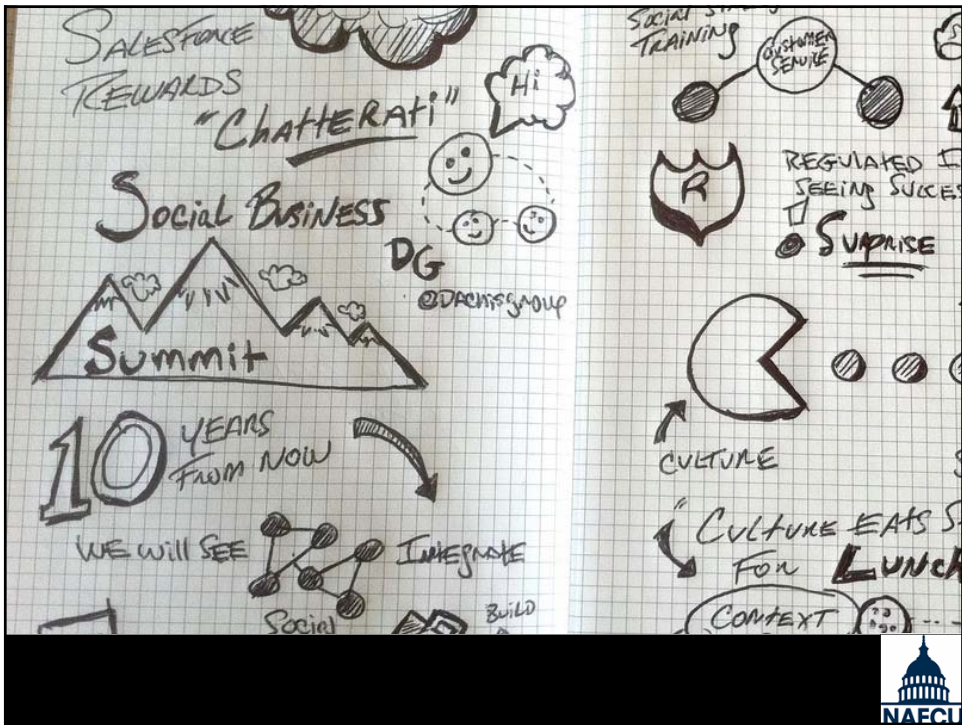
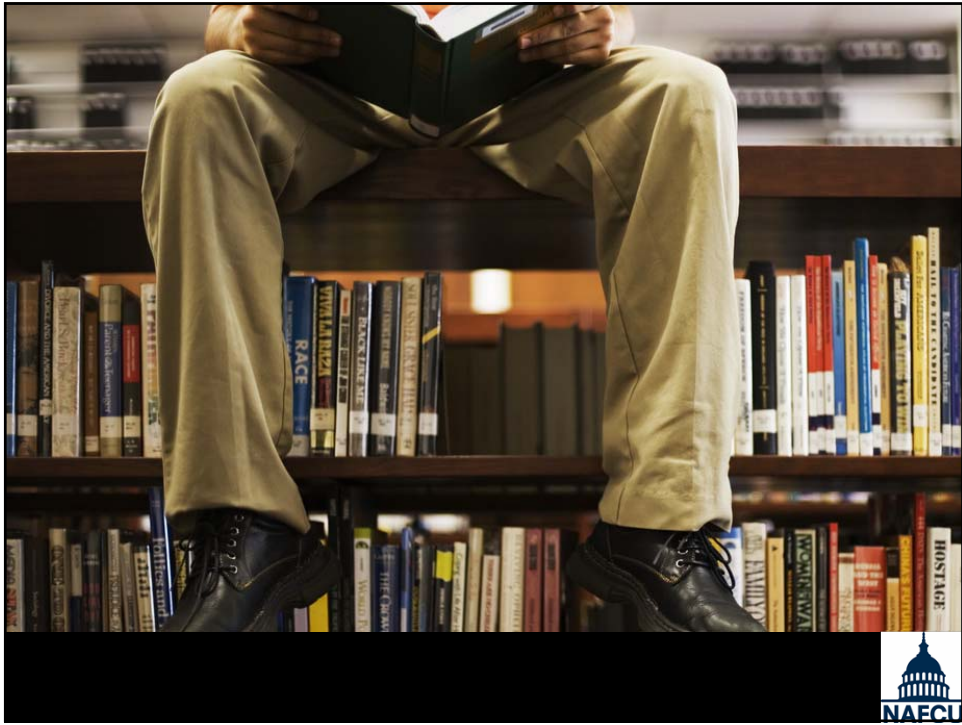


Filene Research Institute \*

IS YOUR CREDIT UNION STRUCTURED  
FOR INNOVATION AND GROWTH?

March 2018





WHY ARE WE HERE...

AVOIDING "SHORTERMISM"

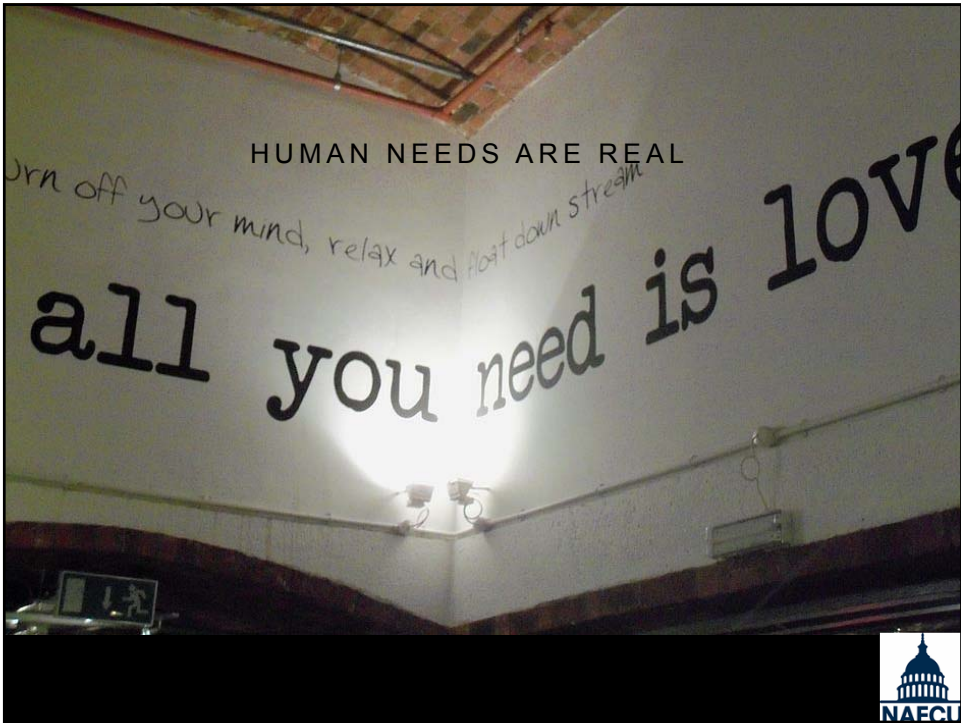
70% of respondents said that CEOs focus too much on short-term financial results

Nearly 60% said that they don't focus enough on positive long term impact



WHY DO INNOVATION & GROWTH MATTER?







