Strategic Opportunities & Critical Governance Challenges

Evolving the Governance Response Pattern

By: Peter Myers, MSC, PCC

DDJ Myers
An ALM FIRST Company

Strategic Opportunities & Critical Governance Challenges

- Increasing top-line revenue
- Managing margins
- Managing credit risk
- Interest Rate Risk
- Unemployment
- Fraud
- Developing tomorrow’s leaders
- Growth!
- CEO succession planning
- Board succession planning
- Regulatory shifts
- FinTech enablers & disruptors
- Mergers
- Artificial Intelligence!

Strategic Opportunities & Critical Governance Challenges

1. Increasing top-line revenue
1. Managing margins
1. Managing credit risk
1. Interest Rate Risk
1. Unemployment
1. Fraud
1. Developing tomorrow's leaders

1. Growth!
1. CEO succession planning
1. Board succession planning
1. Regulatory shifts
1. FinTech enablers & disruptors
1. Mergers
1. Artificial Intelligence!

Indirectly and unintentionally, Board to CEO:
"These are all important."

Board "Performance"

Operating Parameter:

The board's governing impact on the organization's performance, effectiveness in declaring and framing the organization's strategic priorities, and efficacy as the fiduciary body.

Board's Responsibilities

To ensure the organization's "response pattern" evolves:

1. Hold the CEO accountable, and reward, to achieve results
2. Acquire and develop relevant "functional domain expertises" in the governance bodies
3. Increase likelihood of long-term strategic execution with rigorous succession planning

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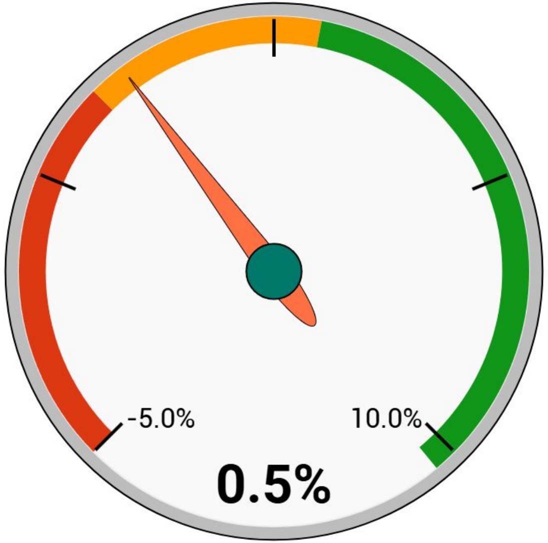
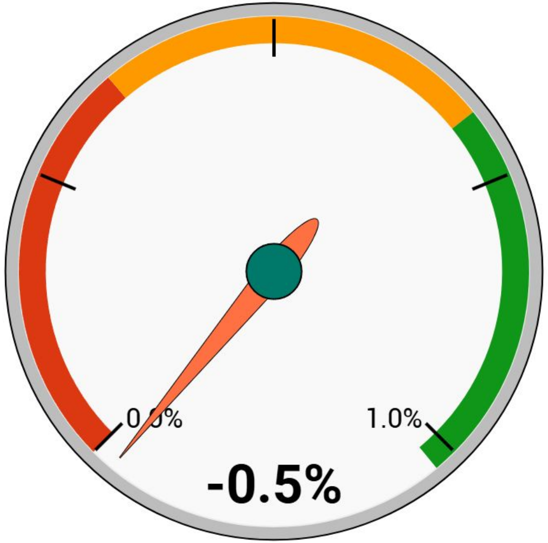
Achieving Results: Case Study "Today"

