

Bringing SWOT Into The 21st Century

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Attitude

The longer I live, the more I realize the impact of attitude on life. Attitude to me, is more important than facts. It is more important than the past, than education, than money, than circumstances, than failures, than successes, than what other people think or say or do. It is more important than appearance, giftedness or skill. It will make or break a company.... a church.... a home. The remarkable thing is we have a choice everyday regarding the attitude we will embrace for that day. We cannot change our past.... we cannot change the fact that people will act in a certain way. We cannot change the inevitable. The only thing we can do is plan on the one string we have, and this is our attitude.... I am convinced that life is 10% what happens to me and 90% how I react to it. And so it is with you.... We are in charge of our attitudes.

Attitude

The direction of the corners of your mouth are good indicator of the direction of your day.





Defining Risk

WHAT IS RISK?

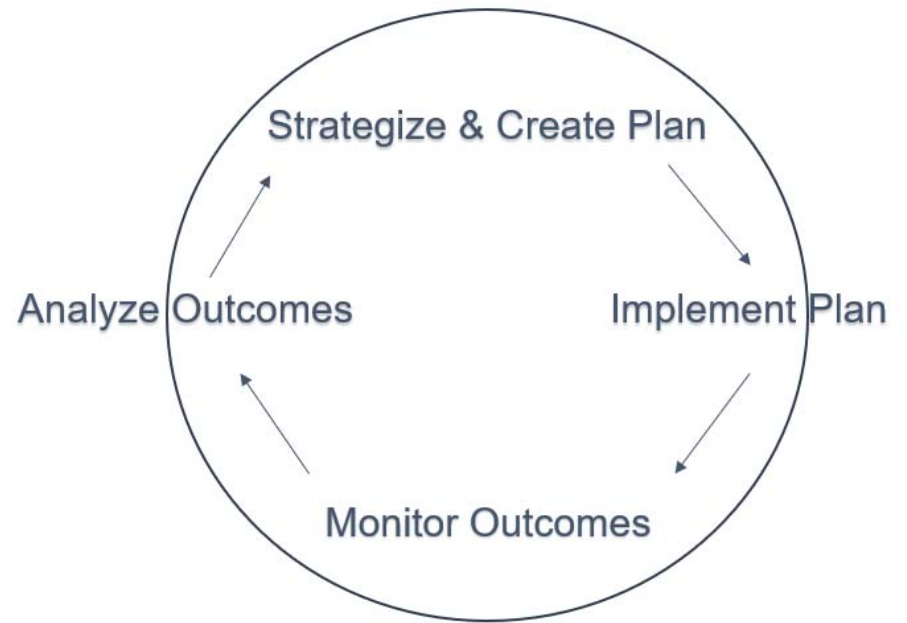
- Possibility of incurring loss
- Vulnerability to a negative outcome

Defining Risk

Risk Categories

- **Credit Risk** – the risk of non-repayment where your credit union invests or loans funds.
- **Interest Rate Risk** – the risk that your credit union won't adequately manage changes in market rates to maintain an appropriate net interest margin.
- **Liquidity Risk** – the risk your credit union won't be able to liquidate assets quickly and with minimal loss in value to meet your obligations.
- **Transaction Risk** – the risk that fraud or errors will cause a loss to your credit union. This risk is a function of internal controls, information systems, employee integrity, and operating processes.
- **Compliance Risk** – the risk that failure to comply with laws and regulations, prudent ethical standards, and contractual obligations will harm your credit union.
- **Strategic Risk** – the risk that poor business decisions or improper implementation of strategic goals will reduce your credit union's earnings and net worth.
- **Reputation Risk** – the risk that your credit union's public image will be tarnished due to improper actions on the part of officials, management, or staff.

