Advanced Credit Union Governance:
Practical Board Strategies for Oversight, Risk, and Alignment

World Council of Credit Unions General Counsel Matt Lewis Fireside Chat with Tenenbaum Law Group Managing Partner Jeff Tenenbaum'

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Opening

Q1: Jeff, before we dive in, you've spent decades advising boards across virtually every type of mission-driven institution, across multiple sectors and jurisdictions. What patterns keep showing up, no matter where you are or who you're advising?"

First, one pattern I have noticed is that every board is different and no two boards are the same or have the same characteristics. It is the variety and differences that I notice. Some boards are very strategic (fortunately). But many are not. Some boards are very micromanaging of staff. Most are not (thankfully). Some boards meet for way too long and too often (in my judgment), while some meet too infrequently and for too short a period of time. Most board members tend to be very respectful of each other and of the organization's staff.

Governance vs. Representation

Q1: Most member-based institutions, like credit unions, are built on a democratic ideal — that those served by the organization should govern it. But in a world that demands speed, expertise, and strategic agility, how well is that model holding up?

For membership-based organizations like credit unions, it is the norm for the boards to be comprised solely or largely of members – but not always. It is not uncommon for membership-based orgnizations to bring on board members from outside of the membership – namely, those who bring specialized expertise, outside perspectives, or other valuable traits or experience.

> ***Follow-up:*** *Where have you seen institutions successfully modernize their governance model without losing the trust of their members? How are they doing that?*

It takes a lot of trust-building and transparency with the membership. And it is never easy. If an organization has an antiquated governance model that needs to be modernized, change is essential, but the board has to be careful to never get too far ahead of the membership at large – especially the engaged members – without bringing them along each step of the way.

Q2: Is there a point at which structures designed to maximize representation can actually make an organization harder to lead — and if so, how do you even talk about that without sounding like you're against democracy?

Absolutely. We actually see it sometimes with membership-based organizations. It often manifests itself most in organizations that have a house of delegates model, which is essentially a representative body of the membership. Depending on what authority is vested in the house of delegates, there is often tension between the house and the board over governance authority and control, with the house often exercising or attempting to exercise more authority than is healthy. I also sometimes see the same tension between the board and the membership even in the absence of a house of delegates.

Board Competency in an Era of Complexity

Q1: We're asking boards to oversee risks — AI, cybersecurity, geopolitical exposure, digital finance — that didn't exist in their current form ten years ago. What does meaningful oversight actually look like when directors may not fully understand the thing they're overseeing?

It looks like several things. First, utilize outside experts, which boards are allowed to do in carrying out their fiduciary responsibilities. Use them to conduct risk audits and to educate the board. Second, utilize committees to do a deeper dive into issues. Finally, ask probing questions of staff on what they are doing to mitigate risk in various areas.

Q2: What do you do in situations where a pool of candidates cannot provide the expertise to have a well-rounded board (not available or those with knowledge unwilling to serve). What should boards do?

This actually happens from time to time. First, you have no choice but to make do with what you have at any given moment. Second, put out regular calls to the membership for volunteer leaders. Third, work hard to develop a pool of future board members by getting younger members involved in other volunteer leadership roles as a precursor to later board service. Finally, consider bringing in board members who are not members but who can add some real value to the board.

Mission Drift vs. Commercial Pressure

Q1: Institutions in this room were built around a purpose — serving members, not maximizing returns. But competing in a modern financial environment requires scale, technology, and sometimes uncomfortable commercial decisions. How do you modernize aggressively without quietly drifting away from the identity that made you trusted?

Credit unions are still businesses. You can't serve your members and fulfill your mission without having the financial means to do so and having a strong balance sheet and healthy financial bottom line. And it's not just money. It's technology, systems, and more. I frankly don't see commercial modernization as being inconsistent with being member- and mission-driven. Rather, I see them as being very complementary.

> ***Follow-up:*** *Can you give an example — without naming names — of an organization that navigated this well? What did they actually do differently?*

I think the keys are to (i) always keep your members and your mission top of mind as your organization engages in modernization efforts; pressure test your key decisions to ask how they serve your members and your mission, and (ii) be as transparent as possible with your members about the process along the way.

