Governance

(Planning)

Executive Summary

Planning is an integral function of directing and managing a credit union. The planning process is usually considered a process to develop operational budgets. However, the benefits of a comprehensive planning process (defined in this chapter) are far greater, and can include:
a clear sense of vision and purpose;

- the establishment of an organizational mission statement;
- enhancement of management's ability to anticipate future events, and to avoid management by crisis;
- a realistic self-assessment of the organization;
- stimulation of new business ideas on a regular basis;
- promotion of cooperation within the organization to achieve common goals;
- a benchmark against which to monitor performance and to evaluate the need for change;
- contribution to the future viability of the credit union by empowering the board and management to direct the credit union over the long term.

Planning is not an exact science but an interactive process of creative thinking and team building. The board is ultimately responsible for the existence and monitoring of the annual business plan, however, the process works best when all members of the organization are involved in the process. This chapter reviews the annual planning process, as well as the elements of an annual business plan.

Planning Process

Directional Planning → Strategic Planning → Tactical Planning

On an annual basis, the board of directors and management must conduct an annual planning process. The annual planning process involves three planning elements: a directional plan, a strategic plan and a tactical plan.

Directional planning consists of the development of broad business objectives and performance targets for the credit union based on an evaluation of the economic environment and the corporate philosophy of the organization, over a long term time horizon, such as three or five years. This stage, conducted mainly by the board, results in the formulation of a "directional plan"; one which will determine what the organization should achieve in the long term.

The second phase of corporate planning consists of "strategic planning". This phase produces a plan which outlines courses of action or strategies, recommended over the short and medium term, to achieve objectives outlined in the directional plan. Generally, the "strategic financial plan" sets priorities and objectives for the year, and financial targets for all areas of operation.

The final step in the planning process is "tactical planning", which includes the development of a product offering plan, a marketing plan, a human resource plan and an annual budget. The annual budget authorizes expenditures for specific programs and projects identified in the strategic financial plan, to be implemented in the forthcoming fiscal period. This phase of planning is conducted by management. The tactical plans, including the budget, must be approved by the board.

Risk Measurement

However, the process does not end here. Management and the board need to regularly monitor performance and risk in order to properly assess whether the credit union is meeting the goals and objectives as set out in the business plan. This involves continuous monitoring of risk and performance by management, with regular reports to the board. For a list of required board reports and their frequency, refer to Appendix I-1 in the Introduction of this Reference Manual. The topic of risk management is covered in more depth throughout this Reference Manual (Refer to Sections 4400, 5400, 6400, 7400 and 8400 on Risk Measurement and Board Reporting).

Planning Tools

DICO has established a list of resources which can be used in developing a business plan. This list, which incorporates various types of planning resources, can be found on DICO's website (www.dico.com). The list is also presented in the DICO publication Dialogue (1998, Volume 3, Number 2).

Credit unions can also consult their league, external consultants or other credit unions in order to obtain assistance in formulating the business plan.

Directional Plan

Directional Planning → Strategic Planning → Tactical Planning

The first step of the planning process is to determine the credit union's long term directional plan. This process includes establishing the broad business objectives for the credit union, as well as its general direction for the future. The directional plan should envision a longer time horizon than just the upcoming year. Generally, such a plan should be three to five years in length. There is no need to develop a directional plan if it has recently been established, i.e. from the previous years planning process. However, it must be reviewed and updated given the performance and progress of the credit union, as well as changes to the environment during the previous year.

The steps for establishing a directional plan are as follows:

- Review and revise, if necessary, the credit union's mission statement (or its long term goals).
- Prepare a brief summary of the organization's internal strengths and weaknesses and its external environment.
- Identify immediate and long-term opportunities or threats facing the credit union.
- Compare internal resources against the external environment and establish a list of priorities and objectives to meet the credit union's missions statement (or long term goals).

Mission and Vision Statement

To assist in the planning process, it is recommended that the board review and, if necessary revise, the credit union's mission statement. The mission statement is defined as the credit union's statement of long-term purpose, or its reason for existence. Its most significant benefit is that it permits management and other stakeholders to visualize the credit union's purpose.

If a mission statement does not exist, the credit union should consider establishing one. A mission statement should provide a picture of the credit union's primary purposes and general direction. For a credit union, the mission statement should answer the following basic questions:

- Who is our membership?
- What are our members' greatest needs?
- What are our members' expectations?
- How do we satisfy those needs and expectations?

Specifically, the board must determine the key reason why its members belong to the organization, and what they expect to attain from membership. For example, it may be for a sense of community, financial gain, financial services, convenience, or a combination of these factors. It should also address what members expect from the credit union, and how those expectations can best be met. The mission statement should also briefly state what the credit union does best to satisfy those needs.

A credit union's purpose or mission is dynamic, that is, it changes over time; consequently, so will the mission statement. Therefore, it should be reviewed periodically, (preferably at the commencement of the planning process) to ensure it still reflects the mission and purpose of the credit union.

The types of changes a mission statement should respond to include:

- a change in the membership;
- a fundamental change in members' needs or expectations;
- a fundamental change in how the credit union serves its members' needs.

In defining the mission statement, the board must balance members' expectations against economic constraints. The board must not endorse a mission which is reckless or self-destructive, i.e. one which threatens the economic viability or continued existence of the credit union. Fiscal responsibility is required in this regard, as the board of directors have various legal duties towards the credit union and its well being.