Governance/ Management Cycle



Cycle	Primary	Secondary
1. Create Plan	Board	Management
2. Implement Plan	Management	Board
3. Monitor	Management	Board
4. Analyze	Board	Management

Strategic Planning Tools

1. Origins in 1960's from Albert Humphrey at the Stanford Research Institute
2. Formalized and expanded in the early 1970 by Ken Andrews
3. Helps a business identify key components related to business competition or project planning
4. Peels back layers of the company
5. Meant to be a preliminary decision-making tool by specifying objectives
6. Helps identify factors that "get in the way" of project success

S.W.O.T. (Strengths, Weaknesses, Opportunities and Threats)

SWOT analysis can be used to build organizational or personal strategy

SWOT Applications

Steps necessary to execute strategy-oriented analysis involve:

1. Identification of internal and external factors (using the popular 2x2 matrix),
2. Selection and evaluation of the most important factors
3. Identification of relations existing between internal and external features.

SWOT ANALYSIS

	Helpful to achieving the objective	Harmful to achieving the objective
Internal origin (attributes of the organization)	S Strengths	W Weaknesses
External origin (attributes of the environment)	O Opportunities	T Threats

SWOT Limitations

- SWOT is intended as a starting point for discussion
- Cannot show managers how to achieve a competitive advantage, particularly in a rapidly changing environment
- Researchers found that "no-one subsequently used the outputs within the later stages of the strategy"
- Others have critiqued hastily designed SWOT lists
- Preoccupation with a single strength, such as cost control, can result in neglect of weaknesses, such as product quality
- Can be domineered by one or two community workers which devalues the possible contributions of other community members

Systems and Organizational Health

Systems Theory studies what is a system and what makes some of them successful.

Systems and Success

All living creatures, every machine and each business are unique systems made up of their own foundational elements:

- Dynamics
- Constraints
- Conditions



Systems and Success

Examining these foundational system elements researchers have discovered underlying concepts that drive each and every system:

Systems and Success



Concept 1: All healthy systems are driven by guiding principles such as **purpose, measure, methods and tools**, that can be applied to help the system succeed and thrive.



Concept 2: A system has **interrelated and interdependent parts** when combined, become **more than the sum** of its individual parts.

Systems and Success



Concept 3: Changing one part of the system affects other parts as well as the whole system in **usually predictable ways.**



Concept 4: Positive growth and adaptation of a system depend upon how well the system is **adjusted with its environment.**



Concept 5: Systems often exist to accomplish a common purpose (a work function) that also aids in the maintenance of the system or the operations **may result in system failure.**

DJ1

Donna Jensen, 9/3/2020

Each of us has key numbers that indicate our health condition.
They are commonly known as:

Vital Signs

- They are valuable because each one has a healthy range that can be compared to actual numbers.
- Each of these markers relates to a part of the human system (see concept 2). This human system needs to adapt to its environment (see concept 4) and its parts must work together.
 - Blood pressure
 - Temperature
 - Pulse
 - Respiration
 - Weight

Assessing Your Health



A doctor knows that changes in one part (e.g. breathing) can affect other parts (e.g. heart and/or brain function).



Our common goal with the doctor is to maintain a balanced healthy system.

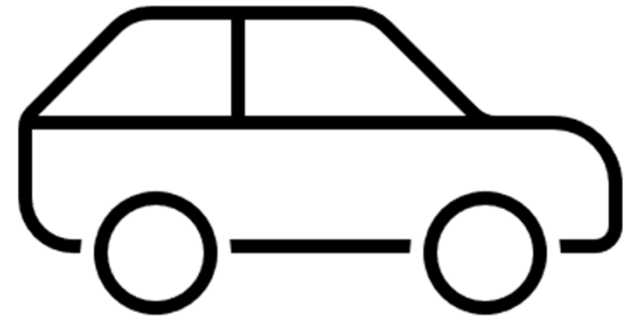


Finding one indicator that is out of a healthy range leads the doctor to prescribe an action to bring it back to balance.

