



How can culture improve the performance of Alberta credit unions?

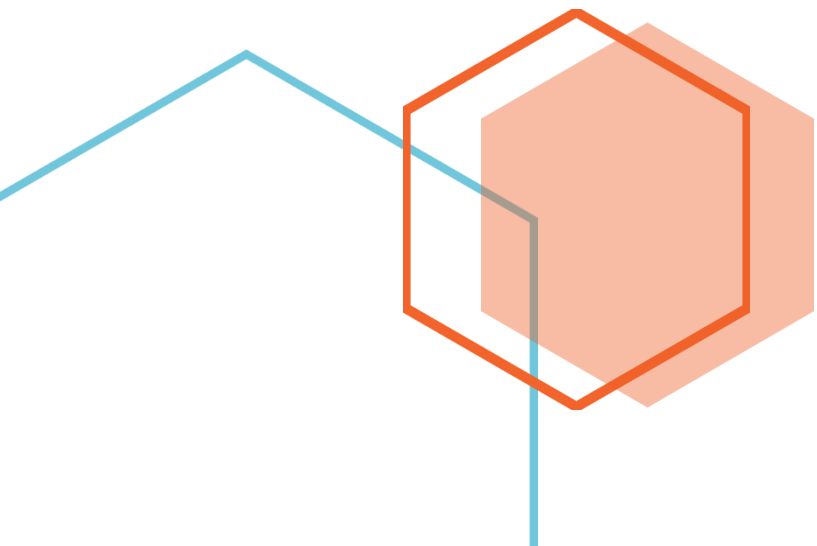
Alberta Young Leaders

April 2019

Nathan Charrois, Servus Credit Union

Rebecca Gurr, 1st Choice Savings & Credit Union

Natalie Woolstencroft, Alberta Central





How can culture improve the performance of Alberta credit unions?

Executive summary

In this report we will discuss the importance that culture has on credit union performance and how we can use culture as a competitive advantage. We will discuss our findings of the current Alberta credit union culture assessment and also what the characteristics of a desired culture would be.

When assessing performance, culture can often be overlooked or discounted. Culture, however, must be used to build a solid foundation for credit unions. Alberta credit unions are perfectly positioned to harness the power that culture can have on an organization. By creating and nurturing a strong culture, credit unions can benefit from increased employee engagement, increased member satisfaction and overall increased financial performance.

Our research has led to some considerations for Alberta credit unions and a call to action to assess and re-evaluate the current culture. Alberta credit unions need to assess if their current culture is helping or hindering their overall performance.



Culture is the single thing that no other financial institution can copy. Everyone has similar, if not identical, products and services. Others can copy strategies, tactics, marketing ideas, etc. Culture, however, is the hardest to duplicate. That's because it's unique to your credit union, with your people, your core values, and your identity.

6 things successful credit unions of the future will do – CUInsight.com



Contents

Credit union system landscape	3
What is culture?.....	3
Core values	4
Boundaries.....	4
Accountability systems	4
Employee selection	4
What is performance?	4
Using organizational culture as a competitive advantage	5
Alberta credit union culture assessment	6
Desired Alberta credit union culture	7
How do we get there?	7
Growth mindset.....	7
Open book management	8
Operational transparency	9
Performance development programs.....	11
Call to action.....	12
Appendix A.....	13
Interview questions and findings	13
Appendix B.....	16
Survey results	16
References	21



Credit union system landscape

The landscape in which credit unions in Alberta and beyond operate is rapidly changing. There is increased market competition with other financial service providers, continued growth of FinTechs, increasing regulatory requirements, rapidly changing technology developments and continued credit union mergers. Alberta credit unions will need to reimagine themselves for the future. Credit unions will need to continue to look for opportunities to be innovative, especially given the rise in popularity of technology products and mobile technology for banking solutions. Some credit unions may be considering the option to obtain a federal charter in order to grow and expand regionally and nationally, others may be looking for opportunities to identify a niche market which they can serve well or merge with another credit union to grow their membership or diversify their portfolio.

Over time, all organizations tend to normalize. Within any industry, competitors will begin to imitate each other by offering similar products and services. This normalization causes competitors to lose their competitive advantage. The Alberta credit union system has reached a state of normalization. Credit unions have prided themselves on being first to market with products and services such as the first debit card service, first full-service ATMs, first fully functional online banking and first mobile cheque deposit app. In recent years however, credit union innovations have not kept pace with consumer expectations.

COMPETITION LEADS TO IMITATION

*Creating Culture within a Credit
Union: Four Approaches –
Filene Research Institute*

As credit unions are operating in an increasingly competitive environment of rapid change, they cannot afford to continue a pattern of normalization. In the current competitive environment, how can credit unions survive and even thrive in Alberta? Credit unions need to identify their competitive differentiator in order to stand out in the crowd of growing competition. That differentiator must be culture.

