- Experiences?
- Technology?
- Revenue?
- Efficiencies?
- Levels of profit?
- Success in awareness and marketing?



# Getting the Most from Board Insights

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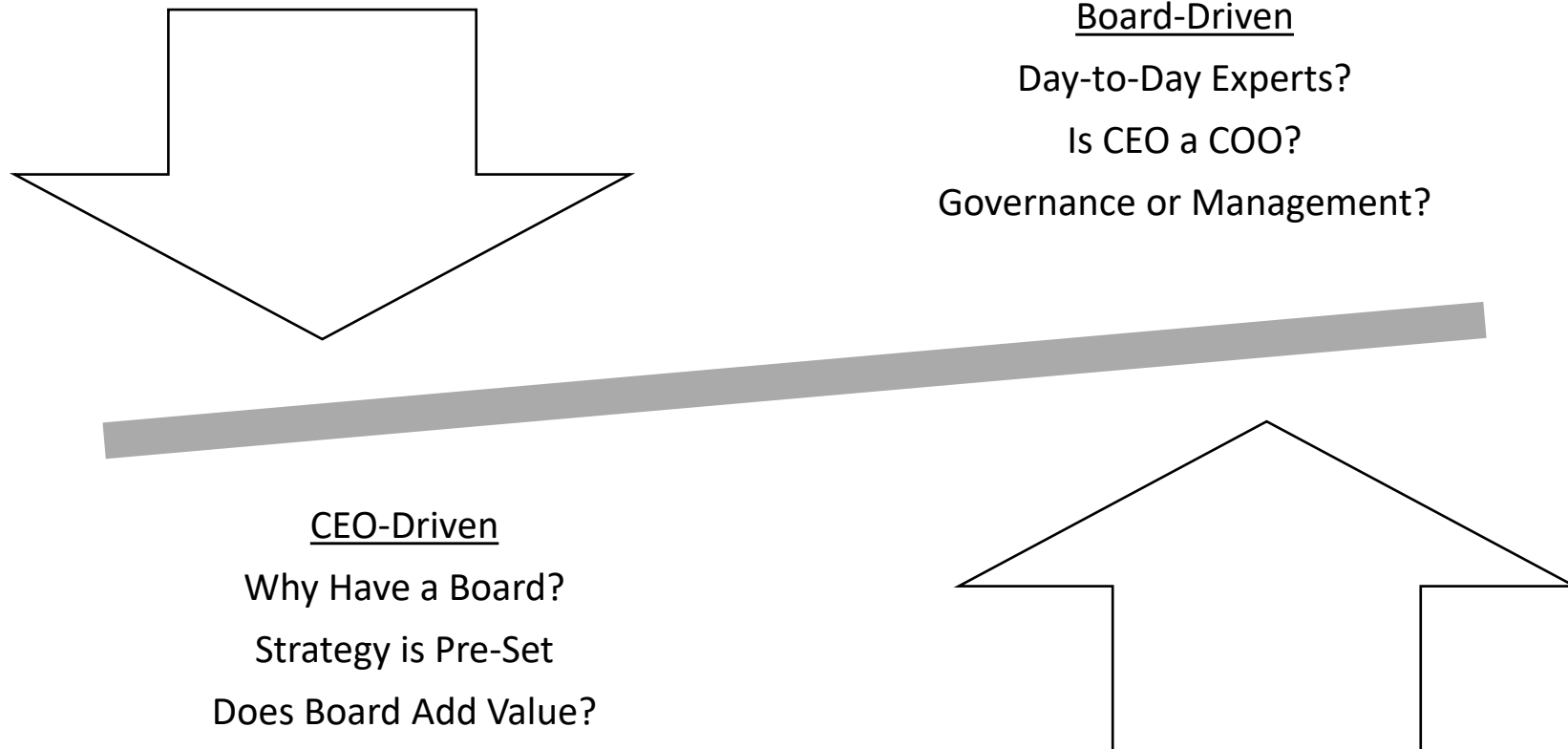
- Debriefs and ideas captured at industry events.
- Topical deep dives with Management several times each year.
- Define critical challenges and opportunities.
- Focus and Finish philosophy re strategy.
- Execution first; parking lot ideas as next level initiatives.





# The Extremes of Board and CEO Strategy

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# Three Steps to the Process

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## First

- CEO: Seek Board's input on challenges that strategy should address.
- What challenges and opportunities does the Board find most critical?
- Agreement can wait. This is about concerns, insights, conversation, incorporation, alignment.

## Second

- CEO: Bring back strategy possibilities; approaches that deal with challenges and opportunities.
- This is about advice and feedback: potential solutions; outstanding concerns; possible modifications.
- This is about helpful input in further developing a strategy to recommend to the Board.

## Third

- CEO: Present the desired strategy choice to the Board.
- Board has aligned with challenges; provided advice on possibilities.
- Board can affirm a strategy it understands and owns; CEO can execute knowing resources and trade-offs.



