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**Models for Effective
Credit Union Governance**

**Maintaining Community Connections
following a Merger**

LOU HAMMOND KETILSON
KIMBERLY BROWN

Occasional Paper Series

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CENTRE FOR THE STUDY OF CO-OPERATIVES



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Models for Effective Credit Union Governance

This occasional paper, first titled *A Post-Merger Governance Review: Report to the Governance Committee of Advantage Credit Union*, originated as an internal review commissioned by the board of directors of Advantage Credit Union in Saskatchewan.

The board generously agreed to allow us to publish the study in our occasional paper series in order to make the extensive background research and the credit union's merger experience more widely available to credit unions, co-operatives, and other membership-based organizations. It is hoped that the paper will provide useful guidance to other groups contemplating a similar move.

Models for Effective
Credit Union Governance
Maintaining Community Connections
following a Merger

Lou Hammond Ketilson
Kimberly Brown

Centre for the Study of
CO-OPERATIVES



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Centre for the Study of Co-operatives
University of Saskatchewan

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Executive Summary

THE PURPOSE OF THIS STUDY WAS

- to review published research and current practice to identify emerging issues and ideas about credit union mergers and effective governance models
- to examine Advantage Credit Union's (ACU) existing governance model, in particular the ways in which the recent merger between Northgate and Advantage credit unions had impacted governance structures, policies, processes, and practices; and membership identity, loyalty, and participation
- to gather information for input to decisions taken by the Governance Committee regarding optimum board size and committee structure

Research results and recommendations are based on three primary sources of information:

- in-depth interviews with Advantage Credit Union board members, business relations managers (BRM, also called branch managers), and members of the Member Relations Committees (MRC)
- focus group sessions with ACU members
- ACU documents describing existing democratic structures, processes, and practices; statistical information, including the asset and membership bases for ACU and individual branches

Research Results and Recommendations

Research Results and Recommendations with Regard to Existing Control Structures

- MRCs make visible, tangible, and meaningful contributions to local communities on behalf of ACU
- MRCs help develop important linkages and connections between communities and the credit union through local representation
- MRCs promote member engagement and participation
- MRCs increase the "surface area" of ACU representatives in local communities

- MRCs help to develop understanding and trust among ACU communities
- although the work that MRCs do is visible in their communities, MRCs are not as visible as they could be
- MRC roles and responsibilities may not be clear to members, MRC members, and BRMs
- MRCs hold the potential to be fruitful recruitment pools for potential board members

Recommendation #1 — Maintain and promote the visibility of MRCs and their members in local branches.

Recommendation #2 — Update MRCs on roles and responsibilities and develop a list of best practices to help guide MRCs in their activities.

Research Results and Recommendations with Regard to Branch Information Meetings and AGMs

- members are aware of branch information meetings and AGMs but rarely attend
- personal and proactive invitation for members is an effective strategy to facilitate member participation in AGMs and elections

Recommendation #3 — Encourage local representatives and staff to proactively and personally invite members to local information meetings.

Research Results and Recommendations with Regard to Communication, Board Functioning, and Recruitment

- members are most likely to approach local staff in order to acquire information or express concerns
- effective MRC and director communication helps build understanding between the board and local communities
- information is easily accessible for members
- board members have a consistent and clear understanding of the board's role

- ACU annual planning sessions and quarterly reviews effectively help the board identify and meet its objectives
- the board and management have effectively developed a solid understanding of their respective roles and established a relationship of trust and co-operation
- ACU board culture encourages and facilitates communication and an environment of respect and cohesion
- potential candidates are unlikely to run for the board at their own initiative
- although the board has achieved strong levels of gender and occupational diversity, some groups remain under-represented at the board table
- ACU's approach to director education successfully contributes to board competency
- although some board members find board and management evaluations to be somewhat difficult and awkward at times, most board members found the exercise useful

Recommendation #4 — Consider the introduction of tenure limits to increase diversity on the board.

Recommendation #5 — Develop a proactive recruitment strategy to recruit MRC and board members.

Recommendation #6 — Extend a limited amount of training opportunities to MRC members who are interested in learning about board activities.

Research Results and Recommendations with Regard to Board Size and Structure

- large board size does not appear to have negatively impacted the effectiveness or efficiency of board meetings
- quality of representation has not diminished in communities represented by nonresidential board members

Recommendation #7 — Consider reducing board size but maintain existing MRC structure.

Recommendation #7.1 — Introduce and encourage ways for board members to reduce travel time to and from MRC meetings in distant communities, yet maintain board member–MRC communication.

SECTION I

Purpose of the Study and Methodology

OVER THE PAST TWO DECADES, there have been many credit union mergers in Canada, particularly in western Canada and Ontario. During the same period, credit union membership has increased steadily. So, while the number of credit unions has decreased, their average size has increased.

In addition to an increase in membership size, amalgamation has created a need to develop new partnerships among many different communities. As democratic organizations with elected boards of directors, such changes can have profound effects on organizational governance and, as a result, credit unions need to consider carefully the impact of amalgamation on their governance structures.

The purpose of this study was to

- review published research and current practice to identify emerging issues and ideas about credit union mergers and effective governance models
- examine the existing governance model of Advantage Credit Union (ACU), in particular the ways in which the recent merger between Northgate and Advantage credit unions had impacted governance structures, policies, processes, and practices; and membership identity, loyalty, and participation
- gather information for input to decisions taken by the Governance Committee regarding optimum board size and committee structure

Research results and recommendations are based on three primary sources of information:

- in-depth interviews with Advantage Credit Union board members, business relations managers (BRMs, also called branch managers), and members of the Member Relations Committees (MRCs)
- focus group sessions with ACU members
- Advantage Credit Union provided information about its existing democratic structures, processes, and practices, and its board of directors; it also

provided statistical information about the credit union, including the asset and membership bases of both ACU and individual branches

Researchers conducted eighteen in-depth interviews and three focus group sessions. Careful effort was made to ensure diverse geographic and demographic representation in both the interview and focus group process. Appendix A contains a detailed description of the participant selection process; Appendix B, the in-depth interview questions; and Appendix C, the focus group questions.

SECTION II

Overview of Relevant Literature

Introduction

FOR THE PAST TWO DECADES, academics and practitioners have paid significant attention to the topic of governance, particularly in the corporate sector. Corporate scandals and increased global competition have highlighted governance concerns such as excessive executive power, shareholders' inability to oversee and control management, the weak regulatory regimes of national governments, and corporate social responsibility.¹ The co-op sector faces similar challenges. For example, recent best practices in governance stress the need to ensure director and board competency, effective member control over management, and social, economic, and environmental sustainability. Co-operatives are also facing rapid changes in technology, advances in telecommunication, and fierce competition from well-capitalized corporations and from other co-operatives. While co-ops strive to achieve excellence in leadership, they must also nurture and maintain the democratic nature of their organizations. For co-ops, governance concerns extend beyond the need for ethical accounting practices and sound board structure; co-op governance must also address issues of member engagement and democracy.

This literature review aims to examine governance issues that are pertinent specifically to co-op boards. It draws from, and brings together, information in relation to co-op governance from a variety of sources, including academic articles, prescriptive material,

and co-operative organizations. First, it reviews definitions of governance and gives some consideration to what could be considered “good governance.” Second, it discusses several theories of organizational governance and their respective strengths and weakness. In the final section, it introduces a conceptual model (a way of thinking) about co-op governance structures and practices. This section is divided into three parts, with each part addressing one of the following areas: external, intermediate, and internal governance mechanisms.

Defining Governance

There are many definitions of governance, several of which could be used to describe co-op governance. Most definitions have two key features. First, there is usually a reference to *deciding where an organization is going*, including a discussion of setting goals, objectives, or the organizational mission.² Second, there is usually a reference to *deciding how an organization will get to where it wants to go*, such as strategic plans, policies, or structures.³ In their study of twenty nonprofit and voluntary organizations in Canada, the Institute on Governance defined governance as

the structures, functions (responsibilities), processes (practices) and organizational traditions that the board of an organization uses to ensure accomplishment of the organizational mission. These determine how power is exercised, how decisions are taken, how stakeholders have their say and how decision-makers are held accountable.⁴

This definition is useful for co-ops because it recognizes the importance of organizational traditions, such as co-operative values and principles, and the centrality of stakeholder (or member) rights and obligations in governance.

Definitions of governance in and of themselves do not help determine whether an organization is governed well or poorly. There is also a large body of literature on what constitutes “good governance.” According to the Institute on Governance,

Good governance is about both achieving desired results and achieving them in the right way; that is, in a way that is consistent with the normative values of democracy and social justice. This is particularly important for the voluntary sector where values play a very important role in determining both organizational purpose and style of operation.⁵

Although co-operatives are different from voluntary organizations in many ways, this definition is useful for co-ops. Good governance in co-operatives requires achieving these objectives in a way that is consistent with co-op values and principles. So, along with

achieving their financial and nonfinancial objectives, co-ops may also use co-op values and principles to assess the success of their governance practices.

Theories of Organizational Governance

Although many theories of organizational governance were not developed with the co-operative sector specifically in mind, a number of theories have been applied to the co-op context. In his work “Making Sense of Co-operative Governance,” Chris Cornforth, for example, identifies several theories of organizational governance and explains how they may be useful for co-operative organizations.⁶ In a later work entitled “Governance in Democratic Member-Based Organisations,” Roger Spear discusses a number of governance theories and their relevance for democratically controlled organizations (DMOs), including co-operatives.⁷ These theories take on both descriptive and/or normative approaches — that is, they attempt to explain how governance *actually* happens and/or how governance *should* happen.⁸ The following section identifies four major theories of governance often applied to the co-operative context and discusses their key assumptions, strengths, and weaknesses.

Principal-Agent Theory

The principal-agent theory focusses on the ability of the principal (owner) to control the agent (manager) so that the agent acts in the principal’s best interest. Key assumptions of this theory are that the principal and agent have different interests, and that individuals will act in their own self-interest if not constrained in some way. Considered the most dominant theory of corporate governance, the principal-agent theory has been used to analyze power relations between co-op members and managers, as well as between co-op members and their elected representatives.⁹ In his work “Obstacles to Cooperation,” Lee Egerstrom argues that co-op members lack the incentive and/or capacity to control managers when members are reluctant to invest in their co-op, and when co-ops, especially large ones, need to act “business-like.”¹⁰ According to Spear, external factors such as legislative frameworks and the professionalization of co-op managers tilt the balance of power towards managers and away from members.¹¹

The principal-agent theory highlights the importance of member engagement in, and understanding of, organizational activities so that members can effectively control and monitor management. However, Spear notes that the principal-agent theory focusses on

individuals and downplays “collective, social or organizational factors” and also “tends to ignore non-financial motivations such as mutual, reciprocal benefits, trust, and other features of social economy ideology that often helped initiate and support such enterprises.”¹² Finally, in his book *Boards that Make a Difference*, John Carver warns that too strong a focus on overseeing management may lead to the board meddling in administrative matters and staff activities, thereby ignoring their duty to set organizational direction and develop policies.¹³

Stewardship Theory

The stewardship theory of governance focusses on the relationship between the board and management and on the roles of various stakeholders. This theory assumes that managers and staff are honest, trustworthy, and capable. Unlike the principal-agent theory, management and the board work together in partnership,¹⁴ seeking to protect both financial and nonfinancial organizational assets such as human resources and organizational reputation, and not just shareholder value.¹⁵ In addition, managers and board members pay close attention to, and manage, the interests of multiple stakeholders, not just those of shareholders.¹⁶ Finally — and a key role — the board “adds value” to decision making to improve organizational performance, thereby placing a strong emphasis on the need for director expertise, knowledge, and experience.¹⁷

Spear feels that the stewardship model of governance may be appealing to co-op boards because co-op organizations are owned and controlled by their members: “If this model is applied to democratic member owned organizations, it is clearly more attractive from the point of view of emphasizing the social dimension of DMOs, where trust and social economy values can be functional for good performance and good board/management/member relations.”¹⁸ Spear also highlights the weaknesses of the stewardship model, including a lack of oversight of management, an over-reliance on the professionalism of managers, and the difficulty of recognizing the interests of multiple stakeholders while projecting a unified organizational position.¹⁹ Finally, Cornforth notes that because directors are democratically elected, it might be impractical to expect high levels of expertise, knowledge, and experience from board members.²⁰

Democratic Theory

The democratic theory of governance centres on the democratic nature of co-operatives and the way in which it impacts decision making in the organization. According to this

view, members should be able to participate in some form of decision making, while elected officials represent members' interests in representative bodies. Cornforth states that open elections, the one member, one vote principle, pluralism, and holding representatives to account are key features of the democratic model.²¹ In its work titled *Making Membership Meaningful*, the International Joint Project on Co-operative Democracy (the Joint Project) examines democratic participation in co-operatives.²² It goes beyond a discussion about elections and representation and stresses the importance of member engagement and participation in co-op activities. In a discussion about expanding members' participation, the Joint Project states:

Co-operatives need to be open organizations in which all types of people can participate spontaneously; where they have the opportunity for participation in all bodies of the organization, including the board of directors, and these opportunities must be open to all members based on the guaranteed right of one person, one vote.... In addition, co-operatives should not assign roles in co-operative decision making and policy planning solely to the board of directors and management, for it is vital to guarantee links with members in all processes.²³

Members thus need to be involved in many levels of decision making in their co-ops.