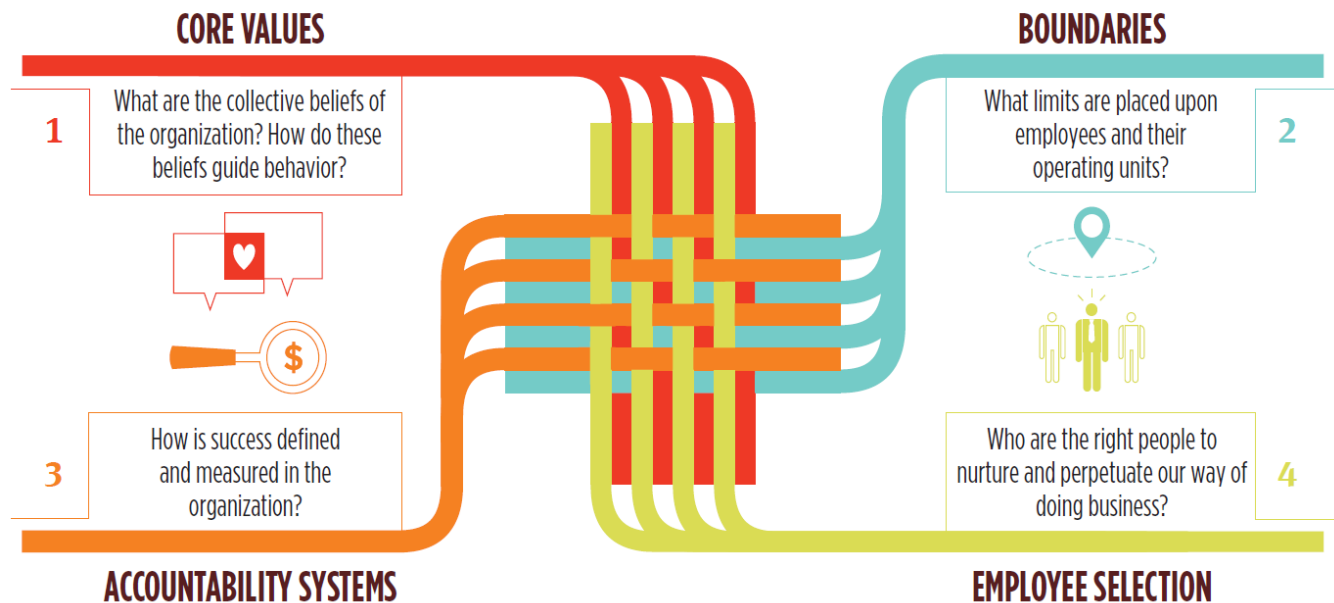
What is culture?

Culture is not just reflective of a feeling within an organization, culture actually drives organizational performance. Culture can have both a positive and negative impact on the overall performance of credit unions. Research has shown there is a link between organizational culture and performance. Organizations that exhibit strong positive cultures outperform those with weaker or negative cultures.

Organizational culture is comprised of four distinct components: core values, boundaries, accountability systems and employee selection.



WHERE DOES CULTURE COME FROM?



*Designing Credit Union Culture for High Performance, Filene Research Institute

Core values

The core values of an organization encompass the overall beliefs, attitudes, feelings and fears of the organization. Core values guide behavior, how work is performed and interactions between individuals.

Boundaries

The boundaries that are in place within an organization provide clarity to employees regarding their authority to make decisions. Empowering employees to make decisions is reflective of strong positive cultures.

Accountability systems

The accountability systems within an organization define and measure success. An organization must have an appropriate incentive structure that aligns and supports the organization's goals.

Employee selection

Employee selection is imperative to creating a strong culture within an organization. An organization must find and retain the right people to foster the culture.

What is performance?

Credit unions may define performance in different ways. It can include the measurement of growth, membership numbers, and market penetration. As credit unions focus on providing a members first experience, performance can also include measuring the financial fitness of members, member loyalty, member satisfaction, and the ability of a credit union to provide a



full service banking relationship with members. Performance could also be linked to employee engagement and retention rates.

Regardless of how each credit union defines performance, Alberta credit unions must leverage their competitive differentiator in an increasingly competitive environment.

Using organizational culture as a competitive advantage

With so many options now available to serve the financial needs of individuals, credit unions must clearly identify and promote their differentiator; culture. Unlike banks, credit unions are able to prioritize members and their needs because they operate in a cooperative system. Culture can be, and must be, used as our competitive advantage.

Research has shown a correlation between organizational culture and performance, however the impact that culture can have is often underestimated. Companies with strong corporate cultures tend to perform better over time compared to their competitors. This link between culture and performance is essential for credit unions to understand in order to maintain a competitive advantage as financial institutions.



