

Use Your Strategic Plan as a Road Map

Education, communication are key strategy components.

The most important document board members review isn't the monthly board packet, it's the credit union's strategic plan.

"We see board books as retroactive of what happened instead of what could be," says Meredith Vaughan, director at \$5.8 billion asset Ent Credit Union in Colorado Springs, Colo. "Don't be responsive to board books. Be responsive to strategic plans."

Vaughan participated in a panel discussion at the 2019 CUNA Roundtable for Board Leadership in Phoenix that examined the board's role in discussions and strategic planning efforts.

To develop the strategic plan, Vaughan says the board sets the "master goal" for the credit union, but doesn't get into details on how to achieve that goal. The CEO

and leadership team finalize the operating details and put together the strategic plan, which the board approves at the annual retreat.

A monthly dashboard updates the board on the leadership team's progress. Progress guides discussions throughout the year. As a result, the board avoids getting caught up in lengthy discussions about minute details and instead focuses on the bigger picture.

"We focus on the highest level of strategy," Vaughan says. "Discussions have evolved so we're able to offer insight."

**'DON'T BE RESPONSIVE
TO BOARD BOOKS.
BE RESPONSIVE TO
STRATEGIC PLANS.'**

MEREDITH VAUGHN

All board members speak with the CEO. But as board chair at \$1.3 billion asset Unitus Community Credit Union in Portland, Ore., Frank Chinn is responsible for official communication coming from the board about the executive team.

"The CEO and I are the connectors of the organization," Chinn says. "He runs the operational aspect of it. But I want to make sure the CEO is always in the loop."

Keeping the CEO and other senior managers in the loop is also a goal of the board at Ent, and Vaughn says this allows the board to "speak with one voice."

The CEO attends board meetings and stays for the executive session, although he will recuse himself when the discussion centers on his salary. At the same time, two members of the management team serve on each board committee, Vaughn says.

This has improved how the board operates.

"We've increased engagement touchpoints with senior leaders," Vaughn says. "And as a result, we have better relationships with them and more strategic thinking at the board level."

While putting together the strategic plan and having meaningful conversations with the CEO and senior management are important, Chinn says education is another critical component to strategic planning.

"There are so many levels to strategic planning," Chinn says. "Part of that is educating the board."

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SALARIES CONTINUE TO CLIMB

The vast majority of credit unions with assets of \$1 million or more plan to provide salary increases in 2020 for management and nonmanagement employees.



90%
of credit unions
plan salary increases



3.1% Average anticipated
management base
pay increase

3% Average anticipated
nonmanagement
base pay increase



- CUNA compliance resources: cuna.org/compliance
- NCUA Voluntary Credit Union Diversity Self-Assessment: cudiversity.ncua.gov

NCUA Encourages Voluntary Diversity Self-Assessment

Effort aims to collect information to build database.

Federally insured credit unions could enjoy many benefits, and no risks, by participating in NCUA's Voluntary Credit Union Diversity Self-Assessment. In a Letter to Credit Unions (19-CU-03), NCUA Chairman Rodney Hood asks credit unions of all sizes, particularly those with 100 or more employees, to complete the self-assessment annually.

"The NCUA is committed to supporting diversity and inclusion in the credit union system, and part of that commitment is building a database of credit unions' activities related to diversity and inclusion," Hood writes in the letter. "The data that credit unions voluntarily provide helps the NCUA better understand areas where guidance would be useful and, when appropriate, prompts us to issue guidance to help bridge the gaps and assist credit unions with their diversity and inclusion efforts."

Hood notes that the self-assessment is voluntary and is not part of NCUA's or state regulators' examination process, and has no impact on the credit union's CAMEL rating.

"There are many benefits and no risks in sharing your diversity and inclusion journey with us. Available year-round, the self-assessment contains proven best practices and serves as a tool to assess and guide your credit union's diversity efforts," he says. "You may start it any time during the year, save it, and then return to it later. This feature allows you to use the form during monthly board meetings or periodic strategic planning sessions and complete it incrementally. This way, the self-assessment becomes a guide to improved diversity and inclusion health within your credit union and beyond."

Although open year-round, the cut-off date for submission of the annual self-assessment is Jan. 15 of the following year.

According to NCUA, it uses this data to report on progress and trends in credit union diversity-related activities.

The Office of Minority and Women Inclusion (OMWI) aggregates the data and only shares the results anonymously, primarily in the NCUA's annual OMWI Congressional Report and in the annual Voluntary Credit Union Diversity Self-Assessment Results Report.



- CUNA Professional Development Online: cuna.org/cpdonline

Ratios to Remember

Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While the information is essential, these statements aren't all that useful when taken by themselves.

To get the most out of these statements, you must figure out the key ratios. Credit Union Directors Newsletter has been exploring 10 key ratios directors should know, including what the ratio measures, how to calculate it, and why the ratio is important.

<p>The ratio:</p> <p>Annual membership growth</p> 	<p>What it measures:</p> <p>The credit union's membership growth from the previous year.</p> 	<p>How to calculate:</p> <p>[Current year membership – previous year membership] / previous year membership</p> 	<p>Why it's important:</p> <p>This ratio will show if your membership is growing as planned in your strategic plan or declining, and whether growth is adequate compared to the potential membership growth based on the opportunities in the market.</p> 
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Economic Impact Goes Deeper Than Rates, Fees

Focus on creating meaningful value for members and your credit union.