***The Carver Model — Policy Governance*®**

Developed in 1976, John Carver's Policy Governance® model was developed for nonprofit and public organizations.²⁴ It focusses on the board's responsibility to set organizational vision and to lead the organization by developing explicit policies based on organizational values and perspectives. Carver stresses that boards should concentrate on external matters, such as setting organizational vision and focussing on organizational outcomes, and delegate administrative and operational decisions to staff.²⁵ According to Carver, "Leadership through explicit policies offers the opportunity to think big and to lead others to think big.... Work becomes not so much a series of structured mechanical activities as a process of creating and becoming."²⁶ Policy governance, he argues, is ideal because it uses board time efficiently and effectively, does not require excessive amounts of expertise from board members, and focusses the board's attention on the most important issues, such as developing an organizational vision.²⁷

The extent to which Carver's Policy Governance® is used in co-ops is not known, although it appears that some food co-ops and credit unions follow this model.²⁸ According to Hoyt, the Carver model has significantly contributed to our understanding of co-op governance:

While there is much debate about Carver's Policy model and whether it actually achieves the promises made for it, Carver has contributed tremendously to our thinking about the board's work. He has developed a clear and memorable description of the board's job and has suggested a process for getting that job done. Carver's work provides a giant leap forward in creating a conceptual framework for directors into which they can put all those lists of ... board roles and responsibilities.²⁹

On the other hand, critics of Policy Governance® claim that its "one-size-fits-all" approach may not be well suited for all types of organizations, especially small ones, and that it is too complex, making it difficult and time consuming to learn and implement.³⁰

Integrated Governance Models

In addition to the critiques of individual theories of governance, some scholars are critical of the level of knowledge about co-op governance in general. For example, in his work on the duties of co-op directors, Axworthy states:

While a good deal of research has been carried out on the duties of directors of corporations, very little has been written on the specific question of co-operative directors' duties. An issue arises as to whether this research on private corporation directors can be applied to the co-op context. The conventional wisdom is that the duties are essentially the same.³¹

Axworthy lists four fundamental differences between co-ops and corporations and suggests that these differences may impact how directors perceive their role. Unlike private corporations, co-ops 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 versed in business.³² According to this view, governance approaches developed with the corporate sector in mind may be inappropriate for the co-op context.

Cornforth and Spear provide a similar assessment of works on co-op governance, arguing that existing theories applied to the co-op context are partial and incomplete. The authors emphasize the need for an integrative approach that draws from existing theories and recognizes the complexity of governance. Cornforth, for example, states:

[T]aken individually the different theories are rather one-dimensional, only illuminating a particular aspect of the board's role. This has led to calls for a new framework that can help to integrate the insights of these different perspectives.... [R]ather than choose between these different theories we need to find a way of drawing on the different insights they offer....

[T]aken together, these theories are helpful in highlighting some of the important tensions and paradoxes that boards face, and which they must find ways of managing if they are to be successful.³³

He discusses the tensions and paradoxes between the elected lay board and the need for skilled and competent board members; the need for the board to control management while working collaboratively and co-operatively together; and the need to be accountable to members as well as other important stakeholders.³⁴

Co-op Governance Mechanisms: External, Intermediate, and Internal

The remainder of this review adopts a modified version of the conceptual framework used by the Confederation of Finnish Cooperatives in their work *Corporate Governance and Management Control in Cooperatives*.³⁵ The following sections focus on specific co-op governance structures and practices, which are placed in one of three categories: external, intermediate, and internal governance mechanisms. This conceptual framework provides a way of thinking about governance in relation to the special character of co-operatives, outlining three distinct but related categories that comprise the full range of governance activities in co-operative organizations.

External Governance Mechanisms

External governance mechanisms are those structures and practices that set the parameters within which the co-op must operate, such as legislative and regulatory frameworks. Credit unions in Canada are regulated at the provincial level. For credit unions in Saskatchewan, this includes provincial legislation and regulation as well as the rules and regulations set out by the Credit Union Deposit Guarantee Corporation, including the Standards of Sound Business Practices and organizational by-laws. While an in-depth review of credit union legislation and regulations is beyond the scope of this review, it is important to recognize the important role that regulations and rules have in shaping credit union governance structures and practices.

Intermediate Governance Mechanisms

Intermediate governance mechanisms are the structures and practices that facilitate member engagement and participation in the governance system, such as co-op by-laws, electoral and representative structures, and communication practices. The issues of member engagement and participation are related to the practice of democracy and

the relationship between members and their co-ops. In this context, it is useful to review some of the current thinking around co-op democracy and member engagement and participation.

Democracy is a defining feature of co-operative organizations.³⁶ Co-op values and principles help answer questions about how co-ops should behave and what kinds of democratic structures they should have. However, as Brett Fairbairn importantly notes in his work *Three Strategic Concepts for the Guidance of Co-operatives: Linkage, Transparency, and Cognition*, co-ops that focus solely on democratic structure may be missing the point:

One common way of seeing co-operatives is to think of them as businesses like others, except that they have a democratic member-control structure. The structure, in this view, makes the co-op. The problem with considering only a structural view is that it is ultimately unsatisfying. Why do the members have a democratic control structure, if the business is no different from other businesses? Can a democratic control structure be an end in itself, worth the effort of creating a co-operative? Would it not be more efficient to deliver the same services without the apparatus of member control? Such questions are often asked by those who have doubts about the co-operative model.³⁷

Fairbairn introduces a relationships-based view of co-ops that focusses on establishing, developing, and maintaining a strong relationship between members and their co-ops.³⁸

Fairbairn provides three concepts to help us think about building strong relationships between members and their co-ops. The first concept is *linkage with members*.³⁹ While co-ops must meet the needs of their members, members must also *perceive* that their co-op is meeting their needs.⁴⁰ The second concept is *transparency*.⁴¹ Transparency requires that members understand the co-op, the industry within which the co-op is situated, and how the co-op benefits them within this context.⁴² According to Fairbairn, this “is the root of member loyalty.”⁴³ The third concept is *cognition*.⁴⁴ Co-ops must recognize and adapt to changes in their memberships, industries, and environments.⁴⁵ To do this, they must collect and analyze information, be willing to revise and revisit organizational objectives, and promote and encourage innovation within the organization.⁴⁶ This will not only help co-ops remain relevant to their members but also assist them in maintaining viable economic organizations.

Importantly, Fairbairn stresses that co-ops can build strong relationships with their members in many ways, including “the operational side of things, by shared values and understandings, by products and communication.”⁴⁷ Co-ops also build strong relationships with their members through democratic practice, which is the focus here.

There are two broad categories of democratic structures that co-ops use to this end: representative and participatory structures. Representative structures give individuals authority to make decisions on behalf of members, but also hold them to account. Proponents of representative democracy argue that it is an efficient, effective, and practical decision-making method, particularly for large-scale organizations. Participatory structures, on the other hand, occasionally call upon members to make decisions or, at the very least, express their views and opinions. These structures assume that members want to participate. Those in favour of this model argue that participatory practices transform competition and conflict among groups to collaboration and co-operation.⁴⁸ From this perspective, democracy offers both a decision-making method and a transformative activity that promotes the development of human capacity and co-operation among competing groups.

In practice, the democratic structures of each school of thought exist side by side in co-operative organizations. They play equally important roles in establishing meaningful opportunities for members to participate in the decision-making process and thus in the governance of their co-operative. The next section reviews four key intermediate governance mechanisms, which include both representative and participatory structures — control structures, participation in the AGM and elections, membership committees, and communication.

Control Structures

Control structures determine how representatives are selected, who will serve in representative bodies, and to some extent, how much power representatives have. We review three basic types of control structures used in credit unions and discuss some additional considerations for large co-operatives. First, in *centralized control structures*, credit union members themselves elect individuals to the board of directors. Centralized control structures are simple, straightforward, and easy to understand.⁴⁹ As well, members have direct access to the board of directors, thereby decreasing the distance between members and the credit union's central decision-making body.⁵⁰ On the other hand, centralized control structures typically do not result in high levels of voter turnout at election time.⁵¹ Finally, this structure does not provide a training ground for future board members.⁵²

Second, in a *delegate control structure*, members elect delegates on an at-large or regional basis, after which delegates elect a board of directors on an at-large or regional basis. This structure tends to facilitate more member involvement, spreads control over a wide range of members, and increases opportunities for leadership training and development

for future board members.⁵³ At the same time, delegate control structures limit members' access to the board, require more organizational resources to uphold, and are more complex and difficult for members to understand.⁵⁴

Third, the *constituency control structure* is a variation of the centralized control structure. Members directly elect individuals to the board, but on a regional (or district) basis. This structure emphasizes local identity and creates closer relationships between members and their representatives because they are more likely to be known by one another.⁵⁵ And like the delegate control structure, it tends to facilitate greater member participation and spreads control over a broad range of members.⁵⁶ However, constituency control structures are more complex and may be more difficult for members to understand when compared to the centralized model. This structure may also limit members' access to the board, require greater organizational resources to maintain, and over-emphasize local concerns at the expense of organizational needs.⁵⁷

No one control structure is inherently superior; each model emphasizes certain values that may or may not be important to a particular organization. Delegate and constituency control structures, for example, emphasize local identity and control, while centralized control structures stress organizational identity. However, as Gillian Butler points out in "Designing Membership Structures for Large Agricultural Co-operatives," delegate and constituency control structures may have distinct advantages over centralized controls structures in large co-operatives.⁵⁸ As co-ops become larger, she explains, the size of their bureaucracy increases and members are less likely to know each other or to communicate with management.⁵⁹ Increases in organizational size are often associated with increases in member diversity and organizational complexity, making it more difficult for the co-op to meet the needs of all members.⁶⁰ As a result, members may lose their sense of belonging and desire to participate in the co-op's affairs, thereby decreasing the level of member control over the organization.⁶¹ Nevertheless, Butler argues that with appropriate changes to the control structure, members can maintain control over their co-op:

In cases where the membership structure has remained simple while the cooperative has grown, there has been member discontent or an expressed need by management for an increased inflow of information from the membership. In some relatively large co-operatives, however, well-developed membership structures provide multiple mechanisms for member control.⁶²

The author highlights a number of factors to consider in the design of membership

structures, including membership diversity, delegation, and decentralization. As a co-op increases in size, it is likely that its membership will become more diverse. Butler highlights the need for accurate demographic information about members; this is the starting point for co-ops to understand who their members are and for designing appropriate membership structures. She explains:

Membership information is crucial to the design of membership structures because an effective representative system needs to represent the relevant differences between members, the differences that are likely to give them different needs for co-operative goods and services.... A co-operative can remain responsive to the needs of its members only if it is aware of what those needs are. Those needs will be expressed through the organizations' voting structures only if those structures have a base of representation that reflects the differing needs of its members.⁶³

With this in mind, Butler urges co-ops to look at membership diversity in terms of communities and individuals.