Every car has vital signs as well:

- Oil Pressure
- Engine Temperature
- Engine RPM
- Gas quantity
- Exhaust

They are valuable because each one has a healthy range that can be compared to actual



Credit Unions also have Vital Signs:

- They measure key components of credit union performance
- They can be standardized and compared to benchmarks
- They pinpoint areas that are strong and areas that need to be strengthened



Managing the System

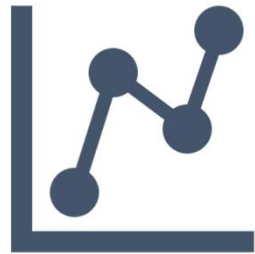
- CUs are complex systems that rely on various, unique balanced parts to thrive (see Concept 2 - interrelated and independent parts).
- Consistent with Concepts 2 and 4 (adjusted to the environment), it is critical that management identifies, measures and manages each part to assure that the total CU system adjusts and adapts to its environment.

Managing the System

This can be a daunting task for CU board and management.

- What indicators to measure?
- How often to measure?
- What is the healthy range?

Managing the System



Sometimes management can create a massive dashboard of indicators that are difficult to get their “hands around”.



Over time the mass of indicators can blend together and hide real problems.

Managing the System



SOMETIMES MANAGEMENT CAN OVERLOOK AN AREA THAT THEY BELIEVE MIGHT BE WITHIN HEALTHY RANGES AND IGNORE CERTAIN TELL-TALE SIGNS THAT COULD EXERT AN UNHEALTHY EFFECT ON THE CU SYSTEM.



OVER TIME, THIS DISCONNECT CAN LEAD TO CRITICAL HEALTH PROBLEMS FOR A CU.

Managing the System

For example; focusing on CU charge offs might not be as proportionally significant in comparison to managing a low loan to share ratio and loan yield mix.



This condition could have been solved by implementing effective risk-based loan pricing and credit migration strategies.

Vital Signs

CU managers can employ a vital signs report, or **CU Vital Signs/Key Financial Indicator (KFI) Report** which identifies a set of 4 core indicators including:

- Equity Ratio
- Loan to Share
- ROA
- Deposit Mix

Vital Signs

There are 13 additional supporting indicators in the report that interconnect with the 4 core indicators mentioned. The following color scheme shows each Vital Sign's status:

- Green - Within the healthy range
- Yellow - Just outside the healthy range
- Red – There is a significant problem.

Vital Signs

- All indicators are interrelated (Concept 2) and can be monitored and addressed as needed.
- Indicators are interconnected and assist the CU to more effectively adapt to the environment (Concept 4).
- Regular monitoring tends to focus management on the core purposes of the credit union (Concept 5).

VITAL SIGNS	2015	2016	2017	Recommended Solution	TCT	Target Goal with Solution	TCT
Equity Ratio	10.28%	10.50%	9.98%			10-12%	
Loan to Share	77.88%	84.09%	77.93%	Loan Pricing		70-85%	
ROA	1.16%	0.95%	0.80%	ALM		0.5-1.0%	
Core to High Yield Deposits	471.65%	498.19%	568.84%	Deposit Pricing		95.00%	
Cost of Funds	0.07%	0.06%	0.05%	Deposit Pricing		0.2-0.3%	
Payout Ratio	1.37%	1.16%	1.17%	Deposit Pricing		3-5%	
Asset Growth	7.52%	7.63%	9.56%			3-5%	
Deposit Growth	7.13%	7.23%	9.89%	Deposit Pricing		3-5%	
Loan Growth	5.27%	15.78%	1.85%	Loan Pricing		4-6%	
Loan Yield	5.76%	5.24%	5.46%	Loan Pricing		5.60%	
Investment Yield	1.68%	2.40%	1.47%			1.20%	
Earning Asset Yield	4.77%	4.77%	4.70%			4.00%	
Net Interest Margin	4.32%	4.24%	4.00%	Pricing		3.90%	
Operating Expense	3.71%	3.88%	3.83%			3.85%	
Net Fee Subsidy	0.61%	0.36%	0.17%	Pricing		0.00%	
Delinquency Ratio	0.62%	0.48%	0.22%	Credit Migration		0.65%	
Charge Off Ratio	0.39%	0.27%	0.26%	Credit Migration		0.45%	