Q2: What are the early warning signs — the things a board should be watching for — that signal they're beginning to rationalize growth at the expense of purpose?

I would think that the number one warning sign would be financial pressures or struggles. Of course, that would include losing members or not bringing on new members at the same rate as in the past, as well as your bottom line. Financial stability and health – which are key for every credit union – are simply non-negotiable.

Governance Culture vs. Governance Structure

Q1: There's a difference between a board that checks all the boxes and a board that is genuinely high functioning. What separates those two things in practice?

To me, high-functioning boards share certain traits. In my experience, a high-functioning board is very strategic, upholds its fiduciary duties, including its oversight and due diligence function and avoiding conflicts of interest that are harmful to the organization, understands its roles and responsibilities, cultivates a healthy, respectful, and empowering relationship with its CEO and other staff, delegates appropriate decision-making authority to committees, sets the strategic direction and then stays out of the weeds and doesn't micromanage the staff, serves as an ambassador to the membership, holds trust and respect among each other, and speaks with one voice publicly.

> ***Follow-up:*** *If you could change one thing about how boards actually operate — not what the governance documents say, but how the room actually functions — what would it be?*

To me, one of the most important things a board can do is to strike an appropriate balance between its strategic and oversight functions. While board meeting agenda-structuring can be helpful in this regard, it really is not possible for governance documents alone to ensure that balance. How things work in practice is equally critical.

Q2: When you look back at governance failures — and you've seen many — are they more often failures of structure, or failures of culture, communication, and human dynamics, or something else altogether?

All of the above. I can literally think of many client examples where each of those things have caused governance failures. Structure, culture, communication, and the personalities of the individual board members can all contribute to governance failures. Sometimes, it is a combination of those factors. Other than personality issues, there are many prophylactic ways to address the other issues and mitigate the risk of governance breakdowns.

Strategic vs. Operational Governance

Q1: Why do boards — even experienced ones — keep drifting from strategy into operational management? Is it a structure problem, a culture problem, or something else?

I think it is human nature more than anything else. Most board members deal with operational issues in their own day jobs and lives, so it is natural to gravitate toward that when serving on a board. Structure can help – such as how meeting agendas are structured, using consent agendas effectively, not "relitigating" the work done by committees, bringing in a strategic planning consultant, and bring in someone to do annual governance and legal training. Some people are just not inclined to be strategy-focused, but it really takes a concerted effort by the board collectively and leadership from the board chair and other volunteer leaders.

> ***Follow-up:*** *What's the right mechanism for a CEO to push back when the board is too deep in the weeds — and what makes that conversation go well versus badly?*

In my experience, the best way for the CEO to push back on board micromanagement is to enlist others to do it. For instance, I generally do about two board governance and legal trainings a month, and one of the things I always stress is the importance of boards and staff staying in their respective lanes. A number of client CEOs have told me that those trainings have been helpful in reinforcing these and other important principles to the board. In addition, hiring a coach (well versed in governance) for the board chair can be a helpful tool. Finally, board self-assessments can be effective in getting boards to look in the mirror, but the follow-up from them is what is most important.

Q2: What does a board that has crossed the line from governing to managing actually look like — and how does an executive team handle it without creating a crisis of its own?

While this may sound self-serving, using outside legal counsel can be highly effective in getting a board that has crossed that line to understand the potential adverse *legal consequences* of their actions. Unfortunately, this has happened on more than a few occasions during my three decades of practicing law, but I have had some real success in getting boards to back off from micromanagement.

Succession Planning and Leadership Continuity

Q1: Succession planning is one of those things almost every governance framework says is critical — and yet it's consistently one of the most neglected. What's actually going on there? Why does it keep getting deferred?

First, in my experience, succession planning means different things to different boards. First, are we talking about the board planning for CEO succession (which is most commonly the case), or are we talking about board leadership succession? Both are important.