According to Pattison, "Little work has been done on community heterogeneity and its impact on co-operatives and co-operative membership. As co-ops become more regional, community differences will have a greater influence on how the co-operative operates."⁶⁴ Communities may differ in size, socio-economic characteristics, historical experiences, or values, to name only a few.⁶⁵ One study comparing a rural and an urban credit union supports the argument that differences among communities are important for multibranch co-ops. In their study "Governance and Social Cohesion in Credit Unions: A Rural and an Urban Acadian Credit Union in New Brunswick (Canada)," Chouinard, Desjardins, and Forgues found that members of the rural credit union expected the organization to play a leading role in community economic development initiatives because it was the most significant economic institution in the community.⁶⁶ On the other hand, because there were several organizations involved in community economic development initiatives in the urban community, members of the urban credit union expected it to develop a niche market and compete strongly with its competitors.⁶⁷ This study demonstrated that different communities might have different expectations about the role of the credit union in their own area.

In addition, Butler points out that this is a practical and economical way for dividing membership. In multibranch co-ops, members may find it more convenient and less costly to participate in member meetings held at a local venue as opposed to a centralized

location.⁶⁸ As well, members may be more inclined to speak if they are familiar with those around them.⁶⁹ Finally, the behaviour of credit unions suggests that different geographic communities have different needs and wants. For example, after a series of mergers, Affinity Credit Union has members from several geographic regions throughout the Province of Saskatchewan and divides its governance structure along eight district boundaries, seven of which are geographically determined.⁷⁰

Co-ops should also consider other relevant differences among their members.⁷¹ Existing research reveals that major demographic groups, such as women, Aboriginal people, ethnic and visible minorities, youth, and people with disabilities are under-represented in Canadian co-operatives. For example, a survey conducted by the Canadian Co-operative Association in 1997 revealed that women comprised only 16.2 percent of co-operative board members in Canada.⁷² In a more recent study, “Leadership and Diversity: A Study of Demographic and Attitudinal Homogeneity in Saskatchewan’s Credit Union Governance Groups,” Cristine de Clercy and Lou Hammond Ketilson found that credit union leadership structures did not reflect the demographic composition of the Saskatchewan population.⁷³ Kim Brown argues that co-operative representational structures should reflect the demographic composition of their memberships for a number of significant reasons:

- it is consistent with social justice values of equality and equity
- co-operatives are democratic organizations and all members should have an equal opportunity to serve in leadership positions
- the inclusion of diverse views and perspectives in the decision-making process improves the quality of decisions made
- it enables co-operatives to identify and respond to members’ needs and wants easily and efficiently⁷⁴

There are many ways to incorporate diversity into co-op decision-making processes. While the issue of diversity receives much attention with respect to board membership, diverse views can also be incorporated through the *decentralization* and *delegation* of decision-making power. The concepts of delegation and decentralization are discussed together because they are closely linked. Although both concepts concern the dispersal of decision-making power among a number of representative bodies, delegation refers to its dispersal among various decision-making levels, whereas decentralization refers to its dispersal among various constituencies. An example of delegation is the implementation of a delegate body of representatives, while an example of decentralization is the implementation of local branch committees with some degree of decision-making power.

The literature on co-operative democratic structures identifies several merits of delegate and decentralized representative structures. First, according to Butler, delegation and decentralization improve the efficiency of decision making by including more individuals in the process and limiting the number of decisions any one group must make.⁷⁵ Small boards of directors overseeing large, complex co-operatives may not have sufficient time to adequately consider all relevant issues. As a result, they may end up delegating important board decisions to management, or making poor decisions.⁷⁶ By increasing the number of individuals in the process, the co-operative increases its capacity to process information and make well-informed decisions.⁷⁷

Second, delegate and decentralized control structures help facilitate member participation in co-operative affairs. In her presentation “Co-operation, Federation, and Representation,” Cristine de Clercy argued that decentralization provides meaningful member participation by strengthening unity among local communities while maintaining local power and responsibility.⁷⁸ In his study of the Prince Albert Co-operative Association, Pattison found that the delegate body was an important forum where representatives from local co-op branches could share common experiences with one another, learn about other communities, and build and maintain trust among the different communities.⁷⁹ Finally, in their study of English co-operatives in the 1950s, Ostergaard and Hasley found that local committees that had a decision-making role were more successful than those that had only a consultative or advisory role.⁸⁰

While some degree of decentralization may be desirable for large co-ops, many also want to consider how they will facilitate cohesion and unity within the co-operative. De Clercy warns that delegates may have multiple and, at times, conflicting identities if they are elected by local constituents but are expected to focus on the organization as a whole.⁸¹ The experience of one British Columbia credit union illustrates this concern. Coast Capital Savings (CCS) Credit Union, a large, multibranch credit union serving the Greater Vancouver Area and Vancouver Island residents was formed out of a series of mergers between Richmond Savings, Pacific Coast Savings, and Surrey Metro Savings credit unions. To ensure that both mainland (Richmond and Surrey) and island (Pacific Coast) views were represented at the board level, the board of directors adopted a Regional Representation Policy, which ensured that at least eight board members were from the mainland and at least four were from the island. However, in September 2005 — two and a half years after the implementation of the policy — the board rescinded it:

The board discussed the need for the Regional Representation Policy now that the Candidate Endorsement Policy includes a requirement for regional knowledge and expertise on the board. It was noted that the policy met the needs of the board during transition (from many credit unions to one credit union) but now fosters division rather than adding value.⁸²

It was believed that the goal of ensuring regional representation was met through the Candidate Endorsement Policy and that the Regional Representation Policy was detrimental to organizational unity.

Finally, an important part of a co-op's representative structure is the manner in which voting occurs. Co-operatives use two main types of voting structures: at-large and regional. The former are often used in centralized control structures, while the latter are typically used in co-operatives with delegate and constituency control structures. In at-large voting, members vote for any candidate, regardless of where both the member and the candidate reside. In contrast, regional voting restricts members to voting for candidates who reside in their constituency. Some credit unions have developed unique voting structures. While still using a constituency control structure, for example, CCS employed an at-large voting structure in which the candidates who received the most votes in a particular constituency were awarded a board seat, even though they may not have received the most votes overall. This was a way to ensure that members could vote for their candidate of choice, while at the same time guaranteeing that both mainland and island members were represented proportionally on the board.

In summary, there are several ways in which co-operative organizations can shape their control and voting structures, with each having its advantages and disadvantages. Co-operatives can use organizational values and needs to guide them in choosing their control and voting structures. It is also important to recognize that these structures are only part of the democratic equation. Organizational values and needs not reflected through control and voting structures may be addressed in different ways, such as through the AGM, member committees, and communication.

Member Participation in AGM and Elections

The AGM offers an important means through which members and the credit union can communicate with one another. AGMs offer members opportunities to voice their concerns, learn about the co-op and its activities, and learn about and vote for board candidates. However, many co-ops find it difficult to facilitate member participation through

AGMs. In 2004, the Canadian Co-operative Association (CCA) reported that 35.4 percent of co-ops had fewer than 20 percent of their membership at the AGM.⁸³ CCA also found that large, geographically widespread co-ops, as well as those that were located in urban centres, had lower member participation at AGMs than their smaller and rural counterparts.⁸⁴

Co-operatives often use incentives to increase member participation at AGMs, including the provision of meals, door prizes, and guest speakers, all with varying degrees of success. Nevertheless, CCA and Brown Governance note that participation in many community activities — not just co-op-based activities — have decreased over the past few decades.⁸⁵ In the end, weak participation rates at co-op AGMs may not be an ideal indicator for measuring the strength of member relation activities. Co-ops may want to consider engaging members in other ways in order to fulfil some of the functions that AGMs have satisfied in the past. For example, some co-ops have implemented proxy voting to increase member participation in board elections, particularly in geographically dispersed memberships. Although proxy voting may be viewed by some as decreasing the influence of engaged members, others argue that it increases democratic participation by accommodating those who may not find participation at the AGM conducive to their situation.

Communication

Co-ops and credit unions employ a number of mechanisms to facilitate communication with their members. Some popular methods include member meetings (other than the AGM), focus groups, site visits by directors and staff, comment/suggestion boxes, newsletters, and websites. CCA and Brown Governance found that large and geographically dispersed credit unions were more likely to employ member surveys, member meetings, and focus groups.⁸⁶ In his study on the Prince Albert Co-op Association, Pattison found that an increase in organizational size had no effect on member identification with the co-op.⁸⁷ As long as members had strong communication and frequent contact with their local branch, the community continued to identify with the co-op. This suggests that strong communication and a local co-op presence help facilitate and maintain member loyalty and identification with their co-op, even as membership size and geographic scope increase.

In summary, intermediate governance mechanisms are the structures and practices that facilitate member participation and engagement in co-op democratic processes; they include co-op control structures, AGMs, and communication opportunities. We identified three control structures: centralized, delegate, and constituency. Each model emphasizes

particular values, some of which will be more or less pertinent to individual credit unions. Some key factors to consider in designing a control structure include membership composition, decentralization and delegation, and voting structures. This section also addressed the role of AGMs and communication practices in co-operatives.

Internal Governance Mechanisms

Internal governance mechanisms fall under the third set of co-op governance activities. They are the governance structures and practices that help the board of directors achieve its objectives and fulfil its responsibilities. Most of the prescriptive literature on co-operative governance deals with these types of mechanisms. This section has three main parts. First, we discuss the key features of board structure, including board size, committees, and director term and tenure limits. Second, we examine issues of board development, including director recruitment, director education, and board evaluation. Finally, we review the issue of board dynamics and consider best practices for establishing an inclusive and cohesive board.

Board Structure

Board Size: According to CCA and Brown Governance, the average credit union board in Canada has 8.2 directors.⁸⁸ Best practices literature suggests that boards should have between five and fifteen members, although between nine and thirteen board members is often considered optimal. Some factors likely to impact the number of board members are organizational size, complexity, and age.⁸⁹ There are some risks thought to be associated with boards that are too small: they may lack diverse viewpoints, independent thought, and sufficient deliberation. As well, they may underuse committees due to the lack of board members capable of serving on them.⁹⁰ On the other hand, boards that are too large risk a lack of active participation by all members or the possibility of unruly meetings. It is important to keep in mind that best practices and guidelines aim to help boards avoid such pitfalls and are not ends in themselves. Credit union boards may want to find a balance between meeting organizational needs and following best practices and guidelines.

Board Committees: The main role of board committees is to work on the board's behalf. To this end, committees often draft policies for board approval, oversee and review management in specific areas, and ensure compliance with legal/regulatory standards and obligations. There has been little research on credit union or co-op board committees. However, the 2004 CCA and Brown Governance survey of credit unions in Canada sheds

some light on the use of particular board committees by Canadian credit unions as well as corporate organizations. Those most widely used by credit union boards are audit and/or finance (75 percent), nominating (60 percent), and executive (46 percent).⁹¹ In contrast, the most widely used board committees in the corporate sector are audit, compensation/HR, and governance.⁹² These are what David Brown, CEO of Brown Governance, calls the core committees in corporate governance.⁹³ In 2003, fewer than 20 percent of credit unions had governance committees.⁹⁴ While executive committees are frequently used in the credit union sector, only 9 percent of corporate boards reported using one.⁹⁵ As Brown explains, the corporate model of governance — largely based on guidelines found in *Cadbury*, *Dey* and *Sarbanes-Oxley** — focusses on issues of director responsibility and liability. While it is believed that credit unions in Canada are moving towards the corporate model, there are few statistics on current national trends regarding credit union board committees.

The best practices literature on credit union board committees offers some useful guidelines. First, the number of board committees will depend on several factors, including provincial legislation, organizational size, and governance approach. In Saskatchewan, for example, credit unions are required by law to have at least two committees: an audit committee and a conduct review committee. Second, credit unions that follow the Carver model of Policy Governance® may opt for fewer board committees. Carver believes that boards should have as few committees as possible to ensure full board ownership and responsibility for all board decisions.⁹⁶ While some may not feel as strongly as Carver regarding the number of board committees, many writers warn against having an unnecessary number of them.⁹⁷ Finally, Brown and CCA found that large credit unions were less likely than small ones to use committees.⁹⁸ The authors note that this is surprising, given the fact that large organizations tend to be more complex and are more likely to warrant the use of committees.