Vision Statement

Another term familiar to business planning is a vision statement. A vision statement is a statement that provides a picture of a desired future for the organization. A vision statement can be an effective tool, as it can help employees, customers and other stakeholders to visualize an organization's long term plans. A vision statement can also be used as part of the board's directional planning process, such as by providing more detail to the mission statement. It should be noted that some organizations use vision and mission statements interchangeably.

Once the credit union's mission is confirmed or revised by the board, the next step is to conduct an analysis of the internal strengths and weaknesses of the organization relative to the external environment.

External Environment

An environmental analysis, or scan, should include a review of the major external variables affecting the credit union, such as various political, economic and technological factors. Refer to Schedule 1.1 for a sample list of factors to be considered. This information must be researched annually in order for the board to determine what market opportunities and threats the credit union faces. The board would normally assign management with the task of preparing the environmental schedule.

The sources of information used to assemble the schedule should be noted. These sources should be reviewed by the board for reliability. It is recommended that regional industry statistics be obtained from the municipality, the local government employment offices, or from the provincial government. Information is also available from the credit union system (e.g. Credit Union Central of Canada produces the Environmental Scan and DICO produces the System Outlook). In some instances, it may be more convenient for management to purchase the information on an annual basis from an economic consulting agency (e.g. the Conference Board of Canada).

Once the external environment schedule has been completed, the various environmental trends should be identified by the board, and labelled as either "opportunities" or "threats". Opportunities are defined as events which create a positive environment for the credit union to grow, increase its earnings or improve its service to members. Threats are defined as events which have a negative impact on these results. The credit union should prioritize the most outstanding opportunities and the most serious threats that it appears to be facing. This list will be used to identify the main priorities and objectives of the credit union for the year.

Schedule 1.1
ANALYSIS OF EXTERNAL ENVIRONMENT

Political And Regulatory Environment

- What changes are expected in federal, provincial or municipal legislation that will significantly impact operations; e.g. changes in municipal property taxes?
- Are the credit union's by-laws adequate to effectively service its members? If not, what changes are required?

Economic Environment

- Is the credit union dependent on a single employer or industry?
- What is the state of the local and regional economies? Are they expanding or are they in recession? Is a change expected in the next year?
- What kind of interest rate trends have been experienced over the past few years and what impact have interest rate changes had on the profitability of the credit union?
- What are the current and forecast unemployment rates locally?
- What has been the trend in the housing market locally? (e.g. change in market values, number of new building permits in the community?)
- If a credit union has an employer bond of association:
  - Is the company's growth threatened by any economic or market development for the industry/employer?
  - How are labour/management relations (i.e. is there a possibility of a strike or lock-out)?

Social And Cultural Factors

- What are the demographic trends for existing or potential new members?
- What are the types of employment and average salary levels of members and persons eligible for membership?

Competitive/Technical Environment

- What is the competition doing?
- Are they installing ATMs or providing network banking?
- Are they moving into the area or are they closing branches?
- Are they increasing advertising or other marketing strategies?
- What new financial products are the competition offering and how do they compare to the credit union product offerings?
- What new technology is available through the competition (e.g. credit or debit cards, home banking)?
- Are members using the competition for other services? Which ones?
- Would members utilize telephone or computer banking services?
- What fees or commissions are being charged to members? Are fees or commissions competitive with rates charged by other institutions?
- What other fees or commissions could the credit union be charging?

Internal Resources

Annually, an evaluation of the strengths and weaknesses of the credit union should be undertaken. This review consists of assessing the internal resources of the credit union. The benefits of such an evaluation include the following:

- Helping management and the board to focus on what the credit union does best in order to create market opportunities and build a unique service reputation.
- Permitting the credit union to identify weaknesses which may impede its ability to succeed.
- Alerting the board of performance problems which may be beyond the control of the general manager.

Schedule 1.2 details a sample list of factors which could be considered as part of an internal assessment, including a review of the credit union's financial resources, human resources and the credit union's past performance. Management should research these factors and create a list or summary of the state of the credit union's internal resources.

Once a list of the credit union's internal resources is documented, each factor must be assessed as either a strength or a weakness. A strength is defined as a factor which enables the organization to excel, i.e. to increase its financial stability and profits or to meet its members' needs. Strong internal resources permit a credit union to respond easily to change; i.e. to neutralize external threats or to take advantage of opportunities. Conversely, a weakness is a factor which constrains or limits the strategic choices of an organization. Weak internal resources prevent a credit union from capitalizing on opportunities, or from overcoming threatening situations.

Finally, the credit union should prioritize its most outstanding strengths and weaknesses.

Schedule 1.2
ASSESSING THE INTERNAL ENVIRONMENT

Financial Resources

- What is the adequate level of capital for the credit union? Is the credit union at that level? Does it have sufficient capital to com-ply with section 12 of Regulation 76/95?
- Is the organization earning profits? Are earnings strong?
- Is the credit union earning sufficient income from fees and commissions?
- What is the organization's interest rate exposure? Is this being managed?
- Are assets of good quality, i.e. few non-performing loans, adequately secured?
- Does the organization have sufficient capital and liquidity available for growth?
- What percentage of assets are earning assets?
- What is the mix between mortgage and non-mortgage loans? Is this mix profitable? Is it safe?

Human Resources

- Are staffing/recruitment practices in line with the business needs of the credit union?
- What is the average education and experience level per employee within a job class?
- How many training hours per annum does the average employee receive?
- Are employees encouraged to improve their skills through training?
- What comments have been received regarding service quality from member questionnaires?
- Is a succession plan in place for key staff members?
- How does the ratio of salaries to average assets compare for the industry?
- What is the turnover ratio of employees per annum?
- What is the absenteeism rate of employees per annum?