With regard to CEO succession, some boards believe this means having a strong #2 in place on staff who can take over when the CEO departs, either on an interim or permanent basis. That might work sometimes but often does not, particularly when there is not such a candidate on staff or on the market. Nor does it have to. What is most important is to have a *process* and *playbook* in place that can be followed, especially if the CEO departs suddenly. Things like having a short list of interim CEOs (or interim CEO firms) on speed dial, being ready to form a search committee of the board (and having a search committee charter prepared), deciding whether to work with an executive search firm, and having experienced legal counsel with whom to consult are all important aspects of that playbook.

When it comes to board leadership succession, this is arguably even harder. While the organization's Bylaws will almost always spell out the process for succession of officers, what they virtually never do is speak to the importance of creating (or trying to create) an evergreen pipeline of young, future, diverse leaders for the organization. As I said earlier, the ideal governance framework will create a healthy breeding ground for potential prospective board members. Also, having board terms and term limits is very important to help ensure a regular infusion of "new blood" on the board. Finally, having a strong "leadership committee" or "nominating and governance committee" can be a key tool in proactively identifying and recruiting future leaders.

> ***Follow-up:*** *Is there a governance structure — a board practice or process — that you've seen genuinely help with this, rather than just being written into a policy that no one follows?*

Presuming you are speaking about board leadership succession (and not CEO succession), as I said, the pipeline for future volunteer leaders is something that is almost impossible to codify in Bylaws or policy. It is something that needs to be purposefully and continuously addressed by the board. While a strong leadership or nominating or governance committee can be a helpful structural tool in the process, it really needs to be baked into the culture of the board. It also can be important in building a diverse board, in every aspect of diversity – age, sex, race, and professional background, to name a few.

Q2: How do you build an institution that retains its knowledge, its relationships, and its culture across leadership transitions — without becoming so dependent on a single leader that the transition itself becomes a crisis?

From everything I have seen over the last 30 years, having a board become too dependent on a single leader (or perhaps several leaders) is not healthy or a best practice. While it goes without saying that those who have been on the board the longest will have the greatest institutional memory, you don't want those board members to have outsized power or influence, and you want to empower all board members to be active, vocal, and equal participants in the governance process. Of course, terms and term limits – both for director and officer positions – can be critical to ensuring healthy turnover and the regular infusion of new blood. At the same time, you don't want to lose the invaluable board history, especially so that future boards don't repeat the mistakes of the past and so that they can understand what has worked well and not so well in the past. I don't have any silver-bullet solutions for this, but, in my experience, a blended approach tends to work best.

Meeting minutes are a historical record of board deliberations and actions, but they should not become history books or transcripts of meetings. I have seen some clients do things like have their board chairs – at the end of their term – document the successes (and failures), lessons learned, innovations implemented, and other highlights of their term. This is perhaps one example of a way to retain that knowledge over leadership transitions. I am sure there are others as well.

Governance Agility During Disruption and Crisis

Q1: Governance frameworks are generally designed for normal — regular meetings, established processes, predictable decisions, measured deliberations. When a real crisis hits — a cyberattack, a liquidity shock, a reputational emergency — how do those structures hold up?

We haven't discussed executive committees today, but I have always found that healthy governance structures usually involve a strong executive committee – typically comprised of the officers of the organization – to be able to make decisions and steer the organization appropriately in between board meetings, including in times of crisis. While keeping the full board apprised of the executive committee's actions and being transparent with the board is very important, as well as not getting out too far ahead of the board and reserving major decisions for the board, it also is important to empower the executive committee to be nimble when needed.

> ***Follow-up:*** *What's the one thing most boards haven't done that would make them meaningfully more crisis-ready?*

Having good crisis plans to deal with those unforeseen – but perhaps foreseeable – emergencies. While it is not possible to plan for every contingency, good crisis planning, at both the governance and management levels, is critical for every organization. And, the board can exercise its fiduciary duties by ensuring that management is well prepared for the inevitable crises.

Q2: There's a real tension between the speed that crisis demands and the deliberation that good governance requires. How should boards think about that — and how much should be pre-decided before the crisis arrives?