CCA investigated the merits and disadvantages of executive committees in 2003. Executive committees help the board complete its work by coming together between board meetings if required, addressing sensitive matters that are dealt with more easily in small

* Britain's Cadbury Report, Canada's Dey Report, and the US Sarbanes-Oxley Act are regarded by many as seminal governance documents. The Cadbury Committee, *Report on the Financial Aspects of Corporate Governance* (London, 1992); Toronto Stock Exchange, *Corporate Governance Guidelines* (Toronto, 1994). The Sarbanes-Oxley Act is an amendment to the U.S. federal law (Criminal Code) passed by Congress in July 2002. Its provisions have been adopted by the Securities and Exchange Commission, New York Stock Exchange, NASDAQ, and securities regulators worldwide.

groups (i.e., personnel issues), and acting as a sounding board for the CEO before he/she addresses the board as a whole.⁹⁹ On the other hand, executive committees also risk creating two classes of board members and becoming a *de facto* board. In her case study of Coast Capital Savings, Brown found that the abolition of the executive committee resulted in a more inclusive and open decision-making process on the board.¹⁰⁰ CCA notes that although the use of executive committees among credit unions has declined over the years, it remains a relatively popular practice for credit unions in Canada.

Terms and Tenure: The issue of director terms and tenure often arises in discussions of board renewal and stable turnover. Practitioners and researchers recognize the need to incorporate fresh ideas and new perspectives as well as board experience in the decision-making process. In most credit unions in Canada (80 percent), directors are elected for three-year terms,¹⁰¹ which are typically staggered to ensure some degree of continuity on the board from year to year.¹⁰² 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. Approximately 70 percent of credit unions in Canada have no limit to the number of terms a director may serve.¹⁰³

Some argue that tenure limits are ineffective tools for achieving better board performance through director turnover.¹⁰⁴ Researchers on board diversity, however, suggest that tenure limits can successfully facilitate the participation of under-represented groups on the board. Tenure limits ensure that long-time board members step down, which creates opportunities for members of under-represented groups to join the board. The combination of tenure limits with strong and pro-active recruitment strategies is believed to be particularly effective in facilitating the representation of women, visible minorities, and members of other under-represented groups.¹⁰⁵

Board Development

Board development refers to building a board of directors that is capable of carrying out its roles and responsibilities in an effective and efficient manner. There are three key components to board development: recruitment, education, and evaluation.

Director Recruitment: Most credit unions have some method for recruiting board members, whether through formal or informal means. Best practices literature tends to highlight the importance of formalized recruitment strategies and processes. Some of the most celebrated strategies and processes 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 re-election endorse certain candidates prior to board elections. In 2008, Coast Capital Savings received CCA's Innovations in Co-operative Governance Award for its selection and recruitment of potential directors. CCS's recruitment strategy includes all of the formal recruitment practices identified above.¹⁰⁶

In addition to formal processes, credit unions often use informal means to recruit potential board members, including conversations among board members, staff, and members, and invitations to put one's name forward for election. In many cases, credit unions use a combination of both recruitment practices to identify potential candidates.

Some successful recruitment practices used to acquire specific skills, knowledge, experience, and demographic characteristics focus more on the way in which recruitment is carried out and less on whether it is a formalized practice. First, existing groups such as local member relations committees can serve as promising pools for potential board members. These committees are often comprised of volunteer-oriented and community-minded members who have some understanding of the co-op's affairs. Further, this practice offers co-ops the opportunity to "grow their own," actively developing the skills and capacities of existing volunteers.¹⁰⁷ Alden argues that making board member recruitment a continuous and ongoing focus, as opposed to an *ad hoc* process, increases the chances of identifying good board candidates.¹⁰⁸

Finally, in her study of women's representation on credit union boards, Brown found that pro-active, deliberate, and open recruitment practices were successful in achieving board diversity with respect to skill and gender representation. Pro-active recruitment may require nominations committees to go beyond "the usual suspects" and make a concerted effort to approach members of under-represented groups. In their study titled "Social Diversity within Nonprofit Boards: Members' Views on Status and Issues," Daley and Marsiglia note that boards should not "just let it happen" when it comes to achieving social diversity; instead, they need to think about recruiting under-represented groups in a systemic and deliberate fashion.¹⁰⁹

Director Training and Education: Director education is relevant for all directors, regardless of their skills, expertise, or experience. One of the first educational experiences that many directors have is an orientation exercise as a new member of the board. Director

orientation introduces new directors to the co-op's affairs and other board members. Like director recruitment practices, there are both formal and informal director orientation practices. Formal director orientation sessions usually consist of the new member meeting with the CEO and board chair to review important laws, regulations, policies, ongoing projects, and board practices. In their study, CCA and Brown Governance found that approximately half of credit unions surveyed had formal director orientation practices for new members.¹¹⁰ Informal practices may include social gatherings and conversations among board members.

Hoyt argues that director orientation is an effective and efficient way for new board members to learn key board practices, processes, and policies.¹¹¹ She also suggests that boards may designate experienced board members as mentors who can guide new members through their first few board meetings. According to CCA and Brown Governance, formal orientation strategies are useful in allowing new directors to go over vast amounts of material and ask questions. This is particularly important as director responsibilities grow within the increasingly complex regulatory regime in which credit unions find themselves.¹¹² In his 2007 study on board development, Brown found that the provision of director orientation for new members positively influenced the perception of board competency among board members.¹¹³

The literature on board development identifies ongoing director training and education as critical for the success of credit union boards. CCA and Brown Governance found that the median expenditure on director education and training among credit unions is approximately \$3,000 annually, only 0.1 percent of median revenues,¹¹⁴ a relatively small investment for something so significant to organizational performance. The authors note that the Credit Union Director Achievement (CUDA) program is largely responsible for the success of the credit union system in Canada.

Although most credit unions offer CUDA courses to their board members as a voluntary option, 22 percent of credit unions require directors to attend at least some CUDA courses.¹¹⁵ Hoyt contends that boards should demonstrate their commitment to director training and education by allocating the financial and time resources that would allow directors to take advantage of such opportunities.¹¹⁶ She also argues that training and education activities should aim to develop individual and group capacity in strategic areas.¹¹⁷ This can be achieved through the development of annual learning plans. Finally, Hoyt notes that director training and education should be available in various formats such as

workshops, guest speakers, conferences, seminars, Internet courses, in-house training, and a reference library of books, magazines, and videos.¹¹⁸

Board Evaluation: Board evaluation is the least practiced of the three key components of board development.¹¹⁹ There are few research studies that examine the impact of board evaluation. Although some boards use director attendance at committee and board meetings as one measure of performance, few boards engage in formal, regular evaluation exercises. Brown found that the presence of board evaluations did not influence the perception of board performance, which suggests that board members may see little value to board evaluation practices.¹²⁰

Some prescriptive materials on credit union governance, however, view board evaluations as a key aspect of board development and learning. Board evaluations usually consist of a review of overall board performance, although some suggest that individual self-assessments are useful in that they facilitate self-reflection.¹²¹ The evaluation of individual board members by their peers is discouraged, as the ultimate goal of board evaluations is to assess group, rather than individual, performance. According to proponents of board evaluations, this practice helps refresh board members' understanding of the board's role and responsibilities; identifies areas for improvement; develops a shared understanding of "good governance" among directors; and serves as a useful tool for nominating committees in their recruitment efforts.¹²²

Board Dynamics

Board dynamics refers to the way in which board members interact with one another. Once a board achieves success in recruiting and building a skilled, knowledgeable, and demographically diverse board, the next step is to make board decisions in an effective, efficient, and inclusive manner. This helps ensure that board decisions are the result of vigorous, yet respectful, debate, and that the views of various stakeholders are included in the decision-making process. As well, board members contribute their time with the expectation that their participation will be meaningful in some way. In their work, "Understanding the Dynamics of Diversity within Nonprofit Boards," Daley and Angulo note that if board members feel they are unable to contribute, they are not likely to return for another term.¹²³

While there is a large body of literature on the topic of organizational culture and group interaction, this review focusses on some key aspects of board dynamics. First, inclusive decision making requires board members to be aware of the language that is

used in board discussions. Language can be either a unifying or dividing force. Daley and Angulo note, for example, that describing board decisions as group decisions, regardless of any prior disagreements, helps reassure members that they can speak their minds without fearing that they will be singled out as dissenters. On the other hand, the use of sport analogies to describe board dynamics or processes may exclude some members who are not familiar with sporting terms.¹²⁴

Second, organizational culture plays a critical role in the way board members interact with one another. Daley and Angulo describe organizational culture “as coherent patterns of assumptions that prove useful in meeting organizational needs and that are taught to new members as correct ways to perceive, think, feel, and act.”¹²⁵ Organizational culture can also have a positive or negative impact on board dynamics. For instance, the board may have established a strong understanding among its members that “hot issues” are to be discussed behind closed doors only and never in the public arena. This helps reinforce trust and unity among board members. On the other hand, a board that does not tolerate or take seriously alternative or minority views may neglect important opinions and stifle debate at the board table.¹²⁶

Finally, in their article “Social Diversity within Nonprofit Boards: Members’ Views on Status and Issues,” Daley and Marsiglia discuss the importance of board leadership for establishing an inclusive environment for all members, particularly those who are new to the organization.¹²⁷ According to the authors, board leaders (most often the chair) should stop and ask for clarification on a topic if they sense that some board members may not understand the issue at hand. This is particularly important for boards that have many or several long-time board members who may not need additional information to participate in the discussion. For some boards, the desire to get through meetings quickly is obvious, which, in turn, may make it difficult or uncomfortable for new members to ask questions.¹²⁸

In summary, internal governance mechanisms are those structures and practices that help the board fulfil its roles and responsibilities. Industry best practices offer some guidance for credit unions in determining board structures, such as board size, committees, and director terms and tenure. Literature on board development focusses on director recruitment, director education, and board evaluation as tools to build and maintain effective, diverse, and competent boards. The final part discussed the issue of board dynamics and the need for boards to foster inclusive and cohesive decision-making processes.

SECTION III

Research Results and Recommendations

THE FOLLOWING SECTION provides a review of the information gathered through the in-depth interviews and focus groups. The review utilizes an analytical framework developed in Section II. The analysis is divided into two parts. The first examines Advantage Credit Union's (ACU) intermediate governance mechanisms. As discussed above, these are the means through which credit unions practice democracy, engage members, and facilitate member participation in the organization's affairs. We studied three ACU intermediate governance mechanisms: control structures (including member relations committees), AGMs, and communication methods. Concepts discussed in the literature review such as member linkage, engagement, and participation guide the analysis of ACU's intermediate governance mechanisms.

The second part of this analysis looks at ACU's internal governance mechanisms, which were defined as the means by which the board fulfils its roles and responsibilities. We examined five key internal governance mechanisms of ACU's board. The first two address board leadership and board-management relations. The remaining three include ACU board structure, board development practices, and board dynamics. We used the literature on governance theories and approaches, as well as industry best practices, to guide this part of the analysis.

Intermediate Governance Mechanisms

Control Structures

Control structures determine how representatives are selected, who will serve in representative bodies, and how much power representatives have. ACU has two key control structures: constituency-based representation for the board of directors and local member relations committees (MRCs). ACU has a constituency-based model of branch and regional

representation. Fourteen board members represent seventeen communities, with nine communities currently sharing a board member with at least one other community. Only Melfort and St. Brioux have more than one representative. Board members are elected by the members in the constituency in which they run. Given the relationship between the representative model and the size of the board of directors, the results regarding the constituency-based model of ACU's representational structure are presented below in conjunction with the discussion on board size.

This section presents the results concerning ACU's second control structure, member relations committees. MRCs are local committees elected by the members of their branches. Each year, three members are elected at local information meetings to serve one year on the local MRC. Each MRC is comprised of these three members, the board member for the respective community, and the business relations manager (BRM) at the local branch. Only the three elected MRC members are eligible to vote in committee decisions. Most MRCs meet between three and four times a year. In total, there are seventeen MRCs and fifty-one MRC members.