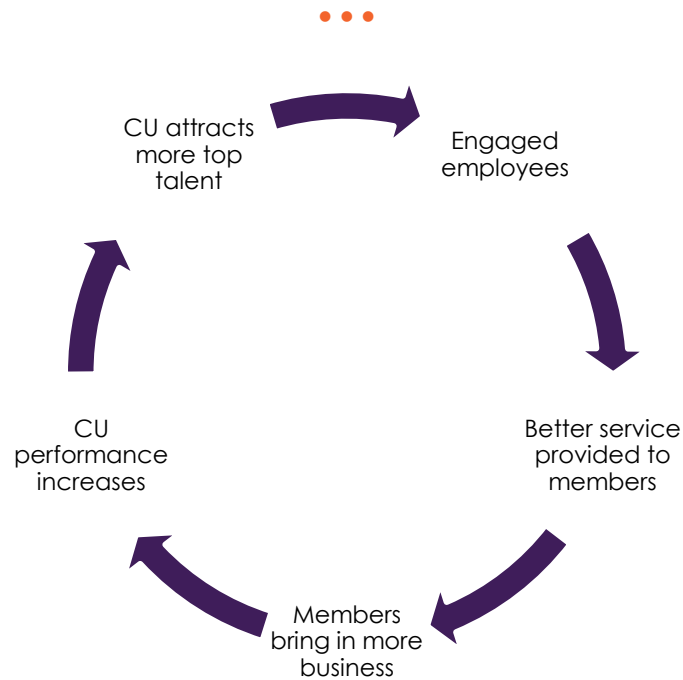
OUR COMPETITIVE
DIFFERENTIATOR **MUST BE**
OUR CULTURE

Fostering a strong organizational culture influences employee decisions and behaviours to be in alignment with the organization's strategy. A strong culture binds employees together and makes them feel that they play an important role within an organization. Creating a culture where employees can perform at their best will lead to retention of key personnel and further attract strong talent to the organization. When employees are performing at their best, the organization can perform at its best.

As part of our research, we reached out to BlueShore Financial to discuss the type of culture that they promote and also the impact that their strong culture has had on the performance of the credit union. An executive member of BlueShore likened the role that culture plays to that of a pinwheel. By promoting their culture and having engaged employees they are able to provide better service to their members. In turn, members will use more services which increases the performance of the credit union. Maintaining strong performance and a strong culture then in turn attracts top talent to the credit union. Employing top talent and engaged employees allows for the credit union to provide better service to members, and so the pinwheel continues.

When described in this context, it is easy to understand the power of culture and the important role that it can play in Alberta credit unions.

How can culture improve the performance of Alberta credit unions?



Alberta credit union culture assessment

The current state of credit union culture in Alberta is undetermined. While our business remains member focused, interrupters and competition in the industry have blurred the lines between banks and credit unions. We're seeing credit union mergers and amalgamations result in larger, and in some cases, federal credit unions that are now competing for business with not just the financial institutions of smaller scale, but the Big 5 (BMO, Scotiabank, CIBC, RBC, and TD), and to make things worse, with one another. Our current environment is making it challenging for credit unions to follow one of the key cooperative principles, cooperation amongst cooperatives.

While we must provide the products and services that our members need and demand of us, we need to ensure that we differentiate ourselves in the market.

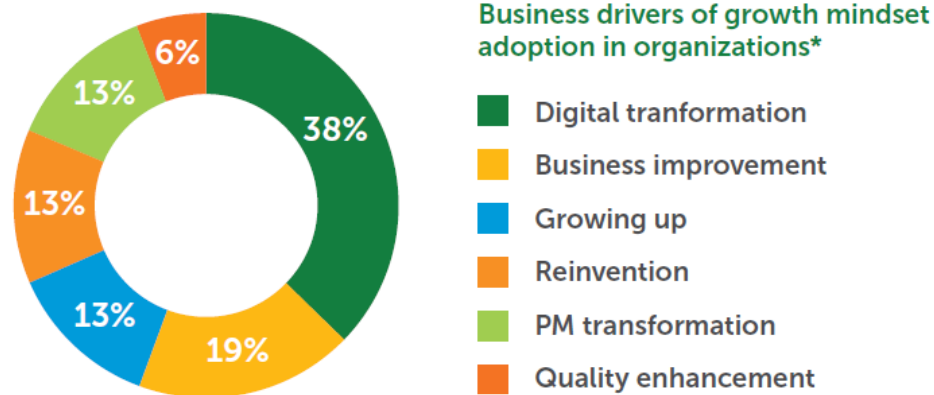
To assess the current state of the culture within the Alberta credit union system, we reached out to peers and executives to gain feedback. In a survey of our peers (Appendix B), we can see that our employees are engaged, feel cared about and that their opinion counts, etc. but when it comes to the culture of their credit union, the topic needs clarification and further definition.

