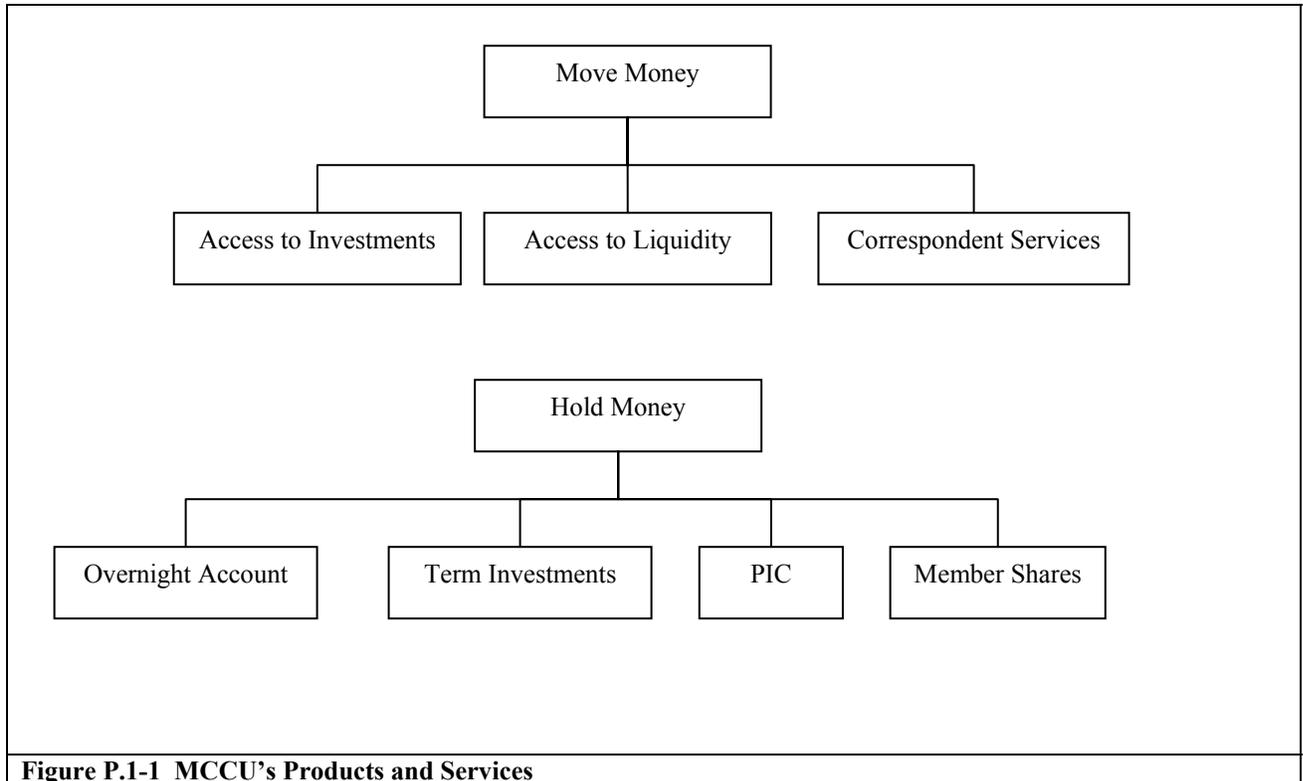


## P.1 ORGANIZATIONAL PROFILE

### P.1a Organizational Environment

Although Missouri Corporate Credit Union (MCCU) may be a non-profit financial institution, it is first a cooperative created by its members. (Note: credit unions refer to members when speaking about “customers.” However, members have an additional role. They are also the “owners” of the cooperative. Members will be used throughout this document and refers to the credit unions that MCCU serves.)

Credit unions created MCCU to ensure a competitive financial structure and to provide products and services tailored to the unique needs of credit unions. Credit unions established the organization to do something that individual credit unions could not do for themselves: to create and enhance the mechanisms and linkages necessary to move money and to hold money on a large scale. Figure P.1-1. The mechanism for product and service delivery in most cases is electronic, supported by a high level of individual attention.

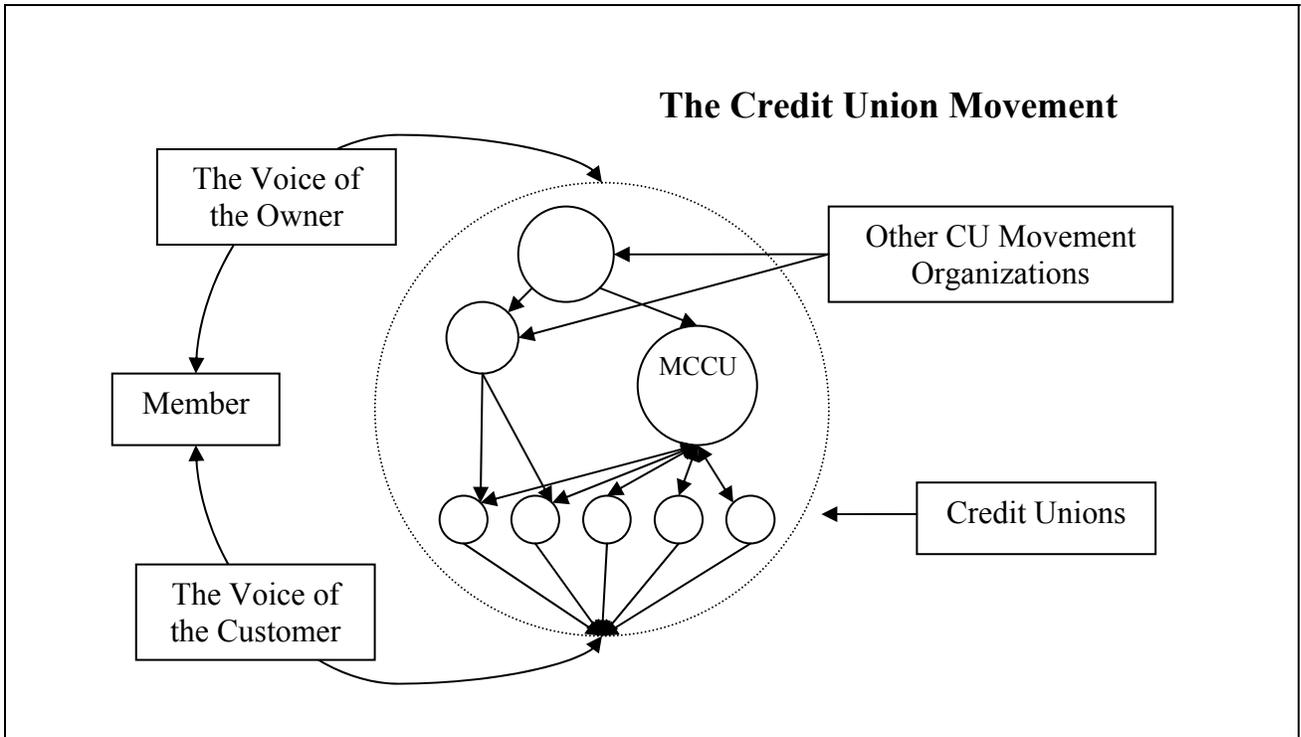


**Figure P.1-1 MCCU’s Products and Services**

MCCU was born within a greater system, often referred to as the Credit Union Movement, which will be referred to in the Application as the “CU MOVEMENT.” (Figure P.1-2) Although MCCU must find its own niche, assure that it has viability and meets a set of needs within the CU MOVEMENT, MCCU, as do other organizations, works to balance its needs with the overall success of the whole. This means that MCCU has a greater awareness and interacts with other CU MOVEMENT organizations in ways that are not reflected in most businesses or industries. There is a much higher level of integration of purpose and connectedness. Ultimately, it is the individual members of credit unions that the CU MOVEMENT is dedicated to support and help succeed. A great strength of the CU MOVEMENT is that the members are the true owners. The CU Movement is dedicated to putting people in charge of themselves. It is dedicated to giving people a voice in their own lives. This simple thought is reflected throughout the structure, the culture, and the strategies of the CU MOVEMENT and is embedded in MCCU. This simple thought of self-direction guides the way MCCU relates to its members, to its employees, to its regulators, and to other CU MOVEMENT organizations.

MCCU, as part of the CU MOVEMENT, inherently embraces the following core values:

Member-driven excellence	Valuing employees, partners, and the CU MOVEMENT	Agility of the organization and the CU MOVEMENT
Social responsibility	Systems perspective	



**Figure P.1-2 The Credit Union Movement (The CU MOVEMENT)**

**Vision:**

To build an organization that listens to the needs of its members, employees and business partners, and delivers products and services to meet those needs within the boundaries of safety and soundness

**Mission:**

To help our members succeed.

**Values:**

- We will treat our fellow employees, member credit unions, Board members and business partners with the utmost respect and professional courtesy.
- We are committed to operating in an honest and responsible manner.
- Our duties and responsibilities shall be performed based on the highest standard of excellence.
- We are dedicated to providing outstanding service to each other, as well as to the member credit unions we serve.
- We will work together to foster a safe and secure workplace.
- We will cultivate a working environment that promotes the fair treatment of all employees.

**Figure P.1-3 Vision, Mission, and Values**

<b>MCCU Employee Profile</b>	
Number of Employees	13
Range of Position	CEO to Entry Level
Positions Requiring Specialized Education	3
Tenure in Position	Most have more than 5 years, some more than 15 years
Graduate Degrees	2 employees
Undergraduate Degrees	4 employees
High School Diplomas	7 employees
Union Representation	None
Outsourced functions	Marketing, Legal, Human Resources, Some of Accounting
Special Health and Safety Requirements	None
<b>Figure P.1-4 Employee Profile</b>	

The bulk of the technological needs of the organization are around moving money (Figure P.1-1), and therefore the strategic needs for equipment are in electronic and Internet communication. Many of these structures and corresponding technologies exist within the CU MOVEMENT, with interfaces to the rest of the financial industry. The CU MOVEMENT is a highly integrated network, with multiple elements, and multiple organizations making up the whole.

MCCU operates in a tightly regulated environment, with both the State and Federal regulators providing oversight in addition to internal and external auditors. The changing environment in which corporate credit unions must operate has created a continuing interest and concern by the regulators. If MCCU were to fail, it could cause a number of its member credit unions to fail. Although the State and Federal regulators have an independent role, MCCU sees them as an integral part to MCCU and CU MOVEMENT success and treats them as such.

### **P.1b Organizational Relationships**

MCCU consists of Full (“Regular”) Members who elect the Board at the Annual Membership Meeting. There are Associate Members, who do not have the authority to vote, hold office or receive bonus dividends, but have all other privileges (i.e. same investment rates, same pricing on services, etc.) afforded to Full Members. The Board has nine members and meets monthly. Board members and committee members must be Full Members. The staff of the organization consists of the CEO and four senior leaders, representing Finance, Investments, Member Services and Correspondent Services. The CEO reports to the Board, and the senior leaders report to the President.

MCCU serves 172 of the 174 credit unions in Missouri, as well as 120 other credit unions stretching to both coasts and Hawaii. The majority of non-Missouri credit unions are in Illinois and Oklahoma. Most of the Missouri credit unions have been with MCCU since its inception in 1976 and were the founding members who created the cooperative. The other credit unions have only recently joined, most within the last three years. During this last three years, MCCU has shown significant growth in membership while other corporates have not or have grown only through mergers. MCCU has specifically targeted Illinois and Oklahoma for growth, and has achieved a strong position in both states.

Although MCCU has two classes of members, Full and Associate, there is no apparent difference in expectations. Members, no matter the class, understand the connection of Corporates to the CU MOVEMENT. Whether Full or Associate, members see themselves as the same and act the same. The only real differences are that Associate Members may not vote and they are not required to have membership shares in the organization, however, the strength of the CU MOVEMENT’s culture make these unnoticeable to members.

There are four major expectations that members have of MCCU:

Invisibility	Simplicity
Competitiveness	Sustainability

These expectations apply not only to MCCU but to the supply chain that delivers the products and services. Invisibility is the desire of members to not be aware of MCCU as a part of the process of daily operations. They do not just want it seamless; they want it invisible. Members desire simplicity in the products and services provided in order to reduce the need for training, to make processes more manageable and easier to complete. Members seek competitiveness in pricing, not requiring that all products are the cheapest or provide the greatest value. Finally, members are seeking a source for products and services that has sustainability. They do not wish to be continuously seeking new sources for products or services, but would rather find a source that they know will be with them for a long period.

