GUIDANCE ON CREDIT UNION BOARD AND DIRECTOR EVALUATION

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1. Introduction

A systematic approach to recruitment and succession planning starts from an analysis of the needs of the board and of how and where it needs to be strengthened. This involves evaluations of individual director contributions and of collective board performance. Such evaluations not only identify which skills and competences need to be retained and enhanced into the future, but also those which are weak or lacking on the board.

It is on the basis of knowledge gained through evaluation and assessment that boards can identify which kinds of people, with which kinds of skills, competences and levels of experience, need to be recruited to the board to fill gaps or replace people leaving through the ending of their term of office. Such evaluation also identifies those people who need to be retained.

It is a principle of governance that boards should attend to the evaluation of individual director and collective board performance. Many directors and boards have served for years without any systematic or direct appraisal of their contribution. Just as with any other aspect of a credit union's performance, the board and the directors need to be assessed from time to time, to ensure that they have the requisite skills and knowledge, diversity and representation of the membership, and that they are making the necessary contribution.

The UK Corporate Governance Code 2014 requires that: "[A] board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors." This enables boards to put in place actions to improve performance, such as director development plans, recruitment of new skills (directors) or even retirement of existing, non-contributing directors.

If a CEO is an executive member of the board then he or she should be assessed alongside other directors in their specific directorial capacity. Performance management of the CEO as the senior staff member is discussed in Chapter 5.8.

2. Principles for evaluation

The following principles are recommended in approaching evaluation:

- The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted
- Evaluation may in general be internally conducted, but if possible there should be an externally facilitated review at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the credit union
- The evaluation should be made available to the regulator, following any visit or general request for information
- Ensuring arrangements are in place is a responsibility of the Nominating Committee, or failing this, the chair (although there can be risks to placing this on the chair in terms of conflict of interest), with the administrative support of the CEO / staff team
- All evaluation activity should respect confidentiality, so that participants feel able to be open and honest.

3. What is to be evaluated?

Evaluation should address the effectiveness of the board as a whole, the contribution of individual directors and the performance of specific officer roles such as chair, treasurer and secretary. It is vital that in general, but specifically in advance of any evaluation, every board member clearly understands his / her responsibilities. Directors should have a documented set of responsibilities and / or a role description. This provides a baseline for individual and collective performance evaluation.

What are being evaluated are such issues as:

- Is the board meeting all of its responsibilities?
- Are all the right components of good governance in place?
- Is the contribution and commitment of directors at the required levels?
- Does the board work effectively as a team?
- Is there clarity of purpose and direction?
- How does the board enforce its accountability to members?

Therefore the issues to be assessed by a board evaluation should include:

- Development of strategy, and the monitoring of strategy and performance
- Balance and level of skills and competencies on the board, including financial literacy
- Quality of communication within the board and with staff
- Board processes and procedures, including the effectiveness of meetings and decision-making, and the suitability of reporting and information
- Governance processes.

It is important that the assessment of board effectiveness focuses primarily on processes. The team-working aspects must covered, but this can often be a ‘comfort zone’ for discussion, when the aim should be to test whether the right processes are in place to achieve the board’s objectives, such as effective provision and scrutiny of management information.

4. Evaluation mechanisms

There are three potential approaches to evaluation mechanisms, which have different relevance to the assessment of boards and individuals:

- **Personal**: self-evaluation of a director's contribution to the credit union board, for example to develop professional development plans
- **Peer**: individual evaluation of the performance of peers and the group, to ensure high performance standard and potentially to establish performance criteria for re-nomination for election to the board. This may adopt a 360 degree feedback approach.
- **Collective**: group evaluation of group performance, to ensure high performance standards.

The self-evaluation approach is the most common. This invariably involves a questionnaire that asks individual directors to rate their competence and performance against a range of criteria. This is usually a numerical rating. It generates a picture of an individual's view of himself or herself that can be helpful for the individual in planning their development.

This method can be extended to evaluate board performance as a whole, i.e. the questionnaire asks an individual to score the board's performance on a range of measures. This offers board members a framework for providing feedback to their colleagues as a group on how they believe the board is performing. By looking at average, high and low scores, it is possible to see where there is relative consensus or a broad range of views.

It is important that if individual scores are collated, anonymity is preserved where possible, in order that people feel confident they can be honest and objective.

Peer or 360 degree evaluation takes these questionnaire-based assessments a step further – it asks directors to score other directors This can be done broadly, i.e. everyone scores everyone else, or more focused, e.g. just scoring the key office-holders.

The advantage of a 360 degree process is that it provides an alternative perspective. For example, a highly self-critical chair lacking in confidence might score his or her performance quite low, but find it valuable to discover that the other board members are more positive.

Commenting on the performance of others is much more challenging than self-appraisal. Boards should be seeking an environment where there is sufficient honesty, openness and trust that constructive feedback is an accepted and constant feature of board interactions.

Group evaluation involves direct, face-to-face discussion, whether through dedicated time at a board meeting or a separate workshop. It will tend to demand external facilitation to be effective. It is recommended that this form of evaluation takes place as a follow-up to the questionnaire-based evaluations, so that discussion can focus on data, rather than get caught in observations from individuals that are contested.

5. Evaluation delivery

These tools can be used by boards themselves. There are advantages, however, in using an external facilitator, in particular for peer or 360 degree feedback and group discussion, as noted above. These advantages include:

- Professionals can be experts in discerning messages that might not clear from the base data and they may observe more effectively body language and other non-verbal or questionnaire-based cues
- They are independent, and therefore can deliver with less complication messages that directors might be uncomfortable to give or receive
- They will bring fewer pre-conceptions to analysis of data and of discussion
- With less of a stake in relationship-building and management with directors, they should be fully focused on keeping discussion on track for action-orientated outcomes.

The final outcome of an evaluation process should be a board report summarising the strengths and weaknesses of the board, and making recommendations regarding some or all of the following, as appropriate:

- Collective development and training
- The appointment of new directors
- The resignation of directors from the board or specific roles.

Individual directors should primarily focus on addressing feedback on their performance as directors and updating their personal development plan as necessary.

6. Board and director training and development

Effective director and board evaluation should inform the credit union's board and director training and development programme. Credit unions that succeed operate as learning organisations and ensure that their directors and staff develop their knowledge, skills and competences in response to a changing financial market and regulatory environment.

In all credit unions, in Britain and Romania, there is a need for professional approaches to the development of training opportunities on offer for boards and board members.

Board and director training and professional development are at the heart of good governance and all credit unions need to consider how they can implement training and development individually or collectively as part of the national credit union movement.

Directors are often busy people and sometimes consider that they do not always have the time to undertake training. Educational and training programmes need to be designed so that directors see the value of training and are sufficiently flexible so that they have the time to attend.

7. Template

A spreadsheet template for an **annual self-assessment** accompanies this guidance note, comprising a board performance evaluation, a director (i.e. self) performance evaluation and a training needs assessment

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