Results

1) Member relations committees make visible, tangible, and meaningful contributions to local communities on behalf of Advantage Credit Union.

MRCs help develop member loyalty and raise awareness among potential members through various sponsorships and fundraising activities. Examples of local events, organizations, or individuals sponsored by MRCs include: charity barbeques and dinners; scholarships for students; prizes for sporting events or fundraising activities; service clubs; recreational facilities; and cultural organizations (see Table 1, overleaf). First, MRCs often assist local staff to plan, organize, and work charity barbeques, community suppers, or other events that bring out large numbers of people. For example, in Englefeld, the ACU Burger in the Park Day sponsored and organized by the MRC drew more than 150 people. And the Spalding Fall Supper sponsored by the local MRC brought out 275 community members to raise funds for the local bowling alley. One participant noted that those kinds of events put ACU "in the face of people."

Second, MRCs often identify local needs and play important leadership roles in the community economic development of their communities. The contribution of ACU funds to major events, organizations, or facilities sends an important message to local residents that ACU is committed to the development and long-term survival of communities. This

is particularly noticeable in the smaller, rural communities. MRCs have used their funds to fix or maintain community facilities or to leverage additional funding from community members to make a more significant donation to a local organization. In Englefeld, for example, the MRC members used a portion of their budget to start a fund for an air conditioner in the local high school / community hall. Once the project was off the ground, MRC members sought support from the community, and with this additional financial assistance, were able to buy and install the air conditioner that same year. MRCs have also played significant leadership roles in acquiring funding from ACU's corporate sponsorship budget for large-scale community projects. The St. Louis MRC, for instance, applied to ACU's corporate sponsorship fund for \$10,000 to fix the local arena. One participant noted that this was deeply appreciated by community members, adding, "That rink is the lifeblood of this small community."

Table 1. Examples of MRC sponsorships, activities, and donations

Highly visible and well-attended community events sponsored by MRCs

- Englefeld Burger in the Park Day: more than 150 people attended; supplies and food were donated by the local MRC
- Spalding Fall Supper: nearly 275 people attended; supplies and food were donated by ACU and profits donated to the local bowling alley
- Candle Lake Welcome to the Lake Day: community event hosted by the local MRC; attracted community members and local and regional media to the event

Community leadership and development

- Englefeld MRC started project to install air conditioning in school gym; according to one participant, "[The initiative] snowballed and [the MRC] got the community involved.... They asked everybody for funding. They put the air conditioner in that summer. It was amazing."
- with the help of local branch staff, the St. Louis MRC was successful in securing an additional \$10,000 of funding from ACU's corporate sponsorship fund to put towards the local arena
- Spalding MRC provided \$1,000 for supplies for the fall supper; this event typically generates approximately \$2,000, all of which is donated to a local organization; in 2008, the local bowling alley was the recipient

2) Member relations committees help develop important linkages and connections between communities and the credit union through local representation.

MRC's ability to facilitate two-way communication between members and Advantage Credit Union was viewed as particularly important for branches that are small or that do

not have a director from their community. According to several MRC and board members, the MRC structure effectively demonstrates to local branches that ACU values all of its communities and is committed to serving local needs. For example, one MRC member for the St. Jean Baptiste branch explained the importance of the MRC for communicating the needs of this small branch to the larger organization:

St. Jean Baptiste has so many unique challenges because they are a Franco-phone branch with bilingual service. As they grow and move to the new branch, it is really important to have ties to the membership. So to have the MRC be able to bring forward issues from the membership to the board and to the credit union as a whole is important. They started out as a small *caisse populaire* and they don't want to lose those roots and French service.

At the same time, this participant noted that their representative “gives us the perspective of the corporate side about what is feasible as far as working hours.... It makes him easier to work with when he is able to share that information.” This open and honest communication between the board and local representatives plays an important role in establishing trust and understanding between local and corporate organizational levels.

3) Member relations committees promote member engagement and participation.

MRC members serve on these local committees for various reasons, including the following:

- to be involved with the credit union
- to learn about the credit union
- to be involved with the community
- to give out money to the community
- to contribute their thoughts and views to the credit union

Some MRC members take on additional work that goes well beyond the typical three to four annual MRC meetings and two joint MRC meetings each year. Some participants who serve on an MRC indicated that they often meet informally and make every effort to attend all credit union events in their community. The MRCs of Candle Lake, Christopher Lake, and Paddockwood developed lists of organizations and proactively contacted them to notify them about the MRC and the funds that were available.

4) Member relations committees increase the “surface area” of Advantage Credit Union representatives in local communities.

MRCs enhance the degree of personal contact between ACU representatives and community members. For example, all MRC members and board members interviewed decided to

run for their position only after a member of their MRC, a board member, or a staff person asked them to put their name forward. In the case of one relatively new member from the immigrant community, living next door to her MRC representative has helped her learn more about the credit union. In turn, she has been a fierce advocate for ACU within the immigrant community in her area:

When they move to this area, most immigrants phone and ask, “What bank do you use?” I just say, “The credit union....” You can go there and talk to them and things will be done, especially when you want to buy cars and houses.... I haven’t seen any of the immigrants who asked me about financial advice that haven’t opened an account with the credit union.

Finally, one MRC member commented on the value of having people who live in the communities promoting the credit union: “As much as we want to keep our small communities technically advanced — we want that stuff — we also want our credit unions here as much as possible. We have faces and people here that are just as effective as radio. This is your best advertising dollar.”

5) Member relations committees help to develop understanding and trust among Advantage Credit Union communities.

A number of MRC members commented on the usefulness of the joint MRC planning and reporting sessions. Members felt that such meetings were useful for learning about what other MRCs were doing and for sharing ideas. For some MRC members, this exercise also builds trust and understanding among the various branches and between the local and corporate levels of Advantage Credit Union. Furthermore, joint meetings are one of the means through which MRC members see their ideas put into action. As one MRC member noted,

One of the best places that the MRC is useful is in the larger meetings where all the MRCs get together and the CEO and other managers discuss things and throw ideas out there. That is probably one of the most beneficial things we do.... There are a lot of good ideas that are generated and they are written down. You see a lot of those ideas being put to use. I think they’re listening.

In order to build trust and transparency within the credit union, it is important that members perceive that the credit union is listening to them and acting in their best interest.

6) Although the work that member relations committees do is visible in their communities, they are not as visible as they could be.

While ACU is recognized for its involvement at the local level through sponsorships and donations, many members appear not to be aware of the involvement and contribution

of MRCs to the creation, organization, and sponsorship of local initiatives. Several participants believed that most members in their community did not know about the MRC or who its members were. In addition, all MRC members confirmed that they are rarely contacted, if at all, by local members with concerns, comments, or questions. Furthermore, when asked whether they knew about the MRCs in their communities, most focus group participants did not know about the MRC or who their MRC representatives were either. One focus group participant from Spalding, for example, noted the credit union's support for the fall supper, but she did not know about the MRC, its members, or its role in sponsoring the event.

7) Member relations committees' roles and responsibilities may not be clear to credit union members, MRC members, and business relations managers.

Some MRC members indicated that they would like more information and guidance about what they can do. Although they appear to appreciate flexibility in deciding where MRC funds are allocated, a number of them thought it would be helpful to have a best practices guide or a workshop for MRC members. In some cases, ambiguity about their role may stem from their relationship with the local business relations manager. One MRC member, for example, felt that the local BRM always focussed on funding allocation at MRC meetings and failed to recognize, and allocate time for discussing, the need to share information between the MRC and the director for that region. In another instance, one MRC member wanted better communication between the committee and the local BRM, particularly around where MRC funds were spent (some MRCs give local management authority to allocate small amounts of money without consulting with the committee).

8) Member relations committees have the potential to be fruitful recruitment pools for potential board members.

When adopting the MRC structure, ACU hoped that the MRCs would create pools of potential board members, but according to research participants, no MRC member has ever joined the board after serving on their local member relations committee. It is important to note, however, that the amalgamation process has resulted in a surplus of experienced board members from the previously independent credit unions, and ACU board members have been recruited from this pool. It is believed that in time, the MRCs will serve a more critical board recruitment role.

Importantly, when asked whether they would consider running for the board, only one

of seven MRC members interviewed for this review said No, while all other participants said they would have to think about it and might consider it in the future. Several MRC members noted that they were not clear about what serving on the board would entail and would find it helpful to have more information about board activities and duties. One participant felt that she needed more education before she would feel comfortable running for the board.

Conclusions

Member relations committees make many important contributions to local communities and to Advantage Credit Union by organizing local events and donating to local organizations; providing effective two-way communication between members and the board; enhancing the degree of contact between ACU and community members; and building trust among the many communities served by ACU. At the same time, MRCs are not widely recognized in their communities; they have not yet reached their full potential as recruitment pools for board members; and some MRC members may not fully understand their roles and responsibilities.

Recommendation #1 — Maintain and promote the visibility of MRCs and their members in local branches.

Recommendation #2 — Update MRCs on roles and responsibilities and develop a list of best practices to help guide MRCs in their activities.

Branch Information Meetings and AGMs

Overall, approximately 6.2 percent of members attend their local information meetings, some of which are held in conjunction with Advantage Credit Union's annual general meeting. In 2008, the communities of Gronlid, Englefeld, and Spalding had the highest rates of member participation, with 20.3, 20.7, and 17.1 percent respectively. On the other hand, Melfort, St. Jean Baptiste, and St. Louis branches had the lowest, with 1.1, 2.2, and 3.2 percent respectively. The ACU AGM is held in conjunction with the branch information meeting in a different community each year.

Results

1) Members are aware of branch information meetings and AGMs but rarely attend.

When asked about the ways in which members learn about local meetings, focus group participants indicated their awareness of local meetings and elections and their ability to participate in them; they also said they were well-informed of the place and time of such events. Yet few participants attend their branch information meetings or the AGM. Focus group participants cited several reasons. First, some members felt that, given the existing relationship of open communication between members and local staff, many members would not wait for the AGM to express any concerns they may have about the operation of the credit union. As one participant stated, “If people have a concern, they will probably go to that staff member right away so it is dealt with; they won’t stew about it and save it for the AGM.” Second, participants also indicated that they would be more interested if it was a more interactive exercise, instead of a formalized meeting.

Participants also commented on what may help to increase participation in branch information meetings and the AGM. Many communities, including Spalding and Engelfeld, which had two of the most well-attended meetings, provide supper for members in order to facilitate their participation. On the other hand, some communities, such as Melfort, did not see the provision of a meal as an effective way to entice members to meetings.

2) Personal and proactive invitations for members constitute an effective strategy to facilitate member participation in AGMs and elections.

Personal contact and invitations to branch information meetings appear to be two of the more successful methods for getting members to attend meetings. According to one focus group participant, “The only time I have ever gone to the AGM is when they called me and told me when the meeting was. I see those things on the statement but you are busy and you just kind of file it away.... They haven’t called me for quite a few years.” As well, several participants who go to meetings regularly noted that most people in attendance have some personal relationship to board members, MRC members, staff, and/or active members.

Conclusions

Many co-ops and credit unions wonder how to increase member participation in organizational meetings; Advantage Credit Union is no different. Although members

are well informed of their local information meetings and AGMs, few elect to attend. A proactive approach and personal contact and invitation appear to be successful strategies for facilitating the participation of members in organizational meetings.

Recommendation #3 — Encourage local representatives and staff to proactively and personally invite members to local information meetings.

Communication

Advantage Credit Union communicates with its members in a variety of ways. Below is a list of methods identified by research participants.

- ACU newsletters
- community newsletter
- inserts with statement
- in-branch posters
- ACU flyers
- community flyers
- ACU website
- MRCs
- board members
- verbal communication (staff)
- print communications available in French for Francophone members

Results

1) Members are most likely to approach local staff in order to acquire information or express concerns.