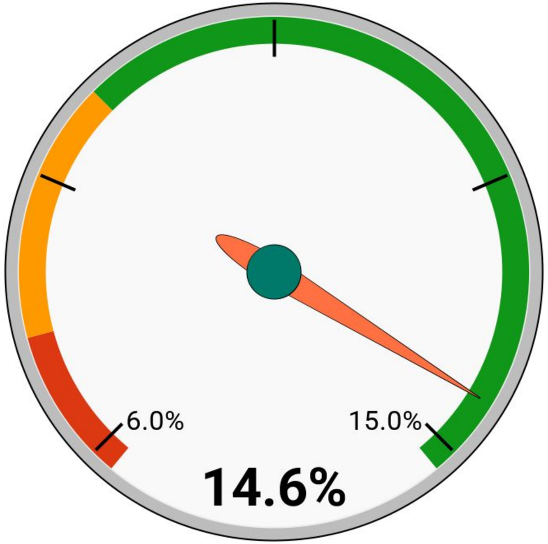
Membership Growth%



ROAA %

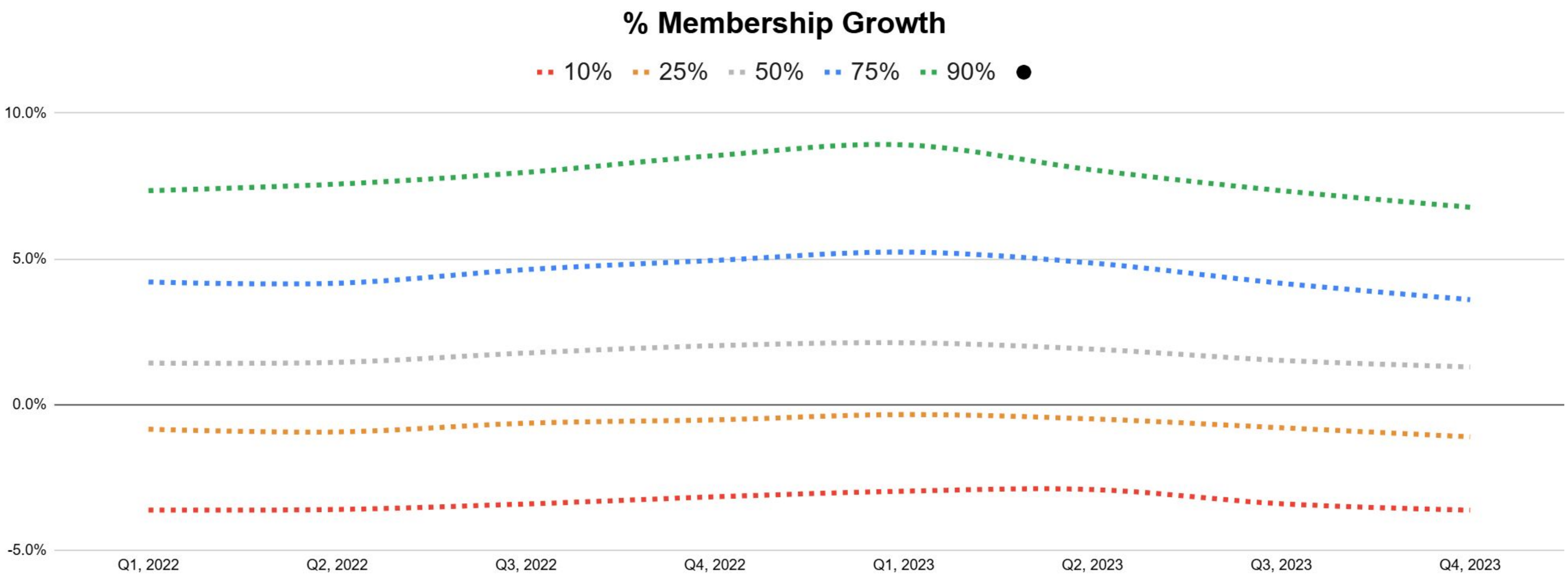


Net Worth Ratio %



Board to DDJ Myers: "I don't *think* we're performing financially."

Case Study: Membership Growth



Source: NCUA Call Reports

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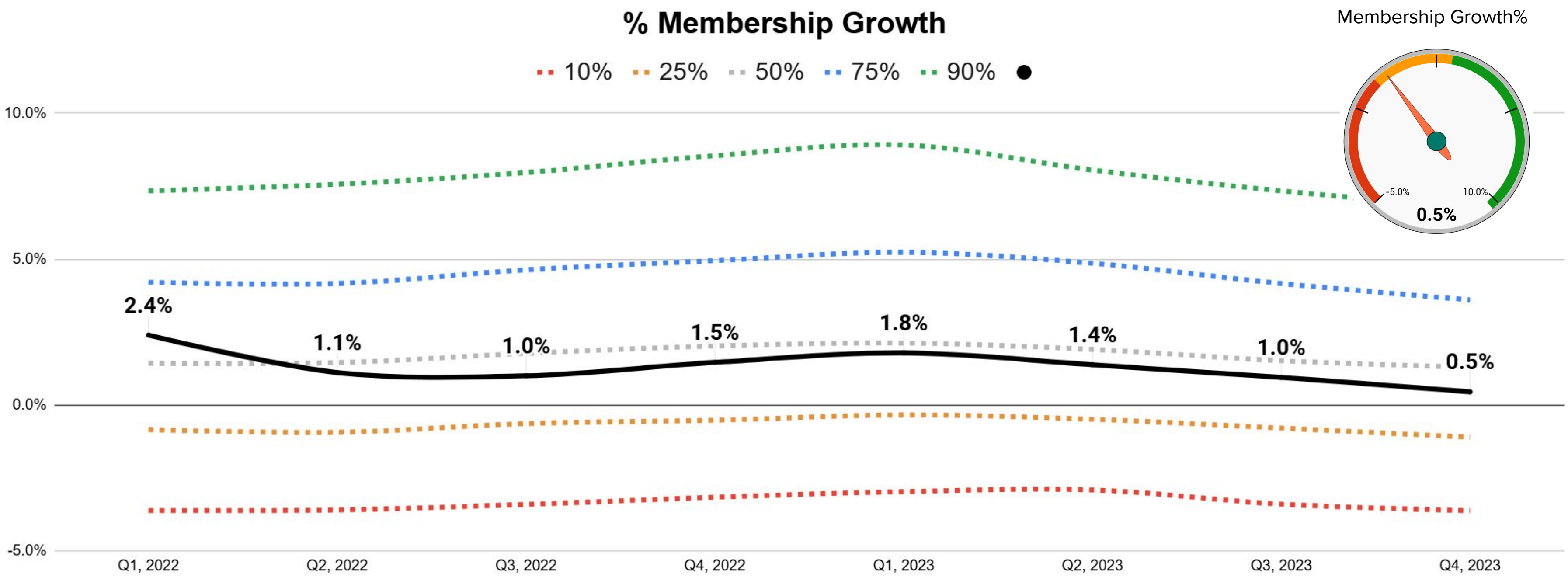
Case Study: Membership Growth



