2013 Spring Volunteer Development Conference

Uncommon Leadership: Leading Your Credit Union to Success

Friday, April 26, 2013
10:00 a.m. – 12:00 p.m.

Tim Harrington, CPA, President
T.E.A.M. Resources

Chatham Bars Inn • Chatham, MA
Uncommon Leadership: Leading Your Credit Union to Success

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Who’s Sailing Your Credit Union?
The Skipper? Shipping Company?
The Port Authority? The Passengers?
WHOSE JOB IS IT ANYWAY?

The Board’s?

The CEO’s?

Understanding the difference between:
Governance
and
Management

GOVERNANCE

Representing the interests of the owners
MANAGEMENT

Meeting the goals and stated expectations of the Board

The Board is where all authority resides until some of it is delegated to others. And they should be delegating nearly everything to others.
The Board needs to define the destination and major stops along the way. But the Board leaves the navigating, sail repair, the crew, provisioning of stores, the tactical work, to others.

**GOVERNANCE**

The board is like the shipping company holding the ship in trust for the owners.

The CEO is like the Captain, handling the day to day and sometimes visionary leadership of the ship.

Management
Board sets the Destination Port and the Arrival Time.

Board hires the best Skipper to get the ship safely to the port, and on time.

The Skipper understands the tides and currents, knows the ship and the weather, hires the crew, motivates and compensates the crew.

In short, takes responsibility to get the ship to the right destination in a timely manner.
The Skipper needs to regularly report the ship’s status to the board.

The Board needs to let the Skipper navigate. The Skipper is the experienced navigator, not the Board.

If conditions change, the Skipper needs to work with the Board to discuss change of port, or adjustment of arrival time.

Board has two choices, agree to changes or replace the Skipper.
The key is the Board must:

1. Know what destination is best
2. Hire the right Skipper
3. Clearly communicate the information to the Skipper
4. Monitor the Skipper’s progress against the plan
5. Stay tuned to changes in conditions
6. Be prepared to change course or Skippers

AN EFFECTIVE BOARD

- Determines and updates the MISSION
- Clarifies the VISION
- Identifies the VALUES
- Establishes the ENDS
- Communicates the LIMITATIONS
AN EFFECTIVE BOARD

- Participates in setting and/or approves the strategic direction
- Selects and evaluates the CEO
- Oversees financial and risk management
- Monitors performance, ensures accountability
- Assures executive performance
- Improves Board performance

THE BOARD STAYS FOCUSED ON THE BIG PICTURE
AN EFFECTIVE BOARD

Mission
- Why the organization exists
- The positive difference the CU is determined to make for its members
- What social or market purpose we are fulfilling

VISION
- A picture or image of what this looks or feels like
- Should be communicable to staff and members
- This is what inspires people to assist
AN EFFECTIVE BOARD

VALUES
- What the organization stands for
- How it is going to treat its staff
- How it is going to treat its member/owners
- How it approaches laws and limitations

VALUES - DISTINCTION

Nordstrom Department Stores
- Service to customer above all else
- Hard work and individual productivity
- Never being satisfied
- Excellence in reputation, being part of something special

Disney
- No Cynicism
- Nurturing and promulgation of 'wholesome American values'
- Creativity, dreams and imagination
- Fanatical attention to consistency and detail
- Preservation and control of the Disney magic
AN EFFECTIVE BOARD

ENDS
- The Goals or Objectives you are trying to reach
- May be short to mid-term
- They need to be readily measurable
- They need to be easily understood

LIMITATIONS
- The things you can’t do to achieve the ends
  - Treatment of Member/Owners
  - Treatment of Staff
  - Financial Condition and Activities
  - Financial Planning and Budgeting
  - Asset Protection
  - Compensation and Benefits
  - Communication and Support to the Board
THE CEO DEALS WITH THE DETAILS

AN EFFECTIVE CEO

- Participates in developing strategy and vision
- Is an entrepreneurial, visionary leader
- Marshalls resources
- Carries out strategy
- Selects, develops and leads staff
- Communicates effectively with board, staff and stakeholders
- Ensures success of the credit union
### WHO IS RESPONSIBLE?