It is always a delicate balance. Even if both the board and management have solid crisis plans in place, you can't guard against every possibility. That's why being quick and nimble, reacting with haste and deliberateness, and being as transparent as possible with the board (when the executive committee and/or management are acting) and with the membership (to the extent possible) are also critical to effectively managing unforeseen emergencies.

AI and Governance

Q1: What level of AI literacy should boards now reasonably be expected to have — not to manage AI systems, but to govern institutions that are using them?

As I have yet to find a client that does not use AI in some way, shape, or form, and as most organizations *should* be using it to do everything from maximizing effectiveness to increasing reach and impact to improving efficiency, it is incumbent on boards to ensure that management is using or exploring the use of all of the available, proven AI tools at their disposal. But, it also is critical for boards to ensure that management has put appropriate policies and guardrails in place to help facilitate AI in a manner that doesn't create undue risks for the organization.

> ***Follow-up:*** *What does the next generation of governance frameworks need to look like to be adequate for the AI era — and are any jurisdictions or industries ahead of the curve?*

I am not sure of what the next generation of governance frameworks looks like in the AI area. But, what I am starting to see is the evolving *manner* in which our clients are using AI. For instance, enterprise-level "closed" AI systems are becoming the norm, at least in more-sophisticated groups, whereby the organization can safely input all of its data, information, and documentation – even that of a more-sensitive nature – for maximum effect and impact. In addition, AI usage policies for staff, volunteer leaders, speakers, authors, and contractors are essential (and they continue to develop) – as is consistent *enforcement* of the policies. And, AI-related contract clauses are quickly becoming the norm.

Q2: When AI is influencing credit decisions, member communications, and operational risk — and doing so in ways that aren't always transparent or explainable — where does governance accountability actually sit? And is anyone doing this well yet?

As an attorney, I would be remiss if I didn't reference some of the legal risks that can arise from AI usage. From the potential adverse ability of AI to influence credit decisions in a manner that reflects the built-in bias that exists on the Internet, to using AI in the hiring process where that bias can lead to discrimination claims, to infringing others' copyrights, to disclosing sensitive, confidential, proprietary, or privileged information, the legal risks arising from AI use are boundless. It is incumbent on boards to ensure that management has put appropriate safeguards and guardrails in place to help mitigate these risks.

Closing Questions

Q1: We've covered a lot of ground today — structure, culture, competency, mission, crisis, AI. But let's end with something practical. What's the one conversation that most boards in this room are probably not having, that they should be having before they get on the plane home?

To me, it is not so much the conversation they are having as it is the board's partnership and relationship with management. In my experience, the most effective boards are not only those that are well constituted with a balanced combination of talent, experience, diversity, new ideas, and new blood, but also those that have a healthy, open, and collaborative relationship with the organization's staff. When the board knows how to stay in its lane with respect to management but also knows how to be strategic as much as it exercises its oversight function, and when it can work in a collaborative and productive manner with the staff, the organization is best served, everyone is usually happier, and the organization's mission can be most effectively fulfilled.

Q2: You've advised institutions at their best and at their worst, across a lot of sectors and a long career. Stepping back from all of it — are you genuinely optimistic about the future of governance, or is there something about where things are heading that concerns you?

Most definitely. I am very optimistic. No question about it. Of the hundreds of clients that I work with each year, most are pretty well functioning from a governance perspective, but even for those that have their share of challenges, they generally seem determined to right the ship and steer things in the right direction. But some of it is personality driven. It is usually tough to do much about that, especially where there are strong personality conflicts. Board training, education, and coaching can help, but it has its limits. As I stated earlier, one of the most important things that boards can do to help ensure a healthy governance structure is to not only have appropriate policies and structures in place, but to have a strong nominating committee that helps select intelligent, dynamic, diverse, and engaged board members. Finally, don't underestimate the necessity of having a strong board chair and other volunteer leaders, especially if they have a compelling voice and vision for the organization and a passion for the credit union industry.

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