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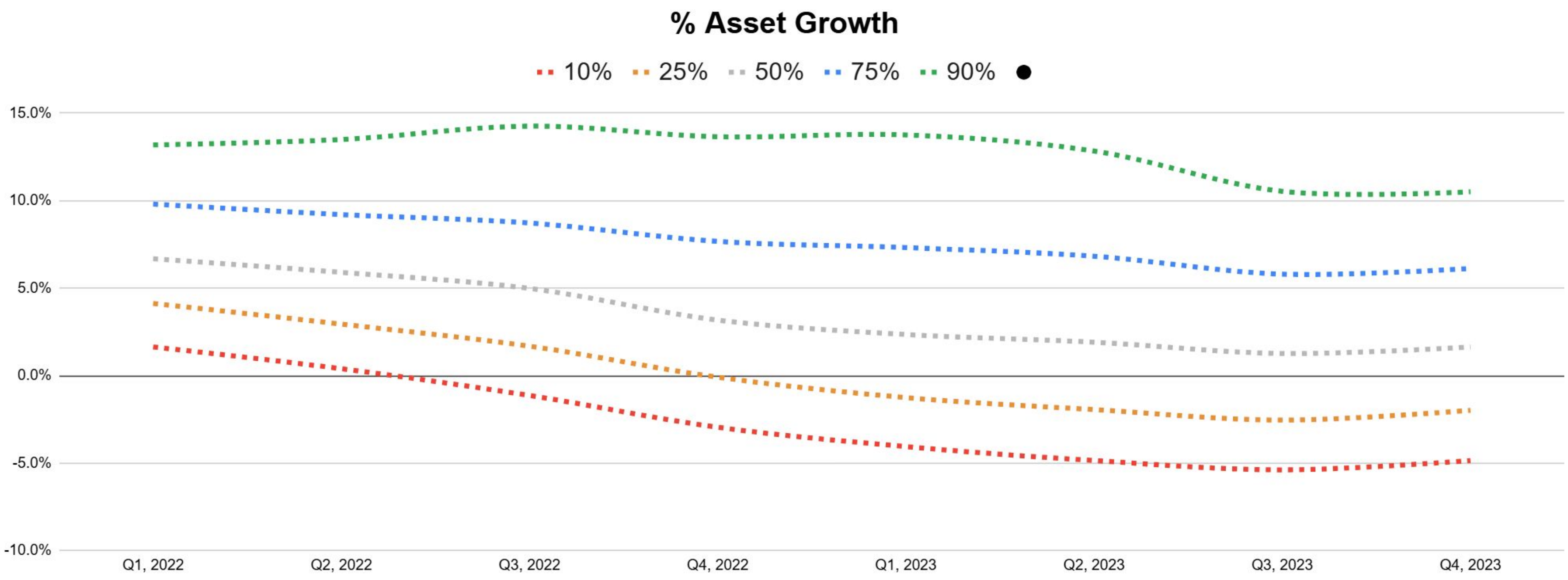
Case Study: Asset Growth