**8 Richest  
People =  
Same  
Wealth as  
the Poorest  
50% (3.6 B)**

Oxfam



ACCORDING TO CFSI'S  
2015 CONSUMER FINANCIAL HEALTH STUDY

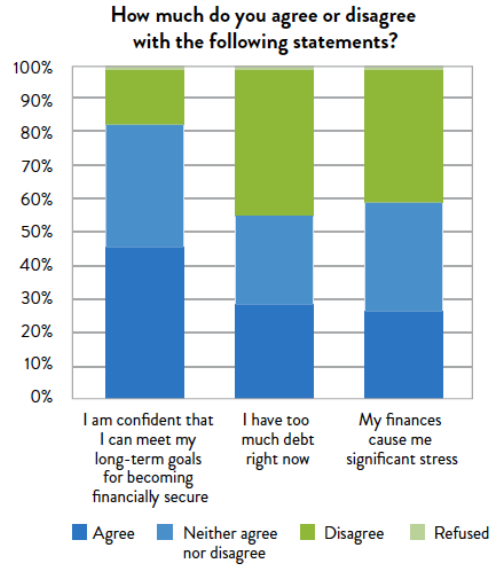
**MORE THAN HALF OF THE US  
POPULATION IS STRUGGLING  
FINANCIALY**

Consumer Financial Health Survey - CFSI,  
Gutman, Garon, Hogarth, Schneider 2015



Figure B: Attitudinal Indicators of Financial Health, U.S. Adult Population

Filene  
Research  
Institute



"Consumer Financial Health Survey," CFSI, Gultman, Garon, Hogarth, Schneider 2015



**CASH MONEY**® CHEQUE CASHING PAYDAY ADVANCE WESTERN UNION

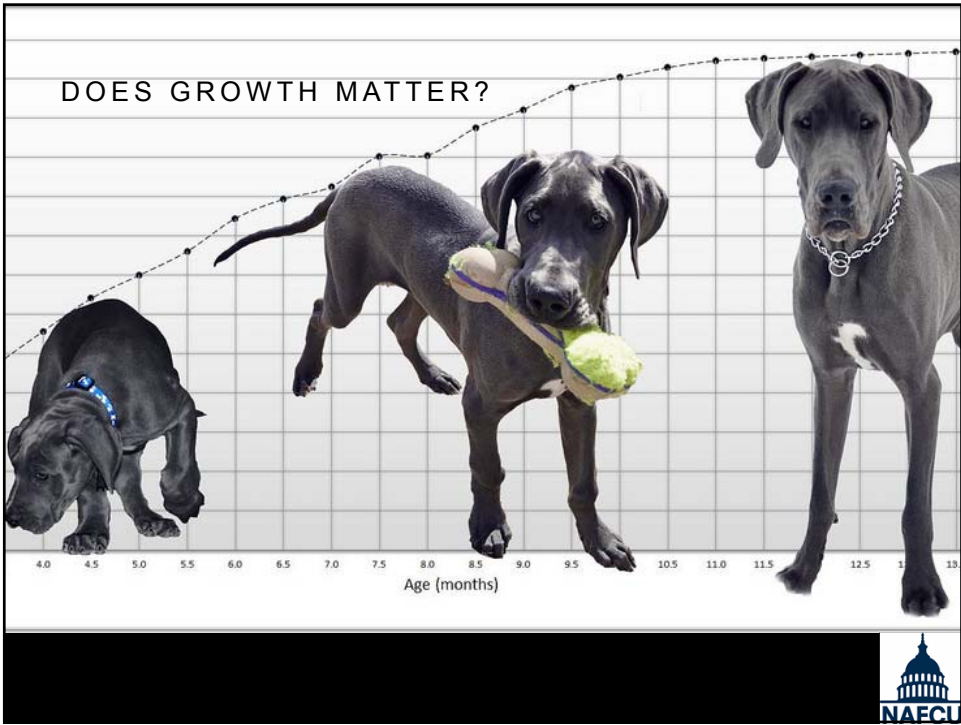
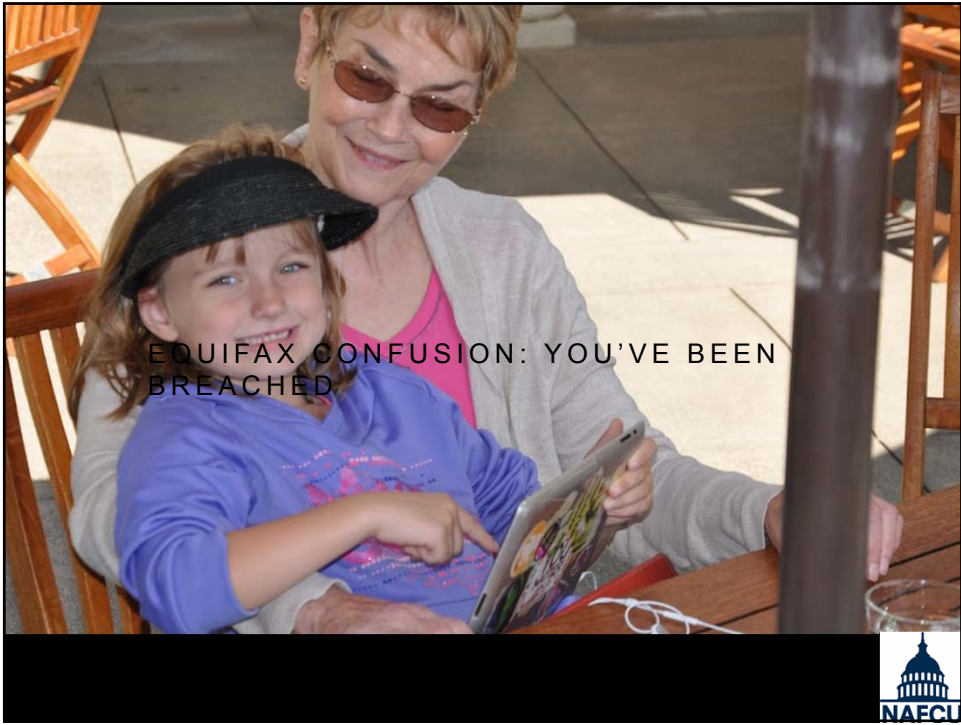
**\$200 CASH ADVANCE FOR \$20**

**\$200 CASH ADVANCE FOR \$20**

**OPEN 24/7**

PAYDAY LOANS 12M AMERICANS ANNUALLY

"Trending: Credit Unions in 2025" Filene, Rogers & Nat, October 2015



## SUSTAINABILITY DEFINED (LASS)

*"The ability to continue a process indefinitely."*

*"A sustainability system or process based on resources that will not be exhausted over a reasonable period of time as expressed as the long term."*

"Creating Financial Sustainability: A Colloquium at the University of Tufano, Lass..." 2011



## CREDIT UNIONS THROUGH THE YEARS

FIGURE 1: NUMBER OF CREDIT UNIONS IN THE U.S.

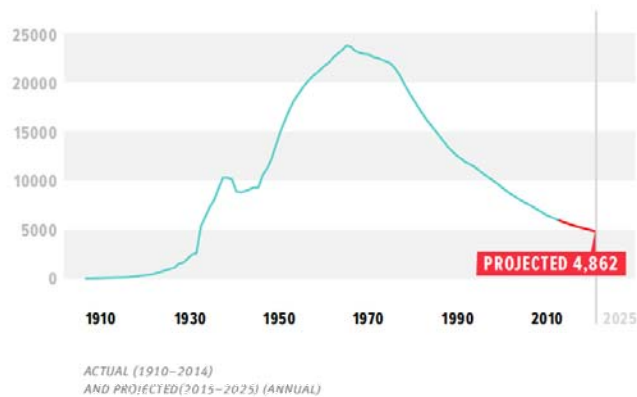


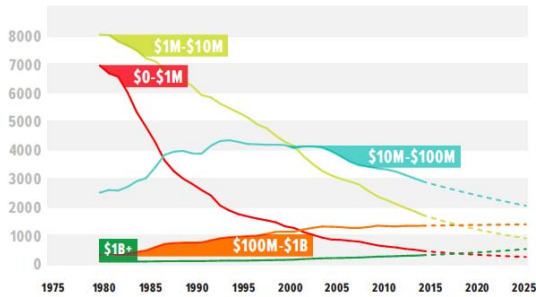
Figure 1 presents the number of credit unions in the U.S. between 1910–2015 as well as projections for 2016–2025. The figure highlights two phases in the history of credit unions. Except for a brief interruption during World War II, the number of credit unions grew steadily during 1910–1969, peaking at 23,866 in 1969. Since then, the number of credit unions has fallen steadily, reaching 6,147 in 2015. A simple extrapolation of the rate of change in the number of credit unions during the last ten years (2006–2015) yields a projection that the number of credit unions will likely fall further, to 4,862, by 2025.