<table>
<thead>
<tr>
<th>Decision</th>
<th>Management</th>
<th>Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting Salaries and determining Salary increases, Incentives/Bonuses, Vacation time, Sick Leave, 401k, SERP, Health, Life, Disability coverages for CEO</td>
<td>CEO can not alter his/her own Compensation or Benefits</td>
<td>Full Responsibility of BOD</td>
</tr>
<tr>
<td>Setting Salaries and determining Salary increases, Incentives/Bonuses, Vacation time, Sick Leave, Health, Life, Disability coverages for the rest of the staff</td>
<td>Responsibility of CEO and Mgt. Team</td>
<td>General oversight - BOD ensures that the CU stays within Total Budget guidelines. Individual Line item variances should not exceed 10% +/- Any major variances should be explained by Mgt. Benefits program changes to be reported to BOD for informational purposes.</td>
</tr>
<tr>
<td>Setting 401k contribution levels for the rest of the staff and determining SERP contributions for the Mgt. Team</td>
<td>CEO (and Mgt. Team) responsible for making recommendations</td>
<td>BOD approves % contribution levels in plans</td>
</tr>
<tr>
<td>Hiring, Firing and Disciplining the CEO</td>
<td>No Responsibility</td>
<td>Full Responsibility of BOD</td>
</tr>
<tr>
<td>Hiring, Firing and Disciplining of the rest of Staff</td>
<td>Full Responsibility of CEO (and Mgt. Team)</td>
<td>Responsibility is delegated to MGT.</td>
</tr>
<tr>
<td>Conducting prompt and effective Performance Evaluations of the CEO</td>
<td>No Responsibility</td>
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<tr>
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</tr>
<tr>
<td>Adding (or reducing) positions within the Organization</td>
<td>Full Responsibility of CEO (and Mgt. Team)</td>
<td>General oversight - stay within Budget guidelines occasional review of Org. Chart for informational purposes.</td>
</tr>
</tbody>
</table>

### THE GOVERNANCE PROCESS

1. **Governance Policies, Strategic Goals and Measurable Results**
   - Board (and Management)
2. **Management Carries Out Plans And Policies**
   - Management
3. **Reviews Results, Compares to Plan**
   - Board and Management
4. **Evaluation! Reward Management If plan met or exceeded**
   - Board

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**Start all over again!**
BOARD RETAINS CONTROL BY ...

- **Planning** with the CEO
- Measuring progress against the plan
- **Long-term incentive comp**
- Guiding the CEO with ends and limitations policies
- Holding the CEO accountable with regular written evaluations

**Planning:** Setting expectations and direction

**Incenting:** placing dollars on key, strategic oriented results previously agreed upon; little or no discretion at the payout end.

**Guiding:** plans, policies and coaching

**Accountability:** standards set, monitored and appropriate actions taken
STUDY BY THE FILENE RESEARCH INSTITUTE

“CREDIT UNION BOARDS AND CREDIT UNION EFFECTIVENESS”

Only 2 things Boards do have a positive impact on the credit union:
1. Strategic Planning
2. Hiring and Regularly Evaluating a Competent CEO/Manager

“Going into battle without a plan is foolhardy. But as soon as the shooting starts, the plan is useless.”

General Dwight D. Eisenhower

“Planning is everything. Plans are nothing”

General Dwight D. Eisenhower
PLANNING HORIZONS OR LEVELS

Strategic

Long range

Operational or Tactical

Board involvement

Business Plan Management
**STRATEGIC**

*Board helps determine Mission, Vision, Values, Measurements*

A board’s mission is to help management substitute foresight for hindsight.

Peter Drucker
LONG RANGE AND TACTICAL

Management determines
- Goals
- Tactics
- Business Plan
  - How we are going to get there
  - What we are going to use to get there

GOVERNANCE IS WORKING “OUTSIDE THE BOX”

Mission, Values, Plans, Goals, Policies

Management operates with relative freedom inside this box

Regulations, Laws, By-laws and Ethics

Member survey, Staff survey, Mystery Shops Fraud hotline Whistleblower protections

External Audit, Internal Audit, Regulatory Exam
METHODS FOR HOLDING THE CEO ACCOUNTABLE

- Key ratios and trends
- Audit results and interview with auditor
- Examination results and interview with examiner
- Internal audit reports
- Surveys of members
- Surveys of employees
- Awareness of Tone at the Top