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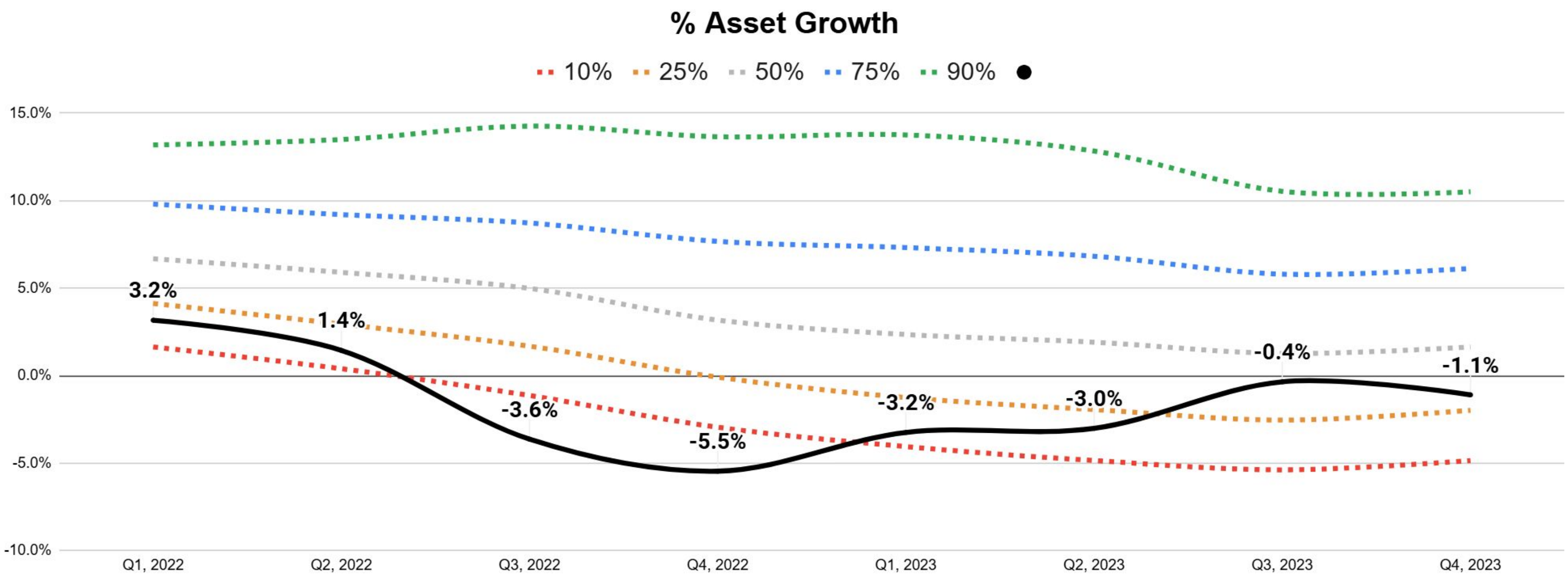
Case Study:
Asset Growth



Source: NCUA Call Reports

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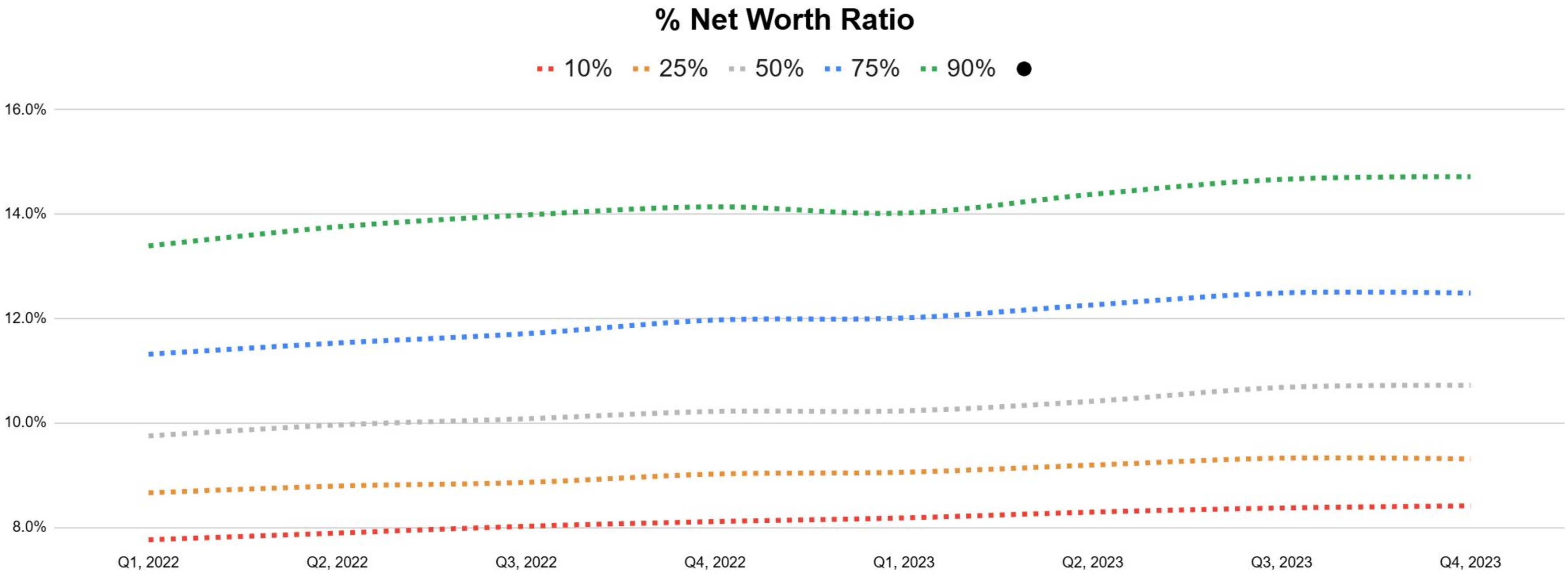
Case Study:
Net Worth Ratio