# Update – Input – Decision

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- Update: Consent agenda items; past results; Committee reports.
  - ✓ Requires pre-meeting study; eliminates review during meeting.
  - ✓ Focus is on clarification and strategic questions.
- Input: Areas where the CEO and Board need expanded discussion.
  - ✓ Additional guidance or thinking for a CEO decision.
- Decision: Matters that require Board action.
- This model shifts focus from the past to the future.



# Questions from the Board to CEO

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- What are your top three issues this year? What do you need from the Board?
- What results occur with reasonable growth? Exceptional growth? Slow growth?
- Where should we focus? What major strategies move the CU forward? What risks should we be taking?
- What do you need to best execute and deliver long-term results?



# Questions from the CEO to Board

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- What do you need to deepen your understanding and perspective?
- Are we moving forward at the same pace as members?
- What are we missing with plans and ideas? Are we stretching too far? Are we being too conservative?
- Are we staying true to our mission? Are we adding and delivering value to members?



# Questions Among the Board Members

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- Are we focused on strategy and direction?
- Is the full Board part of CU conversations?
- Are we, as a Board, giving the CEO valuable direction for effective execution?
- How can we, as a Board, improve our internal dynamics and value to the credit union and CEO?



# Levels of Self-Assessments

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- Occasional Board Meeting Assessment
  - ✓ Grade effectiveness post-Board meeting.
- Scoring for significant categories of Board involvement.
  - ✓ Determine gaps and set plans for further development.
- Comprehensive Assessment
  - ✓ Outside administration and facilitation.
  - ✓ Statistical scoring with open comments.
  - ✓ Potential for 360 review among directors (possibly CEO, too).



# Why a Board Assessment?

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- As the CU evolves, so should the Board.
- Provide more value for members, CEO, and directors.
- Improve Board dynamics and operations.
- Determine areas of greatest value (and where to focus).
- Create plans for ongoing Board development.
- Increase efficiency, effectiveness, and excellence.





# Why Recruit for New Board Members?

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- Fresh ideas; fresh solutions.
  - ✓ Outside perspective.
  - ✓ Voice of newer set of members.
  - ✓ Greater comfort with change.
  - ✓ Desire to represent members.
- Leadership from new markets.
  - ✓ New ages; new demographics.
  - ✓ New sets of members.
  - ✓ New communities.
- Confirm the cooperative business model.
  - ✓ Equal power among all members; no majority shareholders.
  - ✓ Draw members from full ownership pool.
  - ✓ Directors are members using products and services.



# Who to Recruit for the Board?

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- Members that reflect changing demographics.
  - ✓ Shifts and trends in your CU's membership.
  - ✓ Shifts and trends in your FOM.
  - ✓ Is your Board representative of your membership?
  - ✓ Diversity, equity, and inclusion (DEI) focus.
  - ✓ Leaders in your FOM.
  - ✓ Already loyal members (checking, savings, loan, loan).



# Who to Recruit for the Board?

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- ✓ Members who bring new levels of professional expertise.
  - Finance, marketing, technology.
  - Leaders in the community.
  - Business owners and entrepreneurs.



# How to Recruit for the Board?

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- Annual call for interest and nomination.
  - ✓ Bylaws require it.
  - ✓ Response rate is very low.
  - ✓ Streamline this function.
- ✓ Direct marketing with targeted messages.
  - Work with marketing and member database.
  - Pitch marketing copy unique to member set.
  - Compensation? Professional growth? Education? Leadership?



# How to Recruit for the Board?

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- ✓ CEO is your #1 recruiter
  - CEO is face of organization.
  - CEO is member-centric.
  - CEO should always be able to find good candidates.
  - Candidates flow to Nominating Committee to ensure independence.
  
- ✓ Duty for individual directors.
  - Work with CEO and member-facing professionals.
  - Look for influential leaders in FOM.
  - Build into director expectations.
  - Draw up a short job description.



# Where to Place New Volunteers?

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- ✓ Supervisory Committee.
  - Good training for financials and operations.
  - Education and training budget.
  - Attend board meetings and planning sessions.
  
- Member advisory groups.
  - ✓ Focus groups.
  - ✓ Other credit union committees.
  - ✓ Foundation board.



# Where to Place New Volunteers?

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## ✓ Board of Directors.

- Equal participation from Day One.
- Partner with CEO and executives to better understand operations.
- Seek active contribution to conversation and workload.

## ✓ Associate Board of Directors.

- Attend and participate in Board discussions.
- Education and training budget.
- Non-voting on Board matters.
- Note: Associate Board members want to serve on the full Board.



# Onboarding New Volunteers

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- Be active.
  - ✓ Attendance; participation; communication; relationships; engagement.
- Be involved.
  - ✓ Learn operations; education; designations; networking with volunteers.
- Be strategic.
  - ✓ Establish strategic objectives; task CEO to build plans; offer ideas and insights; be a voice for members.





# Board Level Advocacy

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- Relationships
  - ✓ Expert resource; local advocate; community development.
- Investment
  - ✓ Issue education; campaign assistance; financial and in-kind support.
- Unity
  - ✓ CU position; effect on CU; ability to communicate with members.



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