Board Packet

*The report, by its very length, defends itself against the risk of being read.*

Winston Churchill
A Good Board Packet:

- Is the Board’s eyes into the soul of the credit union
- Keeps Board Members informed on status of the plan
- Helps Board Members see trends, even if management hasn’t discussed them
- Allows Board Members to make informed decisions and ask insightful questions

Dash Board
USING AN DASH BOARD

Return on Average Assets (ROA)

- Actual Results
- Planning Goal
- Preferred Range
- Preferred Range

Loan to Share Ratio

- Actual Results
- Planning Goal
- Preferred Range
- Preferred Range

Operating Expense to Average Assets

- Actual Results
- Planning Goal
- Preferred Range
- Preferred Range

Asset Growth

- Actual Results
- Planning Goal
- Preferred Range
- Preferred Range

Capital to Assets Ratio

- Actual Results
- Planning Goal
- Preferred Range
- Preferred Range

Average Loan Balance

- Actual Results
- Planning Goal
- Preferred Range
- Preferred Range

Event Code: Island
“Meetings are where minutes are kept and hours are lost.”

Benjamin Franklin

Board meetings occur because of the need for Board members to:

- Learn together
- Contemplate together
- Deliberate together
- Decide together
- Plan together
BOARD ACCOUNTABILITY

- Boards should evaluate their meetings periodically (monthly is recommended)
- Board members should evaluate their individual performance at least annually
- Management should evaluate the board at least annually

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"IF WE WANT THINGS TO STAY AS THEY ARE, THINGS WILL HAVE TO CHANGE"

TANCREDI
FROM "THE LEOPARD" BY GIUSEPPE TOMASI DI LAMpeeddu

CREATING A VALUE PROPOSITION

What is it that you offer that is of VALUE to your members?

Remember, it has to be something that's going to attract them to you and not allow them to go somewhere else.

They have many CHOICES!
PURPOSE OF STRATEGY

To develop Market Advantage in some area

There is no “one size fits all” strategy

You can’t be “all things to all people”

Marketplace is extremely competitive

You must create a reason for people to come to you

MARKET ADVANTAGE

Find 2 to 3 things at which you can be an expert

If you are exceptionally good at 2 – 3 things:

- Members will seek you out for those things
- Members will forgive you for all those things you are not so good at
Do your members know what you do well?
Do YOU know what you do well?

Is your positioning clear or fuzzy?

**Walmart**
- Low cost
- Wide selection
- Few but good employees

**Nordstrom**
- Higher prices
- Fine quality
- Customer is always right

**Ace Hardware**
- Higher prices
- Smaller selection, but good quality
- Helpful, individual service

**Home Depot**
- Low cost
- Wide selection
- Few employees
- Mass market

**Costco Wholesale**

**Trader Joe’s**

**versus**

**JCPenney**
CREATE A MARKET ADVANTAGE

- Most Convenient Physical Locations
- Best Price – Lowest Cost
- Highest Quality of Service
- Product Specialist
- Supercharged Promotion/Marketing
- Superior Electronic Access
- Modest Means

MOST CONVENIENT PHYSICAL LOCATIONS

AN EXPENSIVE STRATEGY BUT ONE OF THE BEST
CONVENIENCE CU STRATEGY

- $700 mil and growing
- 12.70% Capital
- ROA between 0.77% and 1.10%
- Fee income at 2.85%—you have to pay for branches...usually with fees
- Loan to Share dropped recently to 58% but was holding strong in 70’s until this year
- Deals with very Modest Means members
- Average Relationship is only $9,797

CONVENIENCE CU STRATEGY

- Convenience!
  - Moving towards 20 branches in Greater Detroit
- Sales expected, recruited and incented
- Slowly phasing out tellers and replacing with Sales Staff
- “The Michigan First Way”
- Great Centralized Call Center
BEST PRICE - LOWEST COST

REQUIRES A COMPREHENSIVE STRATEGY TO REDUCE COST TO SERVE
BEST PRICE/LOWEST COST

- $900 mil and growing at 10% annually
- 22.40% Capital
- ROA between 0.90% and 1.90%
- Operating Expense Ratio: 1.51% vs 3.17% peer average
- Best Share Savings rate in area (traditionally, low right now)
- Best Auto Loan rate in area
- Fee income at 0.50
- Average Relationship is $16,138