Obviously, with the existence of the CU MOVEMENT, suppliers and partners, and even other more removed organizations play a role in value creation. All CU MOVEMENT organizations, to some degree or another, ultimately have the success of the members in mind. The most important supply chain requirement is that the end user - the members of credit unions benefit in some positive way. It would be better to think of this as a supply chain link fence rather than a supply chain. Value is created in many different places and delivered in many different ways, to many different credit unions to whom members belong. Innovation occurs at many different places, with each organization taking advantage of the opportunities presented to them.

MCCU has a close relationship with the Missouri Credit Union Association (MCUA) – which serves nearly the same members in Missouri as MCCU. MCUA is a critical CU MOVEMENT participant and a critical strategic partner to MCCU. In addition to this role, MCUA provides MCCU limited accounting services, office space, phones and IT support, and is the employer of all staff except for the President of MCCU.

MCCU was originally directly connected to MCUA, with the President of MCUA and MCCU being the same individual. The Boards were one and the same, as well. Due to a change in regulations, this organizational structure was modified and the two organizations have been winnowing through the changes for the last few years while striving to maintain the strategic advantages of being closely connected. MCUA is clearly MCCU's principal strategic partner.

MCCU also has a close relationship with U.S. Central Federal Credit Union (U.S. Central). U.S. Central is a major provider and developer of MCCU's products and services. In addition, MCCU works closely with the St. Louis and Kansas City Federal Reserve Banks. MCCU's access to the Federal Reserve System is through the St. Louis and Kansas City banks.

MCCU is also a participant in the Corporate Credit Union Alliance (Alliance). This is a group of smaller corporate credit unions that have joined to share information and to seek out ways to jointly increase their effectiveness. Structures such as the Alliance are a natural result of the CU MOVEMENT and the way in which overall improvements are made.

The fluidity and open nature of the CU MOVEMENT requires a much more proactive and participative style of communication between its participants. There is no one organization or organizations that are truly in charge. The CU MOVEMENT is held together by sense of purpose rather than authority or economic benefit. Personal and direct communication becomes a high priority to stay up with changes and maximize opportunities to work together.

## **P.2 ORGANIZATIONAL CHALLENGES**

### **P.2a Competitive Environment**

Although MCCU is a participant in the overall cooperative CU MOVEMENT, there is a growing degree of competitiveness among Corporate Credit Unions. Competition is a common element of the CU MOVEMENT and a balancing factor that keeps the CU MOVEMENT honest. Although there are numerous credit unions from which corporate credit unions can draw members, the sheer number of credit unions is declining. In addition, more credit unions are willing to have multiple corporate relationships rather than just choosing the one associated with their state or region. Currently, most of the competition is based on investment rates rather than service or membership, which has provided MCCU a strategic advantage.

MCCU is one of the smallest of the 29 corporate credit unions in the United States. There has been slight growth in credit unions' membership, with the smallest credit unions continuing to struggle with viability. Most corporates have grown almost exclusively by mergers, with their growth strategy focused on mergers. Although data is incomplete, MCCU appears to be one of the few corporates with a successful growth strategy other than mergers.

MCCU's success has been achieved by attracting members from other corporates. Success did not come from talking with CEOs, who are generally satisfied and tend not to change unless their staff is dissatisfied. MCCU's success has come from listening to operations personnel of current and potential members who want MCCU's service to be "invisible" and by helping make their work easier, thus more satisfied. MCCU's products have been designed or selected based on their simplicity and ability to provide multiple means of contact with MCCU staff. This concept extends to spending time with current and potential members to help them make their day-to-day processes easier by using MCCU's simple approach. Competitors are mostly interested in attracting deposits through high interest rates and selling products, as opposed to helping credit unions succeed by making their day-to-day processes simpler.

Some comparative data is available through regulatory “Call Reports.” This data is available from the principal regulator and from a vendor that provides software to analyze the data. Benchmarking is difficult because corporates are “unique” and compete with one another. However, MCCU is a member of the Alliance group of corporates that do not compete with each other. Some in the group are willing to benchmark. This group is beginning to share some internal data, but even here it is difficult because few measure much beyond financial performance indicators. No ready source of information on analogous processes outside MCCU’s industry is known. There are very few “bankers’ banks,” and MCCU competes for the same market.

## **P.2b Strategic Challenges**

MCCU’s key strategic business challenge is to maintain a steady growth rate of new members, while increasing use of products and services that promote a stronger bottom line. The organization’s primary competitor is four times MCCU’s size and the next is almost 10 times in size. Being the largest is not the goal. However, MCCU has to make sure that it is not too small.

The key operational challenge is to competently serve an ever-expanding number of members. MCCU has grown by 120 members from January 1, 2003 through May 31, 2006, while reducing the number of staff. In addition, MCCU has to continue to find effective ways to connect with new members to promote increased use of products and services.

The key human resource challenge for the organization is to assure that the required skills, knowledge and processes are available for staff to manage effectively the accelerating growth of membership. A longer-term challenge will be identifying where staff needs to be added to support and enhance the success that MCCU has achieved. MCCU has been able to reduce staff over the last several years, or not increase it even with the growth that has occurred. While remaining small in number of staff, another challenge is for employees to develop multiple skills to ensure there are no gaps in service if one or more employees are absent and to provide agility in shifting personnel to high need areas.

The ability to maintain a three-pronged strategy for cost control is extremely important. MCCU’s operational costs have increased less than similar corporates based on three cost containment strategies: sharing costs with MCUA, closely matching investments with U.S. Central to reduce human resource costs (investment professionals), and relying upon U.S. Central for research and development.

The closely shared cost structure with MCUA is integral to keeping costs low. As both MCUA and MCCU move ahead, this relationship is desired but not assured. The same is true with the fixed spread – there is increasing pressure to provide a wider range of investment products and rates. This will increase risk and lower income. All of this comes with the continuing rise of costs that almost all organizations are experiencing. MCCU does little in terms of product and service development, and therefore relies on others, notably U.S. Central, to develop competitive products and services. The better these vendors can create and position their products, the more effective MCCU will be in serving members and fulfilling the purpose of the organization.

## **P.2c Performance Improvement System**

MCCU’s culture supports and encourages, if not demands that the primary focus be member needs. The staff is focused on the needs of members as owners and customers. Staff accept their key role in meeting the member expectation of invisibility. Improving performance to help members succeed is central to everyone’s understanding for the existence of the organization.

MCCU maintains this focus on performance excellence for members by multiple sets of meetings. Senior leaders have monthly meetings to assess performance and identify areas for improvement. There are quarterly quality meetings and quarterly strategic review meetings for broader scopes of improvement.

Staff has a personal commitment to continuous improvement. This is expressed in daily actions and group efforts to better meet member expectations. Rotation of assignments and transfers between departments minimize stagnation and encourage identification of new approaches.

MCCU focuses on ingraining a process into the culture of the organization to ensure that it is systematic. Documentation is seen as support rather than a control mechanism (Figure 1.1-1). MCCU seeks to have systematic processes with a minimal amount of required process documentation. Senior leaders and staff provide on-going training, formal and informal, and frequent feedback to develop these ingrained processes. Further, the rotation of assignments and transfers between departments encourage ingraining these processes as well.

## **GLOSSARY OF TERMS AND ABBREVIATIONS**

AAP – Accredited ACH Professional

ACH – Automated Clearing House

ALCO – Asset Liability Committee

APEX – Automated Payment Exchange is an online Automated Clearing House origination and receipt system

Association Member – No membership capital share deposit is required; not able to hold office or vote

BSA – Bank Secrecy Act

BCP – Business Continuity Planning

CCUN – Corporate Credit Union Network

CEO – Chief Executive Officer

CFA – Certified Financial Analyst

CFO – Chief Financial Officer

CNECS – (pronounced CONNECTS) Corporate Network Core System

Contact Matrix – an identification of credit unions that need a proactive contact from MCCU

CPA – Certified Public Accountant

CU MOVEMENT – all the organizations and entities that are actively involved and committed to the advancement of credit unions and their ability to better serve their members.

CUMIS – Credit Union Mutual Insurance Society, Inc.

CUSO – Credit Union Service Organization

E-Purchase – Web-based financial product delivery solution

FOCUS POINTS – The areas that the Board has identified for increasing performance

FISH Philosophy – Manner of conducting business based on a book written by Stephen C. Lundin, Ph.D., Harry Paul, and John Christensen

Full Members – A credit union who has membership capital share deposits on deposit with MCCU; able to hold office and vote

Corporate Credit Union Alliance (Alliance)– Group of seven corporate credit unions consisting who meet periodically and share information on financial data and other process measures

IS – Information Systems

ISI – CU Investment Solutions Inc.

LAN – Local Area Network

LEADERSHIP SYSTEM – The approach that MCCU has taken to manage the organization and its employees.

MCCU – Missouri Corporate Credit Union

MCUA – Missouri Credit Union Association

Member / Member Credit Union – Credit union who has membership capital share deposits on deposit with MCCU; able to hold office and vote

MSR – Member Service Representative

Mid-States – Mid-States Corporate Federal Credit Union

NACHA – National Automated Clearing House Association

NASD – National Association of Securities Dealers

NCUF – National Credit Union Foundation

Open Door – Internet based delivery of MCCU products and services

Overnight Account – Member’s primary account with MCCU

PERFORMANCE GATES – The areas that the Board has identified as requiring a minimum performance.

PIC – Paid-In Capital has no stated maturity and qualifies as equity under U.S. generally accepted accounting principles

Profile XT – Assessment tool used to screen candidates for employment at MCCU

Regulators – Examiners with Missouri Division of Credit Unions and National Credit Union Administration

SAS No. 70 – Third-party review performed in accordance with the guidelines set forth in the American Institute of Certified Public Accountants’ Statement on Auditing Standard Number 70

Step-One Survey – Assessment tool used to test potential candidates for integrity and honesty

U.S. Central – U.S. Central Federal Credit Union, a wholesale corporate credit union located in Lenexa, Kansas

VMV – The vision, mission and values of the organization

# 1 LEADERSHIP

## 1.1 Senior Leadership:

### 1.1a Vision and Values

Senior leaders set the organizational vision, mission and values (VMV) through an inclusive process. In order to emphasize the value of the voice of the staff, the process starts with them. The staff develops an affinity chart for the VMV; the key elements of the charting process are drafted into statements. Key vendors and consultants participate in the process. Members' input is collected through on-going one-on-one conversations. The Board then finalizes the process with their input and approval. Each year the VMV is reviewed by the Board and senior leaders for continued adequacy and usefulness. Over the last three years, the Mission statement has been refined twice, each time to a more easily understood and communicated statement (Figure P.1-3).

Through the active participation of staff, the biggest voice in the process of setting the VMVs, MCCU has eliminated the need to communicate the VMVs to them. The staff knows the VMVs because they helped create them. The VMVs are integrated as foundational elements of the strategic planning process. The strategic plan or parts of the plan are shared with key organizations within the CU MOVEMENT (Figure P.1-2). Senior leaders also deploy the VMVs through one-to-one communication with staff, members, and partners. This is especially true when changes are made to the VMV, when senior leaders seek opportunities to identify and remind others of the changes.

MCCU has a LEADERSHIP SYSTEM (Figure 1.1-1). Its first objective is to ensure that staff is committed to the CU MOVEMENT and the VMVs. This allows for internal-motivation, self-direction, and self-control. Less direct management of staff is required as that most needed actions are self-motivated. An extension of this is the second objective, providing individuals choice. Choice is more than voice or participation. Choice is seen as the ability to say no or to decline. Choice provides true ownership. The third element of the LEADERSHIP SYSTEM is to share the objectives, goals, and VMV of the organization with everyone, and to strive to connect their actions to the achievement of those objectives, goals and VMVs. The next element is to recognize that groups have more control and influence than individuals. The senior leaders seek to manage the group rather than the individuals. The senior leaders look to the group first for the cause of problems rather than to individuals.

The next element of the LEADERSHIP SYSTEM is a result of the previous elements as well. If individuals are committed to the objectives and values of the organization and they have some ability to influence the accomplishment of the objectives, then staff is already motivated to accomplish them. If desired results are not achieved it is more likely that senior leaders need to remove roadblocks than to create motivation. The final element of the LEADERSHIP SYSTEM is that formal processes should support culture rather than create it. If MCCU is failing to live up to its performance standards, it should first look at its culture and the other elements of the LEADERSHIP SYSTEM rather than installing a process intended to create culture.