When we interviewed executives within the credit union system (Appendix A), there appeared to be one common message – there is room for improvement. It is clear that the desire for strong culture exists, however among the responses the reality was not matching the ideal state. While sales and growth targets may be required for the organization to measure growth, the culture of the organization needs to be clearly defined to ensure success of the organization's strategy. Further, the culture of the organization needs to be nurtured and developed. It should never have a checkmark next to it, as the culture of an organization should never stop being an ongoing responsibility for every employee and board member. To keep culture top of mind it is critical to assess your organization's culture. Changes in environments and markets coupled with

How can culture improve the performance of Alberta credit unions?



Research performed by the NeuroLeadership Institute indicates that the number one reason for organizations to adopt a growth mindset is due to digital transformation. Given the landscape of rapidly evolving technology for banking solutions, credit unions can leverage a growth mindset to navigate changes and be successful.



*Percentage of organizations in our sample that adopt growth mindset to fulfill the listed objectives. Percentages add up to 102% due to rounding.

Source: Industry Research, NeuroLeadership Institute, 2018

An excellent example of a company that has seen success from embracing a growth mindset is General Electric under former CEO Jack Welch. Jack Welch was known for hiring individuals that demonstrated their openness to learning and growth. He invested time coaching and grooming employees and executives in the organization. The results of his leadership style and promoting a growth mindset were evidenced through a rise in value of the company of almost 4,000% during his time as CEO.

Growth mindset considerations for Alberta credit unions

- *Do your systems and processes support growth mindset behaviours?*
- *Is your leadership team engaged and committed to supporting growth mindset initiatives?*
- *Do you have talent metrics to track growth mindset efforts?*

Open book management

Open book management has the potential to create value for credit union members and employees while also improving the overall financial performance of the credit union. Open book management practices can be woven into the culture of credit unions. This type of management calls for transparency within the organization. It requires the company to share detailed information about the company with all employees to empower them to understand how their actions can have an impact on the overall performance of the organization. Targets

How can culture improve the performance of Alberta credit unions?



can be set, but employees are empowered to collaborate to determine how those targets can be met.

Open book management requires three principles; transparency, trust and fair treatment. Organizations must be transparent in sharing information with frontline staff. A significant amount of trust is required to empower employees to make decisions and employees should share in the value that they help to create. Open book management can be successful because of the level of trust and engagement with employees.

As described by BlueShore Financial, their credit union prides themselves on the culture that they have created over the past several years. BlueShore describes the culture as one that encompasses coaching throughout the organization and also discussed the importance of transparency with employees. The level of trust in employees is immense. In fact, there is such a high level of trust that employees were presented with confidential information regarding BlueShore's new name and branding two weeks in advance of any public media releases by the credit union. Employees understood the importance of the information that had been provided to them in advance and no one in the organization leaked information.

Credit unions must be clear about what their goals are and ensure that employees understand and see the link between their performance and the impact on the organization.

Open book management considerations for Alberta credit unions

- *How is your credit union creating transparency within the organization?*
- *Are your goals clearly defined, frequently reassessed and involve employees in setting them?*
- *Do you have mechanisms in place to share the value that is created with employees?*
- *What is the level of trust that your credit union has in employees?*

Operational transparency

Credit unions have an opportunity to leverage operational transparency to increase overall member satisfaction and improve performance. Operational transparency allows members to see the work effort that goes into providing them a service. When the work effort is seen, there is an increased perception of the value of the service by the member. The member will then place more value on the service being provided. As well, if the employee sees the member, that increases their level of satisfaction in their role and can lead to better performance and a willingness to work harder.