Managerial Performance

- Is the general manager/chief executive officer (CEO) evaluated annually relative to predetermined performance objectives?
- Did the general manager/CEO meet predetermined performance objectives?
- Did the general manger/CEO ensure the credit union's compliance with regulatory requirements and board policy?
- Does the general manager/CEO keep the board well informed of operations?
- Did the general manager/CEO provide the board with a report on the general level of staff competency?

Schedule 1.2 (continued)
ASSESSING THE INTERNAL ENVIRONMENT

Member Composition

- Is the bond of association closed or open? Can membership be expanded? Can new share capital be obtained?
- What are the membership demographics (i.e. employment, age, family size, ethnic background)? Are needs for financial services growing or declining? For which services?
- What potential exists for cross selling services to existing members?
- What percentage of members use the ser-vices of other financial institutions? Can members be convinced to transfer these services?
- Do members have high service expectations?
- Are members actively involved in promoting the organization to the community?

Facilities/Technology

- Are branches conveniently located? Are all branches profitable?
- Does the organization rent or own premises? Is this the most cost effective choice?
- Does the credit union have computer facilities?
- Will these facilities meet anticipated technology needs for the next three to five years? Will they meet the needs for future products?
- Has the credit union explored new technologies? Does it offer banking via ATMs, telephone, or computer?
- Can network services and EFT/POS be made available to members if required?
- Has the credit union explored opportunities to cooperate with other organizations or credit unions to improve service or reduce costs, e.g. shared processing, networking, back-ending?

New Products/Marketing

- Are products competitively priced and profitable?
- Does the credit union offer unique ser-vices that competitors do not?
- Does the credit union perform annual market and product research to improve its reputation within the community?
- Are promotional offers made periodically?
- What is the cost/price structure of products?

Sound Business and Financial Practices

- How did the credit union perform on its assessment of compliance to DICO By-law No. 5?.
- Were any practices identified which require improvement?

Historical Trend Analysis

Another tool to assess internal resources is the use of trend analysis. Trend analysis involves analyzing past data to establish predictions about future performance. Assumptions about future performance can greatly improve the planning process. The level of analysis should be cost effective and appropriate to the size and complexity of the operations of the credit union.

Trend analysis of key balance sheet and income statement items is useful in assessing an organization's financial strengths and weaknesses. It is recommended that on annual basis management present trend analysis to the board as input for the directional plan, and for later consideration by the board and management in the strategic plan. When analyzing past data, credit unions should review at least three to five years of financial data in order to identify trends on deposits, loans, share capital, operating expenses, impaired loans, etc.

Two types of trend analysis should be performed on the financial statements: these are generally known as ratio analysis and historical trend analysis. Ratio analysis (or common sizing) consists of calculating ratios of balance sheet items or income statement items to average total assets. This technique reduces all financial statement items that are being analyzed to a common denominator.

Ratio Analysis

Ratio analysis of income statement items in relation to total revenue (as opposed to average assets) is not recommended due to the fluctuation in revenue caused by interest rates. Operating expenses, as a percentage of total revenue, for example, will fall when interest rates rise. The ratio makes it appear that relative operating costs are declining when in fact just the opposite may be happening.

Historical Trend Analysis

Historical trend analysis consists of measuring the percentage increase or decrease in key balance sheet and income statement amounts from year to year in order to determine growth trends and to explain the inter-relation of financial variables. This can be done by comparing the ratios of balance sheet and income statement items (discussed above) for different years.

Finally, the data must be reviewed to draw the correct conclusions. For example, where financial trends are deteriorating, the board and management should list these as organizational weaknesses, and devise strategies to stabilize or "turn around" identified problem situations. For examples of ratio analysis and historical trend analysis, refer to Schedules 1.3, 1.4 and 1.5.

Schedule 1.3 *SAMPLE RATIO ANALYSIS - BALANCE SHEET*				
ASSETS	**Balance $000's**	**Mix (as a % of Assets)**	**Income/ Expense $000's**	**Yield/Cost**
Cash & Deposits	$260	0.97%	$6	2.31%
Securities (w/100 day or less maturity)	4,000	14.85%	120	3.00%
Other Investments	1,000	3.71%	37	3.70%
Loans:				
Personal	10,100	37.49%	1045	10.35%
Residential Mortgage	10,000	37.12%	650	6.50%
Commercial	1300	4.83%	84	6.46%
Institutional	143	0.53%	13	9.09%
Unincorporated Assoc.	0	0.00%	0	0%
Agricultural	33	0.12%	3	9.09%
less Allowances	96	0.36%		
Total Loans	**21,480**	**79.73%**	**1796**	**8.36%**
Capital (Fixed) Assets	53	0.20%		
Intangible Assets	0	0.00%		
Other Assets	147	0.55%		
Total Assets	**26,940**	**1%**		
LIABILITIES				
Deposits:				
Demand	8,917	33.1	83.6	0.94%
Term	8,060	29.92	302.7	3.76%
Registered plans	7,522	27.92	310.7	4.13%
Dividend bearing	2	0.01	0	0%
Other	0	0	0	0%
Total Deposits	**24,501**	**90.95**	**697**	**2.84%**
Total Borrowings	614	2.28	17	2.77%
Other Liabilities	326	1.21	0	0%
Total Liabilities	**25,441**	**94**		
EQUITY				
Membership Shares	1,190	4.42	0	0%
Retained Earnings	1,756	6.52	0	0%
Risk Capital	239	0.89	23	9.62%
TOTAL LIABILITIES & EQUITY	**26,940**	**100%**		

Schedule Instructions
The balance at the fiscal year end should be entered in the balance column. The balance as a percentage of total assets should be entered in the mix column. The income/expense related to the individual asset/liability should be entered in the income/expense column. The income/expense as a per cent of the average individual asset/liability is entered in the yield column. For example, $650 income on residential mortgages was earned on residential mortgages of $10,000 for a yield of 6.5%.