According to focus group participants, local staff — member service representatives (MSR) and business relations managers — are their preferred contacts in the credit union for communication purposes. This is consistent with the experience of BRMs, MRC members, and board members. One BRM, for example, estimated that nearly 90 percent of the feedback he receives from members comes to him through MSRs. Both MRC members and board members said that they were rarely contacted, if at all, by members. One board member, who has served for more than twenty-five years, noted that he has been approached by only three or four members during that time.

Participants identified several reasons for this. Local staff are the most accessible contact for members; typically, members know staff personally and trust that their concerns will be addressed. One focus group participant commented, “[The staff is] always willing to listen, and if somebody has a concern, they are always welcome to go and discuss it. For those people, that is the credit union, so that is where they are going to go if they have any concerns.” According to most focus group participants, their concerns are often related to operational issues, for which they would not approach a board member or other elected representative. Participants were confident that local staff would address their concerns and felt comfortable approaching them with any concerns or comments they might have.

2) Effective member relations committees and director communication help build understanding between the board and local communities.

MRCs play an important role in relaying information about the community to the board, and from the board to the community, particularly in instances where the director does not live in the community. First, several MRC members noted that they are committed to their communities; take an active interest in ACU activities; communicate with local staff; and pay attention to how members respond to or perceive their credit union. So, although MRC members are rarely contacted, they are important sources of local knowledge and information about their credit union. Second, MRC members from communities that shared a director with another community felt well-represented by their board members, crediting them for their quality and level of engagement and communication with the communities they represented. When discussing the issue of sharing a board member with a nearby community, for example, one participant commented: “It is working well for us here.... We have a lot in common with (name of community).... Sharing our representative has been no problem at all. (Board member name) has always been very successful at making time and being at meetings.”

3) Information is easily accessible for members.

In terms of the credit union’s communication with members, most focus group participants found that they were able to access information when and where they wanted or needed it. ACU provides information to members online, in local branches, through the mail, and through personal contact and phone calls. One member greatly appreciated the personal service of having an MSR call her to discuss different options related to her account. Another participant commented that the availability of French newsletters and

posters for Francophone members made them feel more comfortable with the merger decision and demonstrated ACU's commitment to its new branches: "We had some really good response from the newsletters. The newsletters are also distributed in French for our Francophone clients and I know that is definitely appreciated."

Conclusions

ACU has developed strong communication methods at all levels. A sense of trust in local staff makes members feel comfortable discussing issues or concerns. MRCs provide an important venue for dialogue between the board and local communities. Finally, ACU's wide range of communication methods, from online communication to personal phone calls, makes information easily accessible to members.

Internal Governance Mechanisms

Leadership

Results

1) Board members have a consistent and clear understanding of the board's role.

When asked about their role as board members, participants consistently stated that the board's role was to form policy and guide management. As one participant stated,

It is about strategy and overseeing things. I don't believe our place is to get into the operational side. We need to stay out of that. If we hire management, we need to trust that we did a good job in choosing the right management and they, in turn, will go in the direction that we ask them to go.

For some board members, the policy-oriented style of governance was much different from their experience on other credit union boards, many of which frequently dealt with operational issues. Nonetheless, these participants considered ACU's governance model a more effective and more enjoyable approach to governing.

2) Advantage Credit Union annual planning sessions and quarterly reviews effectively help the board identify and meet its objectives.

Each year, ACU's board engages in a strategic planning session that focusses exclusively on setting long-, medium-, and short-term organizational goals. Overall, board members found this exercise useful as it develops a sense of purpose and direction for the board. As

one participant said, “It’s a good thing. It keeps everybody focussed. It brings everybody back to the table so we know where we are and where we want to go. This way we can sit down and look at the long term and not just next month.” Annual planning sessions are complemented by quarterly reviews that examine how well the board and management are meeting their objectives. This allows the board to make adjustments to its objectives, timelines, and strategies as necessary.

Conclusion

ACU board leadership practices are consistent with industry “best practices” on the role of the board, setting goals, and reviewing progress.

Board-Management Relations

Results

- 1) The board and management have effectively developed a solid understanding of their respective roles and established a relationship of trust and co-operation.*

As discussed above, the board strongly emphasizes the need to focus on policy issues. This contributes to a clear understanding between board and management regarding the roles pertaining to governing and directing the credit union. One participant noted that in order to prevent the board from accidentally encroaching on operational issues or management from getting involved in policy making, the two sides occasionally reflect upon whether they are moving into each other’s domain. In addition, all participants felt that the board and management worked co-operatively and collaboratively with one another. According to one participant, there was a conscious and deliberate effort to develop a relationship between the board and management that was based on “open communication, trust, respect, and loyalty.” Board members’ comments suggest that the effort has met with success. As one board member described the relationship: “It couldn’t be any better. It is awesome. You can speak your mind ... there is a bond.”

Conclusion

Establishing a well-functioning relationship is one of the most important tasks for both boards and management. The ACU board has developed an exceptional understanding and rapport with management regarding their respective roles and responsibilities as well as their manner of working together.

Board Dynamics

Results

1) Advantage Credit Union board culture encourages and facilitates communication and an environment of respect and cohesion.

Once again, participants were consistent in their views of the working relationship among board members, characterizing it as respectful, open, inclusive, and co-operative. Describing the process and outcome of most board decisions, one participant provided an example of how the relationship among board members has an impact upon decision making: “We discuss an issue in depth until we have figured out collectively what the solution should be.... We almost always get unanimous consent.” At the same time, another board member commented on the ability of board members to express themselves freely without fear or apprehension: “We have a very good board in that if you have a problem or question, you should bring it up. Nobody is going to knock you on the head for what you believe.” Taken together, these comments suggest that while the board aims for consensus and collective responsibility in decision making, it has created an environment in which different opinions are welcomed and respected.

Conclusion

ACU board members feel comfortable speaking their minds in the open, inclusive, and respectful atmosphere developed by the board. Open and inclusive boards are believed to make more thoughtful and thorough decisions because they can elicit communication and lively discussion.

Board Development

The issue of board development centres around three main activities: director recruitment, director orientation and education, and evaluation.

Recruitment: Board members are elected for three-year terms and there is no limit on the number of terms a board member may serve. Director recruitment is done by local MRCs on an *ad hoc* basis — that is, every three years when their community’s board position is up for re-election. In most communities, posters and information about the upcoming election are available in local branches; members may also acquire information from ACU administration through the executive assistant. MRC members are responsible for bringing names forward, although the business relations manager and other directors are often involved as well.

Results

1) Potential candidates are unlikely to run for the board on their own initiative.

Advantage Credit Union has no formal or standardized procedures for recruiting potential directors. Board members, BRMs, and MRC members indicated that, in practice, there is usually little effort made to find additional candidates if the current board member plans to run for re-election. In instances where a board member is retiring, MRCs typically search until they have recruited one candidate who is willing to stand for election. Overall, there is little director turnover and board positions are rarely contested, particularly in small communities. Since 2004, only two out of fifteen board positions up for re-election were contested.

This, in combination with the low rate of director turnover, results in little incentive for MRC members to search for new candidates. Although ACU makes information broadly available to members regarding election processes and practices, board members are typically proactively recruited and asked to serve on the board. In fact, all board and MRC members interviewed for this study were asked and encouraged to let their name stand for election by somebody they knew.

It is important to note once again the unique recruitment dynamic created by recent amalgamations. As individual credit unions have joined the larger organization, existing boards have served as recruitment pools of experienced, committed board members to represent that community on ACU's board of directors. The impact of this phenomenon will likely lessen in the future.

2) Although the board has achieved strong levels of gender and occupational diversity, some groups remain under-represented at the board table.

The level of diversity is one way for credit unions to measure how well they are connecting with the various geographic and demographic groups present in their membership. Advantage Credit Union's constituency-based model ensures the representation of various geographic regions. Women represent 35.7 and 43.1 percent of board membership and MRC membership respectively. Although women are not proportionally represented, this is well above the 12 percent national average of women's representation on credit union and co-operative boards of directors (CCA and Brown Governance). The board has members from a variety of occupational backgrounds, including farmers, teachers, business owners, and accountants. Although there is some cultural diversity — one is a member of the

Francophone community — the board does not have representatives from minority, immigrant, or Aboriginal communities.

According to one participant, the board identified the need to include more young people and communicated this to the MRC responsible for finding a candidate for a vacancy on the board. Although this was not a formal process, the issue of demographic diversity was discussed and brought to the attention of MRC members, who successfully recruited an individual under the age of forty to serve on the board. Still, several board members noted that youth are under-represented and stressed the need to further facilitate the participation of young people in ACU's representative structures.

The introduction of limited terms in some credit unions has proven helpful in creating new opportunities for diverse views and experiences. This practice, however, is not without its detractors. As credit unions have merged and grown in asset size, so too has the complexity of the management issues confronted by board and managers. Some have argued that such conditions create the need for experienced board members, which can only come from multiple terms.

Director Orientation and Education: Director orientation and education processes and practices are often considered “best practices” within the credit union sector. Director orientation plays an important role in bringing new board members up to speed on board practices, processes, and expectations. Director training courses also help people understand their role more clearly, give them confidence to participate in board discussions, and thus enhance the overall competence of the board.

Results

1) Advantage Credit Union's approach to director education successfully contributes to board competence.

New board members meet with the CEO and the board chair to go over their role as a director, the board's role, how meetings are run, and background about the board such as information about other board members. New members are also provided with binders of information to further orient and inform them about board practices. This made one new board member feel more comfortable and confident in his role as a director. It also played a significant role in making him feel more welcome on the board.

Board members were satisfied and pleased with the level of opportunity and encouragement they received from fellow directors and management to attend CUDA training

sessions as well as provincial and national conferences. One board member noted that the board and management also support directors in taking courses not available within the credit union system, yet relevant to credit union business. Although several board members were open to learning new things and more about their role as a director, most were comfortable with their level of knowledge and competence, as well as that of other directors.

One member of ACU's senior management highlighted the issue of increasing regulatory and fiduciary responsibilities for credit union directors. This person felt that a lack of knowledge among board members about these issues may make them wary of making decisions until they have a greater understanding of the issues:

As we become more complex and take on more business ventures, it adds another layer of legal and regulatory pressures for the board, and they have to understand their role. It scares some of them. If it scares them, they will cocoon around us giving them more knowledge so they feel more comfortable. Until they feel comfortable, they will resist change. The risk is that we stop making decisions until we understand that. It is accelerating at a pace greater than we are training them.

When asked about the issue of director education and board competency, however, no board member identified any concerns about regulatory or fiduciary issues. One director was not concerned about issues of liability and legal responsibility: "I think we have adequate protection in our role as long as we follow the guidelines. I am not overly concerned about the liability issue. If you have a good board, it will give pause for sober thought." This suggests that some board members feel confident in the resources available to them and may not share management's concern about the evolving legal and fiduciary responsibilities of board members.

Evaluation: Board evaluation exercises can help the board reflect upon its roles and responsibilities, identify areas for improvement, and develop a plan to enhance board performance. Board evaluation is recognized as a "best practice" for credit union boards and is strongly encouraged in the sector.

Results

- 1) *Although some board members found board and management evaluations to be somewhat difficult and awkward at times, most found the exercise useful.*

ACU recently introduced an annual board evaluation process that includes an individual self-assessment, a board assessment, and a chair assessment. The executive assistant con-

solidates the reviews and presents it in aggregate form to board members. The board then builds a director training plan for the following year based on the findings of the self-assessment evaluations. Although some board members found these evaluations somewhat difficult and awkward, most people interviewed for this study found them useful exercises for reflecting upon the board's performance and, more importantly, for identifying future training needs.

Conclusions

The three main components of board development — recruitment, education, and evaluation — ensure that boards are being proactive from the beginning to the end of a director's time on the board. Advantage Credit Union strongly encourages board members to improve their capacities as directors and evaluates itself in order to identify areas for improvement. Existing recruitment practices and low director turnover make it difficult for the board to acquire new members.

Recommendation #4 — Consider the introduction of tenure limits for board members in order to increase diversity.

A common tenure limit is a maximum of three consecutive terms, after which the board member must step down for at least one term before running for the board again.

Recommendation #5 — Develop a proactive recruitment strategy to recruit member relations committee and board members.