<b>MCCU Leadership System</b>
Hire individuals that are committed to the CU Movement and MCCU's VMV
Create choice – give others the right and ability to say no
Establish clear, understood objectives on which everyone has some influence
Focus on the group rather than the individual. Groups have more control and are more influential than individuals
Identify and remove roadblocks to action or desired results before trying to create external motivation
Formal processes and documentation should support culture rather than create culture
<b>Figure 1.1-1</b>

An example of the commitment of senior leaders to the values is seen in how the VMVs are developed. The process reflects the value and respect that VMVs have for staff. Senior leaders also have staff rate how well the organization is following the values. It reflects the importance that the senior leaders place on the organization's commitment to the values.

The CU MOVEMENT has a significant effect on fostering and requiring legal and ethical behavior. Legal and ethical behavior are integral parts of the culture of the CU MOVEMENT. Senior leaders have taken the culture to a new level by striving to be more integrated with the regulators and to help promote the health of the CU MOVEMENT. This is not only a direct behavior but highly symbolic to staff, Board and partners. Every employee has at least one item on their bonus plan that is attached to the performance assessed by the regulators.

All senior leaders sign a confidentiality agreement, as well as Board members. Due to the interconnectedness created by being a cooperative that competes with other cooperatives that may have the same members, the Board and staff regularly discuss and work to resolve ethical dilemmas. This discussion and willingness to address these tough issues model legal and ethical behavior for the rest of the organization. MCCU also has a code of ethics, a confidentiality policy, fraud statements, a whistleblower policy, and a privacy policy. The two members of the staff with CPAs are required to have annual ethics training.

The senior leaders have focused on a three-pronged approach to creating a sustainable organization. The first prong is to assure that MCCU has identified and is serving a niche in which it can compete. The second is to assure that its products and services are competitively priced rather than being under-priced. Under-pricing is an easy possibility in a cooperative. The third is to insure that MCCU's asset size is large enough to provide the necessary net income for future needs.

Through MCCU's LEADERSHIP SYSTEM (Figure 1.1-1), most members of staff are self-motivated to improve, meet the strategic objectives, and change when needed. The senior leaders' role becomes identifying roadblocks and stumbling points rather than providing external motivation. Senior leaders make sure that staff understand the VMVs and strategic objectives, although this is mostly accomplished by inclusion of staff in the VMV process (Item 1.1). The final piece is to provide staff with skills and opportunities to improve, especially at the group level. This means training and work process improvement efforts.

Senior leaders support both group and individual learning. They have developed Collaboration as well as group process improvements. Learning comes from the freedom and the safety of being able to identify cause-effect relationships as well the freedom to take initiative. Senior leaders design systems and approaches that remove fear and resistance.

There are a few critical positions for which the senior leaders need to be sensitive. Senior leaders have designed a development system that permits individuals who are self-motivated by advancement to identify themselves rather than for the senior leaders to be responsible for staff development. Senior managers have identified critical positions and have started discussions on options if there is a need for succession.

In addition to succession planning, MCCU has realized that its lean staffing structure requires backup for positions, giving the organization time to replace someone in a position. A backup person or resource has been identified for each of the critical positions. In addition, MCCU has focused on gaining advanced training for staff so that they will have a broader set of skills. The Director of Financial Services has received the Series 7/63 ratings from the National Association of Securities Dealers (NASD), and is working on the Certified Financial Analyst (CFA) designation. The Credit Analyst received the Series 7/63 rating in 2005. Both the Director of Correspondent Services and the Director of Member Services received the Accredited ACH Professional (AAP) designation from the National Automated Clearing House Association (NACHA). Both the CFO and Senior Accountant are CPAs.

### **1.1b Communication and Organizational Performance**

MCCU's LEADERSHIP SYSTEM is the integral method that the senior leaders use to communicate, empower, and motivate all employees throughout the organization. Senior leaders encourage frank, two-way communication through the identification and removal of roadblocks to it. This is a central tenet of Collaboration and the LEADERSHIP SYSTEM. Senior leaders design the Non-management bonus plans for their staffs. The plans are directly linked to the strategic plan. Senior leaders, usually the CEO, take the lead in the recognition program of FISH used when achievements have been made toward the objectives of the organization.

Selecting individuals that are committed to the VMV and connected to the CU MOVEMENT provides a predisposition for action. The use of the LEADERSHIP SYSTEM creates a culture for action. Individuals are free

to move ahead with what they need to. The communication of the objectives and limitations on actions provides both the freedom needed and the control required.

A cooperative has a natural balance for Members as Owners and Members as Customers. They have a voice in the Governance of the organization (Figure P.1-2). Other stakeholders, for the most part are also members of the CU MOVEMENT. Balancing value is much less of an issue in this type of structure. A more important question is how to create the most value from the whole system. MCCU looks to the success of credit unions as its primary focus, as evidenced in MCCU's vision and mission (sometimes, this means supporting another organization's effort because of its positive effect on credit unions or on the CU MOVEMENT as a whole.)

## **1.2 Governance and Social Responsibilities:**

### **1.2a Organizational Governance**

There is a monthly Board meeting, and a monthly Asset-Liability Committee (ALCO) meeting at which management discusses strategic/financial results. In addition, the organization publishes a quarterly newsletter and a quarterly Credit Worthiness Report. MCCU has adopted a code of ethics, a privacy policy, disclosure of potential conflicts of interest and confidentiality statements. The Supervisory Committee has authority over the internal and external audits. Board members cannot serve on the Supervisory Committee.

The Board develops the bonus plan for the senior leaders, with the assistance of an outside consultant. The bonus plan is directly linked to the strategic plan and includes regulator exam and audit exceptions as factors. The Board conducts an annual performance review of the President. A performance review is conducted on all employees after 90 days and 180 days on the job, and then annually thereafter.

There are a rigorous annual regulatory exam and an external audit, providing independent reviews of the organization. There are quarterly internal audits and outside firms audit data security. Every three years there is a CUMIS review of the organization's bond coverage. At the annual meeting, members receive an annual report on the performance of the organization, vote on critical issues including Board member elections, and ask questions of management.

The MCUA/MCCU agreement is reviewed every year. In addition, there is a policy prohibiting Board members from retaining, for personal use, the same broker/dealers retained by MCCU.

The Board has developed a set of objectives for the senior leaders, derived from the strategic plan. The objectives are divided into two types: FOCUS POINTS and PERFORMANCE GATES. Focus points are performance areas where maximum performance is desired. Gates are performance areas where a minimum level of performance is desired. In addition to the FOCUS POINTS and Gates, the Board conducts an annual review of the CEO. Action plans are developed for performance enhancement and reviewed each year during the appraisal process. The CEO conducts an annual performance review of the rest of the senior leaders using MCUA's process, since they are employees of MCUA. The reviews are used to help create alignment with organizational goals and values, and to identify learning opportunities for employees. The Board conducts an annual self-review of their effectiveness at governing. This review is of the Board as a whole, rather than individual members. The annual regulatory examinations also provide a rating for management that encompasses the CEO and the Board.

The CEO actively responds to the feedback provided by the Board, both in direction setting and style. The senior leaders incorporate their feedback into the Collaboration meetings and the LEADERSHIP SYSTEM. In 2005, the Board's Governance Committee reviewed and redrafted the organization's bylaws and operating policies to further enhance the governance of the organization.

### **1.2b Legal and Ethical Behavior**

MCCU holds a central position in the credit union financial structure of its members. If MCCU were to fail, it may cause a number of its member credit unions to fail. That, in turn, could cause serious financial harm to the members who own the credit unions. Consequently, safety and soundness are of the utmost importance.

MCCU has a comprehensive business continuity plan (BCP). It has identified the greatest threats to the organization and has identified a response to them. The BCP provides detailed action plans for members of staff and includes critical partner and support vendors.

MCCU's connections and participation within the CU MOVEMENT provide it with an awareness and linkage to the ongoing discussions that occur regarding the concerns of current and future products and services. These

discussions occur about CU MOVEMENT products and services, but also about those in the financial services industry as a whole. At this level, MCCU is often a participant and an active voice in responding to the issues that are being raised. Often, these issues stretch across the CU MOVEMENT and require solutions, agreement or coordination by multiple entities.

MCCU has established an extensive array of policies, procedures and internal controls to reduce risk and achieve compliance. In addition, two audit firms are retained to provide internal quarterly audits and an annual external audit. MCCU is rigorously examined at least annually by both state and federal regulators. Examination results are reported directly to the Board and Supervisory Committee in a joint conference with the regulators. The organization's performance, and management's accountability for that performance, is governed by the Board with oversight by the Supervisory Committee. In addition, an Asset-Liability Committee (ALCO) and Credit Analysis Committee assist the organization in monitoring investment and lending functions. The Board and all committees are composed of representatives from the owners of the organization. The Board selects members for the three Committees from members that do not sit on the Board. This ensures independence in their analysis of MCCU's fiscal performance. The ownership structure provides direct involvement for the members and helps assure the institution is protecting their interests. It also allows for objective oversight by the owners themselves.

The organization is rigorously examined annually by state and federal regulators. As a result, management (including the Board) is given a rating by the regulators. An assessment of the annual exam and audits is included as a Performance Gate in the Senior Management Bonus Plan. The ALCO Committee and Credit Analysis Committee carefully review credit risk and investment risk. Limits have been established for major risk categories. These limits are analyzed monthly by senior staff, the Board and the regulators.

MCCU's new product development process requires that all new products and services meet regulatory guidelines. In addition, the process requires a due diligence analysis of any vendor that may be supplying the product or service. Major new product and service initiatives are discussed with the Board and tested with selected members before release to the general membership. This process enables us to identify any concerns MCCU's members may have about the product or service.

The organization has adopted the same Code of Ethics as the MCUA. In addition, staff members must acknowledge they have read the organization's fraud policy, and Board, Supervisory Committee members and ALCO Committee members must sign a conflict of interest statement. A confidentiality policy and a whistleblower policy are also in place. Oversight of these functions is provided by the Board, Supervisory Committee, auditors and regulators.

In addition to the more structured approaches, the CU Movement has a strong set of understood ethics and behavioral standards. MCCU, as a part of the CU MOVEMENT, has enculturated these ethics and behavioral standards. When these standards are violated, the violations are communicated back to the responsible parties, usually through informal means. The interconnectedness of the CU MOVEMENT provides a self-regulating system.

### **1.2c Support of Key Communities**

MCCU chooses organizations or programs as its key communities where MCCU can leverage its involvement to benefit members and the whole of the CU MOVEMENT. Participation in and support of key communities is an understood part of the culture of the CU MOVEMENT. Organizations and their leaders are expected to serve in some capacity to strengthen the system. As organizations that rely on volunteers to govern (the Board), volunteering and participation are understood responsibilities.

In 2003, the organization invested \$5 million in the Community Investment Fund administered by the National Credit Union Foundation (NCUF), on which MCCU's CEO serves as Treasurer. Half the earnings are returned to the organization. The remaining half is split between the NCUF and the Missouri Credit Union Foundation. The NCUF uses the funds for their important work on a national level (financial literacy, low-income housing, etc.). The Missouri Credit Union Foundation uses the earnings primarily to fund scholarships for credit unions to receive training they otherwise could not afford. In addition, the organization has annually donated to the African-American Credit Union Coalition and the Filene Research Institute, the research arm of the CU MOVEMENT.

## 2 STRATEGIC PLANNING

### 2.1 Strategy Development

#### 2.1a Strategy Development Process

MCCU has a four-phase strategic planning process (Figure 2.1-1).