Schedule 1.4 ***SAMPLE RATIO ANALYSIS - INCOME STATEMENT***		
Total Assets = $26,940,000	**Amount ($000's)**	**% of average assets**
Loan Interest Income	$1,796	6.67%
Investment Income	164	0.61%
Total Interest And Investment Income	1,960	7.28%
less: Interest Expense on Deposits	748	2.78%
less: Other interest expense and dividends	18	0.07%
Financial Margin	1,194	4.43%
less: Loan Costs	48	0.18%
Other (Non-interest) Income	196	0.73%
Gross Margin	1,342	4.98%
Salaries and Benefits	576	2.14%
Occupancy	64	0.24%
Computer, office equipment	30	0.11%
Administration	244	0.91%
Other	150	0.56%
Total Operating Expenses	1,064	3.95%
Non-recurring Gains/(Losses)	0	0.00%
Extraordinary Gains/(Losses)	0	0.00%
Net Income Before Income Tax	278	1.03%
less: Income Taxes	92	0.34%
Net Income (Return On Assets)	186	0.69%

Schedule 1.5 *SAMPLE HISTORICAL TREND ANALYSIS* *($ 000's)*					
	Period Ending	**Period Ending**	**Period Ending**	**Period Ending**	**Period Ending**
BALANCE SHEET RATIOS					
Total Assets	$29,349	$27,686	$27,145	$27,281	$26,940
% growth over previous year	-3.3%	-5.7%	-2.0%	0.5%	-1.2%
Loans	$23,184	$23,519	$22,981	$22,141	$21,479
% growth over previous year	-1.5%	1.4%	-2.3%	-3.7%	-3.0%
Allowance for doubtful loans	$86,000	$89,000	$76,942	$79,942	$96,774
% growth over previous year	3.6%	3.5%	-13.5%	3.9%	21.1%
Deposits	$27,115	$25,448	$24,941	$24,878	$24,501
% growth over previous year	-3.2%	-6.1%	-2.0%	-0.3%	-1.5%
External borrowings	$591	$554	$429	$544	$614
% growth over previous year	-15.0%	-6.3%	-22.6%	26.8%	12.9%
Membership Shares	$1,029	$1,185	$1,214	$1,202	$1,190
% growth over previous year	-1.2%	15.2%	2.4%	-1.0%	-1.0%
INCOME SHEET RATIOS					
Interest and investment income	$1,638	$1,750	$1,826	$1,894	$1,959
% growth over previous year	4.8%	6.8%	4.3%	3.7%	3.4%
Financial Margin	$1,080	$1,100	$1,165	$1,241	$1,245
% growth over previous year	3.3%	1.9%	5.9%	6.5%	0.3%
Fee and other income	$167	$141	$199	$152	$197
% growth over previous year	10.6%	-15.6%	41.1%	-23.6%	29.6%
Gross Margin	$1,240	$1,299	$1,328	$1,345	$1,342
% growth over previous year	2.3%	4.8%	2.2%	1.3%	-0.2%
Total Non-interest expenses	$993	$1,049	$1,075	$1,085	$1,063
% growth over previous year	0.8%	5.6%	2.5%	0.9%	-2.0%
Net Income/(Loss) after taxes	$247	$250	$253	$260	$279
% growth over previous year	3.0%	1.2%	1.2%	2.8%	7.3%

Identifying Long Term Objectives

By this stage, the board, with management's assistance, has documented the following:

- A mission statement.
- A brief summary of the credit union's external environment: immediate and long-term opportunities or threats facing the credit union.

- A brief summary of the credit union's internal resources: strengths and weaknesses of the credit union
- Conclusions based on historical trend analysis.

With these in place, the board and management are ready to establish the major strategic objectives for the credit union in the upcoming years. The objectives of the credit union should include some or all of the following:

- Actions that must be taken to meet the credit union's mission statement.
- Opportunities identified in the environmental analysis, which if exploited, can achieve the purposes set out in the credit union's mission statement.
- Actions to address the significant threats identified in the environmental analysis.
- Actions to address the significant weaknesses identified in the assessment of internal resources.

This analysis can be conducted by comparing the interaction between strengths and weaknesses on the one hand, and opportunities and threats on the other. Schedule 1.6 outlines examples of objectives and possible strategies that may be elected under positive and negative scenarios when a credit union faces a variety of internal weaknesses. The board should prepare a list of the long term objectives it has identified, and meet with management to discuss them.

Schedule 1.6
SAMPLE ANALYSIS OF LONG TERM OBJECTIVES

Strength, Weakness Opportunity or Threat	**Contributing Factor**	**Priority/Objective**
Forecast demand for loans is high due to economic boom	Low level of equity limits growth	**Increase equity**
New geographic market has opened	Lack of trained personnel to undertake expansion	**Expand staff**
Deposit base is growing rapidly	Membership is aging and does not require loans	**Focus on asset growth**
Shrinking profit margin	Interest rate compression	**Increase fee and commission income**
Rising interest rate trend	Excess fixed rate loans	**Close interest rate gap**
Competitors are increasing promotional offers and luring away members' business	Net income is too low to offer promotions	**Refocus marketing efforts**
Economic downturn forecast	High risk loans	**Improve asset quality and collection practices**

The next step will be to identify objectives and priorities for the upcoming fiscal year. Management will then investigate strategies, options and action plans to achieve the priorities and objectives, and present these to the board for final approval. This step is discussed in greater detail in Section 1300 on the Annual Business Plan.

