A White Paper For Credit Union Leaders And Decision-Makers

Strategic Planning: A Market-Based Approach

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Most of the country's 8,000 credit unions go through a strategic planning ritual of one sort or another every year. They hold their respective retreats, usually over the course of a weekend, usually at a pleasant get-away location, with good food, a round or two of golf or other recreation, and much socializing—all squeezed into a very tight, much-too-short time frame.

The routine goes like this: A date is selected— one that will accommodate the greatest number of participants. A location is chosen. People arrive, coffee-up, and dive into a pre-determined discussion agenda. They talk, listen, brainstorm, plan and negotiate the weekend away…do a wrap-up…and head for home.

A sense of excitement, even exhilaration, often builds during the course of this process as participants sharpen their insights about the credit union and the factors that affect it…and sharpen their collective sense of what the possibilities for the future might be. But within a matter of days following the get-away experience, the excitement fades and all too soon people are back into familiar routines. It is, all too quickly, business as usual.

This is no big deal the first, or even the second time. But those who have repeatedly "done" strategic planning over the years, tend to develop a low-level realization that somehow it doesn't quite work. There's still the sense that it's a good thing to do, but something about it falls short. And the confusion or frustration can be different from credit union to credit union. Sometimes it's "we-came-up-with-plans-but-aren't-sure-about-them." Often there's a sense that important decisions were made "out of the blue" without critical information or enough careful thought. Sometimes it's more a matter of going through motions or the realization that "we did all this last year and nothing much came of it."

The first problem is obvious. It's a bit presumptuous to assume that people can jump into an overflow agenda on a given weekend, talk about the many things that relate to the particular concerns of a full-blown business operation (that's exactly what the credit union is), make intelligent decisions that become commitments for the following one…two…five years.

The fact is, the hurry-up, weekend-retreat approach to strategic planning is not the best way to go about it. It's practical, given the time restraints of volunteer decision-makers—but not necessarily functional.

Three Different Planning "Products"

There are three distinct levels of outcome to be had from a strategic planning "event":

ONE: Team Cohesiveness. This is the collective benefit gained by having people shift from the normal routines and tightly structured agendas of board meetings—to a fresh, informal setting where a more open, stand-back perspective is accommodated. People open up more, reflect more, and share views more. They trade insights, kick ideas around. The direct outcome of all of this is a broadening of perspectives on everyone's part; an updating of understandings about factors that underlie some of the topical issues, problems, trends and concerns.

There is also, inevitably, a renewed respect among the many players on the credit union team for one another. There's a reason for this—in the retreat setting, people participate more than they normally do; more listening goes on. People hear one another better.

TWO: The Plan. What, after all, is strategic planning all about if not the business of coming up with a plan that will guide the efforts of the coming year. But then, what is the plan? Too often it is nothing more than a list of "To Do" items, with added consensus among staff, managers and directors regarding problems, priorities and implications. And generally a number of items are included on the list that, if more carefully considered, would never be given serious consideration. But at such weekend seminars, people are scrambling to incorporate every consideration, including one or two that are, to put it bluntly, "political" expediencies of the moment.

THREE: Results. Given that the credit union is in business for a purpose, the fact that would give meaning to the planning process is that of achieving certain ends. So an important outcome of strategic planning should be a list of particular accomplishments that are the direct result of the intentions of the directors, and the plans that facilitated those intentions.

Now every credit union that routinely does "Strategic Planning" generally does achieve the first objective to one useful degree or another—which in itself is often enough to justify the effort. Credit union decision teams can always use more cohesiveness!

But less than 30% of the credit unions doing strategic plans actually come away with formally written and confirmed documents. And then, only a small fraction of these actually hold to the plans with any sense of discipline and determination, checking off the actions along with way, genuinely intent on accomplishing the list of "to do" items. Theoretically, every strategic planning session should start with a full review of the specific progress and accomplishments achieved since the prior year's annual get-together. But very few do.

Finally—only a very small minority of credit unions ever reach the point of correlating the elements of their annual action-plan with tight measurable results.

So strategic planning turns out to be not quite the purposeful exercise everyone presumes. But this has more to do with how we approach it than whether or not it is really effective as a management process. There are things to do about it, however, to make it a more productive activity.

The main one is to see it not so much as an "event," but rather, as an on-going interactive process that draws the various elements into confluence with one another. And once again, the guideline for optimizing effectiveness is—connect actions with desired outcomes.

Now, The Market-Based Perspective

Within the credit union community, the general practice is to discuss things for awhile, and then make a list of "things-to-do" for the coming year.

The shortcoming with this is that it encourages too much of an anything-goes agenda. Whatever anyone wants to bring up and stick on the list OK. But this is the wrong thing to do! Given the competitive dynamic of the market today, credit union decision-makers simply don't have the luxury of writing their own agendas. There's far too much going on within consumer banking for credit unions to be too free-wheeling about their current and future plans and objectives.

Today we operate within a Market-Driven banking environment…one in which consumer needs and behaviors—and their reactions to the wide array of competitive products, services and sources—dictate what must be included in the plan.

But take it one step more—to the idea of a High Performance management program for credit unions…in which the intention is to function on an above-average basis—specifically by becoming more effective at selling/delivering services to members.

Market-Based Strategic Planning follows a calculated process that starts with a review of what's happening throughout the retail banking community. The focus is on mission, purpose, and the financial needs of members, but the strategic considerations are based on what it takes to create a more competitive, more winning (sales-wise) dynamic, one that gets more members to use more of the CU's services (which, of course, generates income!).

Nothing is neglected in this approach. It's just that every issue, problem, need and concern is considered specifically in light of its effect on the credit union's ability to attract members' banking activity…and service it more effectively.