BEST PRICE/LOWEST COST

- 9 branches/store fronts
- NO TELLERS!!!
- NO TELLERS!!!
- Members deal with universal sales representatives
- Very conservative lending. Low Provision for Loan Losses throughout recession
- Work in every area to maintain low operating costs
- Continue to provide convenient electronic access to members
- Use technology to reduce costs and improve efficiency
Let’s go hang out at the bank!!?
What an amazing resource for our community. I have been able to attend many events in their rooms available. The staff is always friendly and helpful, great coffee and pastries and atmosphere. I am planning on looking into the banking options for my business in the future. All banks should look at you as a new model of a way of doing business!

Found on Yelp.com
“IF THE RATE OF CHANGE INSIDE THE ORGANIZATION IS LESS THAN THE RATE OF CHANGE OUTSIDE THE ORGANIZATION, THE END IS IN SIGHT.”

JACK WELCH, FORMER CEO, GENERAL ELECTRIC

HIGHEST QUALITY SERVICE
HIGHEST QUALITY SERVICE

For this to work, you have to bowl your members over with service. It has to stand out so significantly that members will rave about your service to their friends.

And you need to measure it.

RITZ-CARLTON GOLD STANDARDS

I build strong relationships and create Ritz-Carlton guests for life. I am always responsive to the expressed and unexpressed wishes and needs of our guests. I am empowered to create unique, memorable and personal experiences for our guests. I understand my role in achieving the Key Success Factors, embracing Community Footprints and creating The Ritz-Carlton Mystique. I continuously seek opportunities to innovate and improve The Ritz-Carlton experience. I own and immediately resolve guest problems. I create a work environment of teamwork and lateral service so that the needs of our guests and each other are met. I have the opportunity to continuously learn and grow. I am involved in the planning of the work that affects me. I am proud of my professional appearance, language and behavior. I protect the privacy and security of our guests, my fellow employees and the company’s confidential information and assets. I am responsible for uncompromising levels of cleanliness and creating a safe and accident-free environment.
HIGHEST QUALITY SERVICE

- $425 mil and growing
- 11.41% Capital
- ROA between 0.64% and 1.38%
- Fee income moderate 1.50%
- Operating expense moderate, usually around 3.50%
- Loan to share around 70%
- Deals with very Modest Means members
- Average Relationship is only $9,797
- Net Promoter Score in the 70s

HIGHEST QUALITY SERVICE

Mission: To become a 5 Star member service organization

Vision: Dedicated to helping our members achieve their financial goals by being a trusted source of unbiased financial advice

Values:
- Integrity - We always do the right thing, even when no one is watching.
- Respect - We treat everyone as we would treat our best friend.
SUPERIOR SERVICE

“If you don’t measure it, you can’t manage it.”

Dr. Edwards Deming

BOOK

“The Ultimate Question”

By Fredrik Reicheld

“How likely are you to recommend our products or services to friends, families and colleagues.”
Net Promoter Score subtracts the % of Detractors from the % of Promoters.

Net Promoter Score = 75% - 20% = 55 NPS
FRANK fulfills your need to express via a card image...and to save wisely
One Basic Product

PRODUCT SPECIALIST
FOCUSES ON A LIMITED NUMBER OF PRODUCTS
CALTECH EMPLOYEES FCU

- $1.2 billion
- Capital to Assets Ratio: 9.25% and climbing
- ROA between 0.85% and 1.25%
- Asset growth averaging 9% per year for last 5 years

- $43,000 average relationship
- 65 employees
- 473 mbrs/emps peer at 394

CALTECH EMPLOYEES FCU

- Best Savings Rate: In addition, rebates 0.75% on first $25,000 in savings
- 33% of revenue given back as Dividends (national avg 20%, Peer 14%)
- An Investment Company

- No Checking!!!
- Loan to Share Ratio only 25%
- Operating Expense Ratio of 1.00% (avg. ~ 3.16%)
- 3 branches
- No fees (0.10% vs 1.45% for peer)
SUPERCHARGED PROMOTION/ MARKETING/ BRANDING

THE GOOD GUYS WHO ARE LOOKING OUT FOR YOU

- $260 mil and growing at 8% annually
- 10.17% Capital
- ROA between 1.22% and 1.47%
- Fee income at 3.00 vs Peer: 1.46%
- Loan to Share Ratio: 70%
- Operating expense 5.58% vs Peer: 3.71%
- Average Relationship is $10,160
- Fees cover high operating costs
Supercharged Promotion/Marketing/Branding

- 9 branches in Dallas area
- Decent locations
- Decent service quality
- Decent electronic services
- Good auto loan refinance program
- Attract members via television and radio
- Build member relationships around financial advice
- Branded as the Good Guys and it works!