## CREDIT UNION GROWTH & DECLINE

FIGURE 7: NUMBER OF CREDIT UNIONS BY ASSET SIZE RANGE:



ACTUAL (1979-2014) AND PROJECTIONS (2015-2025)  
(ASSET SIZE BOUNDARIES ARE INFLATION-ADJUSTED)

→ Figure 7 graphs the actual number of credit unions across asset size ranges during 1979-2014.

→ \$10M-\$100M credit unions are now shrinking in numbers as (1) there are fewer and fewer very small credit unions left to grow over the \$10 million boundary, (2) as some \$10M-\$100M credit unions grow out of that range, and chiefly (3) as many \$10M-\$100M credit unions become targets in mergers.

→ The decline will continue to be concentrated among smaller credit unions. The number of credit unions with under \$10M in assets will have fallen from 14,828 in 1979 to 1,987 in 2014 and to 979 in 2025. By then credit unions with more than \$1B in assets will outnumber those with less than \$1M. Credit unions between \$100M-\$1B in assets will be more numerous than those with \$1M-\$10M in assets.



## CHALLENGES FOR SMALL CREDIT UNIONS

Many factors contribute to the long-term challenges faced by smaller credit unions. Among them are consumers' increasing demand for more sophisticated financial products like:

**CREDIT CARDS** and **HOME EQUITY LINES OF CREDIT** (HELOCs) instead of traditional unsecured short-term loans




and more sophisticated means of delivery like **DEBIT CARDS** and **ONLINE & MOBILE BANKING** instead of cash and checks.



These more sophisticated products and services impose fixed costs that are difficult for smaller credit unions to defray across their small memberships. The demand for these products and services also helps shift current and potential members from smaller institutions to larger ones that offer them.



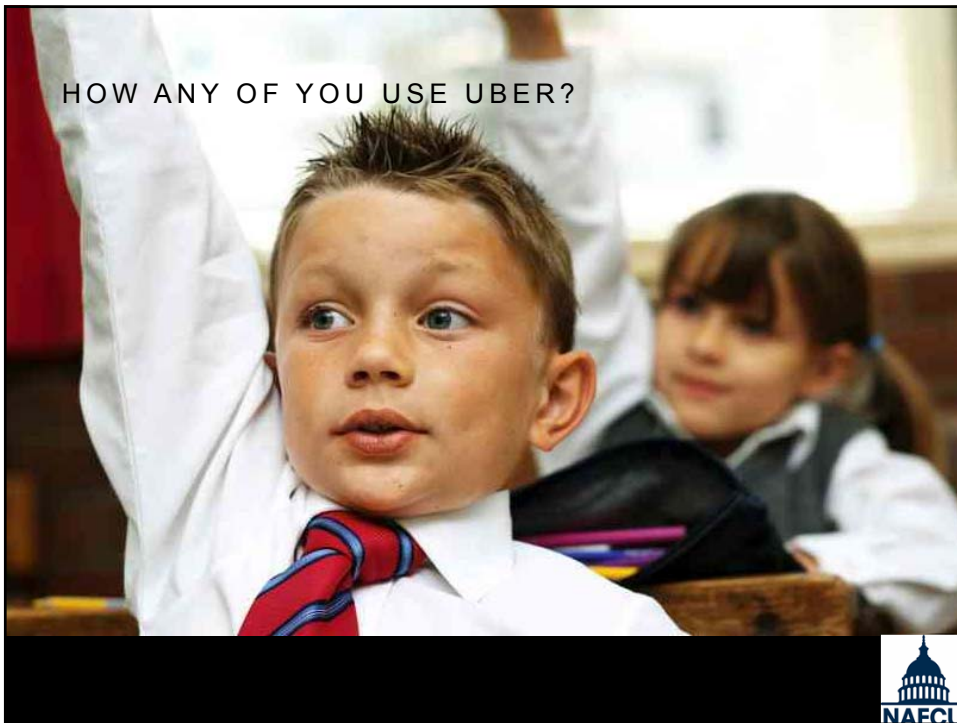
Pace of Growth (Fast vs. Slow)	Type of Growth (Organic vs. Inorganic)	
	Faster Growth / Organic in Nature	Faster Growth / Inorganic in Nature
Slower Growth / Organic in Nature	Slower Growth / Inorganic in Nature	




REMEMBER THIS?



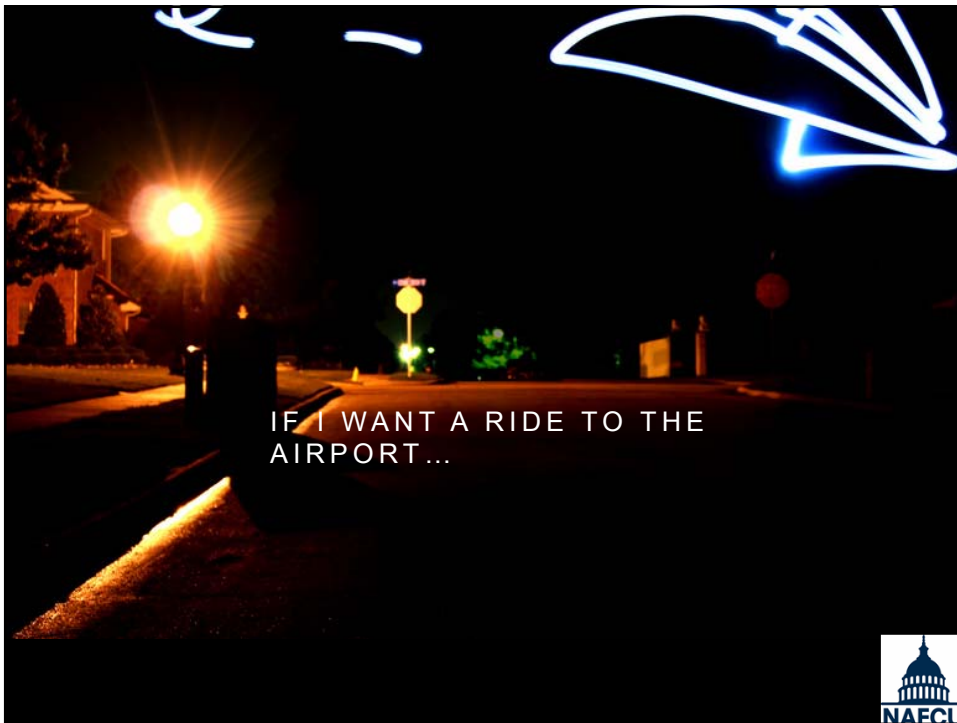
HOW MANY OF YOU USE UBER?



IMPACT OF UBER ON MY LIFE



IF I WANT A RIDE TO THE AIRPORT...