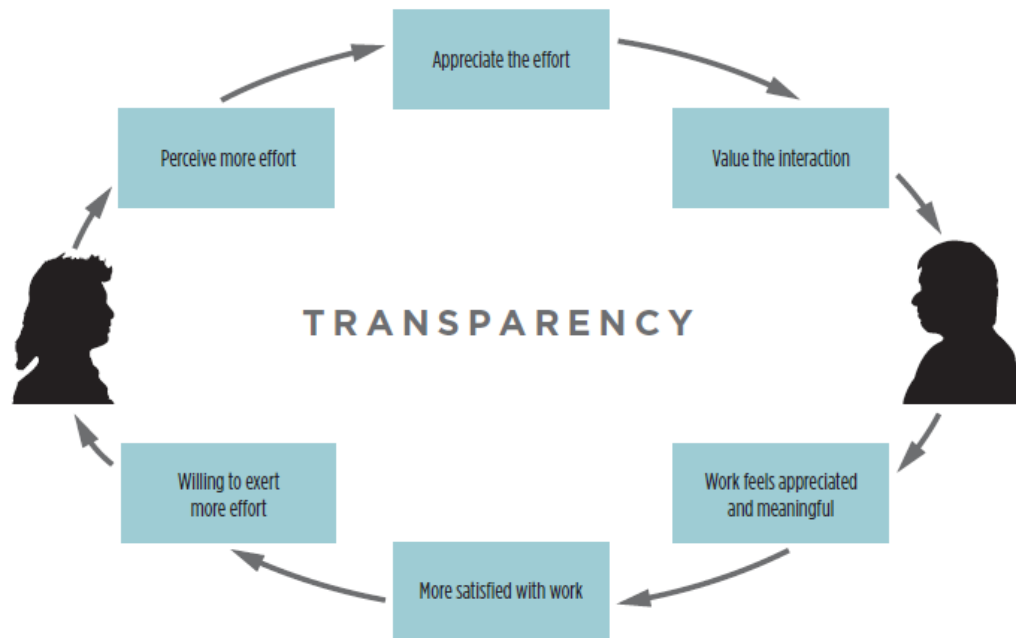
Credit unions work hard to provide exemplary customer service for their members, who don't always realize how much time and effort are dedicated to their well-being.

Reimagining Credit Unions: The Federal Option, Lessons from Europe, and Digital Lending – Filene Research Institute



FIGURE 3

THE TRANSPARENCY CYCLE



* Reimagining Credit Unions: The Federal Option, Lessons from Europe, and Digital Lending, Filene Research Institute

Operational transparency has been proven successful in organizations such as Domino's and Kayak. Domino's implemented a pizza tracker that allowed customers to watch the progress of their pizza order online, a similar concept to tracking a postal package. After the rollout of their tracker, Domino's saw an increase in sales as customers placed more value in the service that Domino's provided over their competitors. Similarly, the travel booking website Kayak shows messages as it searches so users understand what the site is doing.

As more digital services are being provided, Alberta credit unions should consider how they can incorporate operational transparency into these services. There is an opportunity to increase member loyalty and attract new members to the credit union.

Operational transparency considerations for Alberta credit unions

- *Can your members see the efforts that go in to serving them?*
- *Are there ways to incorporate operational transparency at your credit union to allow employees to see the work they do for each other?*
- *Are there opportunities to incorporate operational transparency when digitizing services?*

How can culture improve the performance of Alberta credit unions?



Performance development programs

Credit unions should assess if their performance development programs are aligned with their desired culture and strategy. Credit union values are known for putting members first, but do our employee performance rating tools help us improve our member experience? Tying performance ratings strictly to sales goals may not have the desired effect on member experience that Alberta credit unions are looking to achieve.

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 to a loss of cooperative identity.

Designing Credit Union culture for High Performance – Filene Research Institute

An example from Conexus can be used to show how modifications to performance rating tools can have an impact. Employees at Conexus are evaluated using a nine-box rating system that measures if goals are reached and also on how those goals were reached. The “how” could be through meaningful difference, innovation, integrity or continuous learning.

FIGURE 6

CONEXUS'S NINE-BOX RATING SYSTEM

How (values and competencies)	Exceeding	Progressing	Exceeding	Far exceeding
	Achieving	Progressing	Achieving	Exceeding
	Below	Below	Progressing	Progressing
		Below	Achieving	Exceeding
		What (goals and objectives)		

*Creating Culture within a Credit Union: Four Approaches, Filene Research Institute

It is important to ensure that the accountability of employees and leaders is aligned with the mission and strategy of the credit union in order to achieve success.



Performance development program considerations for Alberta credit unions

- *Do your incentive programs include the right mix of motivators?*
- *Do your incentive programs promote an entrepreneurial spirit?*
- *Are your incentive programs aligned with your core values?*

Call to action

Alberta credit unions need to take a step back and assess if they have the appropriate culture to support their strategic plan and achieve the results that they desire. Focusing and cultivating a strong positive culture within the system will enable Alberta credit unions to adapt and embrace innovation. We believe that the future success of Alberta credit unions is contingent on promoting a strong culture and ensuring we have the right people on board and processes and measurements in place.

When assessing culture, Alberta credit unions should consider the following:

1. Competition leads to imitation – we can't play follow the leader and copy what others are doing in the industry
2. Performance measurement – re-check your metrics. Do they still align with the credit union philosophy of members before profits?
3. Leadership and strategy – does your credit union have the right people in the right positions to promote and protect your culture? Does your culture align and support your strategic plan?



