The growth imperative

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A source of continued debate among financial cooperatives is the role, if any, that growth and profit should play in a credit union's formal strategy. Credit unions differentiate themselves by focusing on the value delivered to their members and communities. However, their capacity to deliver on this value proposition is integrally linked to the credit union having sufficient funds available to do so. While many credit unions forego the drive for quarterly results and dividend payouts espoused by their publicly-traded competitors, the assumption that there is an inherent conflict between maximizing profitability and cooperative values is fundamentally flawed.

Credit unions that fail to adopt an aggressive, sustainable growth-oriented mindset risk losing competitive parity on the products and services they provide to their members and significantly limit the investments they can make in their organizations, members and communities. Rather than being a betrayal of the cooperative system, planning for and achieving sustainable growth is one of the most important activities that a credit union can undertake to maximize member value and live its cooperative principles.

The growth argument is based on three precepts:

1. **Growth must be sustainable**: A credit union must balance growth with other factors such as profitability/ patronage generation, capitalization and liquidity. Growth for growth's sake is not the right answer.

2. **Growth is necessary to maximize control**: Asset and membership growth is critical for credit union autonomy and self- determination; credit unions that fail to grow are significantly more likely to be acquired by a peer or to be placed under supervision by their regulators.

3. **Growth is necessary to maximize impact**: Sustainable growth generates the financial returns necessary to meaningfully deliver on cooperative goals.

1. The sustainability challenge

A credit union seeking to maximize its cooperative impact cannot just adopt a policy of growth for growth's sake. Regardless of whether the credit union is very large or very small, the growth must be strategic and sustainable. Strategic growth is aligned with the credit union's overall culture, member value proposition, business model, geography, and target segments,. Inorganic (merger and acquisition) and organic (new members, new products and services) growth that detracts from a credit union's strategic goals risks subtracting rather than adding to the triple bottom line.

Matching growth and capitalization

Regulatory requirements with respect to liquidity and capitalization are placing considerable constraints on the capacity of credit unions to achieve and support the growth they are looking for. Persistent low interest rates, intense competition and continued operating inefficiencies, are severely constraining the ability of credit unions to generate retained earnings, the primary source of capital needed to support that growth.

Growth must be stable

The temptation to achieve growth through chasing short-term asset and funding opportunities can in fact be counterproductive. Reliance on deposit brokers and mortgage brokers and engaging in unsustainable price wars to attract new loans / mortgages and deposit product continue to compress net interest margins and increase the risk of portfolio churn, which ultimately has a negative impact on a credit union's ability to execute on its differentiated value proposition.

Growth must be profitable

While retained earnings are essential to support sustained growth, there needs to be an even more active push for credit unions to model what their bank peers are targetting in terms of growth and operating efficiencies if they are to compete effectively. This means lean operations, promoting a sales/solution culture and product diversification.

While all credit unions have the potential to pursue growth regardless of size, larger credit unions have more options for achieving growth successfully. For example, a review of Ontario's cooperative financial institutions shows that, even with M&A activity removed, credit unions with over $500M in assets grew, on average, 15 times faster than their peers with less than $100M.

2. Grow to maximize control

The most compelling argument in favour of becoming a growth-centric organization is that growth equals control. For example, only 16% of Ontario credit unions with flat or negative growth from 2003-2007 survived another five years in their then-current form. Many of these credit unions continued as part of a merged organization, but with clearly reduced control over how their members continue to be served.

Credit unions with a persistent track record of low growth tend to be acquired before they acquire, even when the institutions are similar in size. While being acquired can provide credit union members with access to additional benefits, it generally follows that the credit union surrenders autonomy to its acquirer and consequently cannot set its own path for its original members. Impact on specific communities may also become limited or diluted.

3. Grow to maximize impact

A balance must be made between investing in members, operations and the community. Credit unions that operate on a strict cost- recovery basis to keep member costs low often lack the financial resources required to invest in product and service renewal and current technology, and to keep pace with changing member expectations. Growth-centric credit unions engage in active dialogue with their members to explain why excess returns are needed, and how that money is being re-invested in the credit union to improve the overall value delivered to its members and their communities.

Maximize your operational impact

Scale matters. The capacity to grow revenues without growing the underlying cost structure is critical to future success. Sustainable growth requires a relentless pursuit of operational efficiencies and a focus on maximizing the value of every dollar spent. Growth-centric credit unions are generally better able to make difficult decisions about how to most effectively deliver products and services to their members.