THIS IMPORTANT NEXT GENERATION: OUR  
DESIGNER BRITT



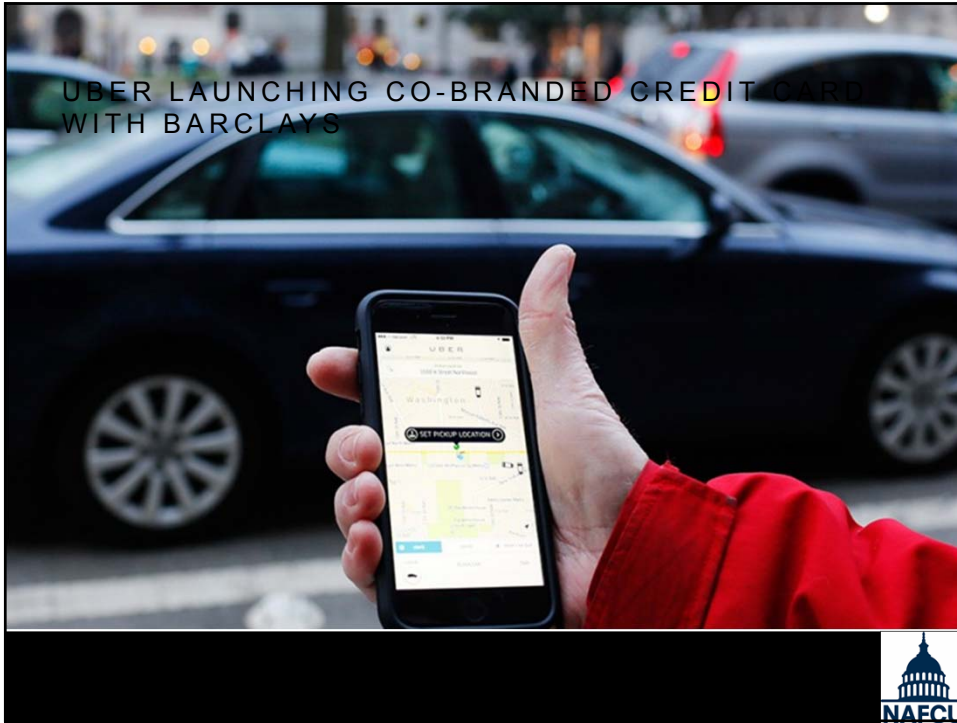
UBER IN SAN FRANCISCO - FIRST PROFITABLE YEAR NO NOTICEABLE  
DEMENT IN TAXICAB REVENUE

THE REAL SIZE OF ANY MARKET?

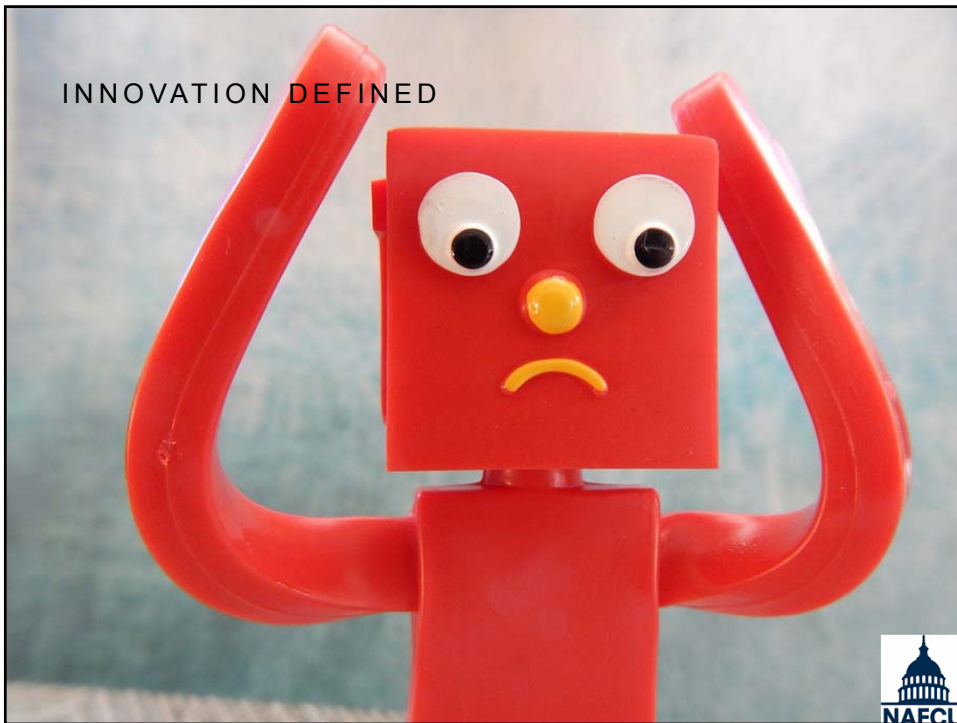
**\$1.7B**



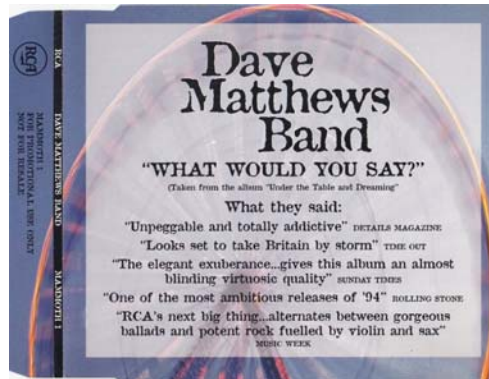
UBER LAUNCHING CO-BRANDED CREDIT CARD WITH BARCLAYS



INNOVATION DEFINED



## WHAT WOULD YOU SAY?



## INNOVATION DEFINED

*"Progress is the constant replacing of the best there is with something still better."*

– Ed Filene

*"Innovation is significant positive change."*

– Scott Berkun, Author & Speaker

*"Belief in your creative capacity lies at the heart of innovation."*

– David Kelley, Founder, IDEO

*"Innovation is this amazing intersection between someone's imagination and the reality in which they live."*

– Ron Johnson, Former CEO, JC Penney





## INCREMENTAL VS. DISRUPTIVE



"MANAGING INNOVATION" BY JOHN BESSANT & JOE TIDD

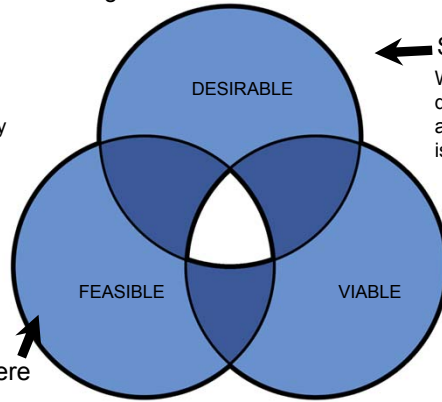
### THE 4 "P'S"

- Product Innovation – Changes in the things (products/services) which an organization offers
  - iPod goes from large to mini
- Process Innovation – Changes in the ways in which products and services are created or delivered
  - Back-office collaboration
- Position Innovation – Changes in the context in which the products/services are framed and communicated
  - Levi-Strauss: Once a manual workers jean, now a fashion item
- Paradigm Innovation – Changes in the underlying mental models which shape what the organization does
  - Horse to Car
    - "If I asked people what they wanted, they would have asked for a five-legged horse." – Henry Ford



Human Centered Design:

What is technically & organizationally feasible?  
Technology, Talent & Infrastructure



← Start Here

What do people desire? Are you solving a problem in a way that is attractive to people?

↗ Not Here

↖ Not Here

What can be financially viable? Can we justify the expenses of creating & maintaining the solution?