Annual Business Plan

There are numerous approaches for developing an annual business plan, as well as a variety of different elements to be included in a plan. It is recommended that at a minimum, the following basic elements be included in the credit union's business plan:

- Priorities and Objectives for the Year
- A Strategic Financial Plan which addresses all operational areas:
    - Profitability
    - Capital
    - Credit
    - Investments
    - Asset/Liability Management)
    - Liquidity
- Product Offering Plan, Marketing Plan and Human Resources Plan
- Operational Budget, which incorporates all of the above.

Board and management can tailor these elements to fit the circumstances of their credit union. However, all of these elements should be present in one form or another when developing the business plan. **The plan should be appropriate for the size and complexity of the operations of the credit union.**

Strategic Financial Plan

Directional Planning → **Strategic Planning** → Tactical Planning

As part of the annual planning process, management should develop a strategic financial plan which will address the current year's priorities and objectives identified by the board. The strategic financial plan should include:

- strategies and action plans to address each priority and objective identified by the board;
- financial targets for each operational area.

Strategies and Action Plans

Developing strategies and action plans involves the following management tasks:

- Investigate and develop strategic options to address each priority/objective (see the sample strategies provided in Schedule 1.7).
- Where necessary, analyze and select the best option to reach each objective.
- Document detail of the final strategies in action plans.

If the board has not already done so, management should develop one or several strategies to achieve each priority/objective identified by the board.
It is recommended that some form of analysis be conducted to determine the merit and benefit of each strategic alternative or option. Such analysis should take into account both qualitative and quantitative factors. Techniques for quantitatively comparing strategic options include:

- cost/benefit analysis;
- contribution to profit;
- positive cash flows analysis;
- internal rate of return analysis.

Finally, the selected strategies should be documented in action plans, setting out sufficient detail to assist in the development of budgets and specifying the necessary actions to be taken to implement the strategy.

Schedule 1.7* *SAMPLE ANALYSIS OF STRATEGIES	
Priority/Objective	**Strategies**
Increase equity	• Limit dividends • Offer non-membership shares (risk capital)
Expand staff	• Form joint venture with credit union in the area • Recruit staff
Asset growth	• Broaden membership base/bond of association
Close interest rate gap	• Promote asset/liability pricing & matching (See Chapter 7)
Improve marketing efforts	• Offer promotions only on higher yield products • Introduce new products
Improve non-interest income	• Introduce reasonable and competitive fees and commissions
Improve asset quality	• Cease offering higher risk loans • Increase monitoring of loans and strengthen security requirements

Key Financial Targets and Plans

DICO By-law No. 5 identifies five areas of financial planning:

- Capital Management
- Credit Risk Management
- Market Risk Management (Investments)
- Structural Risk Management (Asset/Liability Management)
- Liquidity Risk Management

Establishment of key financial targets for each of these areas of operational risk should be undertaken annually by management and the board as part of its planning process. Key financial targets are the financial goals critical to each area of operations, and it is essential that these are addressed in the Strategic Financial Plan. For instance, for capital management, the key financial targets are capital level and return on earnings.

The setting of these performance targets should reflect the priorities and objectives for the year established by the board as part of this planning process, and the strategies and actions plans developed by management. The following factors should also be considered when establishing desired goals for key financial performance areas:

- minimum regulatory requirements;
- competitor results;
- actual results of the industry and peer groups;
- the credit union's previous performance and future outlook.

Management should also develop plans or tactics to reach these targets, in a similar fashion used when developing plans to meet the objectives and priorities of the credit union (Refer to "Strategies and Action Plans" found at the beginning of this section). The comprehensiveness of these plans should depend on the complexity of the strategy needed to meet the target, and on the resources available to the credit union.

Monitoring Financial Performance and Risk

The business plan assists the credit union by providing one of the basis against which performance can be measured and monitored. Financial performance can be monitored by comparing actual performance results to the performance targets established by this process. This is discussed in more depth in each of the five operational chapters (refer to Sections 4400, 5400, 6400, 7400 and 8400 on Risk Measurement and Board Reporting).

Schedule 1.8 *KEY FINANCIAL TARGETS* *FOR THE PERIOD ENDING ______*		
Profitability & Capital:	**Target**	**Actual**[1]
Net income		
Projected year end capital		
Credit:		
Loan volume, by loan category		
Loan portfolio mix, by loan category[2]		
Loan yields, by loan category		
Loan delinquency, by loan category[2]		
Loan impairment, by loan category[2]		
Investments:		
Volume by investment category		
Investment portfolio mix		
Return on investments, by category[2]		
Asset/Liability Management:		
Balance sheet mix, by category[2]		
Asset growth		
Liability growth		
Capital growth		
Financial margin		
Liquidity:		
Volume of liquid assets		
Planned excess liquidity		
Volume of borrowings for liquidity purposes		
Return on liquid funds		
[1] To be measured regularly throughout the year. [2] Add a row for each separate category.		

Finalizing the Strategic Financial Plan

Before finalizing the strategic financial plan, management may want to report back to the board for approval of their strategies, action plans and financial targets.

After approval is received, action plans and financial targets can be compiled to form the strategic financial plan. The plan can then be used to:

- prepare the product offering, marketing and human resources plans;
- prepare the operational budget;
- implement strategies throughout the year.