Appendix A

Interview questions and findings

Questions	Findings
-----------	----------

Alberta CU Executives (Executive A, B, C, D)

<p>Do the performance objectives compliment the corporate strategy?</p>	<p>From a financial and sustainability perspective, absolutely.</p> <p>From an employee engagement, community, and brand perspective, no.</p> <p>Room for improvement.</p> <p>Tie to the corporate scorecard, which is created based on the CU needs.</p> <p>I believe so. Strategy and score card ties well. Conscious effort is made for it to not.</p> <p>We need some more quantifiable metrics to measure our mission.</p> <p>Yes. They are completely aligned.</p> <p>There is no perfect methodology out there for performance plans. When you look at a member facing role, they aren't just responsible for one specific thing. There has to be a balance of weighting goals, plans, and products. I feel that we have the right balance.</p> <p>How you get results matters.</p> <p>Taking the results and making the decision for investments and expenses, and remaining profits (paid as profit share).</p>
<p>Have you noticed a change in the culture since you first started? If so, why do you think there was a change?</p>	<p>Yes, for the positive. More collaboration with employees. Looking for everyone's input. New faces and positive changes coming with them.</p> <p>No longer member serving, but member focused and engaged by aligning them with the appropriate products to meet their needs.</p>

How can culture improve the performance of Alberta credit unions?



	<p>Absolutely. Blending of credit union cultures. Culture shifting towards how are we sustainable in the long run?</p> <p>Even within a merged CU, there continues to be shifts.</p> <p>Absolutely. We've become a lot more proactive in helping members achieve their goals. Taking ownership of influencing a member's financial trajectory to meet their goals. More of a duty.</p> <p>Changed when the "heart and smart" analogy came out. We have the heart – and we're cranking up the "smart" and not that we're not smart, but the perception needs to change. We give great service and advice and we need to be proud of it.</p> <p>Scan of the landscape of what is happening to the average Albertan.</p>
<p>What is your idea for growth for the credit union system? How would you define growth?</p>	<p>A more balanced demographic. More younger members.</p> <p>Trying to focus on digital enhancements without losing credit union roots.</p> <p>Trying to get more committed/fully banked members.</p> <p>Credit Unions are the best kept secret. Differentiated in the market.</p> <p>Try to be creative in attracting membership.</p> <p>Growth: Not just membership or market share. CU's need to determine what their target segments are and who they are not.</p> <p>Growth: 1. Asset size. 2. Market share in your primary segments. Compared to competitors, factored above.</p> <p>Done with members that call you their Primary Financial Institution.</p>
<p>Do you think corporate culture can assist with growth?</p>	<p>100%. It has to.</p> <p>Employees have to believe in the system to have buy in from members.</p>

How can culture improve the performance of Alberta credit unions?



	<p>Absolutely. 100%.</p> <p>Yes. For sure. Culture eats strategy. If you don't have the right culture, it's going to get in the way of delivering objectives and strategy.</p>
<p>What is your credit union culture? Is it a sales culture?</p>	<p>It has an aspect of sales, but it is not everything.</p> <p>Sales should come secondary to credit union values, but is still very important.</p> <p>There are sales pockets combined in a member's full financial picture.</p> <p>Sales come from meeting the member's needs and meeting member needs creates additional sales.</p> <p>Values based, community based, can-do culture. Can do can cause you to lose focus. We need to be able to say no.</p> <p>I think we're a healthy mix. We're not a non-for profit. At the same time, we're not driven by the quarterly earning requirements. Financial targets are not everything.</p> <p>We're a dedicated group of employees focused on trying to do what is right.</p> <p>I think we do have a sales culture. It's a thoughtful sales culture. Sales is not the only definer of success, but how you do it matters just as much. Not sale for the sake of a sale.</p>



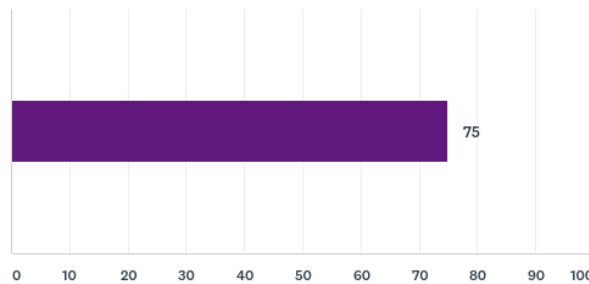
Appendix B

Survey results

Our survey was structured using the Gallup Q12 Employee Engagement questionnaire, with adjustments on 4 questions to gauge current culture. The survey was sent to employees ranging from front line staff to back office administrative staff and from junior/new staff to tenured senior managers. We gathered responses from 166 of our peers and the results are summarized below.

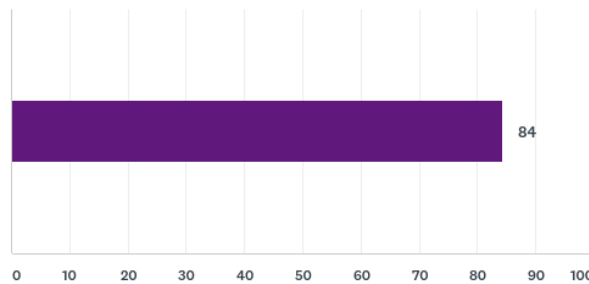
For all questions: 0 = Strongly Disagree and 100 = Strongly Agree

Q1 At work, I have the opportunity to do what I do best every day.