Human-Centered Design Toolkit, Version 2, IDEO



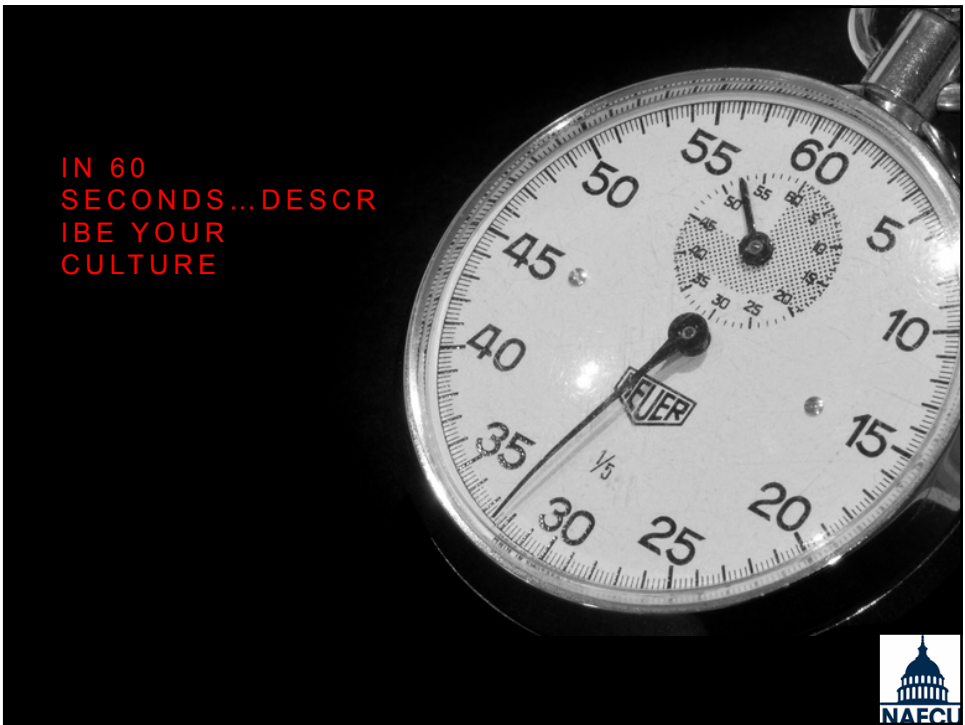
THE LENS OF THE MEMBER

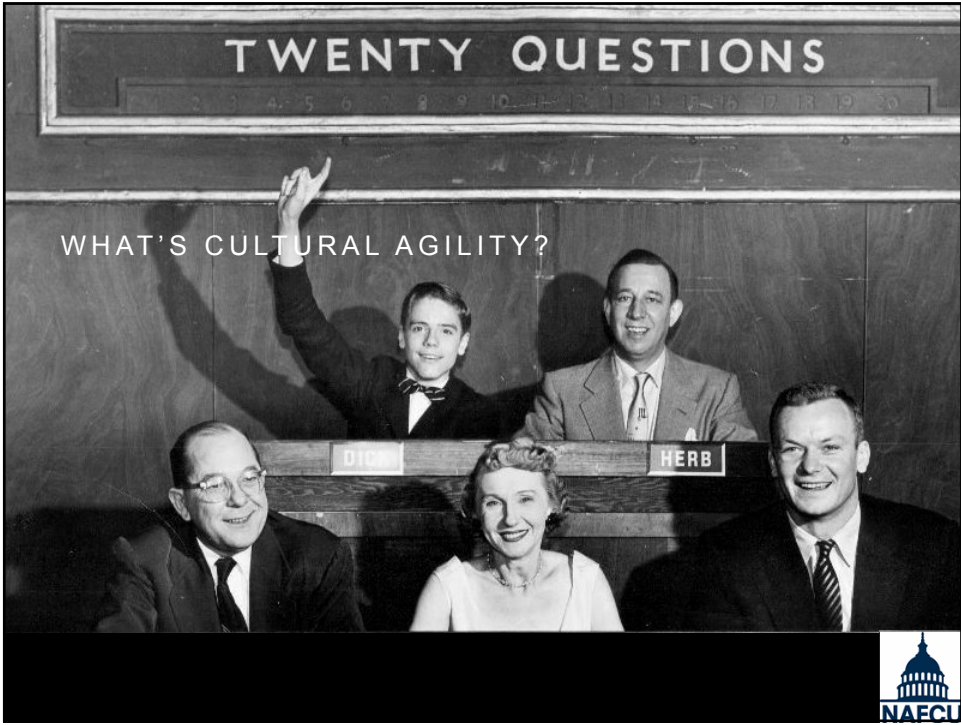
MEMBER CENTRICITY – CORE TO US



IF YOU BELIEVE ALL THAT, NOW WHAT?







## TYPES OF AMBIDEXTERITY

- Sequential – move between explore & exploit over time
  - Some question as to whether this is true ambidexterity
- Structural – setting up formal units to both explore & exploit
  - Separate employees, cultures & processes
    - Google “X”
- Corporate – beyond the confines of a single corporation
  - Spinning one corporation off into two
  - Spinning one off into partially separate ones
  - Establishing structures through which wholly separate corporations cooperate to achieve specific exploit/explore goals such as quality & control, sharing of costs or R & D
- Contextual – processes or systems that encourage individuals, teams or business units within the organization to move between explore and exploit as needed


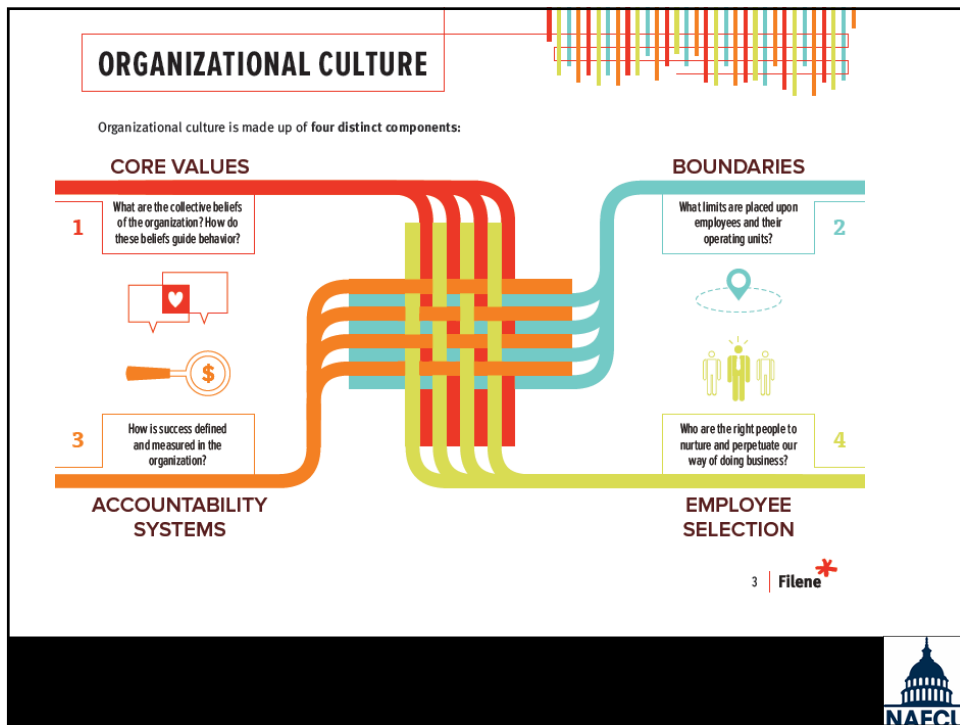


## WHAT IS CULTURE?

“In the absence of policy,  
culture is what guides decision  
making.”