Tactical Plans

Directional Planning → Strategic Planning → Tactical Planning

The tactical plans are the end product of the planning process. They incorporate the information gathered and analyzed throughout the first two stages of the planning process. This includes the objectives and priorities for the year and the strategic financial plan (selected strategies, action plans and financial targets) established in the strategic planning phase identified earlier in this chapter.

Tactical plans are important because they are used as the guides for implementing the annual business plan, and as the basis with which to measure the credit union's success in meeting that plan.

The recommended tactical plans are as follows:

- the product offering plan;
- the marketing plan;
- the human resources plan;
- the operational budget.

Management will need to review the strategies, action plans and financial targets developed during the strategic planning phase when developing the tactical plans.

Product Plan

One of the most frequent issues to be examined in the annual planning process is the adequacy of current products, services and facilities. The fundamental criteria for determining a credit union's need for new products are member demand and profit contribution. The following provides an overview of the recommended approach to investigating the viability of additional products.

Each year, the board and management should investigate opportunities for broadening the credit union's lending, cash management and other products and services. Recommendations derived from such investigations should be summarized in the Product Plan. Use of member questionnaires is an important determinant of what products members want. Refer to Schedule 1.9 for a sample list of products that may be offered by credit unions.

Schedule 1.9
CREDIT UNION PRODUCT SCHEDULE

Lending Products	Cash Management Services	Other Services
• Mortgages o months o variable o fixed • Consumer Loans o Demand o Term • Commercial Loans o Term o Mortgages • Agricultural Loans • Lines of Credit	• Chequing Accounts • Deposit Accounts • T-Bill Accounts • OHOSP's • RRSP's, RRIF's, Annuities* • Foreign Exchange Accounts • Payroll Services • Money Orders • Travelers' Cheques • Credit Cards, Debit Cards • Canada Savings Bonds • Mail Deposits	• Income Tax Planning • E-filing of tax returns • Wills and Estate Planning • Financial Planning • Mutual funds (appropriate staff licencing required) • Insurance products (e.g. travel, credit, life)* • Bill payment • Safety deposit boxes • ATM's, telephone banking, computer banking

* These products may be offered to members through an agency agreement with a trustee, an insurance company or a league.

In order to conclude whether new products are economically worthwhile, some form of financial analysis should be undertaken, such as contribution analysis. Contribution analysis quantifies the net benefit or profit contribution, if any, resulting from a new product. Schedule 1.10 provides a sample contribution analysis for a new lending product.

Schedule 1.10 ***SAMPLE CONTRIBUTION ANALYSIS***	
Lending Product:	
3 YEAR FIXED RATE PERSONAL LOAN	
Contribution per $1,000:	
Interest income at 10%	$100
Interest expense on source of funds at 6%	(60)
0.5% bad debt expense (based on historic experience)	(5)
Income Contribution	$35
	or 3.5%
The analysis assumes that no additional costs are required for offering this product, i.e. additional staff need not be hired. If further costs are in fact incurred (i.e. promotional expense), these should be included in the product analysis. Depending on their nature, they may be fixed (improved computer facilities) or variable costs (part-time staff wages).	

Note that the example of variable cost analysis relating to a lending product is fairly simple - the profit contribution is the spread in interest rates less estimated bad debt expense. Since the contribution margin is positive, the credit union will earn a net benefit from three year fixed rate personal loans which will in turn contribute to overhead and profit. The product would be economically viable, assuming there is member demand for it and sufficient deposit funding. Conversely, if profit contribution were negative, management may wish to avoid offering the product.

In order to optimize overall earnings, the credit union should rank its products by profitability and maximize the sale volume of those products which have the highest profit contribution. During the year, funding costs may have to be increased in order to attract incremental funds with terms corresponding to desired loan maturities. Interim monitoring of profit contribution of products is recommended. Shifts from planned asset targets may be justified as a result of shifts in profitability, however, board approval for such changes is required. Deviations from asset targets may result in unacceptable changes to portfolio risk.

Other Income

Credit unions can supplement their income through the use of service fees and commissions. Where reasonably priced, fees and commissions represent a fair charge to members for services performed by the credit union and its staff, such as fees for obtaining reports of a land appraiser, or for maintaining a commercial account.

Schedule 1.11 illustrates sample lending fees that could be considered and implemented by the credit union. The use of any fees, and their levels, should be documented in operational procedures.

Schedule 1.11
LIST OF SAMPLE LENDING FEES

For Mortgage and Consumer Loans

Application Fee - This fee covers the administration costs of establishing a loan. It is usually collected at the time the application is received. A portion of it may be refundable if the loan is not approved.

Appraisal Fee - This fee covers the cost of obtaining the report of a qualified real estate appraiser.

Legal Fees - These fees cover lawyer services to prepare loan and security documents plus out-of-pocket expenses covering title searches, registration and land transfer tax.

PPSA Registration Fees - These fees cover the cost of registering security under the Personal Property Security Act.

Member Pay Loan Insurance Fees - These fees cover the cost of member loan insurance which protects the credit union from loan default due to member death or disability.

For Commercial/Agricultural Loans

Application and Appraisal Fees - see above definitions.

Commitment Fee - This is an additional fee that is collected up front from a prospective borrower, which is not refundable if the borrower refuses the loan offer.

Fees for Letter of Credit or Guarantee - This fee (usually 1% to 3%) is applied to the face value of a letter of credit or a letter of guarantee issued by the credit union on behalf of a member.