MCCU Strategic Planning Process	
<b>Phase I</b>	<p><b>Gather Data and Information:</b> A series of sources, both internal and external, are used to obtain a broad picture of the operating environment and its influence (Item 1.1a). Information is gathered from MCCU’s listening/learning process and noted by senior management. Financial data comparing the organization to other corporates is also developed. Quarterly Strategic Plan Status Reports are reviewed along with the status of the Non-Management Bonus Plan. Results of key measures are reviewed. Regulatory requirements and potential market opportunities are also reviewed. New products and services available from key business partners are reviewed. Results of the Membership Satisfaction survey, Operations Satisfaction survey and Employee Satisfaction survey are also reviewed.</p>
<b>Phase II</b>	<p><b>Analysis of Data and Information:</b> The status of Missouri credit unions (still MCCU’s primary base of members) are analyzed along with projected changes in liquidity and interest rates. Major projects are factored into the process.</p> <p>This information is compiled into a planning session binder that is forwarded to the Board prior to the annual planning session. The entire Board, Supervisory Committee and senior staff, including legal counsel, participate in the planning session. A professional facilitator is used to promote and guide discussion. The broad representation on the Board that includes varying experiences and knowledge is instrumental in identifying potential blind spots in the organization’s approach.</p> <p>During the planning session, the Board analyzes the data with the assistance of the facilitator. The Board outlines the strategic direction they want the organization to take. Since MCCU has embarked on the continuous improvement journey, the strategic plan has become more refined each year. The success of the plan over the past three years, resulting from the discipline provided by the quality management process, has enabled the organization to focus intently on the strategic initiatives and not get drawn into “fads” or extraneous activities.</p>
<b>Phase III</b>	<p><b>Plan Development:</b> After the Board planning session, an all-staff planning session is conducted, and is facilitated by MCCU’s retained consultant. Staff provides input on the direction the Board has set, and projects and tasks are developed to support the direction.</p> <p>Following the all-staff meeting, senior management prepares the strategic plan for Board approval. Upon approval by the Board, management develops the Senior Management and Non-Management Bonus Plans. These plans align with the Strategic Plan. The Senior Management Bonus Plan is approved by the Board. Bonus plan dollars are included in the annual budget that is also approved by the Board. The Non-Management Bonus Plan is approved by senior management. Strategic Plan Status Reports and Non-Management Bonus Plan reports are developed and reviewed quarterly. The Strategic Plan is used throughout the year as a benchmark of how the organization is progressing and for identifying areas for focus and improvement.</p> <p>The strategic goals are driven by the strategic challenges outlined in P.2b. The goals are multi-year, and the objectives used to achieve the goals are generally one year in length – although some are of longer duration. For instance, in 2000 the Board’s direction was to provide more automated transactions with members. This direction required a significant</p>

	upgrade to the Information System stretching through 2003, so a three-year objective was established to implement “Open Door” into the IS system. The objectives focus on providing high value services that enable credit unions to be successful. The objectives also are designed to enhance the organization’s <i>invisibility</i> to credit unions. This focus has enabled the organization to increase membership by almost 70% over the past five years and keep costs under control, which enhances the <i>sustainability</i> of the organization
<b>Phase IV</b>	<b>Implementation (Item 2.2a)</b>
<b>Figure 2.1-1 MCCU’s Four Phase Planning Process</b>	

After reviewing past strategic plans and feedback from past quality reviews, MCCU has implemented a longer-term planning process in 2006 that is best described as SCENARIO PLANNING. Short-term planning has a one-year time frame while SCENARIO PLANNING has a five to 10 year time frame. SCENARIO PLANNING is designed to identify potential future states or conditions within which MCCU will have to operate. The time frames are set by the extent to which current trends can be predicted. The short-term Strategic Planning process uses the most likely SCENARIO state or condition as its basis and plans according to the factors identified within it.

The MCCU strategic planning process incorporates the identification of strengths, weaknesses, opportunities and threats in Phase I and a review of their effect on the organization in Phase II. These factors are reviewed several times by the Board and staff as the process flows to the completed document and its implementation. The plan is reviewed for implementation potential. Over the last few years each plan has been shortened or modified to better meet the limited resources of the organization.

The SCENARIO PLANNING process is designed to identify early indicators of shifts in technology, markets, competition or the regulatory environment. A significant focus of that effort is to assure that MCCU has sustainability within the most likely future states it will encounter. BCP focuses directly on continuity in emergencies.

**2.1b Strategic Objectives**

For the last 5 years , MCCU has guided the Strategic Plan with the use of three long- term strategies. Each year, FOCUS POINTS and PERFORMANCE GATES have been developed for each strategy. The FOCUS POINTS and gates have a one-year time horizon. A three-tiered range of performance is established for each FOCUS POINT. The plan identifies the resources necessary to achieve each FOCUS POINT identified and carries that commitment into the annual budget. The key actions needed to meet the FOCUS POINT are identified along with the individual responsible and a date for accomplishment.

The strategies and FOCUS POINTS established for each strategy are as follows:

<b>Strategy 1: Continue Productive “Growth”</b>	
<b>FOCUS POINT 1: New Member Growth</b>	
Base	10
Goal	15
Superior	20
<b>FOCUS POINT 2: Product Penetration – Increase usage of products/services by members</b>	
Base	45
Goal	55
Superior	65

<b>Strategy 2: Maintain a Strong Relationship with Service Oriented Credit Unions</b>	
<b>FOCUS POINT 3: Invisibility</b> – (Drive the invisibility measure down)	
Base	1625
Goal	1600
Superior	1575
<b>Strategy 3: Operate MCCU Based on a Quality Business Model</b>	
<b>FOCUS POINT 4: Missouri Quality Award Results</b>	
Base	45%
Goal	48%
Superior	51%
<b>Figure 2.1-2 MCCU Strategies and Focus Points</b>	

The PERFORMANCE GATES are as follows:

a. Keep core product/service usage above 55%
b. Maintain at least 85% of Overnight Funds using an average of the quarters ending 12-31-05, 3-31-06, 6-30-06 and 9-30-06
c. Achieve a score of 8.00 or greater on annual Member Satisfaction survey
d. Achieve a score of 8.00 or greater on annual Operations Satisfaction survey
e. Achieve a score of 4.0 on annual Employee Satisfaction survey
f. Do not let the Retained Earnings ratio fall below 3.70%
g. Must achieve a board assessed rating of 4.0 on audits and exam
h. Keep the number of members per employee between 13 and 20
i. Must be in top 5 of all corporates in average COF to MDANA ratio at 9-30-06
<b>Figure 2.1-3 MCCU Performance Gates</b>

The strategies that have guided the strategic planning process for the last several years are directly connected to the challenges identified in P.2. The first strategy to continue productive growth deals with the challenge of assuring that MCCU is large enough to compete and the need for increased use of products and services. The second strategy, maintaining a strong relationship with service-oriented credit unions is an outgrowth of the challenge of finding a competitive niche within the CU MOVEMENT marketplace. The final strategy, operating MCCU on a quality business model addresses the challenges of serving a growing number of members, increasing the skill sets within the organization, and maintaining the three-pronged approach to low costs.

Balancing short- and longer-term challenges and opportunities, as well as the needs of all key stakeholders, is accomplished through the use of the PERFORMANCE GATES. As the plan is developed, the areas that require performance to be maximized are identified as FOCUS POINTS. All other areas become PERFORMANCE GATES. The gates require a minimum level of performance. This insures that these areas get at least some resources and some attention, while the FOCUS POINTS get all the rest of the resources and attention available. For example, a longer-term challenge that is a PERFORMANCE GATE will get at least a minimum required level of resources and attention.

## 2.2 Strategy Deployment

### 2.2a Action Plan Development and Deployment

A set of objectives is identified for each of the three strategies, with a timeline, resources needed, and people responsible. The needed resources are carried into the budgeting process, and approved by the Board. Progress is reviewed on a quarterly basis in the strategic review meetings, and the Strategic Plan Status Report is provided to the Board quarterly. Most of the objectives are multi-year efforts or are incorporated into the on-going processes of MCCU. This ensures that their efforts are sustained and become enculturated into MCCU.

MCCU is not a large organization - 13 employees. It is very simple to call a meeting if all the managers are needed, or the CEO may have a one-to-one conversation setting a new direction for a particular project or objective. There are also the quarterly strategic reviews that have been used to shift plans and create and execute new plans. The changes are then shared with all of the staff. At times, some plans have been shifted through the use of an all-staff meeting, which can usually be called within a day.

Strategy 1: Continue Productive “Growth”
<b>Action Item A:</b> Develop a matrix that targets the Overnight Account, Settlement, Open Door, APEX and bill-pay. Matrix will show targets in priority order.
<b>Action Item B:</b> Using the matrix as a guide, target markets using direct mail and personal visits.
<b>Action Item C:</b> Maintain brand awareness by advertising in <i>CU Times</i> .
<b>Action Item D:</b> Continue Attendance at Trade Shows.
<b>Action Item E:</b> In conjunction with the Corporate Credit Union Alliance, conduct a national conference on “ <i>competitiveness</i> ” to help members increase their own competitiveness.

<b>Strategy 2: Maintain a Strong Relationship with Service Oriented Credit Unions</b>
<b>Action Item A:</b> Maintain visibility with members – Assure that MCCU maintains consistent and productive contact with members through “Town Hall” meetings, joint visits with MCUA field consultants, chapter meeting attendance and personal visits.
<b>Action Item B:</b> Enhance “ <i>Simplicity</i> ” by offering the following new products and services: <ul style="list-style-type: none"> <li>• Automated securities safekeeping</li> <li>• Automated international wires</li> <li>• Investment Advisory/ALM consulting</li> </ul>
<b>Action Item C:</b> Describe benefit to members of using MCCU’s products and services – provide anecdotal evidence.
<b>Strategy 3: Operate MCCU Based on a Quality Business Model</b>
<b>Action Item A:</b> Apply for the Missouri Quality Award for a second year
<b>Action Item B:</b> Establish the Business Continuity Plan
<b>Action Item C:</b> Develop long-range planning process
<b>Action Item D:</b> Monitor DP conversion process
<b>Action Item E:</b> Continue to meet with Key Business Partners to share our requirements
<b>Action Item F:</b> Introduce new “governance” policies
<b>Figure 2.2-2 Strategic Plan</b>

Each of these action items has a timeline, identified allocated resources and the people responsible.

MCCU may add some new products as identified in Figure 2.2-2. The greatest change will be in the addition of new members and the plan directly addresses that concern.

The key human resource need is to assure the required skills and knowledge that MCCU will need in the coming years. MCCU is introducing a new skill/knowledge development plan in 2006 that will identify gaps for both the organization and individual staff members, so that future action plans can be created to fill those gaps.

At each of the quarterly strategic review meetings the status of each action item is reviewed. Quarterly the Board reviews the status of each action item and the status of the FOCUS POINTS and PERFORMANCE GATES. These two groups include all the key stakeholders in the strategic plan.

The balance that is created between the FOCUS POINTS, the PERFORMANCE GATES, and the action items, maintains organizational alignment. No one area can get out of position or get more resources or attention than required.

**2.2b Performance Projection**

Trends have been established from the monthly regulatory report, and both 12-month and 24-month projections have been made.

There is no data for competitor projections, and last year was the first year that MCCU was able to get non-financial competitor data. For this data, MCCU performed significantly better. The trends for competitors do not suggest that they will surpass MCCU in the next few years.

There is little benchmarking data as well. For any identified gaps, MCCU will review incorporating these into the strategic plan as a PERFORMANCE GATE or as an action item as appropriate.

## **3 CUSTOMER AND MARKET FOCUS**

### **3.1 Customer and Market Knowledge:**

#### **3.1a Customer and Market Knowledge**

There are two methods for defining MCCU members. The first is defined by Missouri's State Division of Credit Unions as MCCU's field of membership. A field of membership is the population of credit unions from which MCCU may have members. MCCU's field of membership encompasses any credit union or credit union organization in the U.S. that agrees to deposit Membership Shares or joins as a Special or Associate member.

The second approach used by MCCU is its process to identify targeted members. Although any credit union in the U.S. can join MCCU, this does not make them a target for MCCU. MCCU used a strategic discussion process, linked to strategic planning in 2001, that identified the niche of credit unions that MCCU should target as members - and to design and deliver products and services to meet the expectations of that niche. Part of the process was the recognition that MCCU's senior leaders needed to make a choice about which credit unions to target, had the right to make a choice, and had the responsibility to make a choice. Choice is a central element of the LEADERSHIP SYSTEM (Figure 1.1-1)

MCCU used a process to identify a membership market that would provide MCCU with a competitive and sustainable niche. A niche was defined as a set of potential members that would provide enough use of MCCU products and services to create a more than sufficient net income. Another criterion for the niche was alignment with the values of the organization.

MCCU has sought to pay attention to differences between members within these targeted segments. There is no difference between Full and Associate Members (P1.1). Size is a difference and MCCU collects information to differentiate their needs.

MCCU is using its Scenario Planning process as a check on the underlying segmentation of Service and Investment orientation. This process provides a future look at sustainability of the niche and its products. The Scenario Planning process provides direction in which to search for future needs and considers members, competitors, and the CU MOVEMENT direction and organizations.

MCCU has a variety of methods of determining key customer requirements, needs and changing expectations. The first is conducting focus groups with targeted member groups. MCCU conducted three focus groups with operations personnel. These focus groups were designed to build behavior-anchored scales for the key products and services, giving the ability to differentiate between acceptable and unacceptable performance. In 2006, MCCU conducted a second set of focus groups based on asset size. These groups helped differentiate product and service needs and expectations between these groups.