Level of Agility (low to high)	Level of Consistency (low to high)	
	Low Consistency / High Agility <b>Unfocused</b>	High Consistency / High Agility <b>Strategic</b>
	Low Consistency / Low Agility <b>Unreliable &amp; uninspired</b>	High Consistency / Low Agility <b>Rigid</b>

LET GO OF EXISTING VALUES & BEHAVIORS THAT ARE  
DETRIMENTAL TO BUSINESS GROWTH

ASK YOURSELF:

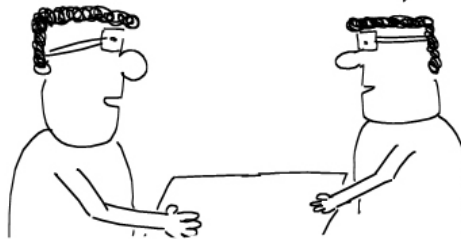
How do our core values  
prioritize the organization,  
employees and members?



CASE STUDY

WHAT IF OUR  
NEW BUSINESS  
MODEL FAILS?  
(

)  
AT LEAST IT WILL  
BECOME A CASE STUDY  
FOR MANAGEMENT STUDENTS.

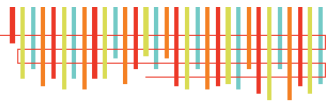


Brainstuck.com

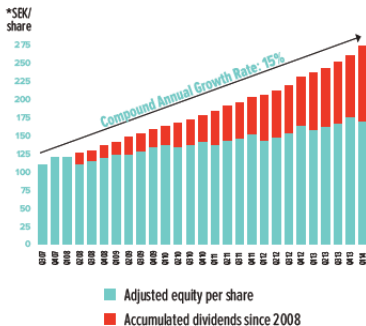




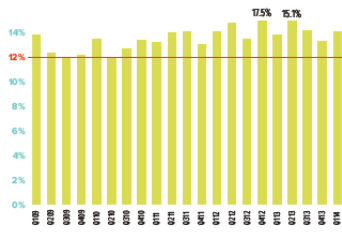
# SVENSKA HANDELSBANKEN



AVERAGE ANNUAL GROWTH IN EQUITY (INCLUDING DIVIDENDS)



EARNINGS STABILITY IN AN UNSTABLE ENVIRONMENT



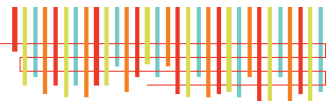
ROE HAS NOT BEEN BELOW 12% ANY SINGLE QUARTER DURING THE FINANCIAL CRISIS

All data in the figures have been adjusted to conform to the new regulations.  
 \*SEK: Swedish krona

"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



# SVENSKA HANDELSBANKEN CORE VALUES

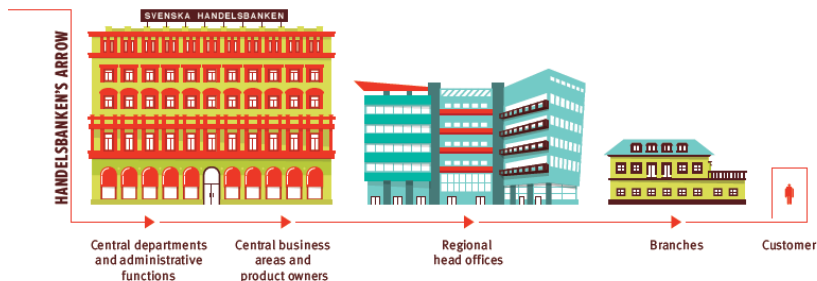


## CUSTOMER CENTRICITY

Customers come first, of course, but what separates Handelsbanken is how it practices customer centricity. Handelsbanken's way of working can best be depicted by an arrow where all the operations point toward the customer.

## DECENTRALIZATION

Handelsbanken gives branches and their managers broad authority. Rates on deposits and loans suggested by headquarters aren't binding—branches could offer better rates to customers who use (or might be expected to use) a broad range of the bank's services. Similarly, branch managers make their own hiring and salary decisions.



"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



CENTRALIZED LENDING

FOLLOWING US MANAGEMENT PRACTICES

In 1968...

**2,400** Credit Decisions – Made by the  
**Senior Leaders or Board**

Taking **Two Months**  
to Accept or Decline a Loan



"Designing Credit Union Culture for High  
Performance" Filene, Campbell &  
Robinson Jr, May 2016



NEW EXECUTIVES: LARGELY NON-BANKING



FROM CENTRAL TO REGIONAL & BRANCH MANAGERS  
TRANSFER OF DECISION-MAKING





SWEDISH BANKING CRISIS OF THE 1990'S

ONLY BANK TO NOT ASK FOR GOVERNMENT HELP

"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



30 YEARS OF ACHIEVING ROE GOAL

.....★ ★ ★.....  
**WINNER WINNER**  
.....  
**CHICKEN DINNER**  
**ARE YOU THE BIG WINNER?**

"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



## WHAT WORKED?



"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



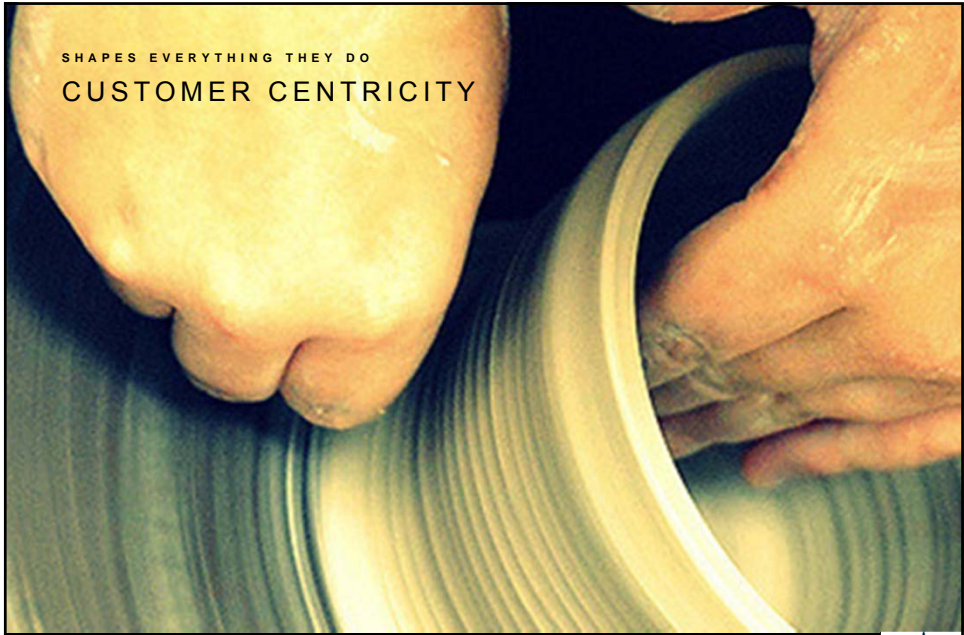
## CORE VALUES



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SHAPES EVERYTHING THEY DO  
CUSTOMER CENTRICITY



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HIRING, FIRING, RATES & SALARIES  
BRANCHES & MANAGER: BROAD  
AUTHORITY

HANDELSBANKEN'S CUSTOMER-CENTRIC APPROACH



Source: Handelsbanken, Annual Report 2013.