Respondents agree that they have the opportunity to do what they do best every day.

Q2 My supervisor, or someone at work, seem to care about me as a person.

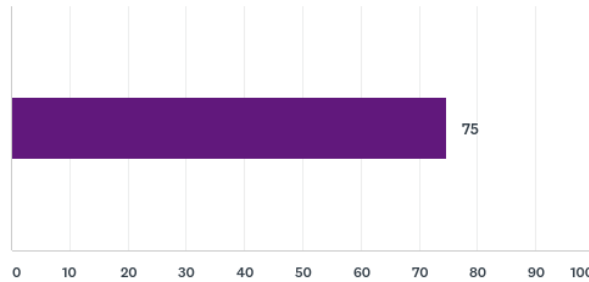


Respondents believe that their supervisor or someone at work cares about them.

How can culture improve the performance of Alberta credit unions?

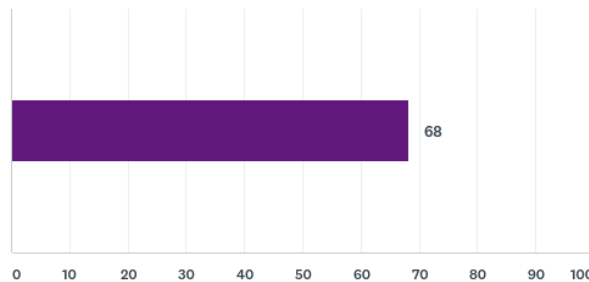


Q3 There is someone at work who encourages my development.



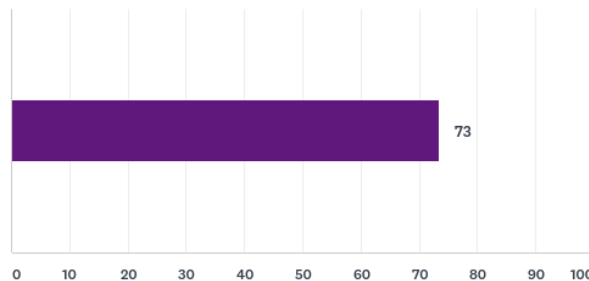
Respondents agree that there is someone at work who encourages their development at work.

Q4 At work, my opinions seem to count.



Respondents agree, but not as strongly, that their opinions seem to count at work.

Q5 The mission/purpose of my company make me feel my job is important.

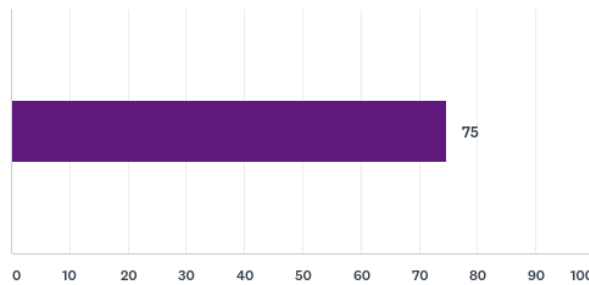


Respondents agree that the mission/purpose of their credit union makes them feel their job is important.

How can culture improve the performance of Alberta credit unions?



Q6 My fellow employees are committed to doing quality work and providing the best member experience.

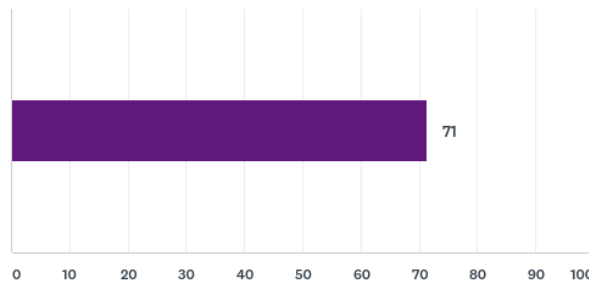


Respondents agree that their fellow employees are committed to doing quality work and providing the best member service.

Questions 1-6 were from the Gallup Q12 questionnaire. The results are like the employee engagement results that have been completed by credit unions in the past.

The following 3 questions are related to culture – specifically sales and member centric cultures. Additional commentary will be provided to support our observations and recommendations.

Q7 Sales targets are necessary for my company to be successful.



Respondents agree that sales targets are necessary for their credit union to be successful.