Legal and PPSA Registration Fees - see above definitions.

Standby Fee - This fee is charged as a percentage of the unused portion of a credit facility which is available for drawing during a given period.

Account Maintenance Fee - This fee is charged monthly on the current account for services to commercial/ business clients, to compensate for administration and monitoring costs.

Marketing Plan

Marketing Tools

In order for a credit union to undertake effective marketing and increase its membership penetration, it must identify and analyze key marketplace factors. This process begins by profiling the market and the members. Once this has been completed, a long term marketing plan can be assembled.

Market Profile

The total market profile is evaluated by answering the following questions:

- What is the size of potential membership (assuming an open bond of association)? What is the market share for the credit union?
- Who is the competition and what are their success factors?
- What are the demographic characteristics of the market?
- Is the market growing or declining?
- Are other major changes expected in the marketplace? What and when?

In determining the size of the local market and the profile of competitors, the following participants should be considered: banks, trust companies, consumer finance companies, insurance companies, credit card companies and money market funds. Refer to Schedule 1.12 for a list of factors that should be researched on these competitors in order to determine their marketing advantages.

Schedule 1.12 DATA FOR COMPETITOR PROFILE	
• Size and image	• Hours of operations
• Financial condition	• Credit standards
• Location of main office and branches	• Quality of services
• Market segments served	• Price of services
• Market share	• Range of services
• Technology	• Advertising
• Automated teller machines	• Promotional efforts
• Telephone banking	• Major accounts
	• Debit cards

Member Profiling

Profiling the membership should begin by asking the following questions:

- How do we better serve our members?
- What services or products do our members needs?

In order to determine if and why members are taking any of their financial service requirements elsewhere, it is recommended that member surveys be conducted. Alternatively, professional marketing assistance may be obtained from leagues or other outside sources, to devise marketing surveys and provide objective analysis of results.

Market research should be conducted annually. Member surveys and/or focus group sessions are recommended in order for credit unions to stay in touch with their members and remain member driven. Where appropriate, promotional incentives should be offered to members to ensure completion of these surveys. Member profile by age, profession, income and other variables should also be obtained from these surveys, in order to assess demand for loans and cash management products by demographic group.

A significant marketing challenge for each credit union is to attract younger members who are net borrowers, while retaining members in the 50 and over age bracket who are net depositors. Marketing strategies should aim at promoting and advertising those services that are access points for younger members. The basic deposit and chequing accounts are important key access products. Recruitment/welcoming letters to young members and encouraging opportunities to participate on the credit union's committees is recommended. Additionally, support may be donated to local community youth activities.

Use of Membership Data

Information obtained through membership surveys, or collected through the credit union's management information system, can be used effectively for target marketing purposes. Refer to Schedule 1.13 for sample member data that could be reviewed for marketing applications

Schedule 1.13
SAMPLE MARKETING APPLICATIONS OF MEMBERSHIP DATA

Membership Data	Possible Application
Addresses of members that have a similar postal code	Indicates potential demand for new branch location
Members with savings over a certain dollar amount	Indicates potential opportunity for new investment instruments
Demographic data; i.e. age and income of members	Target product offerings: RRSP deposits, loan products (e.g. student loans) etc.

Marketing Strategies

After management has assessed the credit union's market and its members, appropriate strategies should be documented in a marketing plan that covers at minimum one year, but where possible greater time spans, such as three to five years. There are four major elements of a marketing strategy that should be addressed in the marketing plan: products, price, promotion and place.

As noted in the preceding Section, products should be analyzed in terms of their contribution margin before they are offered to members. The pricing of products should be competitive (i.e. in line with local pricing). If a product is economically viable, management should plan to promote it through advertising (billboards, radio, mail, telemarketing, etc.) or special promotional events (i.e. gifts, draws, etc.) as required. Promotional and advertising costs should be included in the product profit contribution analysis.

The place of business is a major concept in market planning. No longer limited to location of the branch, the place of business has been expanded through technology to include use and location of automated teller machines, telephone banking, the Internet and the acceptance of debit and credit cards by merchants. Management should therefore be guided by the memberships' requirements as to access of service and products. This can best be determined through the use of customer surveys, and a review of the technology presently available to financial institutions. If and when new technology is introduced to a credit union, it is recommended that members be informed in advance as to how these changes are in their best interest.

Post Marketing Strategies

In order to foster membership confidence and loyalty, it is recommended that marketing strategies be designed for more than just attracting members to buy a particular product or service. Marketing efforts should also provide for service and support to members beyond the point of sale. The following are some suggested practices for effective post marketing:

- Offer new member packages which contain basic information about the credit union and the movement in general. The welcoming package should explain the philosophical difference between banks and credit unions; i.e. the principles of economic democracy, accessible management and contribution to the local economy. The importance of membership capital and patron-age should be communicated.
- Arrange new member meetings which introduce staff and permit questions to be answered personally.
- Use telemarketing for follow up of new and/or existing members' needs.
- Mail congratulatory letters to members regarding a new product purchased.
- Circulate a regular newsletter which updates the member on new services/products, the outcome of member surveys, recent activities of the board and general members, including coverage of the annual meeting.
- Organize social and interest group meetings which may host a feature speaker on a relevant community or personal finance topic.
- Establish information display tables and suggestion boxes.
- Ensure there is an inviting social atmosphere for general meetings.
- Establish membership awards for years of patronage or committee contributions.