NO HARD & FAST RULES



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QUOTE FROM A BRANCH MANAGER:

*"We never make a loan without meeting the borrower. For larger loans or new customers we have several meetings. We review about 5 to 10 variables for individual borrowers and for a corporation up to 20 variables. We don't have any "minimums" or "threshold" values for any of the variables—we look at the total picture. For example if a borrower doesn't have a long employment history but has a wealthy relative willing to cosign, we will seriously consider making the loan. As a result we can make loans that banks using check boxes will reject."*



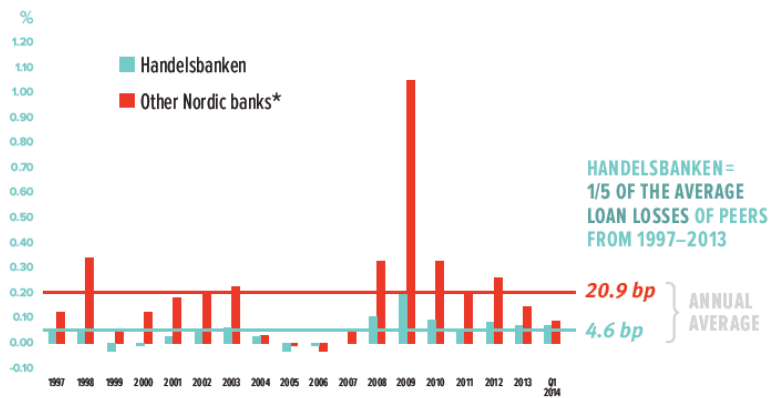


NEVER EXPECTED TO JUST CHECK THE BOX  
DO THEY USE A MODEL? YES.

Corporate Borrowers: Two 1-5 Scales



SVENSKA HANDELSBANKEN  
**CORE VALUES**



\*Arithmetic mean of loan loss ratio for other listed Nordic banks: SEB, Nordea (Nordbanken), Swedbank, Danske Bank and DNB.

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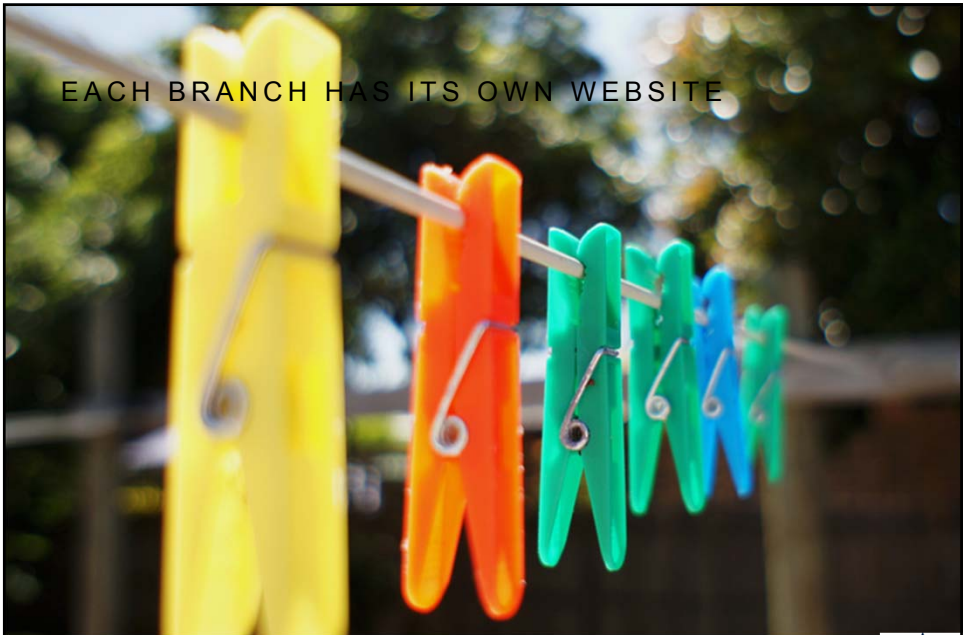
WHAT ABOUT TECHNOLOGY?



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EACH BRANCH HAS ITS OWN WEBSITE



"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



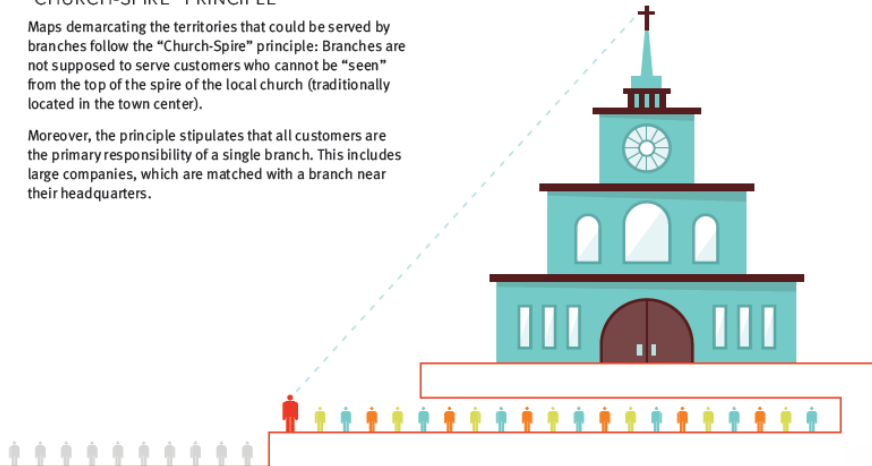


## BOUNDARY SYSTEMS

### "CHURCH-SPIRE" PRINCIPLE

Maps demarcating the territories that could be served by branches follow the "Church-Spire" principle: Branches are not supposed to serve customers who cannot be "seen" from the top of the spire of the local church (traditionally located in the town center).

Moreover, the principle stipulates that all customers are the primary responsibility of a single branch. This includes large companies, which are matched with a branch near their headquarters.



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## ACCOUNTABILITY SYSTEMS

### PROFIT AND LOSS ACCOUNTABILITY

Along with the unusual decision-making authority Handelsbanken gives branch managers, it also holds them accountable for their branch's Statement of Profit and Loss (P&L). Some of the costs (for instance, salaries and rent) included in the statement are under the direct control of the branch manager. Other costs reflect the legacy of prior branch choices.

Branch managers have partial control over the profitability of deposits taken in and of the loans made by their branch. Branches have discretion over the cost of securing deposits, namely, the interest paid to depositors.

As with the profitability of loans, branches have substantial control over loan revenues because they control the interest they charge borrowers and have considerable discretion over whom they lend to.

INCOME	
Net Interest Income (Corporate Loan, Mortgage, Credit Card, etc.)	\$
Other Income	\$
EXPENSES	
Credit Losses/Loan Losses	\$
Capital Charge	\$
Depreciation Expense	\$
Interest Expense on Accumulated Loss	\$
Branch Staff Salary Expense	\$
Branch Rent Expense	\$
Credit Team Services Expense	\$
Other Central Services (including executive salaries)	\$
BRANCH PROFIT/LOSS	\$

BALANCE SHEET RESPONSIBILITY

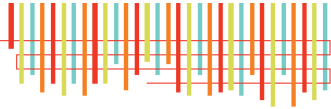
LOSSES IN PRIOR PERIODS

COSTS GENERATED IN OTHER UNITS



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# EMPLOYEE SELECTION



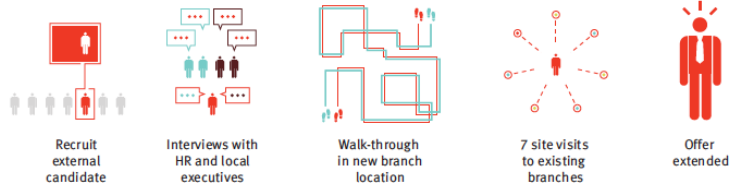
## BOTTOM-RUNG HIRING

Branch managers prefer to hire young people who have not previously worked at other banks, who are likely to fit the culture, and who are likely to be career employees of the bank.