Source: NCUA Call Reports

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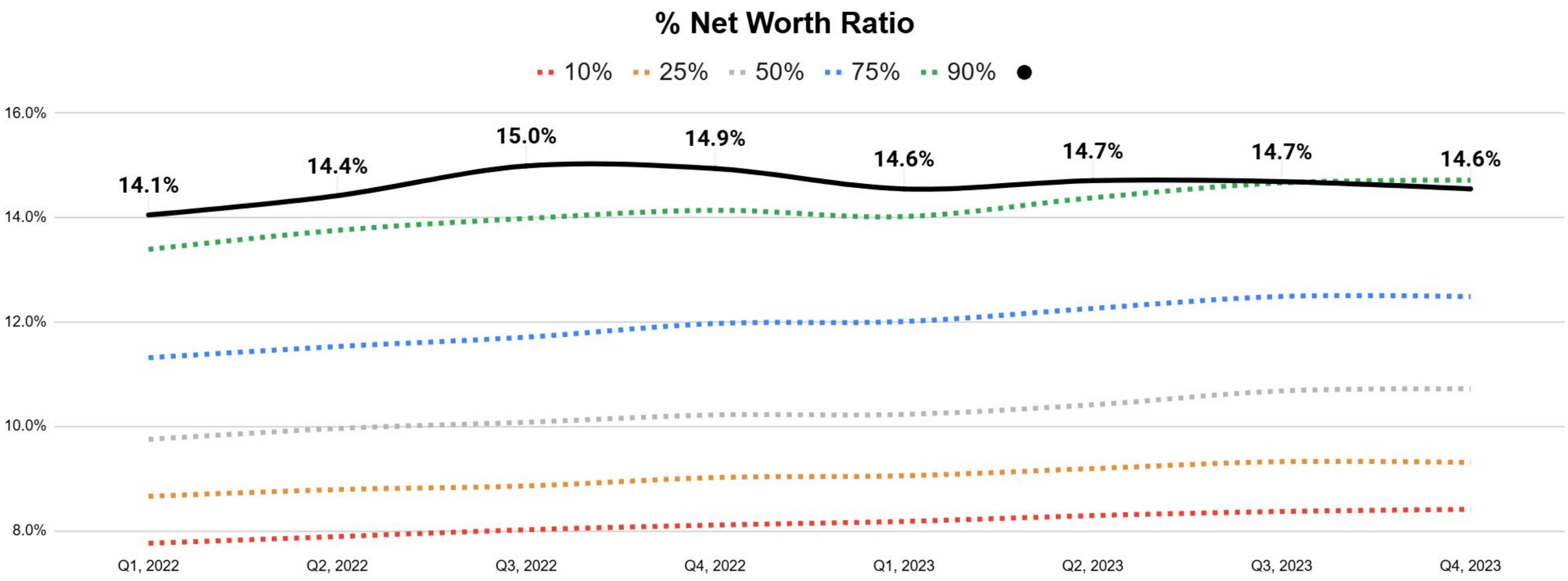
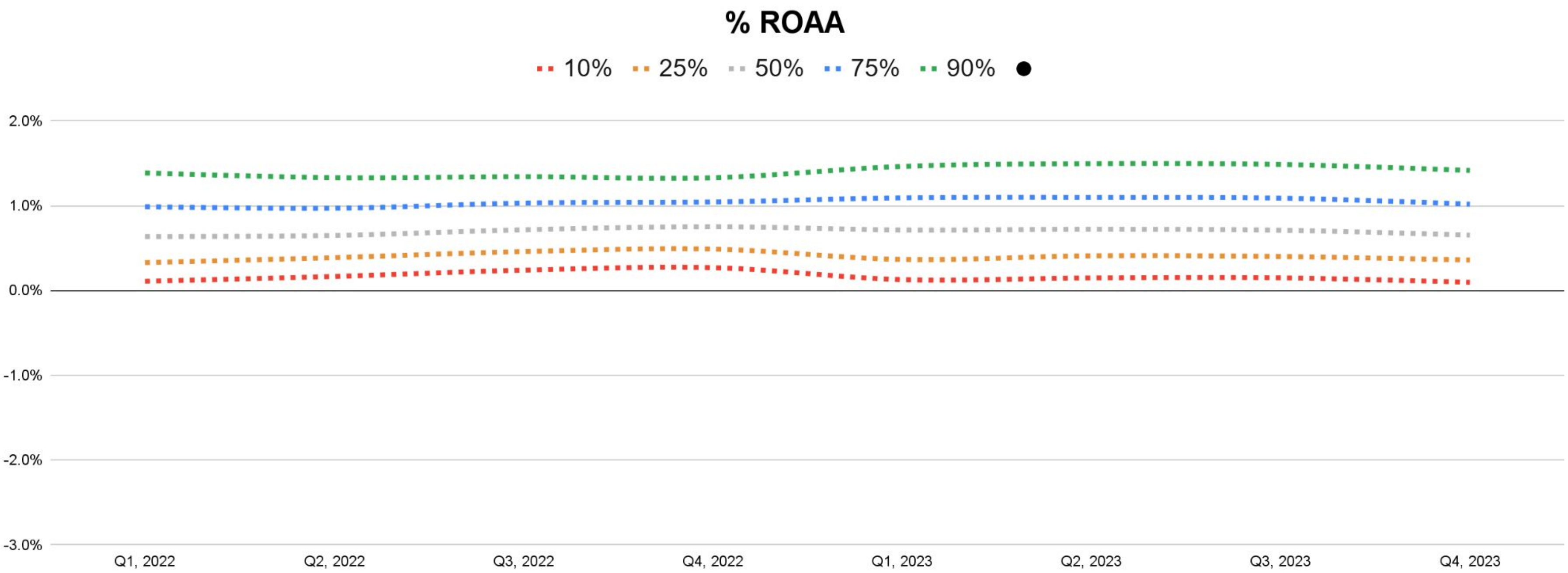
Case Study:
Net Worth Ratio



CEO to board: “We are one of the strongest institutions in the industry.”