The second method is an annual membership survey. The survey is conducted over the phone and is segmented by CEO, operational staff, and member asset size: large, medium, and small. In the past, MCCU has segmented by type of Membership, but did not find a significant difference. The survey assists in assessing the key requirements of invisibility, simplicity, competitiveness, and sustainability.

MCCU's CEO schedules a review with all new members within six months of their joining as part of the Contact Matrix. In addition, the CEO and CFO have established a communications plan to contact each of the member CEOs on a regular basis to determine if new needs are emerging.

The regular meetings of the Board, ALCO Committee, and Supervisory Committee are used as vehicles for determining what the members need, both as customers and as owners.

Most years, there are Operations Forums scheduled by MCCU for operations personnel to update them on current service procedures, with a significant piece of the meetings being devoted to learning from the participants.

MCUA Field Consultants routinely provide feedback and information that they have received from their visits and provide their own insight and analysis to its meaning and priority.

The Problem Resolution Process provides a listening post for MCCU to its members, their reactions to problems and the resolution of these problems.

MCCU is an active participant in conventions that targeted members would attend. MCCU has a booth and regularly collects and solicits information from members and potential members.

MCCU has used the information that it has collected to target new areas for members. MCCU reviews current growth trends and credit unions' dissatisfaction with other corporates for these decisions. MCCU uses input from these listening and learning sources to test acceptance of product and service changes, as well as the features that new services should have. MCCU collects information to better identify members' criteria for invisibility, simplicity, and competitiveness, as well as members' priority for problem resolution.

MCCU keeps its listening and learning methods current through its multiple contacts in the credit union movement. These contacts come through attendance at trade shows, conventions, partners, and the members themselves. MCCU also stays attuned to changes through trade journals and partner publications. The Board and Committees also act as sources for new methods to listen and learn.

## **3.2 Customer Relationships and Satisfaction:**

### **3.2a Customer Relationship Building**

MCCU's strategic plan focuses on service-oriented credit unions, which are more concerned with relationships than rates. In response to that need for relationship, MCCU has developed multiple channels and approaches to meet it.

This approach guides the way MCCU markets to potential members. It is very common for credit unions to feel that their Corporate only pays attention to the "big guys." Small and medium size credit unions feel left out. MCCU emphasizes treating small and medium size credit unions with respect, and that respect is reflected in both the structure of MCCU's accounts and pricing, and the way they are treated from the day they join MCCU and every following contact that is made.

The new member is immediately put on the mailing list for MCCU's quarterly FOCUS newsletter and Credit Worthiness Report. Some months after they join, all new members are called again as part of MCCU's "contact matrix" process.

The contact matrix process has the CEO call credit unions in the following categories:

- New members
- Dissatisfied members

The following questions are asked during the call:

- If there was one thing we could improve, what would it be?
- Have you been contacted by any other Corporates?
- With what are you most dissatisfied or do you have any immediate problems with MCCU?
- What is your estimate of MCCU's service levels on a set of specific products/services, and
- What are the credit union's biggest challenges in the financial/liquidity area?

Note the list of questions probes for *dissatisfaction* and tries to isolate problems that may have occurred but were never reported. If a problem is identified, the CEO shifts immediately to solving the problem. If there are no problems, the CEO also tries to determine how much contact MCCU members have had with competing corporates. Finally, the CEO tries to glean information about the quality of existing products and services and any new products and services credit unions may need.

The Director of Correspondent Services and the Director of Investment Services spearhead the sales effort. They are assisted through the outsourced marketing consultant. Through them the organization has designed efforts to gain new members in a way that reflects MCCU's values and belief in members. They have hosted meetings that focused on connecting with new members and potential members, as well as providing information that will be useful to those that attend.

MCCU has developed multiple access channels for MCCU's members to communicate with the organization; built around the member requirements of simplicity and invisibility.

MCCU's website is very simple, and contains a link to the e-mail addresses of all MCCU's employees. With a few clicks, MCCU members can e-mail any employee, including the CEO. In addition, MCCU does not use an automated phone attendant. All calls are answered by one of the Member Service Representatives (MSRs). Automated phone attendants are neither invisible nor simple.

MCCU has developed standards for answering all incoming phone calls within 30 seconds. This standard is measured monthly, and is part of the Non-Management Bonus Plan. The measurement is also included in the Invisibility Measures.

As noted in Item 3.1, MCCU conducted focus groups with Operations personnel to find out what was important to them. They wanted simplicity, minimal errors, easy access, and responsive service. In essence, they want MCCU to be *invisible* because they are busy doing other things. When they have to stop to correct MCCU's error or wait for someone to answer the phone, it wastes their time and they don't like that.

Over the past several years, MCCU has conducted Operations Forums for Operations personnel – usually two Forums per year. The Forums provide direct access to staff and to other members. These Forums provide an open exchange of ideas and allow discussions that are difficult when not done face-to-face.

As noted in the beginning of this Item, MCCU employ a “contact matrix” that puts us in contact with various groups of members periodically throughout the year. Although the contact matrix has a structured set of questions, the matrix is a two-way conversation, giving access to the CEO.

At least annually, during the “sharing” sessions, performance and potential improvements in the customer relationship building process are discussed. The process is also addressed in Collaboration sessions at least annually to affect continuing improvements.

MCCU's staff logs errors they make or discover and categorize the errors with a severity code of “A” or “B.” MCCU started the error logging process in 2002 and did not, from the beginning, require staff to put their name by the error in the error log. This was done to signal that MCCU was interested in tracking errors, not in blaming individuals for making errors.

Next to each error in the log is the “date of contact” where the member complained or MCCU discovered the error. Next to that is the “original posting date” and the “date corrected” so MCCU can determine how long it has taken to

correct the error. MCCU also notes the product that was affected and the solution the person took to correct the error.

In addition to logging the errors, MCCU also logs the volume associated with the most critical areas of the operation. That way, MCCU can compare the errors to the volume to determine the relationship. MCCU also calculates how much time was spent on resolving errors to determine how much it costs the organization to fix problems. The complaints and resulting severity codes, as well as the costs to fix the errors, are tracked (in conjunction with error tracking) and analyzed each month.

MCCU's retained industrial psychologist, the MSRs, and their supervisor, the Director of Member Services, all meet periodically to analyze the error logs. They look for trends in the data and isolate problem areas. Once a problem area is identified, the group analyzes the procedures associated with completing the task in that area. If a change in procedures is required, the new procedure is put into place and measured for several months before any other procedures are changed. This process continues until the group feels they have made the process as error-free as reasonably possible.

The error tracking process also gives MCCU the opportunity to call members when an error is discovered by MCCU. Quite often, MCCU notifies the member of the error before they even realize the error has been made. It saves the member time because they can turn to the error immediately, which increases MCCU's *invisibility*.

The MSRs handle the majority of day-to-day interaction with members. As noted previously in this Item, MCCU does not use an automated phone attendant. If a particular MSR is not available, a recorded voice message is played that asks the caller to describe the problem they are experiencing, and if the MSR does not respond within three hours, the message directs the caller to call the MSR's superior, the Director of Member Services. Since this system has been in use over the past three years, the Director of Member Services has received just one call.

MCCU keeps its listening and learning methods current through its multiple contacts in the CU MOVEMENT. These contacts come through attendance at trade shows, conventions, partners, and the members themselves. MCCU also stays attuned to changes through trade journals and partner publications.

### **3.2b Customer Satisfaction Determination**

Each year, MCCU's retained consultant randomly selects a number of member credit unions based on MCCU's key segments: asset size and organizational position. The consultant conducts a telephone poll with the CEO of the credit union and also with the chief operations person of the credit union. Questions are asked about satisfaction, how much MCCU "cares" about the credit union, and specific questions related to the importance and performance of products and services.

MCCU determines loyalty based on core service usage. MCCU measures the percentage of usage of core services by all credit unions. This measure is a Performance Gate for the organization. The core services are:

- Corporate Checking
- Open Door
- Check Collection
- Settlement
- Wire Transfers
- APEX
- Line of Credit
- Currency Orders

The membership satisfaction survey and operations satisfaction survey, both probe for dissatisfaction. In addition, the "contact matrix" discussed previously probes for dissatisfaction. The contact matrix requires that MCCU reach specific groups of members, so the data derived from those discussions can be segmented accordingly. MCCU's staff comes into frequent contact with members at various industry-related events. They typically ask how the organization is performing and whether or not there is any dissatisfaction.

In addition, MCCU uses the field consultants of one of MCCU's key business partners, MCUA, as "eyes and ears." They have established excellent working relationships with most of the credit unions and are held in high esteem. The field consultants provide data on satisfaction and dissatisfaction, and provide comments on how MCCU's products, services and personnel are perceived.

As noted in P.1b, the Board and various committees are composed of executives of the member credit unions. Consequently, the Board and committee members are affected by MCCU's performance each day in the performance of their own duties. Most of the Board and committee members use MCCU's products and services so they have first-hand knowledge of what works and what doesn't. The Board and committee members are a foundational source of information on MCCU's performance.

The results of these surveys, contacts and conversations are discussed in senior management meetings and acted upon as needed. This disciplined approach to gathering satisfaction and dissatisfaction data enables the organization to change course if such a change is warranted, and to quickly address problems with specific products and services.

MCCU has three approaches to follow-up with members on quality. The first is the contact matrix that gives MCCU direct linkages to new members as well as dissatisfied members. The second is the Problem Resolution process, which has a follow-up step within it. The third is MCCU's follow-up on new product introductions and feature changes to new products and services.

There is limited comparative data available, so MCCU has had to rely on making direct contact with other corporates and CU MOVEMENT entities to gain access to this information. Most often MCCU's CEO makes a direct phone call to a colleague with the industry to request this information.

MCCU uses this information to assess its ability to serve its niche, as well as assure that other organizations are not surpassing MCCU's ability to meet its members' needs.

MCCU keeps it listening and learning methods current through its multiple contacts in the CU MOVEMENT. These contacts come through attendance at trade shows, conventions, partners, and the members themselves. MCCU also stays attuned to changes through trade journals and partner publications.

## 4 MEASUREMENT, ANALYSIS, AND KNOWLEDGE MANAGEMENT

### 4.1 Measurement, Analysis, and Review of Organizational Performance:

#### 4.1a Performance Measurement

MCCU is a financial institution, and operates in a stringent regulatory environment. Corporates have a central role in the CU MOVEMENT and have a direct impact on their members. Therefore, one of MCCU’s prime considerations is to organize data and information to meet the needs of the regulators and auditors. They are most interested in MCCU financial performance data.

MCCU’s key performance measures are:

- Balance Sheet/Income Statement
- Budget Variance Report
- Summary Performance Report
- Limit Report

These performance measures are reviewed by MCCU’s Board and the ALCO Committee, which meet monthly. The reports provide current and trend data.

Review	Key Performance Measure
Strategic Plan Status Review	Membership Satisfaction Operations Satisfaction Employee Satisfaction Show-Me Challenge Progress
Board/Asset Liability Committee Meetings	Monthly Financial Performance
Board Annual Planning Session	Corporate Comparison Data
<b>Figure 4.1-1 Performance Reviews</b>	

The performance measures are also discussed in the quarterly Strategic Plan review sessions. Updates to the Strategic Plan Status Report are made and this serves as a balanced scorecard for the organization.

The senior management team reviews the *invisibility* measures, which are updated monthly. The *invisibility* measures give management a sense of how “invisible” MCCU is to its members, one of key expectations of MCCU’s members.

As described in Item 2.1a, each quarter the Board and Supervisory Committee review the Strategic Plan Status Report and senior leaders review the *invisibility* measures and the status of the Non-Management Bonus Plan.

Benchmarking data is sought to compare current performance and to seek places that MCCU may need to improve performance. In 2006, MCCU compared operating expenses with Virginia Corporate Credit Union. They are about one third bigger than MCCU and have similar operating expenses. Virginia Corporate Credit Union operates with a lower operating expense ratio. MCCU compares itself on financial performance through Call Report data to other corporates. MCCU reaches outside of the industry as well. For instance, a credit card call center was benchmarked to learn how they achieved accuracy and responsiveness with customers. Attending the Missouri Quality Award annual conference and Quest events has enabled MCCU to learn “best practices” of other organizations. Every year, conferences are attended to learn new techniques that will benefit the organization. For instance, the FISH philosophy was implemented after learning about it at a conference.