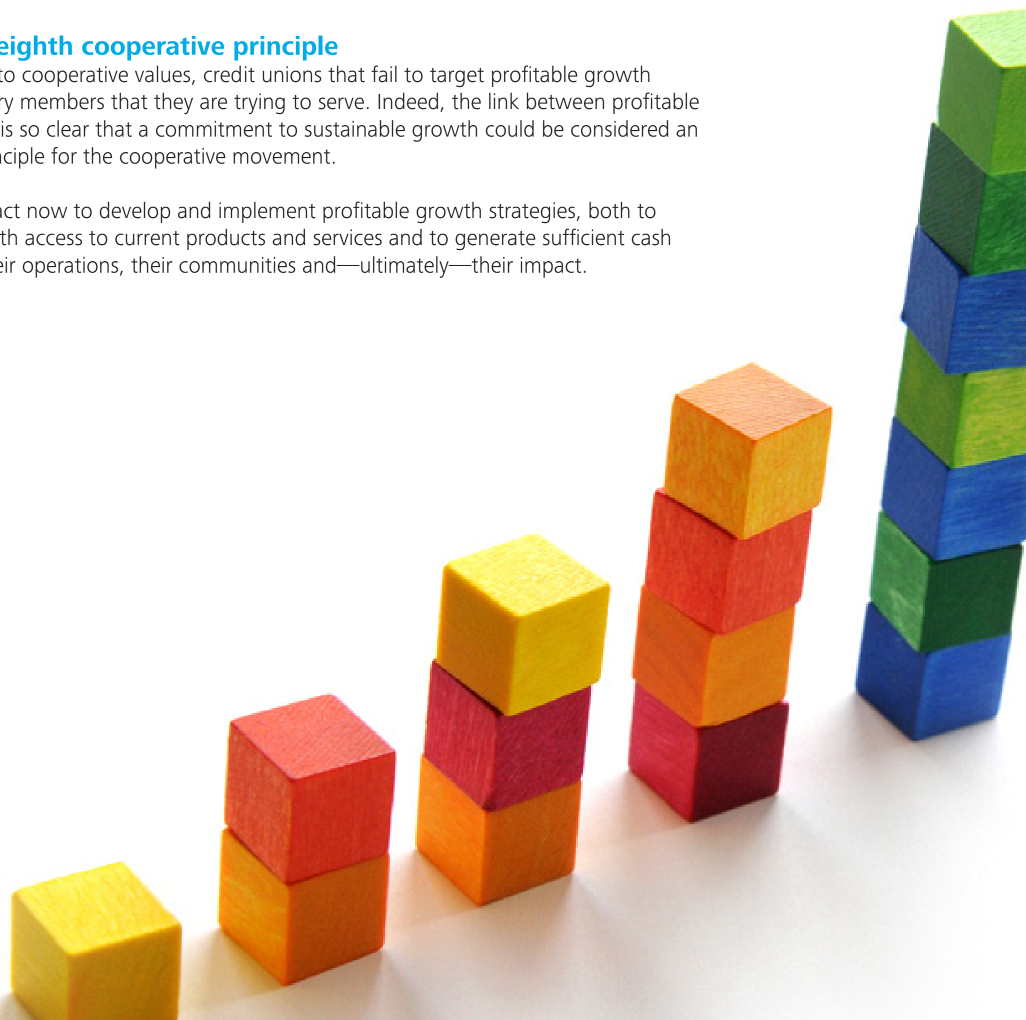
Maximize your community impact

To be truly impactful a credit union must move materially beyond the odd bursary and community fundraiser. Regardless of size, credit unions with a strong community mandate find ways to deliver value across multiple dimensions. This could range from low-cost accounts for recent immigrants to micro-lending or low-interest lending for community groups / initiatives. Ultimately, a credit union that is serious about supporting its community must have excess returns to invest.

Growth as the eighth cooperative principle

Far from being true to cooperative values, credit unions that fail to target profitable growth disadvantage the very members that they are trying to serve. Indeed, the link between profitable growth and success is so clear that a commitment to sustainable growth could be considered an unofficial eighth principle for the cooperative movement.

Credit unions must act now to develop and implement profitable growth strategies, both to provide members with access to current products and services and to generate sufficient cash flows to invest in their operations, their communities and—ultimately—their impact.



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