Credit unions that primarily compete on rates and fees run the risk of being lumped together into one group of companies that offer the same value. Scale is the great equalizer: Even the largest credit unions are small compared with many of the banks and fintechs they compete against.

Credit unions of all sizes need to focus intensely on creating meaningful value, which flows from purpose-driven behaviors. The clearer and more meaningful the credit union's purpose, the greater the value—value that is far greater than providing lower rates and fees.

"Value innovation is the cornerstone of a blue ocean strategy," W. Chan Kim writes in his book, "Blue Ocean Strategy." "We call it value innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space."

Wise credit union leaders look to move from hypercompetitive red oceans to less competitive blue oceans, where greater value creation is possible.

Value worthy of greater loyalty

Some credit union leaders identify a deeper level of member value by focusing on:

- **Financial education.** The value of sound financial advice is high. It creates significant value over time for the member and the credit union.

Credit unions that take financial education seriously by having staff become certified financial counselors send the message that whoever helps the member at any step of the interaction has the tools and knowledge to provide sound advice.

- **Flexibility.** All members don't fit perfectly in the same financial box. Product and service flexibility creates value as it increases access.

One example is offering flexible micro small-business loans. In most communities, smaller businesses have difficulty finding access to capital. But some savvy credit union lenders have stepped in to fill this gap.

They realize this frequently includes helping the small-business owner create a business and marketing plan and other business development support to prepare them for success.

If this sounds like a lot of work and more risk, you're right. But the people engaged in niche lending will tell you doing this creates significant member and community value.

The return? The member gets the support and loan, while the credit union benefits from a higher-yielding loan and a loyal member. The credit union also benefits from a stronger brand in the community when people understand the commitment the credit union has to local economic development.

Even the community wins when these emerging small businesses hire people and create jobs.

Why it matters

The line between financial organizations is blurring. Great rates and fees are important, but these alone may not be enough to drive loyalty and consumer selection that ensures credit unions' future.

Credit unions are the original consumer advocates. This advocacy is rooted in a clear purpose to provide access to affordable credit and give members a better quality of life.

Smart credit union leaders identify and pursue a meaningful purpose. They know the work their teams do changes people's lives and creates better work cultures.

As a result, their profitability grows. It's a win-win of higher value that more clearly differentiates the credit union difference.

SCOTT BUTTERFIELD is the principal at Your Credit Union Partner (yourcupartner.com).



CUNA board and committee resources: cuna.org/board

'INSTEAD OF FOCUSING ON BEATING THE COMPETITION, FOCUS ON MAKING THE COMPETITION IRRELEVANT.'

W. CHAN KIM





CUNA Lending Council:
cunacouncils.org

Look Ahead to the Credit Union of the Future

'Be open to seemingly outlandish futures.'

Examine "urgent" future issues using a continual "foresight/insight/action" process during your strategic planning sessions.

That's what Jack Dunagan, director of the Governance Futures Lab at the Institute for the Future, does.

The process is an excellent strategic planning tool. "This is a skill set you need to cultivate," says Dunagan, who spoke at the 2019 CUNA Lending Council Conference. "This process never stops. We want to institutionalize foresight. Long-term thinking pays off with real results."

Dunagan doesn't aim to pick a single future. Rather he develops four to five scenarios by examining "potentially impactful small trends" such as a product, service experience, business initiative, personal observation, research project, data points, and news stories.

He'll then ask strategic questions about these scenarios, such as:

- **In which** scenario is your credit union positioned for success?
- **In which** scenario is your credit union at a disadvantage?
- **What** actions are needed to move toward your preferred future to avoid a negative future?
- **Are** you prepared if the future goes in a different direction than the one most assumed?

'EMBRACE THE UNEXPECTED.'

JACK DUNAGAN



In one scenario he created, credit unions lead the way in providing creative and nimble services and offerings for the gig-based, precarious worker of 2030. The trust factor is important in the information-openness many members have with their credit union.

"The point is, there are certain trajectories of change," he says. "How do you deal with them? How will you serve people in a way that matches your mission? These are seeds of ideas to think through."

Underlying future scenarios are several real trends:

- **Evolving ownership.** Stagnant wages and the rising cost of real estate and other big purchases are fueling the trend from ownership to on-demand access. Ownership will be elusive for many, especially in high-cost areas. "How can your credit union succeed if fewer people own things?" Dunagan asks.
- **The gig economy.** Half of the workforce will be freelance or gig workers by 2025, he says. "Most workers will be in the 1099 model instead of W2. Financial institutions base their lending criteria on consistent W2 income. How will you adjust?"
- **Trust is the new currency.** Trust in all U.S. institutions is at an all-time low due to data breaches and the selling of consumers' data. Organizations that gain consumers' trust will have a big competitive advantage.
- **Big data risk models and lending alternatives.** Organizations are starting to use nontraditional data in underwriting decisions and credit scoring, including social media posts and cell phone use.
- **VUCA**, or volatility, uncertainty, complexity, and ambiguity. This addresses environmental challenges, migration, social unrest, and "regulatory schizophrenia," Dunagan says. "How will you respond at every level, from institutional to individual?"
- **Fintechs and techfins** (technology companies that offer financial services). How will these companies affect your business? Should you collaborate or distinguish your services?

"Embrace the unexpected and be open to seemingly outlandish futures and radical changes, and prepare yourself," Dunagan advises. "The downsides of being blindsided are severe."



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