All the data relate directly to either the financial performance of the institution or the strategic plan. The financial performance measures are closely scrutinized by the regulators and auditors. Often, they will require new measures based on some trend in the industry or in an effort to gather data on a particular topic. Periodically, regulations will

change requiring new measures and the cessation of “old” measures. The same is true with strategic plan data. As the plan changes, so does the data. Over the years, the strategic plan measures have changed and the Board has refined the Senior Management Bonus Plan, which aligns with the strategic plan. The data for both has changed accordingly.

#### **4.1b Performance Analysis and Review**

Financial performance measures are reviewed monthly by senior staff, the Board and the Supervisory Committee. Changes in investing and lending strategies, as well as related pricing, are sometimes made as a result of the organization’s financial performance. For example, as deposits fell during 2005 due to tight liquidity, MCCU took additional “spread” on its Overnight Investment book in order to keep earnings at a reasonable level.

At least twice a year, (sometimes more often), the CFO describes the organization’s financial performance in an all-staff meeting and the CEO provides a status of the strategic plan measures. Several years ago, the CFO reviewed the financial performance each month in all-staff meetings so staff members could learn to read the financial statements and know what was important to look at. To facilitate that process, the CFO developed a contest for the staff to see who could guess key financial numbers for the next month. Through this process, the staff learned the proper terms and developed a sense for how the organization performs.

Each quarter, the results of the Non-Management Bonus Plan are reviewed with non-management staff, and bonuses are paid depending upon the results.

Because the annual regulatory exams are so rigorous, shortly after the examiners leave MCCU’s office, ice cream is brought in for the entire staff and the CEO explains to the staff how the exam went. Approximately a month after the exam has been completed, the examiners issue their report to the Board in a joint Board-regulator meeting. After the joint Board-regulator meeting, the CEO provides a final copy of the exam to the senior management team and the results are discussed. This process emphasizes to all staff the importance of a good exam and provides quick feedback on how the organization is performing in the eyes of the regulator.

MCCU uses its performance reviews as a key component of its annual strategic planning process. Priorities for areas of improvement are identified and trends are used to help set ranges for goals. These priorities are then used further as goals for the rest of the staff in either the Management Bonus Plan or the Non-Management Bonus Plan.

In order to create increased alignment within the CU MOVEMENT, MCCU shares its strategic plan with MCUA and U.S. Central. This provides them with a better understanding of the performance priorities that MCCU has established and the challenges that MCCU has identified.

## **4.2 Information and Knowledge Management:**

### **4.2a Data and Information Availability**

Data and information needed by staff and members to perform day-to-day transactions are principally provided by the core data processing system (CCUN system). The CCUN system is provided by one of MCCU’s key business partners, U.S. Central.

Several years ago, the CCUN system was enhanced with a “front-end” product called “Open Door.” Rather than phone in frequent transactions like wire transfers and Western Union transfers, credit unions access Open Door software from a desktop computer and send the transactions electronically via the internet. The data is encrypted and other high-level security measures are in place to assure the integrity of the data.

Most credit unions have internet access, and most use Open Door. For those that do not have internet access or choose not to use Open Door, transactions can be phoned or faxed in. Two of MCCU’s three key business partners, U.S. Central and the MCUA, have access to Open Door. The organization also employs a Local Area Network (LAN) that staff uses to access software programs and e-mail.

Emphasis has been placed on assuring the data and information is reliable, secure and user-friendly. The CCUN system is supported by U.S. Central and driven by IntegraSys in Plano, TX. CCUN is accessed via a wide area network (WAN). Open Door is internet based and is managed by U.S. Central. SAS 70 reviews are performed on CCUN and Open Door, and the reviews are analyzed by staff. All data is backed up daily and stored off-site.

Over the past several years, four intrusion tests have been conducted on the organization's LAN. In addition, the internal controls associated with all the networks (CCUN, Open Door and the LAN) are carefully scrutinized by the regulators. MCCU also employs passwords, data audits, data back-up and limited physical access to assure that data and information is protected.

MCCU employs a "hot site" that is located in another area of St. Louis that can be used if MCCU's major facilities and components are not available. A disaster recovery test is conducted annually at the hot site to assure the site functions properly. The organization also has access to hot sites in other cities in the event the primary hot site is unavailable.

In early 2005, the organization embarked on a process to enhance the continuity of all critical business functions. Known as the "Business Continuity Plan" (BCP), the process requires the organization to develop back-up processes for all critical business functions. Once complete, the enhanced processes will enable the organization to provide critical business functions in the event primary functions fail.

MCCU is a small organization, so it outsources the design and maintenance of data and information systems to MCCU's key business partners. MCCU relies on U.S. Central for the design and maintenance of MCCU's core data processing system, and relies on the MCUA for the design and maintenance of MCCU's LAN. Feedback received from Operations personnel through both day-to-day contact and in the Operations Forums guides MCCU in determining how and what data and information to provide to its members.

#### **4.2b Organizational Knowledge Management**

In both the accounting and member service areas (where the bulk of member interaction occurs), cross-training programs and job rotations have been in use for several years. The MSRs rotate certain job functions each month. This process keeps the MSR's knowledge of these functions fresh in their minds and enhances the ability to provide back-up service. The accounting staff has also cross-trained so that critical functions can be performed by more than one person. This knowledge sharing reduces the "single point of failure" that can be prevalent in small organizations.

In addition, as described in Item 5.1c, each employee is interviewed to determine the training they feel they need to perform at a higher level. Some of this involves advanced training on software to enable the employee to use the software to its fullest extent.

#### **4.2c Data, Information, and Knowledge Quality**

Because of the organization's role in the credit union system, MCCU is thoroughly examined and audited by state and federal regulators and outside audit firms. Numerous penetration tests have been conducted on the LAN; a review of the SAS 70 audits performed on the core system is conducted; stringent internal controls over passwords and transactions are in place; a hot site is available for contingency situations; employees are cross trained and rotate duties to enhance reliability and knowledge exchange; error tracking and a Problem Resolution Process are in use to enhance the accuracy of transactions; and the organization has in place a fraud policy and a confidentiality policy.

## **5 HUMAN RESOURCE FOCUS (85 PTS.)**

### **5.1 Work Systems:**

#### **5.1a Organization and Management of Work**

MCCU is a small organization and managing the work and jobs is enhanced because there is no more than one layer between any employee and the CEO. The LEADERSHIP SYSTEM (Figure 1.1-1) is a central element in promoting cooperation, initiative, empowerment, innovation, and MCCU's culture.

Several years ago, under the guidance of MCCU's retained consultant, MCCU began a "Collaboration" process with senior management. It is based on the elements of the LEADERSHIP SYSTEM. The process is facilitated by the consultant and is designed to get senior leaders to identify and reduce underlying causes for organizational issues and interpersonal conflict. The process turns "un-discussable" topics into "discussable" ones, and allows senior leaders to have frank discussions about each other and how MCCU communicates internally. The process has improved communication skills and given staff a common language to discuss organization-wide issues.

The organization has a diverse staff. Of the 13 employees, five are African-American and eleven are female. With the exception of the CEO, all senior leaders are female. There has been little turnover in the staff during the past several years. In fact, of the 13 employees, seven have been with the organization five years or longer, five have been with the organization between two and five years, and one has been with the organization less than two years. The last time a supervisor was hired (2001), the employees reporting to that supervisor interviewed the final candidates and told management which candidate they thought was best. While management had final authority, the subordinates' views weighed heavily in the selection process, and the subordinates' choice was also the candidate selected by management. This process enables employees to have a clear voice in the operation of the institution.

#### **5.1b Employee Performance Management System**

In 2005, MCCU changed the Senior Management Bonus Plan payout to provide equal payouts to each senior manager, including the CEO. In the past, the bonus amount was based on a percentage of individual salaries. In addition, both the senior management and the Non-Management Bonus Plans contain goals associated with exam and audit performance.

The measures selected for the strategic plan and the Senior Management Bonus Plan are designed to provide a balanced approach to managing the organization. Senior managers are rewarded financially for accomplishing the FOCUS POINTS. Each FOCUS POINT has three levels of performance: Base, Goal, and Superior. The Board decides the bonus for each level for each FOCUS POINT in the Senior Management Bonus Plan.

In addition, PERFORMANCE GATES have been established that reduce the FOCUS POINT payouts if a Gate is not achieved. The Gates provide the balance. For example, maximum organizational effort may be put forth to achieve the growth in FOCUS POINT 1. But the effort is tempered or balanced by the need to achieve a certain level of employee satisfaction, which is a PERFORMANCE GATE (Figure 2.2-2).

As described in Item 4.2b, the MSRs rotate certain critical functions each month. This keeps the MSRs "fresh" and enables each MSR to back up the other. Cross training plans are also in place for the accounting staff and the MSRs. With an organization this small, these processes enhance MCCU's ability to function at a high level when employees are absent for periods of time. Plus, it keeps employees from getting bored with performing the same functions over and over.

Since there are only 13 employees serving over 200 member credit unions, all employees come into contact with members on a daily basis. Occasionally, an employee will need to make an adjustment or provide a refund to a member's account. The organization has a policy that permits employees to write off any amount up to \$100, provided their supervisor is notified. Amounts up to \$500 can be written off by any supervisor. This policy enables employees to respond quickly to adjustments or refunds if the situation demands quick action.

In addition, both the senior management and Non-Management Bonus Plans are derived directly from the strategic plan, and enables staff to understand how their individual and departmental performance impacts overall organizational performance. The Senior Management Bonus Plan includes measures on membership and operations satisfaction, and the Non-Management Bonus Plan includes measures of *invisibility*.

Since the organization has been so successful in achieving membership growth, management became concerned that new member growth would put too much burden on the existing staff and lead to burnout. Consequently, in 2005, management established a new Performance Gate in the strategic plan that requires the organization to keep the number of employees-to-members between 13 and 20. This new measure also tells employees that management is concerned about their health in trying to serve an ever-growing number of new accounts.

In addition, MCCU is carefully monitoring the number of new members versus the number of errors in order to monitor the effect of new member growth. Since the number of new members has grown quickly, and new members tend not to use services right away, MCCU may not have seen the effect of membership growth, if any, on the number of errors. MCCU is also monitoring the number of transactions per employee and the number of calls per employee to gauge the effect of membership growth on employees.

Because of the member-focus culture the organization has developed, innovative products can be identified and developed. For example, MCCU's largest member, a \$1.4 billion credit union, expressed a desire to borrow in amounts MCCU is not able to lend. MCCU quickly turned to one of the key business partners who helped develop a loan participation transaction that met the member's needs. MCCU loaned the member \$45 million and sold \$40.5 million of the loan to the key business partner. MCCU kept \$4.5 million, comfortably in the range it could afford to loan. MCCU was the first corporate credit union in the nation to complete such a transaction!

MCCU's member-focus culture also enabled MCCU to be the first corporate in the nation to use the new .coop extension on MCCU's website and e-mail addresses which denote a "cooperative" organization. MCCU was the second corporate in the nation to establish an agent relationship with ISI, the brokerage subsidiary of one of MCCU's key business partners (U.S. Central). This relationship enables members to purchase marketable securities through the corporate rather than through a for-profit broker/dealer. And MCCU was the second corporate in the nation to implement the "E-purchase" product developed by the key business partner, U.S. Central. E-purchase enables a credit union to purchase certificates of deposit online without having to call in the transaction. This product enhances MCCU's *invisibility* and reduces the potential for keystroke errors.

Numerous staff meetings are held throughout the year to keep employees informed. As described in Item 4.1b, employees learned to read the financial statements as part of a contest the CFO developed. Employees also actively participate in the development of the strategic plan. Since the management and Non-Management Bonus Plans align with the strategic plan, employees can see how their day-to-day efforts link with the strategic plan. In addition, the first "performance factor" in each employee's annual performance appraisal is "Member Focus." Employees and supervisors alike rate each employee's performance in this critical area, which encompasses both external and internal members.

The organization's Employee Activity Committee plans numerous events throughout the year. For example, each month MCCU celebrates the birthdays that occur in that month by bringing in food for the staff. As bonus checks are paid to non-management personnel (quarterly), food is again brought in and the supervisors present checks to each employee. There are on-going bingo games where employees can win prizes or gift certificates to local merchants. Each February, MCCU celebrates Black History Month with quizzes and contests. The last two Christmas decorating contests were sponsored by one of MCCU's key business partners the Missouri Credit Union Association. These activities enhance employee satisfaction and are just plain fun.