So rather than just creating a fresh list of "things-to-do"…we're really looking at a more sharply-focused, proactive way of running the credit union… geared to produce specific performance results.

Market-based strategic planning is a more disciplined approach than what credit union decision-makers have generally known. But it's the way credit unions must play from now on if they are to succeed in today's retail banking marketplace.

The Seminar Agenda

Only after hammering down this fact that strategic planning is first and foremost a management-by-objectives way to run the credit union, and that the annual planning retreat is only one part of a much broader on-going program, should we go on to the central element of the strategic planning process, the annual planning seminar.

Seminars should be labeled: "Use Only As Directed."

Allow more than a single day for your annual seminar. Break away from the normal board meeting format. Bring in an outside facilitator who can provide the industry perspective and can guide and referee the discussion.

During the seminar, follow this order of discussion:

- Review the external situation: What's happening "out there"? What is the competition doing? And what are consumers communicating through their banking behaviors?

- Review the Internal Situation: How many members (what percent of the total membership) are actual users in each account category? What are the average balances? How do these figures compare with those of other credit unions?
- Restate mission/purpose: With an updated version of these two pictures, you're now ready to reconfirm your reason for existing as an alternative banking source. This is perhaps the most critical point of any planning discussion because it clarifies the basis for all decisions you make. Nothing should ever be up for discussion if it doesn't somehow fall within the parameters of your stated purpose.
- Identify needs/issues/problems: What do members want in the way of new products or services? What things are likely to get them to use the credit union more? What does the credit union need in order to function more effectively? What problems must be resolved? What are your revenue requirements? And what problems and complications might be generated by any of these considerations?
- Develop a goals agenda: After progressing through the first four steps, go to work on a realistic list of objectives for the coming year.

No Tight Plans—Yet

Contrary to popular assumption, the product of a weekend planning workshop is not, or should not be, a tight, concise action-plan for the year.

First, if you're tracking effectively on problems, solutions, objectives, options and likely courses of action, you are undoubtedly introducing ideas that are familiar in name only—a new product or service, a new consideration relating to facilities, the possibilities of new operational relationships with new sources. In all of these cases, the proper first step is to get more information! Don't presume to make hard-line decisions at this point that are burned into place for the rest of the coming year. You probably don't know enough about what you are discussing yet to do so.

Do plan, however, to get more information, gather additional data. Good luck aside, decisions can be no better than the considerations upon which they are based. For this reason, the plans coming out of the planning session should be general—more like intentions.

The second reason for not casting a concrete plan has to do with relationships and responsibilities. The Board and the management team are different entities. The board does not actually manage the credit union, management does—and the strategic planning circumstance should not change that. As management must answer to the board for its accomplishments, so must it have the freedom to develop the specific courses of action that will lead to those accomplishments.

Room For Negotiation

There is, however, room for negotiation in the work sessions that follow the annual planning seminar. Directors can indicate the kinds of results they hope to see for a year's efforts; the management team, however, is in a better position to suggest what is realistically "do-able" and why.

Generally, there are three kinds of performance objectives: Income, marketing and general development.

Your general development objectives are those that support your other, more specific intentions. Included on this list are plans for facilities, equipment, personnel, new programs, new product or service developments, outside resources, supply (vendor) sources and the like.

Income objectives are, obviously, those relating to the funds management side of your credit union operation. Start with the basic equation: yield minus cost-of-funds equals gross earnings. Now, what can you reasonably expect to generate in the way of revenue? How much is needed for operating expenses? What about reserves? If it doesn't all add up, run through the cycle again, looking for ways to cut costs, generate more income (perhaps from new sources) and/or increase the general volume of funds you have to work with.

But here's an important point for directors to remember: creating a strong, stable financial institution is not your final objective. It is only a means to your real end.

The Bottom Line

Marketing objectives should be the heart and soul of planning efforts and performance intentions, because, in fact, the credit union is essentially a marketing entity. Its sole mission, no matter how stated, is to offer the right mix of services to meet members' financial needs, with the right terms and conditions attached, at the right prices, and then to promote the use of these services to assure a successful operation. And that, in a nutshell, is marketing.

If your credit union is getting most of its members to save, invest in certificates, deposit funds in IRAs, or earn higher returns on their funds through share draft accounts, then it is doing what credit unions are supposed to do. If it is not, then no matter what else it is accomplishing—no matter, even, how financially stable it has become—it has, somewhere along the line, gotten its wires crossed.

Credit unions must strive to get members to become active, energetic users of products and services by convincing them that they will gain significant personal financial advantage by doing so. No other objective stands before that.

So again, the focal point for all of strategic planning is the specific set of annual performance objectives relative to the use of various accounts and services by various portions of the total member-ship.

Making It All Happen

Finally, the element of strategic planning that stands between the planning seminar and performance results is the action-plan itself.

This is the translation of goals and performance objectives into program strategies, projects, task assignments, schedules and budgets. It is who does what, when, with what resources, to what specific results. And this, of course, is the responsibility of the CEO. The game plan is the work program drawn up by him/her that directs the everyday efforts of the staff to the desired results.

Once all of these projects and activities are in motion, the one thing that remains is to "keep score"!— that is, chart progress and evaluate accomplishments on a frequent, ongoing basis. This should be done with monthly reports of performance statistics, and special quarterly board meetings at which the entire plan it reviewed, discussed and modified as appropriate.

This, of course, is where most credit union strategic planning efforts fall short. Too often, the commitment is only to the once-a-year planning seminar, then back to business as usual. A full year goes by before anyone looks over the plan to see what the objectives and intentions of the year were supposed to be.

The planning cycle repeats itself. And each time around your planning and projecting skills will improve. You will develop a sense of the whole of the financial services arena and a realistic perspective of your credit union's role and position within it.