Source: NCUA Call Reports

Case Study:
ROAA



Source: NCUA Call Reports

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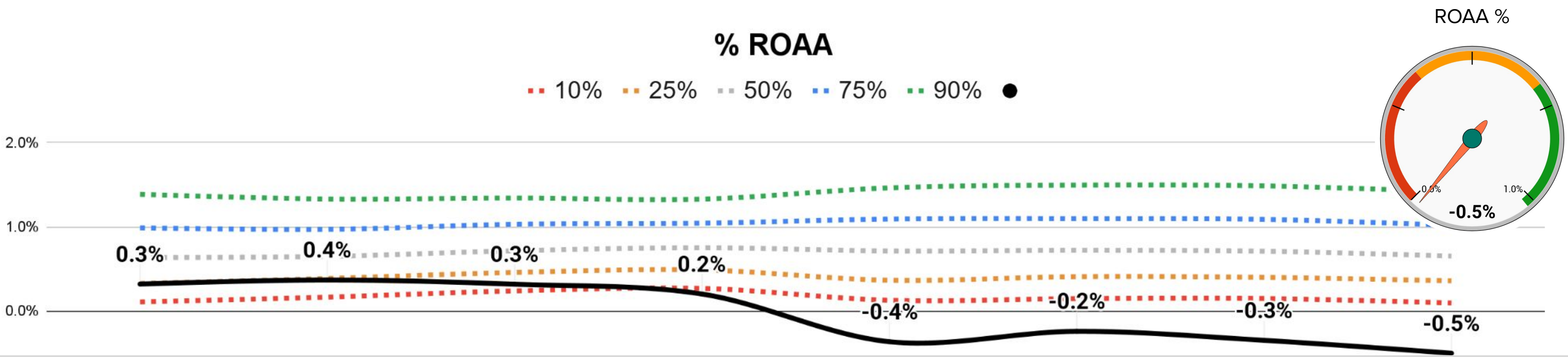
Case Study:
ROAA



CEO to board: “Economic headwinds… *Everyone* is experiencing the same results.”

Board to DDJ Myers: “I don’t *think* we’re performing financially.”

Source: NCUA Call Reports

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Holding Accountable & Rewarding CEO

CEO Performance Evaluation:

Incentive Scorecard:

Holding Accountable & Rewarding CEO

CEO Performance Evaluation	Incentive Scorecard

Prompts to support evolving the governance response pattern:

1. How **has** our organization performed? How competitive **should** it perform?
2. How sophisticated is our process of translating framed organizational priorities into actionable measurements?
3. How effective are our governance practices to appropriately hold accountable and reward our CEO for their leadership?
4. What is our governance response pattern to an underperforming organization?
5. If CEO's leadership consistently results in highly competitive organizational performance, how relevant are our reward and retention practices?

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Relevant Functional Domain Expertises

Skillset Premises & Assumptions: Tomorrow's Organization

- Will be evolutionarily more sophisticated than today's
- Oversight responsibilities and functions will be more complex
- Effective oversight will require same, sharper, and new skills and expertises