The annual performance appraisal rates employees on the following factors:

- Member Focus
- Judgment
- Leadership
- Teamwork
- Communication
- Taking Initiative
- Job Knowledge
- Innovation
- Adherence to Schedule

Both the employee and their supervisor complete the ratings for each of these categories. A meeting is held to compare the results and map out future plans for the employee.

## **5.1c Hiring and Career Progression**

MCCU uses its values to help in the selection process. MCCU strives to identify potential employees that are already or very likely to accept MCCU's VMV as being important. Also a knowledge of the CU Movement and the interconnectedness of entities is important. Employees that are self-motivated and predisposed to take initiative are also individuals that MCCU pursues. Problem solvers and quality communicators are the last characteristics for which MCCU looks.

Most of the skill sets needed for positions are either trainable or are specific to that position.

The organization outsources the HR function of recruitment to one of MCCU's key business partners, the Missouri Credit Union Association. The Association's HR professional administers two assessment tools to each candidate, the "Step One" survey and the "Profile XT" survey. The "Step One" survey tests for integrity and honesty and how well the candidate's values match the organization's values. The "Profile XT" survey tests candidates to see how well they fit the patterns exhibited by current employees performing similar tasks.

Following the assessments, candidates are interviewed by the HR professional and the appropriate MCCU supervisor. As mentioned previously, if the position is a supervisory position, the subordinates also participate in the interview process and share their thoughts with the HR professional.

Each employee is interviewed by the HR professional to assess the type and level of training the employee needs to competently do their job. This interview results in a customized training plan for each individual employee. In addition, the annual performance appraisal requires the supervisor and subordinate to answer the following questions about the subordinate:

- What are your long-term interests and goals?
- What skills do you want to develop or utilize more fully?
- In what areas would you like to gain experience?
- What specific positions/career opportunities interest you?

Based on answers to these questions and the subordinate's performance, the supervisor is required to answer the following questions and share the answer with the subordinate:

*What are your perceptions of the employee's long-term career potential and career options within the organization?*

*Based on your understanding of the employee's long-term interests and goals, what are some possible long-term developmental activities which would help the employee satisfy their interests, reach their goals and/or fulfill their potential within the organization?*

A Board approved succession plan is in place that describes the sequence of events that must occur when a key employee is not available for an extended period of time. Given the organization's small size and the need for separation of duties, the succession plan gives careful attention to the reporting structure in the event a key employee is unavailable.

With, at the most one layer of management between the CEO and all staff, there are limits to what can be done with career progression. MCCU has developed a senior level for the MSR position. MCCU strives to give as much initiative to each staff person for their own careers rather than having that initiative belong to the supervisors. MCCU has developed a Skill and Knowledge Development process that provides a third-party resource to each staff member. The third party helps them develop what it is that they would like to learn and know, and how that translates into their career, even if that means it will take them away from MCCU. The supervisor's role becomes one of identifying required knowledge and skills for the future to be employable at MCCU. Supervisors and employees are then able to merge these two approaches into one that best meets both sets of needs.

## **5.2 Employee Learning and Motivation:**

### **5.2a Employee Education, Training, and Development**

MCCU emphasizes employee education and training in order to help the organization, the employees and MCCU's members succeed (Item 1.1a). Training and education needs are identified through the Strategic Planning process (Item 2.1a), through discussions with supervisors, and from discussions with employees. As described in Item 5.1c, each employee uses the Skill and Knowledge Development process to develop a long-range training and education plan for themselves. Some of the training is accomplished on-the-job and through internal training sessions (such as

learning to understand financial balance sheets). In cooperation with MCCU's partner, MCCA, training that is beyond MCCU's scope is provided by them, such as coaching skills, how to deal with harassment issues, etc. One of MCCU's key business partners, U.S. Central, offers numerous training activities throughout the year to help MCCU's employees learn more about critical functions. MCCU takes advantage of these opportunities and send both staff and volunteers (Board and committee members) to the training.

For the professional certifications, MCCU provided financial incentives to the employees to receive education at external institutions. Receiving these important designations provides back-up for key functions in the organization. This back-up is especially critical for an organization of MCCU's size. MCCU is one of the few corporates with less than \$1 billion in assets that has this level of expertise on staff. Having these highly-trained staff members enhances the *sustainability* of the organization and provides employees with another step in their long-term career plans. As the organization grows, these employees will likely be rewarded with more responsibilities. This balances the growth of the organization with the personal growth of the employees.

This advanced training also enables the organization to fulfill its mission of helping service-focused credit unions succeed. Here's how: The Director of Financial Services and the Director of Correspondent Services often visit members and potential members. Rather than make an appointment with the idea of selling a product or service, they make an appointment to listen and learn about what the credit union is doing. Given their training and background (both have worked in the industry for more than 10 years), they can identify how MCCU's organization can help the member earn more income, cut expenses or become more efficient. The appointments take time, but have resulted in the phenomenal growth the organization has seen.

Small and medium-size credit unions usually are service-focused, and are struggling to survive. They appreciate the assistance MCCU's employees can render in helping them become more efficient – and they have told other credit unions. The word has begun to spread about how competent MCCU's employees are, and that has resulted in potential members seeking us out – the best advertising in the world! The competition employs a sales approach rather than a consultative approach. MCCU has discovered that service-focused credit unions don't want to be "sold." They want to be helped.

This competence spills over into assistance MCCU can provide to existing members. That's one of the reasons why the membership satisfaction ratings and the operations satisfaction ratings have remained consistently high.

Several years ago, MCCU introduced a product called "Open Door." Open Door enables a credit union to perform a number of transactions via the internet rather than calling us to complete the transaction. Prior to the introduction of Open Door, staff was trained on its use so they could help members with questions. There was some concern on the part of staff, especially the MSRs, that Open Door would essentially replace them; there would be no need for staff if members could perform the transactions themselves. Management assured staff that no position cuts would be made with the introduction of Open Door, and none were made.

Open Door has turned out to be a wildly successful product. MCCU discovered that Open Door shifted staff from answering phone calls to processing transactions that come in over Open Door. As more and more credit unions began to use Open Door, the possibility for keying errors by MCCU's staff was reduced because the initial keying of the transaction was shifted to members. The staff's task then became one of accurately processing the Open Door transactions. In the end, both the members and the staff love Open Door because it is simple to use and makes both MCCU's members and MCCU's organization more efficient.

MCCA takes an active role in meeting MCCU's needs for new employee orientation, diversity, and ethical business practices. Throughout each year, MCCA provides new employee orientation. This includes imparting an understanding of the CU MOVEMENT, its components, and philosophy. There are also seminars and group sessions on ethical practices, issues with diversity within the workplace, and safety. Often these seminars and group sessions are conducted by MCCA's EAP provider. U.S. Central and the Federal Reserve Bank, the MCCU's other two key business partners, also offer off-site training that focus on financial analysis, organizational processes or changes within the system.

MCCA also provides general management and leadership development training. Also, those employees who have identified management or leadership training within their Skill and Knowledge Development plan are exposed to opportunities that meet their needs as well as the organization's needs.

In addition to what MCCA provides, the Collaborative Process provides a self-learning and group-learning experience for the participants. Learning is major element of the process and is foundational to its success.

Within the Performance Evaluation process, supervisors and employees identify areas of opportunities for learning. In addition, annually, the senior leaders review areas of learning with the HR Director. Using this information, along with the needs of MCCA needs, the HR Director develops a plan for training for the year for both organizations.

Training is conducted both on-site and off-site. Given the small staff size, MCCU has to be careful in scheduling training in order to assure back-up capability is maintained. At MCCU, all staff work closely together and there is close day-to-day contact among all employees, and mentoring is done on an informal basis. Most of the specific skills training for a position are conducted informally by the managers.

As new skills are learned, those skills are reinforced by cross-training and job rotation. The Accounting Department employs cross-training to reinforce skills, and the MSR transaction area employs cross-training and job rotation to reinforce skills. These two departments handle the majority of transactions and interaction with MCCU's members. As noted previously, several employees have achieved national certifications in ACH and securities sales, and can reinforce each other in these critical areas. MCCU has two CPAs on staff that must take continuing education courses to keep that designation. The same is true for the designated ACH professionals and the designated Series 7/63 professionals.

With a small staff, the effectiveness of education and training is readily apparent. Employees are interviewed after completing certain education and training courses to assess the effectiveness of the course. Formal staff-wide training is reviewed by senior leaders for its effectiveness.

### **5.2b Motivation and Career Development**

MCCU first focuses on group performance and then individual performance. MCCU seeks to achieve the development and utilization of the group's full potential. Sometimes, that means that an individual may have more potential but the group's performance comes first. Not everyone can be the CEO, even though everyone may have the potential to succeed at that position.

MCCU's approach to having employees reach their full potential is to not restrict their growth to MCCU. MCCU has developed the Skill and Knowledge Development process that allows employees to identify their own desires and to match them with the opportunities at MCCU. However by using a third party resource employees have the opportunity to seek other organizations or jobs where they may more fully reach their potential.

MCCU also seeks to not have to motivate employees. Through its hiring practices and LEADERSHIP SYSTEM, MCCU seeks to maximize self-motivation. MCCU role then is to provide opportunities for learning and growth, rather than motivation.

## **5.3 Employee Well-Being and Satisfaction:**

### **5.3a Work Environment**

The financial nature of MCCU's work makes security of the premises very important. There is only one entrance to the work area, secured by an electronic lock. Only those individuals with the proper access cards can enter. Access for others is controlled by the Administrative Assistant who identifies everyone before they allowed to enter the workplace. In 2005, MCCU conducted an ergonomic assessment, and provided training to staff based on its results.

The workplace environment is an office setting with a combination of walled offices and cubicles. The MSRs must communicate frequently with each other as they process transactions. Several years ago, at the request of the MSRs, the cubicles the MSRs occupy were rearranged to enhance face-to-face communication. Various bins were created so the MSRs could put hand-off work in a bin to increase efficiency and reduce the number of times they had to get up from their chairs.

MCCU has had superior performance in health, safety, security and ergonomics for many years, and therefore has not established performance measures or targets for them.

MCCU has established a comprehensive disaster recovery plan. The plan identifies the most likely disasters and an appropriate response to each. Duties are assigned to various staff members and the plan is reviewed regularly to ensure that it is current and communicated to all staff.

The most common natural disaster in St. Louis is a tornado. Each year prior to the start of tornado season, a company-wide tornado drill is conducted so employees can practice evacuation techniques. Fire evacuation plans are in place in the event of a fire, and employees are trained what to do in case of a fire.

### **5.3b Employee Support and Satisfaction**

Employees are asked each year in the employee satisfaction survey for the “one thing I’d like to see done that would improve my pay and benefits package.” Again, because of MCCU’s size the survey has not been segmented by employee diversity or other potential demographics.

Several of the suggestions have been acted upon (annual review of job descriptions, health plan to cover chiropractic care, etc.). In addition, employees have helped revise the annual employee satisfaction survey over the years, especially in the manner in which the survey is administered. The survey has always been voluntary. But several years ago the employees suggested the survey be administered in one setting during a specific time period on a particular day. That way, they could leave their desks to participate in the survey and coordinate their absence with co-workers. The completion ratio has been almost 100% for the past three years.

The organization shares the fringe benefit programs with one of MCCU’s key business partners, MCCA. Employees have access to a full range of benefits and have rated the benefits highly. Blue Cross Blue Shield, the company that provides health insurance, periodically sends employees information about the latest trends in health issues, including tips on wellness and prescription usage. The organization has an anti-harassment policy that allows employees to report, to progressively higher positions, any harassment based on race, color, religion, sex, sexual orientation, age, national origin, or disability.

Additional benefits include dental insurance, life insurance, and long-term disability insurance – all paid by the organization. All employees are covered by a defined benefit pension plan and a 401k plan that includes a 5% employer match. Educational assistance is also available along with an Employee Assistance Plan (EAP), flexible compensation plan, YMCA membership discount, Sam’s Club and Costco membership discounts, and a Lasek vision discount. Flexible work scheduling is also available.

Each year, employees are asked to complete a satisfaction survey that identifies the key factors that affect employee well-being, satisfaction and motivation. The survey defines motivation not in terms of *what* motivates employees (money, time off, etc.), but rather in terms of assessing the environment to permit self-motivation on part of employees. This approach aligns with the LEADERSHIP SYSTEM.

For example, three questions are asked and the choices are: strongly agree, agree, somewhat agree, disagree and strongly disagree:

- There are opportunities for those who want them.
- My job seems to be heading in the right direction.
- I can be sure of a job as long as I do an acceptable job.