Human Resources Plan

Management should develop a plan to ensure the credit union has the necessary human resources to carry out its strategies identified in the strategic financial plan. The human resources plan will therefore need to do the following:

- Analyze the sufficiency of current human resources (see Schedule 1.14), and note any necessary changes.
- Summarizes human resource requirements, given the strategies and action plans developed by management and approved by the board.
- Based on the changes in human resource requirements, establish a human resources budget (the budget should provide detail about salaries, either by individual, or by department, and should also include other related costs, such as training, bonuses, benefits, etc.).
- If new staff is required, set dates and responsibilities for the recruiting of additional resources; arrange any necessary training.
- A specified date for the annual review of the general manager of the credit union.
- Where appropriate, a specified date for submission to the board of a report on the general quality, competency and experience of employees, by area of operational responsibility, to be prepared by the general manager.

Schedule 1.14 ***ASSESSING SUFFICIENCY OF CURRENT HUMAN RESOURCES***
• Are staffing/recruitment practices in line with the business needs of the credit union?
• How does the ratio of salaries to average assets compare for the peer group? For the industry?
• What is the turnover ratio of employees per annum?
• What is the absenteeism rate of employees per annum?
• What is the average education and experience level per employee within a job class?
• How many training hours per annum does the average employee receive?
• What comments have been received regarding service quality from member questionnaires?
• Is a succession plan in place for key staff members?

The human resources plan can also provide guidance in other areas, such as:

- committee appointments and committee member training;
- management training needs;
- succession planning (for staff, management, the board and committees).

Succession Planning

In order to ensure that appropriate expertise and knowledge is maintained, it is important to plan for an orderly development and transfer of necessary skills and knowledge of key employees.

Succession planning is a key element of human resource planning. The objectives of succession planning include:

- identifying and maintaining key skills and core competencies
- identifying potential succession candidates
- ensuring the orderly transfer of critical knowledge as a result of staff turnover

A succession plan should include consideration of such issues as:

- anticipated evolution of the business environment
- identified requirements established in the business plan
- key skills and competencies that need to be retained and expanded
- identification of additional skills and competencies that need to be developed
- demographics of staff including expected staff retirements
- Personal development plans for succession candidates

The succession plan should be completed annually in conjunction with the annual business planning process. A summary of the plan should be submitted to the board or designated boar committee.

Succession Planning: Emergency Situations

A succession plan should also be developed for emergency situations such as the unexpected unavailability of the general manager and other key personnel. The plan should address the process and actions, including the appointment or assignment of interim personnel, to be taken in defined circumstances.

Operational Budget

Preparation of the operational budget is the last step in the planning process. The operational budget is a one year document, which authorizes specific expenditures and projects in the upcoming fiscal period. The budget also outlines in detail the expected financial impact of planned activities, and should reflect the credit union's priorities and objectives, as expressed in the strategic financial plan prepared by management. The operational budget should be prepared by management for the board's review and approval one or two months before fiscal year end. The recommended components of the operational budget include:

- forecast balance sheet;
- forecast income statement;
- forecast schedule of reserves;
- forecast asset/liability matching (gap) report;
- monthly cash flow forecasts.

Monthly Forecasts

It is recommend that these components be forecast on a monthly basis, so that management and the board can compare actual results against the projected results on a monthly basis. The operational budget should also incorporate several sub-budgets, where applicable, including:

- the lending and deposits budget;
- the marketing budget;
- the personnel budget;
- the capital expenditures budget.

Larger Operations

Where applicable, the general manager/CEO should delegate preparation of the sub-budgets to the senior staff members responsible for lending, human resources, marketing and capital expenditures. These staff members should be briefed on the priorities and objectives, and strategic plans of the credit union. In order to ensure that various departments develop sub-budgets which adhere to the goals of the general budget, a preliminary master budget, or operational targets, may be presented by the general manager to the various departments to steer the detailed planning process. The preliminary master budget for example would reflect expected minimum growth in deposits or a desired gross interest margin, sufficient to cover operating costs and to build required reserves. Additionally, a specific return on assets figure may be targeted. This "bottom-up" process of planning revenues and expenses is recommended for all credit unions which must focus on earnings as a method of guaranteeing their economic viability. Normally, it is the general manager who would finalize and integrate the sub-budgets into the master budget. Where there are branch operations, each branch should submit a separate budget to the general manager for consolidation. Management must ensure that the general budget presented to the board is consistent with the objectives and strategic plans of the credit union, as far as practically possible. In order to achieve such consistency, a number of reviews and further revisions of the sub-budgets may be required.

Smaller Operations

For smaller or less complex credit unions which do not have senior staff to complete the sub-budgets, the general manager should prepare sufficiently detailed support schedules on planned lending/deposits, marketing, personnel and capital expenditures.

Board Approval

While it is management who prepares the business plan, it is the board who must approve it, after having an opportunity to discuss the business plan with management. The board should ensure that the business plan implements the objectives and strategic plans of the credit union, and that it is realistic in its assumptions.

When reviewing the business plan, the board should consider:

- the plan's compatibility to meeting the needs of the membership in services, interest rates, and equity;
- the plan's contribution to the credit union's longer term objectives (e.g. higher reserves, increased profitability, etc.);
- the realism of the business plan and the operational budget in light of the historical financial record of the credit union and the present economic climate.

Once the business plan has been approved by the board, it should be entered into the board's minutes.

Business Plan Revisions

Events during the year may necessitate the need for business plan revisions, or changes to specific elements, such as the operational budget. Significant amendment to either require:

- a comprehensive report detailing reasons for the change;
- revised estimates for the balance of the fiscal year for the areas affected;
- revised long-term plans if applicable;
- approval by the board of directors