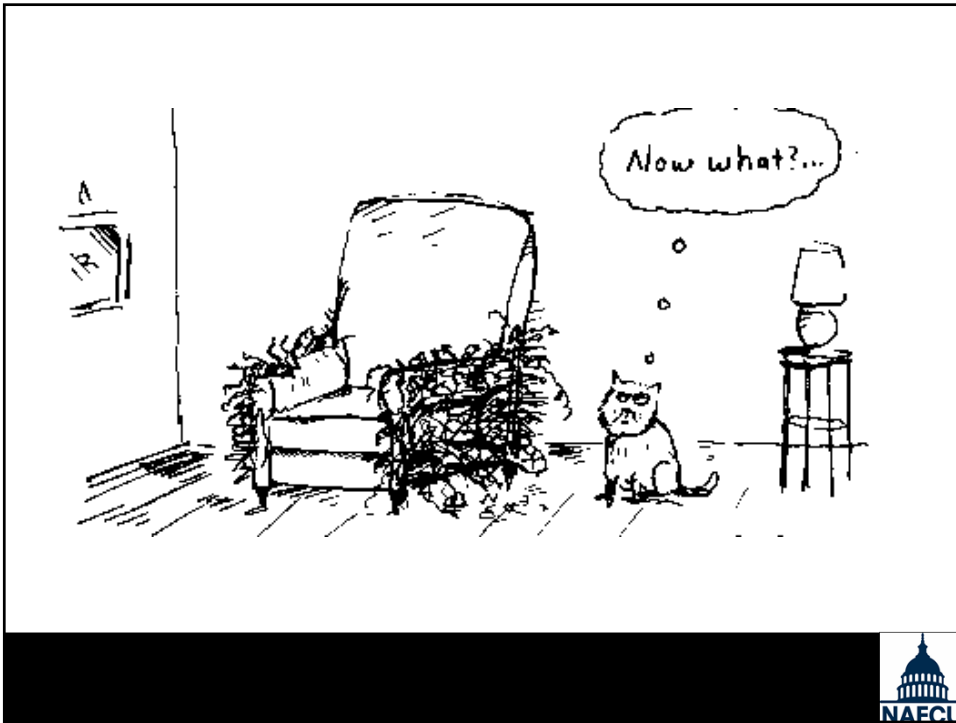
In fact, most branch managers in Sweden start in entry-level positions and most senior executives began their careers within the bank, including service as branch managers.

## HANDELSBANKEN'S HIRING TIMELINE

**12 interviews over 6 months**



"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



## CORE VALUES

Several values permeate the credit union system. These values may go by different names, but they often manifest as

- Superior service to members
- Member loyalty
- Reinvestment in member communities
- Employee-friendly workplaces
- Financial education
- Competitive interest rates
- Low fees

While orthodox credit union values such as friendly service hold a compelling place in the credit union mix, successful banks and credit unions with principally electronic delivery have shown how to grow and provide value without much human interaction at all.



"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



## CORE VALUES

In a 1997 study on value congruence in credit unions, Filene researchers sought to identify how different stakeholders — CEOs, board members, and top managers — ranked values by importance and how well the three groups aligned in their rankings.

### TOP-RANKED AND BOTTOM-RANKED VALUES

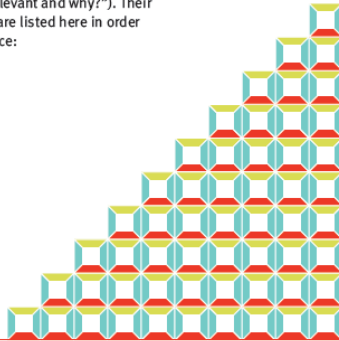
	CEO <i>N</i> =59	BOARD <i>N</i> =65	TOP MANAGEMENT <i>N</i> =49
<b>TOP-RANKED VALUES</b>			
1	Superior quality and service	Superior quality and service	Superior quality and service
2	Public credibility and integrity	Legal/ethical compliance	Efficiency and excellence
3	Legal/ethical compliance	Efficiency and excellence	Good company reputation
4	Good company reputation	Public credibility and integrity	Legal/ethical compliance
5	Efficiency and excellence	Good company reputation	Public credibility and integrity
6	Accuracy	Accuracy	Accuracy
<b>BOTTOM-RANKED VALUES</b>			
43	Fun work	Fun work	Fun work
44	Predictability	Rule-oriented	Familiar routines
45	Rule-oriented	Predictability	Rule-oriented
46	Familiar routines	Industry rivalry/leadership	Industry rivalry/leadership
47	Concern for nature/environment	Familiar routines	Predictability
48	Industry rivalry/leadership	Concern for nature/environment	Concern for nature/environment

"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



## ACCOUNTABILITY SYSTEMS

In 2013, credit union CEOs across North America were asked to identify the key performance indicators they believed were most important ("Of the performance indicators used by your CU, which measures do you consider to be the most relevant and why?"). Their responses are listed here in order of prevalence:



- ★ Efficiency ratio
- Profitability
- Productivity
- Return on investment
- Return on assets
- Income growth
- Percentage surplus returned to members
- Membership growth
- Growth in loans and deposits
- Wealth management/assets under management
- Net promoter score
- Cash flows

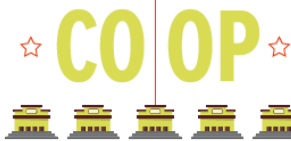
Source:  
Daphne Riban, *An Examination of Key Performance Indicators Reported by Credit Unions in North America*, Filene Research Institute, 2013. <https://filene.org/assets/pdf>

"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



## ACCOUNTABILITY SYSTEMS

Credit unions must be accountable for financial results that contribute to sustainability. But focusing exclusively on financial results will lead to a culture that depreciates member well-being and engagement and eventually lead to a loss of cooperative identity.



### KPI LINKAGE TO THE SEVEN COOPERATIVE PRINCIPLES

PRINCIPLE	CORRELATING REPORTED KPI
1. Voluntary and open membership	Number of branches, number of members
2. Democratic member control	Member loyalty scores
3. Member economic participation	Dividends
4. Autonomy and independence	Employee ethics scores, trust—environmental and social responsibility
5. Education, training, and information	Benefits and training
6. Cooperation among cooperatives	—
7. Concern for community	Community donations, community leadership and reputation, and greenhouse gas emissions

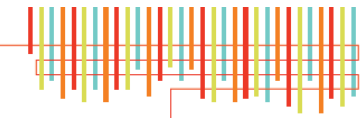
"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



## EMPLOYEE SELECTION

Choosing the right employees is an essential process for reinforcing company culture. At the executive level, boards, CEOs, and leaders have wrung their hands over whether they should hire for functional banking skills, thereby maintaining a broad recruiting aperture that includes banks, or focus mainly on those with credit union experience and a credit union ethos.

At the front lines, credit unions are in the midst of a long-term cultural shift in hiring. As credit unions focus increasingly on sales aptitude and experience, rather than service, they may undermine the traditional service advantage they are known for. The best hirers will capture both.



# SERVICE & SALES APTITUDE



"Designing Credit Union Culture for High Performance" Filene, Campbell & Robinson Jr, May 2016



SO, SHOULD WE DO ALL THIS?



BIGGEST TAKE-AWAYS TO RUN WITH...

AGILITY, AMBIDEXTERITY, CULTURE



+QUESTIONS?



## CALL ME MAYBE?

→ [tansleys@filene.org](mailto:tansleys@filene.org)

→ 203.859.2666