These factors are not segmented for diversity or by category because of the organization’s small size.

MCCU also informally assesses employee well-being, satisfaction and motivation. These are common discussions within the Senior Management meetings and the Collaboration process.

MCCU has extremely high levels of retention, low levels of absenteeism, few grievances, and few safety issues. MCCU has a PERFORMANCE GATE (Figure 2.1-3, Gate “h”) established to assist in creating managed growth rather than forcing employees to compensate for growth beyond the capacity of the organization. MCCU also has determined to maintain at least the current rates of absenteeism.

Data from these surveys and reports are analyzed to assess trends in employee satisfaction or dissatisfaction. Overall employee satisfaction has been high for the past several years and MCCU’s goal is to not let the rating fall below 4.0 (Figure 2.1-3, PERFORMANCE GATE “e”). MCCU has found there is little correlation between employee satisfaction and member satisfaction, over the past five years. Also, there is little correlation between employee satisfaction and employee absenteeism for the same period of time. Both of these are a result of the consistently high employee satisfaction ratings. This sustained high level of employee satisfaction enhances the *sustainability* of the organization, in that turnover is minimal and skill levels continue to grow over time. It is also a measure of the *ownership* by the employees of the VMV.

## **6 PROCESS MANAGEMENT**

### **6.1 Value Creation Processes:**

#### **6.1a Value Creation Processes**

MCCU uses its cooperative foundation as its method of identifying what are its key value creation processes. MCCU focuses on the whole CU MOVEMENT rather than on its own individual part of it. MCCU seeks to identify what it can do best within that greater structure rather than what will bring the most return. MCCU stays connected with upstream and downstream components and actively listens to its members and partners. They have articulated that MCCU's focus on moving and holding money for them are the two functions that will provide the most value for them by enabling them to leverage the collective dollars they have, efficiently. Accordingly, MCCU has translated these two functions into its key value creation processes.

These processes are well aligned with the needs of CU MOVEMENT, filling a particular need for members and providing connections for them to other entities within the CU MOVEMENT, such as U.S. Central and entities that interact with the CU MOVEMENT, such as The Federal Reserve System. This alignment is the greatest contributor to assuring profitability, sustainability and success for MCCU through its value creation processes. MCCU has identified its particular role within the CU MOVEMENT providing it with needed opportunities.

MCCU has taken the key requirements of its Members (Invisibility, Simplicity, Competitiveness, and Sustainability) and translated those into determining process requirements for Move Money and Hold Money. MCCU uses input from members from its focus groups and Operational Forums to establish acceptable levels of performance on each process, through a red-light green-light mechanism linked to sub-processes that make up Move Money and Hold Money. Performance requirements linked to the members' key requirements are established for the sub-processes.

With MCCU's small size, most product design is carried out by one of MCCU's key business partners, U.S. Central. MCCU has a close working relationship with U.S. Central and interacts frequently with them about how MCCU would like to see products designed or delivered, emphasizing the members' four key requirements. MCCU and U.S. Central formally meet at least once a year to talk about continuous improvement processes. MCCU and U.S. Central share each other's strategic plans. Periodically over the years, MCCU employees have participated on U.S. Central teams that design products or services.

Since U.S. Central is one step removed from credit unions, it relies on MCCU to help them design products and services that credit unions will use. As noted previously, MCCU's listening/learning processes enable it to determine what is important to credit unions and that knowledge is passed on to U.S. Central.

With an eye toward simplicity, U.S. Central designed three key products that enable credit unions to be more efficient and have more control over their operations. One is Open Door, an electronic access device that enables credit unions to send key transactions over the internet. The second is "E-purchase," another electronic access device that enables credit unions to purchase certificates of deposit online. And the third is APEX. APEX is sophisticated Automated Clearing House (ACH) software that enables credit unions to send and receive ACH transactions with a minimal amount of human intervention. These products employ advanced software and features that make them very user-friendly – exactly what MCCU members have said they want.

MCCU employs a "New Product/Service Development Process" to deliver new products and services. The first stage requires a definition of the product/service criteria, needed resources, critical tasks and milestone dates. The second stage requires the organization to identify possible options, and to test those options until a final one is chosen. The third stage outlines tasks, persons responsible, time sequences, tracking and review dates, and the rollout of the new product/service. The final stage requires a comparison of actual results to expected results, and identifies areas for improvement.

This approach was used on the delivery of the new "E-purchase" product. The design and delivery of various pieces of the product were tested before the entire product was made available. MCCU employed the same approach with a Bank Secrecy Act (BSA) questionnaire that it had to send to each member credit union. The questionnaire was designed in-house, and was field tested with three credit unions that volunteered to assist. To aid in the administration and analysis of the questionnaire, MCCU released it over time to small groups of credit unions. This approach is currently being used on the organization's data processing conversion that will take place later in the year and also on the development of Business Continuity Plans (BCP) underway now.

As mentioned previously, MCCU formally meets with U.S. Central at least once a year to review measures and discuss process improvements. As products are under development or testing (like the new E-purchase product mentioned previously), MCCU speaks with U.S. Central frequently and shares its thoughts on how the project is going. As new products are field tested, members are typically used to help us test before the final product is rolled out.

In-process measures are used in the error tracking and Problem Resolution Process, setting standards in the Non-Management Bonus Plan, and in the New Product/Service Development Process. The in-process measures in the New Product/Service Development Process vary from project to project.

MCCU tracks the cost associated with errors and have found those costs to be minimal, with one exception. Because of the nature of MCCU's business, errors can be exorbitantly expensive. One mistake on a wire transfer could cost millions of dollars. The largest single error over the past three years involved the processing of a counterfeit check, and it cost the organization \$42,726.

Not only are errors tracked and processes changed if necessary, the organization has adopted an overall risk-averse strategy in the investment and asset-liability management area. Investments are held to very strict tolerances, and these tolerances are checked monthly (federal regulation allows quarterly tests). In addition, MCCU's policy requires a thorough exam of internal controls by MCCU's bond carrier at least every three years (there is no federal requirement for such review). Internal audits are conducted quarterly, and rigorous federal and state regulatory exams are conducted annually along with a comprehensive audit.

The monthly error logs are reviewed to see if trends are evident. If it appears that negative trends are developing, the process is reviewed to uncover any weaknesses. If a change in process is warranted, the change is made and the process is measured again to see what effect the change had on the process. Non-management personnel also get quarterly feedback on processing errors, because accurately completing certain critical processes is part of the Non-Management Bonus Plan. Trend charts are posted, and visible to all employees, that show progress in achieving both the management and non-management goals.

The in-process measures are regularly analyzed to determine the causal factors for errors and rework, especially when they impact invisibility. For example, error logging allows MCCU to spot trends and measure variability. New products/services are tested prior to introduction. Lessons learned are shared in senior management team meetings and with non-management employees via the Non-Management Bonus Plan. These analyses preclude the necessity of conducting audits to determine problems. Further, the use of common methodologies, which are reinforced through training and rotational assignment of staff ensures the consistency of performance in all transactions so that additional audits are unnecessary.

MCCU takes an inclusive approach in designing and monitoring the in-processes. Operation personnel helped develop the Non-Management Bonus Plan standards. Accounting personnel meet with MCUA's item processing center and the staff from the shared branches to address processes. Similar meetings occur with the Federal Reserve. MCCU meets annually with U.S. Central. MCCU manages much of the processes through direct interaction with those that are carrying them out.

MCCU uses SAS 70 audits conducted on core systems by U.S. Central. This year, MCCU used the report prepared by an independent, third party retained by ISI (U.S. Central's broker) on the accuracy and reliability of ISI's Net Economic Value (NEV) calculations.

Whenever the regular analyses of the data noted above reveal a process problem, a root cause analyses is conducted to determine what are the causal factors of the problem. All of the staff participate in identifying solutions to the problem. Once the best solution has been identified, it is tested and then implemented when it has proven to correct the problem. Training of personnel (usually on-the-job) is performed and procedures updated to ensure that the revised methodology becomes integrated into the culture.

## **6.2 Support Processes and Operational Planning:**

### **6.2a Support Processes**

Since the organization is a financial institution, the key support processes involve functions related to processing financial transactions. The key support processes conducted in-house are accounting, asset-liability management, investing, and internal controls. The key support processes outsourced to key business partners are human resource assistance, data processing, legal, governmental affairs, some sales staffing, marketing, and product design.

The requirements of most of the financial and internal control processes are dictated by regulation, as well as regulatory and audit expectations. The requirements for the remaining key support processes are determined by management in consultation with members and two key business partners, the MCUA and U.S. Central. As described in Items 3.1 and 3.2a, members have identified four key requirements. MCCU has shared that information with MCUA and U.S. Central in both formal and informal meetings.

As principal designer of MCCU's products and services, U.S. Central has focused on developing products that are simple and easy to use. For example, Open Door, the electronic access device U.S. Central developed and introduced several years ago, revolutionized how MCCU's members conduct business with us. That product alone greatly enhanced access and simplicity. "E-purchase," another U.S. Central designed product, enables credit unions to purchase certificates of deposit online – which greatly enhances access, simplicity and responsiveness. Although U.S. Central has the primary role of developing products, MCCU continues to test products, such as E-purchase prior to its introduction.

During formal and informal meetings with the MCUA, and the sharing of strategic plans, MCCU has indicated the need for continuing to share support services that drive down costs for both organizations. By combining forces with the MCUA, both organizations can afford a robust menu of fringe benefits and HR services. The fringe benefit package that results from sharing support services enhances employee satisfaction. These studies enable us to put a dollar value on the relationship and determine the effectiveness of pooling resources.

As indicated in Item 6.1, MCCU's strategy is to stay lean and not build a large infrastructure, which keeps operating expenses down. By outsourcing product design to U.S. Central and pooling resources with the MCUA, MCCU has been able to keep increases in operating costs to a minimum. This operating cost calculation is used to measure support service performance. In addition, the calculated cost of operating MCCU separate from the MCUA as noted above, is also used as a measure of support service performance.

Keeping support services costs down enables the organization to consistently pay out more dollars in interest and dividends than other corporates, which enhances membership satisfaction. It also enhances employee satisfaction by enabling us to provide a robust fringe benefits package, and enables the organization to gain new members by freeing up dollars that can be used to market MCCU to potential members.

The organization employs several in-process measures. The accounting process is measured by the results of internal and external audits and by certain elements of the Non-Management Bonus Plan. The asset/liability process and investment process is measured by monthly limit tests. Internal controls are measured by the results of the regulatory examination process and internal audit process. The sales process is measured by calculating the market share of products and services and by tracking the purchase of products and services by new members. The remaining support services are measured by cost calculations described previously.

The employee satisfaction and operations satisfaction surveys, along with the contact matrix, provide input from members on the performance of several of the support processes, such as accounting, asset/liability management and investing. Formal and informal meetings with the MCUA and U.S. Central provide input from key business partners on the performance of support services, like fringe benefits, human resources and product design.

As indicated previously, the organization is tightly regulated by state and federal authorities. The annual examination is rigorous. In addition, regulation requires that MCCU conduct quarterly internal audits and an annual audit. Bids are solicited for these audit functions every two or three years in order to keep costs down. Transaction errors and complaints are tracked, and processes are revised if negative trends are noted. This process reduces losses and rework.

Improvements to support services are made as a result of the employee satisfaction surveys, the operating cost comparisons with other corporates, and the results of the examinations and audits. In addition, improvements to critical transactions are made as a result of the error tracking and Problem Resolution Process. Results of the changes are shared with staff and with the MCUA and U.S. Central.

## **6.2b Operational Planning**

Establishing financial projections is an important part of MCCU's planning process and is a central role of the ALCO Committee. MCCU has a capital plan designed to insure the organization has adequate capital for safety and soundness. Each month senior leaders prepare a pro forma income statement that the ALCO Committee uses to set certain dividend rates. This process ensures the organization can meet its earnings and capital goals to support new business ventures. A rigid budget process is used to accurately project operating expenses and that process has been

consistent and reliable over the years. This budget follows the development of the strategic plan based upon the performance identified within it. These processes are closely scrutinized by the regulators and MCCU's performance has been consistently good. MCCU's business is to manage risk each day. These processes are rigorously examined by the regulators to ensure safety and soundness.

MCCU has designed for the continuity of operations as an integral part of the BCP. As part of this plan, MCCU has a back-up site and identified the most likely threats to operations with a response to them (Item 1.2b).