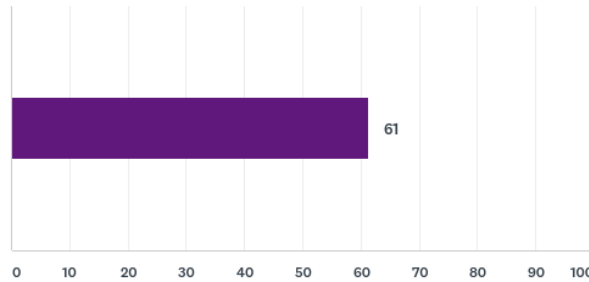
Results of this question are not surprising as the credit union is a business and sales are a large part of our performance measures.

Our recommendation would be to further explore the results to determine if sales targets are necessary for individuals to be successful or if they should stay at a corporate scorecard level.

How can culture improve the performance of Alberta credit unions?



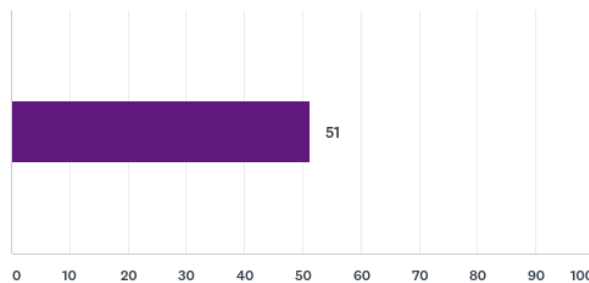
Q8 My performance goals are designed to provide the best member experience.



Respondents agree, but less strongly, that their performance goals are designed to provide the best member experience.

Respondents do not strongly agree that their performance goals are designed to provide the best member experience. Perhaps having more member first focused performance management goals (or a more evenly distributed model) could move the needle.

Q9 The culture at my Credit Union feels to be more of a sales culture vs. a member first culture.



Respondents neither agree nor disagree about their credit union cultures being more of a sales culture vs. a member first culture.

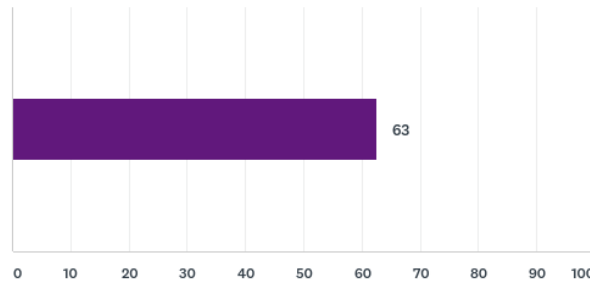
With an essentially even split on this answer, we reviewed the individual respondent results to get a better understanding of the results. Responses varied from a "0" (meaning members first culture) in some cases to "100" (sales culture) in others. The results, while split, may be telling a different story that there is not a defined culture, which might be a greater cause for concern.

How can culture improve the performance of Alberta credit unions?



Our recommendation would be to further explore this result.

Q10 My performance goals are sales/target based.



Respondents agree, but less strongly, that their performance goals are sales/target based.

Performance goals need to be designed and managed with caution. If you build a performance management tool that is largely sales based, how can you expect to have a cultural result other than a sales culture? On the flip side, if your measurements are not sales driven, will you attain the desired results/state?

With a strong culture in place that is continuously reviewed and nurtured, we feel that performance (regardless of sales targets or otherwise) will improve.



References

2017 Credit Union Community & Economic Impact Report, Canadian Credit Union Association

6 Things Successful Credit Unions of the Future Will do, CUInsight, <https://www.cuinsight.com/6-things-successful-credit-unions-of-the-future-will-do.html>

Creating Culture within a Credit Union: Four Approaches, Filene Research Institute

Designing Credit Union Culture for High Performance, Filene Research Institute

The Gallup Q12 Employee Engagement Questionnaire, <https://www.shrm.org/hr-today/news/hr-magazine/pages/0510fox3.aspx>

How Companies can Profit From a "Growth Mindset", Harvard Business Review November 2014 Issue

<https://www.cbc.ca/news/canada/british-columbia/dividing-lines-between-credit-unions-banks-blurring-but-key-differences-remain-1.4906844>

<https://blogs.ubc.ca/junjielin/2014/11/10/organizational-culture-solid-foundation-for-business-success/>

Idea Report: Growth Mindset Culture, 2018 NeuroLeadership Institute

Operational Transparency by Ryan W. Buell, Harvard Business Review March-April 2019 Issue

Personal conversations with Executives A, B, C, D, E, F

Reimagining Credit Unions: The Federal Option, Lessons from Europe, and Digital Lending, Filene Research Institute

Shahzad, F., Luqman, R. A., Khan, A. R., & Shabbir, L. (2012). Impact of organizational culture on organizational performance: an overview. *Interdisciplinary journal of contemporary research in business*, 3(9), 975-985. Retrieved from <http://www.journal-archieves14.webs.com/975-985.pdf>

Skin in the Game, Open-Book Management in Practice, Filene Research Institute