Although there are many ways to proactively recruit member relations committee and board members, some “best practices” include the following: start the recruitment process early; identify skill and demographic gaps; provide potential candidates with an information package; look for candidates outside traditional volunteer circles in the community.

Recommendation #6 — Extend a limited amount of training opportunities to member relations committee members who are interested in learning about board activities.

For example, interested MRC members could apply to attend a Credit Union Director Achievement training module or attend a board meeting to learn more about board processes and practices.

Board Size and Regional Representation

As discussed above, the board consists of fourteen directors representing seventeen communities. Although large compared to the 8.2 director average of credit union boards in Canada, ACU's board falls within the parameters of "best practices," but is slightly larger than the preferred size of nine to thirteen (CCA and Brown Governance, 8). Although there is no perfect number of board members, boards that are too small or too large have their challenges. Boards that are too small, for example, sometimes have problems incorporating diversity within board membership. On the other hand, boards that are too large risk a lack of deliberation among board members and unruly board meetings. In addition to these considerations, boards must also identify factors that are important to their governance approach.

Results

1) Large board size does not appear to have negatively impacted the effectiveness or efficiency of Advantage Credit Union board meetings.

Some participants said that board meetings have a tendency to be too lengthy, although this was not believed to be the result of board size but rather the large amount of business to discuss. All board member participants felt that meetings were well run, on topic, and productive. Board members credited this to the strong facilitation skills of the board chair, as well as the distribution of the board package beforehand and the well-organized meeting agenda.

2) Quality of representation has not diminished in communities represented by nonresidential board members.

Nine out of seventeen communities currently share a director with one or two other areas. According to several MRC and board member participants from multibranch regions, they have never heard any complaints from members regarding the lack of board member presence in the community. One board member commented that although he was initially concerned about how members would react to him not residing in the communities he represented, he has not experienced any problems:

I wondered if it would be hard for members to approach me or contact me. But they can get a hold of the manager and they can get a hold of me. There is always a way to get me. So I was questioning that a bit, but it doesn't seem to have caused any issues and I haven't heard anybody complain about it.

Conclusion

Overall, the size of ACU's board does not negatively impact its functionality. According to board members, meetings are run efficiently and effectively and everyone has the opportunity to speak in board discussions. There are some benefits to the board's size: committee work can be delegated among many directors and members are physically close to their community and local MRC. Some participants, however, identified several factors that place financial pressures on the board to reduce its size, including director per diems, mileage, and liability insurance.

Recommendation #7 — Consider reducing board size but maintain the existing Member Relations Committee structure.

MRCs play an important role in developing and maintaining a strong relationship among ACU board members. At the community level, MRCs could continue to make visible and meaningful contributions on behalf of ACU to their communities, communicate the needs of local communities to board members, and promote member engagement and participation. Moreover, although members are likely to continue to communicate primarily with staff, MRC members would also be available to speak with members. And, of course, members could still contact board representatives through telephone or e-mail.

Appendix D offers two options for district-based representation with a reduced board size.

Recommendation #7.1 — Introduce and encourage ways for board members to reduce travel time to and from MRC meetings in distant communities, yet maintain board member–MRC communication.

Each board member would have a unique set of circumstances regarding the geographic scope of, and number of MRCs in, their district. Board representatives and MRCs could

come to an agreement that recognizes the need for board member–MRC contact, but that also considers the time constraints of board members. For example, some multibranch regions currently have joint MRC meetings with two MRCs. For other groups that may wish to have separate MRC meetings, the use of teleconference would reduce travel time for board members.

The introduction of term limits becomes increasingly important if board size is reduced. In addition to promoting stable board renewal, term limits in multibranch representative structures help to ensure that all communities have regular opportunities to serve on the board. This is particularly important for small communities that share board representation with larger communities.

APPENDIX A: PARTICIPANT SELECTION PROCESS

In-Depth Interview Participant Selection Process

ACU Board President Neal Morton sent a letter to board members, management staff, and MRC members informing them of the governance review project and the possibility that researchers from the Centre for the Study of Co-operatives might contact them to participate in the study. ACU provided researchers with a list of the names of board members, BRM and MRC members, and their respective communities and branches.

The board and researchers identified several characteristics that would ensure diverse geographic and demographic representation in the interview process and then randomly selected interviewees from within these parameters. For example, all females were placed in a separate group from which names were selected at random.

Researchers contacted potential participants and invited them to participate in the study. They conducted a total of eighteen interviews. Below is a breakdown of interviewee characteristics:

- five management members / seven MRC members / six board members
- ten women / eight men
- researchers grouped ACU branches into regions and chose representation from each region
 - four from Region 1 (Watson, Englefeld, Spalding, Naicam, and Lake Lenore)
 - five from Region 2 (St. Brieux, Melfort, Weldon, Kinistino, Gronlid, and Star City)
 - four from Region 3 (Birch Hills, Prince Albert, and St. Louis)
 - four from Region 4 (Christopher Lake, Paddockwood, and Candle Lake)
 - one had no region (senior management)
- urban/rural mix (PA/Melfort considered urban)
- eight from Northgate branches / ten from Advantage branches
- both small and large branches

Interviews took place between 27 October and 17 November 2008 and typically lasted between one and one and a half hours.

Focus Group Selection Process

Once again, the board and researchers identified several geographic and demographic characteristics to ensure a diverse group of participants in the focus group discussions. These included women and men; engaged and nonengaged members; members from urban and rural communities; new and long-time members; youth; and various cultural and linguistic backgrounds.

Business relations managers from all ACU branches provided researchers with the names of five to ten members. From these lists, researchers randomly selected potential focus group participants from within parameters similar to those identified above for interview participants. ACU President Neal Morton sent a letter explaining the governance review and the role of the Centre for the Study of Co-operatives, as well as a letter from the Centre providing details about the focus group sessions (date, place, time) to fifteen members from each of the four regions identified above. We expected that approximately eight members from each region would participate. Due to the poor response from Region 3, we cancelled the focus group for this area, but potential participants were invited to take part in the focus group in Region 4.

Three focus groups discussions took place 3–6 November 2008 in the communities of Watson, Melfort, and Prince Albert. All focus groups started at 7:00 pm and lasted approximately two hours.

Voluntary Participation and Confidentiality

Potential interviewees and focus group participants were notified that their participation was completely voluntary; that their comments would be kept confidential; and that any data collected would be presented in aggregate form in order to protect their identities.

Researchers transcribed the interviews and focus group discussions and provided participants with the opportunity to review them and make any changes that they felt necessary.

APPENDIX B: IN-DEPTH INTERVIEW QUESTIONS

(Notes in brackets are issues to probe or mention in order to facilitate discussion)

Interview Questions — MRC Members

1. Why don't we get started with you telling me a bit about yourself and how you ended up in your position as a member of the MRC? (how you heard about it; were you elected; won by acclamation; how long have you been a member of the MRC)
2. Role of MRC in governance structure and process
 - a. In your view, how do members of the MRC serve the membership? (roles and responsibilities; effective; useful; important; etc.)
 - b. In what ways do you work with management and/or the board, if at all? (relationship between branch managers and the board; how they work together; on what kinds of issues)
 - c. How would you characterize the relationship between the MRC and management and/or the board? (co-operative; productive; difficult; etc.)
3. Member engagement and board development
 - a. How do you feel about the level of work and responsibility accorded to MRC members? (meaningful work; worthwhile work; reasonable amount of work; what might make it more attractive for people to serve on the MRC, etc.; responsibility sufficient; too much; too little)
 - b. If you were offered opportunities to learn more about serving on the board, would you take advantage of such opportunities? Why or why not? (education; training; opportunities for greater involvement)
 - c. If someone approached you and asked you to run for the board, would you put your name forward for election?
4. Communication
 - a. In what ways do the credit union and members communicate with one another? (kinds of communication; how frequent; between whom)
 - b. How does the MRC communicate with management and/or the board?

- c. What, if anything, could be done to improve communication among the various groups in the credit union? (board; members; MRCs; managers)
5. Representative structure
 - a. How do you feel the existing representative structure is working to ensure members' views are taken into account? Some groups to consider:
 - geographic regions or local communities
 - urban and rural communities
 - different sized branches
 - women
 - ethnic minorities
 - First Nations and Métis people
 - other
 - b. What, if anything, could be done to improve the existing representative structure?
6. Summarize discussion. Have I missed anything? Is there anything you think I should have asked but didn't?

Interview Questions — Board Members

1. Why don't we get started with you telling me a bit about yourself and how you ended up in your position as a member of the board? (personal experience with recruitment; why you wanted to serve; what made you decide to run for the board)
2. Leadership
 - a. What is (are) the board's main role(s)?
 - b. How does the board go about achieving its objectives? (setting strategic direction; overseeing organizational performance; ensuring ethical conduct; is the board successful in achieving its goals? Why or why not? etc.)
3. Relationship with management/MRCs
 - a. How would you characterize the relationship between the board and management? (co-operative; collaborative; adversarial; etc.)
 - b. How is the division of labour between the board and management determined? (clarity of roles and responsibilities; clear lines of accountability and responsibility)
 - c. In what ways does the board work with the MRCs, if at all? (do they work together? if so, on what? is this useful and productive?)
4. Board structure and board dynamics
 - a. Are you currently sitting on any board committees? If so, which one(s)?
 - b. What role do board committees play in the board's decision-making process?

- (recommend and deliberated; recommend and accepted; level of involvement of non-committee members in decision making; etc.)
- c. How would you characterize board/committee meetings? (productive; functional; efficient; focussed; active participation from all members)
 - d. Could you describe the relationship among board members and its effect on the board's ability to meet its objectives? (respectful; inclusive; open; encouraging; cohesive; etc.)
5. Board structure and board development
- a. How, if at all, is the board involved in recruiting potential candidates? (formal; informal; recruitment strategy and practices; recruitment criteria; etc.)
 - b. Once board members are elected, in what ways, if any, does the board seek to build director and board competency? (orientation; education; training — mandatory or voluntary; director and board evaluation; funds available for addition board training)
 - c. What, if anything, could strengthen board competency and performance?
6. Communication
- a. In what ways do the credit union and members communicate with one another? (board; managers; MRCs; kinds of communication; how frequent; to whom and from whom)
 - b. What, if anything, could be done to improve communication between the credit union and members?
7. Representative structures
- a. How do you feel the existing representative structure is working to ensure members' views are taken into account? Some groups to consider:
 - geographic regions or local communities
 - urban and rural communities
 - different sized branches
 - women
 - ethnic minorities
 - First Nations and Métis people
 - other
 - b. What, if anything, could be done to improve the existing representative structure?
8. Summarize discussion. Have I missed anything? Is there something I should have asked but didn't?

Interview Questions — Managers (CEO and Branch Managers)

1. Why don't we get started with you telling me a bit about yourself and how you ended up in your position as a manager?

2. Relationship with board
 - a. In what ways do you work with the board, if at all? (relationship between CEO/branches and board)
 - b. How would you characterize your relationship with the board? (co-operative; collaborative; adversarial; etc.)
 - c. How is the division of labour between the board and management determined? (clarity of roles and responsibilities; clear lines of accountability and responsibility; ask CEO and branch managers if they work with board on some level)
3. Relationship with MRCs
 - a. In what ways do you work with the MRC, if at all? (relationship between branch managers and local MRCs; if and how they work together; on what sorts of issues)
 - b. How would you characterize your relationship with the MRC? (collaborative; productive; useful; etc.)
4. Communication
 - a. How do the credit union and members communicate with one another? (board, managers, MRCs; kinds of communication; how frequent; between whom)
 - b. What, if anything, could be done to improve communication between the credit union and the members?
5. Representative structures
 - a. How do you feel the existing representative structure is working to ensure members' views are taken into account? Some groups to consider:
 - geographic regions or local communities
 - urban and rural communities
 - different sized branches
 - women
 - ethnic minorities
 - First Nations and Métis people
 - other
 - b. What, if anything, could be done to improve the existing representative structure?
6. Summarize discussion. Have I missed anything? Is there something that I should have asked but didn't?