A New Face of Retail Banking. Brand is different for each ‘Store’
They want you to be able to call the chief executive at his office. All of Umpqua’s stores have a silver-colored phone that goes directly to the chief executive.
NEW BRANCHES?

First time home buyers class… in the lobby

Digital Wall
With the rise of web banking, branch personnel have to become expert in the most complex products for the bank and serve as key intermediaries to facilitate client’s life in the bank when problems arise.
Savings package:
Tangible product

Deutsche Bank

Dog Friendly
Pictures of staff working today and their area of expertise

Ansprechpartner = Service Person

At the back of the branch is a stylish upmarket cafe, with big screen flat panel TVs and free internet connectivity (there is even a flat screen TV built into the bar surface complete with embedded keyboard). There is a free (staffed) daycare and customizable meeting rooms all with the latest technology. It is even pet friendly.
Theme Island:
Packaged products such as My First Car Loan or Student Loan Information

Packaged products:
“You can have freedom over all”
SUPERIOR
ELECTRONIC
ACCESS

TREMENDOUS RELEVANCE IN
A CONNECTED WORLD

“OUR PHILOSOPHY”

We’re not about having a branch on every corner. We’re about giving members account access where it’s most convenient for them. Their living room. Their backyard. Their cell phone. By not spending money on branches, we can give members competitive rates for loans and savings, as well as a host of low or no-cost services.
SUPERIOR ELECTRONIC ACCESS

- $4 Billion
- 10.20% Capital
- ROA between 0.81% and 0.93%
- Operating Expense Ratio: 2.57% vs 3.17% peer average
- Loan to Share Ratio: 77%
- Fee income at 1.02% vs Peer: 1.45%. Fees a bit less of an issue
- Average Relationship is $13,426

Superior Electronic Access

- Contact Center open from 8AM to 9PM and Saturday from 9AM to 5PM
- Free ATM access through several sources
- Long time remote deposit capture provider
- Only 3 branches: 1 is electronic
- 694 mbrs/emp
- Contact Center employees tend to be significantly more efficient than live tellers or MSRs
The USAA Bank model

One major Nerve Center and 2 small branches, one all electronic
Every member of our Co-op has a shared obligation to make this CU successful.

They can do it by keeping balances with us, or by paying service charges.
HIGH VOLUME/LOW BALANCE

- Low income members are often high transaction members
- Tellers are very expensive...
  but members don’t use electronic delivery systems as frequently or consistently

Where do costs go?
- Tellers
- Collections

Where does income come from?
- High yields on Loans and fees and service charges

Different Strategies and Specialties will yield different results.

No matter what, you need to have enough Profit and enough Capital.

Other than that, there are many ways to Survive and Thrive

<table>
<thead>
<tr>
<th></th>
<th>Convenience</th>
<th>Price/Low Cost</th>
<th>Quality Service</th>
<th>Product Specialist</th>
<th>Supercharged Promotion</th>
<th>Electronic Access</th>
<th>Modest Means</th>
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<tbody>
<tr>
<td>YIELD</td>
<td>5.00</td>
<td>3.30</td>
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<td>ROA</td>
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<td>0.84</td>
<td>1.10</td>
<td>1.08</td>
<td>1.39</td>
</tr>
</tbody>
</table>
“The significant problems we have cannot be solved at the same level of thinking with which we created them”

Albert Einstein

Really smart guy

SUCCESSFUL BRANCHES WILL BE:

MEMBER ACQUISITION CENTERS

MEMBER RELATIONSHIP VENUES
WE SHOULD BE WHERE THEY ARE

Republic of South Africa
Their iPod-zilla
MAKE IT A MEMBER FULFILLMENT ENVIRONMENT

Australia
Uncommon Leadership: Leading Your Credit Union to Success

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