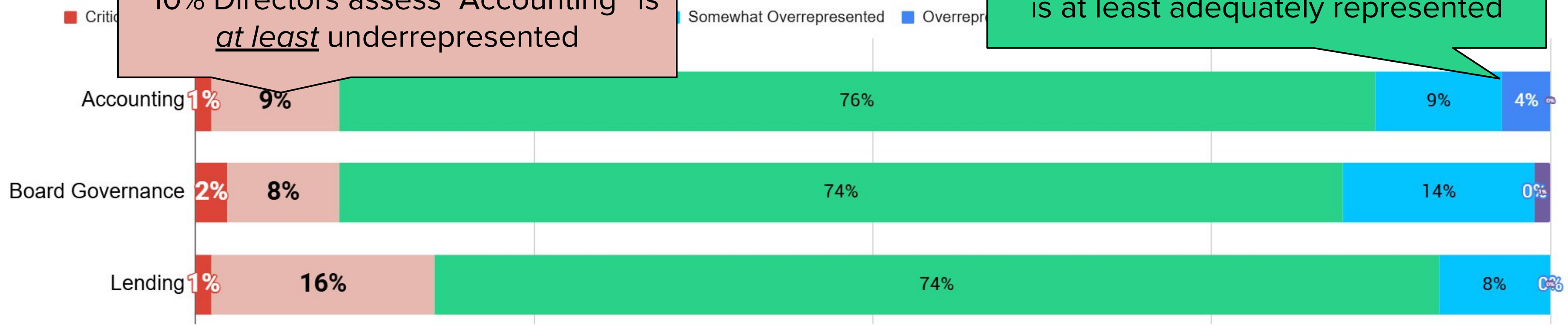
Relevant Functional Domain Expertises

Historically Relevant Skills & Expertises

- Accounting
- Board Governance
- Lending

~10% Directors assess “Accounting” is *__at least__* underrepresented

~89% Directors assess “Accounting” is at least adequately represented



Source: DDJ Myers’ Functional Domain Expertise Database

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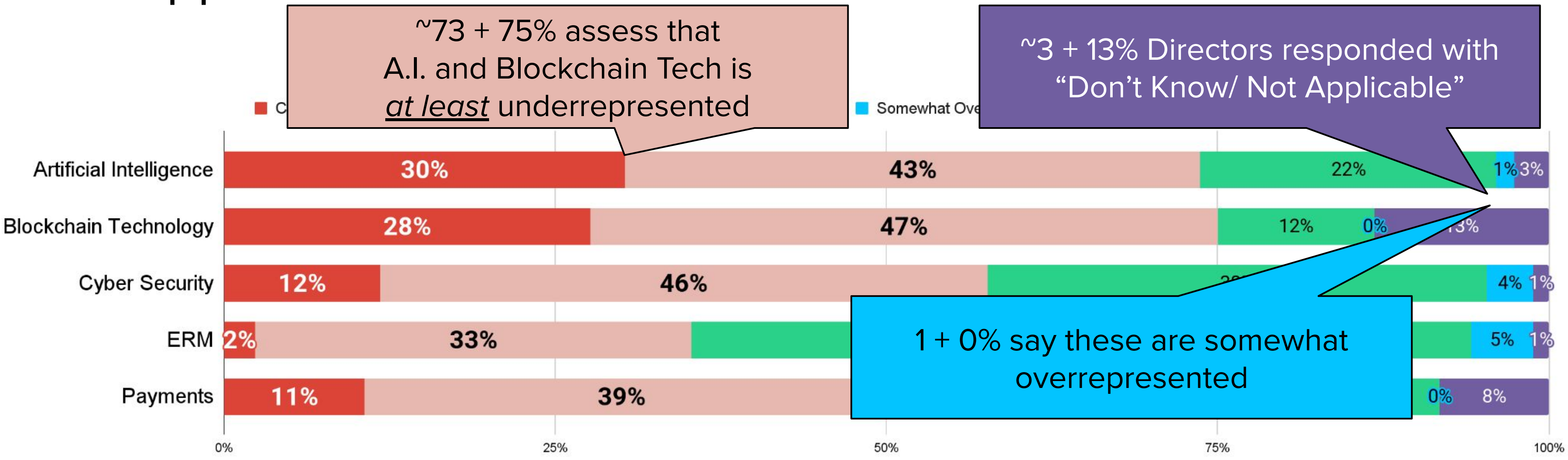
Relevant Functional Domain Expertises

- Establish a relevant board-level benchmark for the future.
- Inform oversight, succession, and development opportunities.



Source: DDJ Myers' Functional Domain Expertise Database

Relevant Functional Domain Expertises

Action Items to support evolving the governance response pattern:

- Establish a relevant board-level benchmark for the future.
- Inform oversight, succession, and development opportunities. NOT necessarily operational expertise.
- Assess current portfolio of skills and expertises against future benchmark.
- Regularly update the benchmark to ensure representation aligns with strategy. Because the strategy will evolve.

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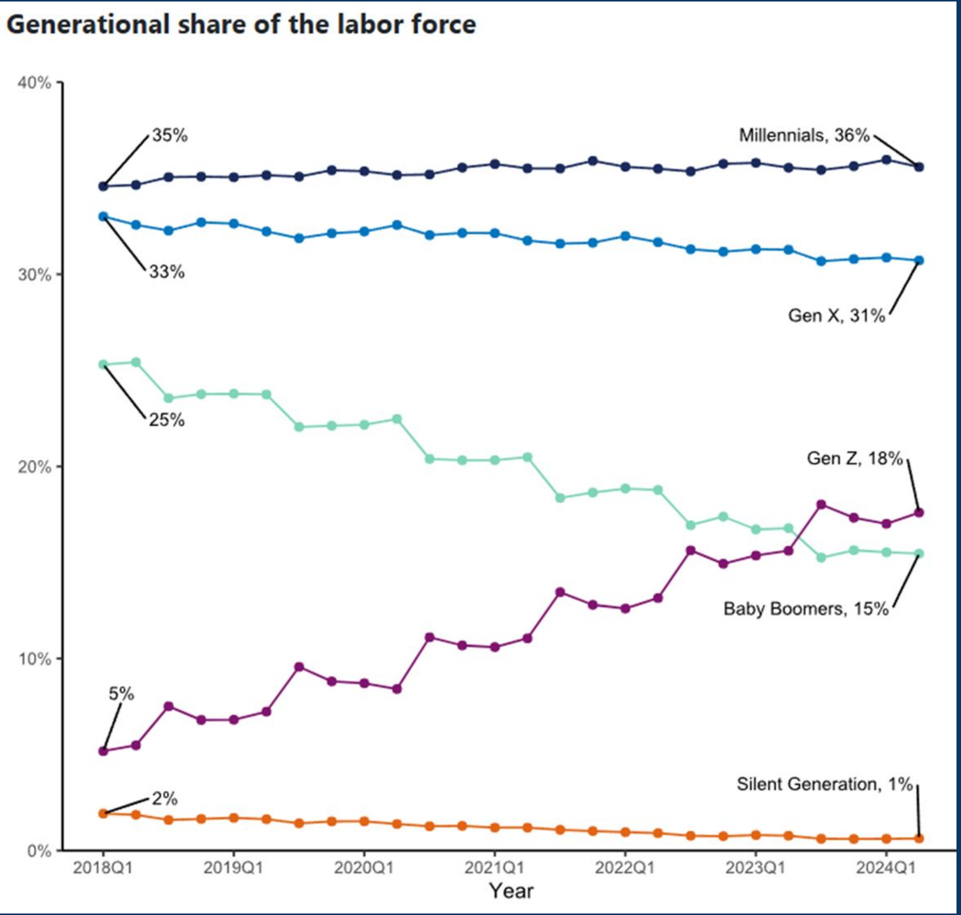
Changing Workforce