APPENDIX C: FOCUS GROUP QUESTIONS

Introductory Questions

(20 minutes — including welcome and explanation of project)

1. Tell us your name and something else about yourself.
2. What are some of the ways in which members participate in the ACU democratic process? (open question to get people talking about the democratic process and to see what participants perceive as being part of the democratic process)

Elections and AGM

(20–25 minutes)

1. A number of different ways have been mentioned. Let's first talk about elections. How do members learn about elections? (get members' perceptions and level of knowledge about the electoral process — where, how, and electing whom, board/MRC)
2. What are some of the reasons members may or may not participate in electing their credit union representatives? (open up the discussion to talking about why people choose either to participate or not to participate in elections or the AGM)
3. What, if anything, could be done to improve member participation at the AGM and in the credit union's elections?

Representative Structure and Elected Positions — MRC and Board of Directors

(25–30 minutes)

1. How do members learn about opportunities to run for elected positions? (get members' perceptions about recruitment and what sorts of people run for these positions)
2. Let's talk about how the existing representative structure (may require some background explanation about the current representative arrangement). How do you feel this arrangement is working to ensure that members' views are taken into account by the credit union's leaders? (first, see what kinds of issues are brought up by members, i.e., geographic representation; large or small branch representation; etc.)

3. This is a list of various sorts of membership groups that may need to be represented in the leadership structure. As I read through the list, feel free to comment on how you feel the existing representative structure is working for these groups.
 - urban and rural communities
 - different sized branches
 - women
 - ethnic minorities
 - First Nations and Métis people
 - other
4. What, if anything, could be done to improve the existing representative structure?

Communication

(25–30 minutes)

1. Now let's move to the topic of communication. In what ways do the credit union and members communicate with one another? (get perceptions about what kinds of communication exist and to whom the communication is directed — i.e., to board, to members, to MRC, to managers; look for things like newsletters, surveys, annual reports, contact information for board members or MRC members, comment cards, concerns and complaint procedures, etc.)
2. How are these methods of communication working?
3. What, if anything, do you think could be done to make this better?

Wrap Up

(15–20 minutes)

1. Let's summarize the key points of this discussion (provide summary). Does this summary sound complete? Do you have anything you want to add or change?
2. The goal is to assess how the existing democratic processes are working and to make recommendations to improve this process. Have we missed anything?
3. What advice do you have for us?

APPENDIX D:
POTENTIAL MODELS FOR DISTRICT-BASED REPRESENTATION

Researchers developed the following two models of district-based representation according to criteria identified by ACU. Both models emphasize the principle of one member, one vote. In both cases, district boundaries were determined by two factors: geographic proximity and member base. The board also indicated that it prefers a board size between nine and twelve as well as an odd number of directors.

Option #1: 11 Representatives

Branch(es)	# of Directors
Melfort	3
Birch Hills	1
Christopher Lake/Candle Lake/Paddockwood	1
St. Louis/St. Jean Baptiste	1
Lake Lenore/Naicam	1
Gronlid/Star City	1
Weldon/Kinistino	1
St. Brieux	1
Spalding/Englefeld/Watson	1

Option #2: 9 Representatives

Branch(es)	# of Directors
Melfort	3
Christopher Lake/Candle Lake/Paddockwood/St. Jean Baptiste	1
St. Louis/Birch Hills	1
Lake Lenore/Naicam	1
Gronlid/Star City/ Weldon/Kinistino	1
St. Brieux	1
Spalding/Englefeld/Watson	1

ENDNOTES

1. Roger Spear, "Governance in Democratic Member-Based Organisations," *Annals of Public and Cooperative Economics* 75, no. 1 (2004): 34.
2. Emphasis mine. See, for example, World Council of Credit Unions (WOCCU), "Credit Union Governance," prepared by Karen Cak Niederkoher and John Ikeda (Madison: World Council of Credit Unions, 2005), 2; available from www.woccu.org/bestpractices/governance; accessed 9 October 2008; Coast Capital Savings Credit Union (CCSCU), "Governance," available from www.coastcapitalsavings.com/About_Coast_Capital_Savings/Corporate_Information/Governance/; accessed 10 October 2008; Vivien Lowndes and Christopher Skelcher, "The Dynamics of Multi-Organizational Partnerships: An Analysis of Changing Modes of Governance," *Public Administration* 76 (1998): 318–19; Institute on Governance, Mel Gill, "Governance Dos and Don'ts: Lessons from Case Studies on Twenty Canadian Non-profits," Final Report, April 2001, 7; available from www.iog.ca/publications/nonprofit-gov.pdf; accessed 9 October 2008.
3. Emphasis mine. See, for example, WOCCU, 2; CCSCU; Lowndes and Skelcher, 318–19; Institute on Governance, 7.
4. Institute on Governance, 7.
5. Ibid.
6. Chris Cornforth, "Making Sense of Co-operative Governance: Competing Models and Tensions," *Review of International Co-operation* 95, no. 1 (2002): 51–57.
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8. Emphasis mine.
9. Cornforth, 53; Spear, 37–47.
10. Lee Egerstrom, "Obstacles to Cooperation," in *Cooperatives and Local Development: Theory and Applications for the 21st Century*, ed. Christopher D. Merrett and Norman Walzer (Armonk, New York: M.E. Sharpe, 2004), 74–75.
11. Spear, 48.
12. Ibid., 50.
13. John Carver, *Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations* (San Francisco: Jossey-Bass, 1990), 13.
14. Cornforth, 53.

15. Spear, 53.
16. *Ibid.*, 52.
17. Cornforth, 53.
18. Spear, 52.
19. *Ibid.*, 52–53.
20. Cornforth, 53.
21. *Ibid.*, 52.
22. International Joint Project on Co-operative Democracy (Joint Project), *Making Membership Meaningful: Participatory Democracy in Co-operatives* (Saskatoon: Centre for the Study of Co-operatives, 1995).
23. *Ibid.*, 21–22.
24. Carver, 28.
25. *Ibid.*, 19.
26. *Ibid.*, 29.
27. *Ibid.*
28. *The Cooperative Grocer*, a bi-monthly magazine for co-op managers and directors in the United States and Canada, features nearly twenty articles that refer to the Carver Model and its application in food co-operatives. These articles can be accessed at www.cooperativegrocer.coop. Also, in their 2004 survey of 197 credit unions in Canada, the Canadian Co-operative Association (CCA) and Brown Governance noted, “There are credit union boards that follow the Carver Model of Policy Governance®” (19). Although the authors did not indicate the number of credit unions that use the Carver Model, it was the only reference to the use of a specific governance model mentioned in the report. CCA and Brown Governance, *Measuring Up: 2004 National Report on Credit Union Governance Practices* (Ottawa: CCA and Brown Governance, 2004).
29. Ann Hoyt, *Up a Creek with a Paddle: Excellence in the Boardroom* (Saskatoon: Centre for the Study of Co-operatives, 2003), 6.
30. Institute on Governance, 8; CCA, “Governance Model for Co-ops,” in *Governance Matters* (winter 2003): 5; available from www.governance.coop; accessed 15 June 2004.
31. Christopher S. Axworthy, “Myth and Reality in Co-operative Organizations: Members, Directors, Employees and Managers,” in *Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change*, ed. Murray Fulton (Toronto: University of Toronto Press, 1990), 42.
32. Axworthy, 47.
33. Cornforth, 53.
34. *Ibid.*, 55–56.
35. Pellervo Confederation of Finnish Cooperatives, *Corporate Governance and Management Control in Cooperatives* (Helsinki: Pellervo Confederation of Finnish Cooperatives, 2000).

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36. Joint Project, 10. ICA's list of co-operative values includes self-help, democracy, equality, equity, and solidarity. Furthermore, the second co-operative principle — democratic member control — states: "Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the members. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner."
 37. Brett Fairbairn, *Three Strategic Concepts for the Guidance of Co-operatives: Linkage, Transparency, and Cognition* (Saskatoon: Centre for the Study of Co-operatives, 2003), 6.
 38. *Ibid.*, 6–7.
 39. Emphasis mine.
 40. Fairbairn, 7–8. Emphasis mine.
 41. Emphasis mine.
 42. Fairbairn, 13.
 43. *Ibid.*
 44. Emphasis mine.
 45. Fairbairn, 14.
 46. *Ibid.*
 47. *Ibid.*, 6.
 48. Benjamin Barber, *Strong Democracy: Participatory Politics for a New Age* (Berkeley: University of California Press, 1984), 119.
 49. Credit Union Central of Saskatchewan (CUCS), "Report on Credit Union Control Structures," prepared by a Task Force of Credit Union Central of Saskatchewan (Regina: Credit Union Central of Saskatchewan, 1977), 25.
 50. *Ibid.*
 51. *Ibid.*
 52. *Ibid.*
 53. *Ibid.*, 27.
 54. *Ibid.*
 55. *Ibid.*, 28.
 56. *Ibid.*
 57. *Ibid.*
 58. Gillian Butler, "Designing Membership Structures for Large Agricultural Cooperatives," USDA ACS Research Report 75 (Washington, D.C.: USDA, 1988).
 59. Butler, 1.
 60. *Ibid.*
 61. *Ibid.*
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62. *Ibid.*, 40.
63. *Ibid.*, 42.
64. Dwayne Pattison, "Governance, Membership, and Community: Developing a Regional Consumer Co-operative in Saskatchewan" (master's thesis, University of Saskatchewan, 2008).
65. *Ibid.*, 34.
66. Omer Chouinard, Pierre-Marcel Desjardins, and Eric Forgues, "Governance and Social Cohesion in Credit Unions: A Rural and an Urban Acadian Credit Union in New Brunswick," *Journal of Rural Cooperation* 32, no. 2 (2004): 96.
67. *Ibid.*
68. Butler, 43.
69. *Ibid.*
70. For more information, see www.affinitycu.ca
71. Butler, 43.
72. Carol Hunter, "Women in Co-operatives: Some Benchmarks," in *Women in Co-operatives: Proceedings from the Women in Co-operatives Forum*, 7–8 November 1997 (Saskatoon: Centre for the Study of Co-operatives, University of Saskatchewan, 1998), 2.
73. Cristine de Clercy and Lou Hammond Ketilson, "Leadership and Diversity: A Study of Demographic and Attitudinal Homogeneity in Saskatchewan's Credit Union Governance Groups," Summary of Findings, 5 April 2004 (Saskatoon: Centre for the Study of Co-operatives, University of Saskatchewan.)
74. Kimberly Brown, "Co-operative Democracy: Board Diversity and the Representation of Women" (master's thesis, University of Saskatchewan, 2007), 55.
75. *Ibid.*, 44.
76. *Ibid.*
77. *Ibid.*
78. Cristine de Clercy, "Co-operation, Federation, and Representation: How Federal Principles Serve the Purposes of Complex Co-operatives," Centre for the Study of Co-operatives Seminar Series, University of Saskatchewan, 22 March 2001.
79. Pattison, 42.
80. G. Ostergaard and A. Hasley, *Power in Co-operatives: A Study of Internal Politics of British Retail Societies* (Oxford: Basil Blackwell, 1965).
81. de Clercy, Co-operation.
82. CCS, e-mail correspondence. 17 October 2008.
83. CCA and Brown Governance, 28.
84. *Ibid.*
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86. *Ibid.*, 30.

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87. Pattison, 36.
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 89. Ibid.
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 91. Ibid., 16.
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 94. CCA and Brown Governance, 17.
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 99. Canadian Co-operative Association, “Executive Committees,” *Governance Matters* (October 2003). Available at www.Governance.coop. Accessed 17 September 2006.
 100. Brown, “Board Diversity,” 124.
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 108. Sharyn Alden, “All aboard!” in *Credit Union Management* 24, no. 10 (October 2001).
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 110. CCA and Brown Governance, 32.
 111. Hoyt, 10.
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 113. William Brown, “Board Development Practices and Competent Board Members: Implications for Performance,” in *Nonprofit Management and Leadership* 17, no. 3 (spring 2007): 313.
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118. Ibid.
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121. Karen Zimbelman, "Assessing Board Performance," in *Challenges to the Cooperative Board of Directors*, ed. David Gutknecht and Karen Zimbelman (Nelsonville, OH: Cooperative Grocer, 1996), 34.
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