- **Baby Boomers:**
  - By 2030, 21% of population ≥ 65+, a 25% increase within 5 years.
  - Seasoned talent stepping out of roles
- **Gen Z:**
  - Anticipated to become 30% of the workforce by 2030
  - Green talent filling the void.



Source: Bureau of Labor Statistics, Current Population Survey

A.I (Generative & Agentic)

- Processes and jobs are being upended by Artificial Intelligence.
- "BofA Moynihan believes the industry will employ fewer people as AI takes over how banks process payments and manage client finances."
- Boards are asking for the "A.I. strategy".
- Even if the "threat" of replacing a person's job with AI is not here <u>today</u>…the fear is <u>real</u>.

Source: WSJ & Peter Myers

Location: The Highline in NYC

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Succession Planning Case Study: Tenured Executive Team

- CEO is five years away from retirement.
- The two EVPs are either not qualified or not interested.
  - One is 5-6 years away from retiring.
- They have an ambitious strategic plan.
- The next level of talent is still green.
- The Directors are looking to transition off the board after they select the next CEO.
- CEO is interested in hiring successor in two years.
- It's not guaranteed that this new hire will get the CEO job.
- What's the critical governance challenge? **Miss?**

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Succession Planning Case Study: Future-Ready CEO Candidate

- Board + CEO have implemented thoughtful CEO succession plan.
- Talent investments are made into the identified and interested CEO successor.
- Rest of executive team is supportive of identified successor's development.
- Potential successor champions major strategic initiatives.
- Organization has some wins and performs somewhat better but whole-org execution is not optimal.
- Identified successor assumes CEO role according to plan.
- New CEO asserts current executive talent will not meet future needs.
- What's the critical governance challenge? Miss?

Best Practices: Succession Planning

- Rigorous planning requires vetting various scenarios.
  - Remove, “They won’t leave” mentality.
  - Strike, “What we did before will work next time” orientation.
  - Add in, “And what else could happen? What might be the downstream positive and negative impacts?”
  - Include in candidate evaluation process “thorough review” of candidates’ strategic capabilities. Dig deeper than sound bites.
- After each and every strategic planning event, update the succession plan.
  - Articulate relevant skills, experience, and leadership competencies that will be needed in the future, for all the relevant roles:
    - Board: CEO and Director positions
    - CEO: Executive and other roles

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Best Practices: Succession Planning

- Go beyond the “role” boxes
  - Insist on thorough documentation and preparation for operational continuity throughout the organization.
    - C-level execs are not always mission-critical to task execution.
  - Regulators are reviewing documentation of ‘how’ and ‘why’ certain ‘risk’ decisions are made.
- Evolve the board’s mindset
  - The shaping of succession planning is governed by the board’s mindset.
  - An evolved and futuristic board mindset will stimulate different dialogue and result in more thorough plans for the future.
  - It’s easier for a board to align through thorough planning
  - A reactive governance posture encourages misalignment and poor execution.

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EXECUTIVE SEARCH

Power Up.

TOP TIER APPROACH

Attract the talent necessary to satisfy the strategic context of key positions.

BOARD DEVELOPMENT

Bring It.

FACILITATE TRANSFORMATIONAL CHANGE

Guide the organization strategically forward.

EXECUTIVE COMPENSATION

Leverage the gold standard.

Comprehensive and defendable research and benchmarking.

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EXECUTIVE DEVELOPMENT

Right Now.

STRATEGIC BENCH STRENGTH

Cultivate strategic thinking, enhance coordination, elevate pragmatic communication, and eliminate silos.

CEO EVALUATION

Prepare for Lift

Boards that have a strong CEO Evaluation in place are more likely to yield stronger ROA performance.

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Credit Union Times.

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By Peter Myers

Thank You!

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