VITAL SIGNS	2015	2016	2017	Recommended Solution	TCT	Target Goal with Solution	TCT
Equity Ratio	10.88%	11.44%	11.50%			10-12%	
Loan to Share	64.34%	76.52%	71.06%	Loan Pricing		70-85%	
ROA	0.19%	0.39%	0.60%	ALM		0.5-1.0%	
Core to High Yield Deposits	107.26%	121.11%	129.54%	Deposit Pricing		95.00%	
Cost of Funds	0.19%	0.14%	0.16%	Deposit Pricing		0.2-0.3%	
Payout Ratio	4.45%	3.01%	3.77%	Deposit Pricing		3-5%	
Asset Growth	-2.40%	-1.46%	2.09%			3-5%	
Deposit Growth	-1.61%	-1.76%	2.61%	Deposit Pricing		3-5%	
Loan Growth	-6.19%	16.83%	-4.71%	Loan Pricing		4-6%	
Loan Yield	5.80%	5.07%	5.34%	Loan Pricing		5.60%	
Investment Yield	1.47%	2.18%	1.80%			1.20%	
Earning Asset Yield	4.11%	4.27%	4.28%			4.00%	
Net Interest Margin	3.10%	3.37%	3.27%	Pricing		3.90%	
Operating Expense	3.87%	3.97%	3.90%			3.85%	
Net Fee Subsidy	-0.76%	-0.60%	-0.64%	Pricing		0.00%	
Delinquency Ratio	2.67%	2.19%	1.98%	Credit Migration		0.65%	
Charge Off Ratio	1.06%	0.91%	0.70%	Credit Migration		0.45%	

VITAL SIGNS	2015	2016	2017	Recommended TCT Solution	Target Goal with TCT Solution
Equity Ratio	9.87%	9.20%	8.91%		10-12%
Loan to Share	41.36%	39.42%	39.26%	Loan Pricing	70-85%
ROA	0.28%	0.34%	0.37%	ALM	0.5-1.0%
Core to High Yield Deposits	453.60%	563.89%	634.05%	Deposit Pricing	95.00%
Cost of Funds	0.09%	0.07%	0.07%	Deposit Pricing	0.2-0.3%
Payout Ratio	2.89%	2.50%	2.23%	Deposit Pricing	3-5%
Asset Growth	3.60%	11.39%	5.47%		3-5%
Deposit Growth	3.43%	11.95%	6.03%	Deposit Pricing	3-5%
Loan Growth	-3.12%	6.69%	5.60%	Loan Pricing	4-6%
Loan Yield	5.66%	5.67%	5.63%	Loan Pricing	5.80%
Investment Yield	1.06%	1.16%	1.38%		1.20%
Earning Asset Yield	3.01%	2.96%	3.08%		4.00%
Net Interest Margin	2.54%	2.54%	2.64%	Pricing	3.90%
Operating Expense	3.57%	3.36%	3.32%		3.85%
Net Fee Subsidy	-1.03%	-0.82%	-0.68%	Pricing	0.00%
Delinquency Ratio	0.09%	0.27%	0.02%	Credit Migration	0.65%
Charge Off Ratio	0.24%	0.07%	0.31%	Credit Migration	0.45%

Core Indicators

These indicators provide the base line measure of bottom-line credit union health

Vital Sign	Interpretation
Equity Ratio	Measure of credit union risk protection
Loan to Share	Measure of efficient conversion of deposit to loans
ROA	Measure of bottom-line earnings
Core to High Yield	Measure of health of deposit mix

Supporting Indicators

Managing our sources of funds

Vital Sign	Interpretation
Cost of Funds	Average price of deposits held by members
Dividend Payout Ratio	Percent of interest income paid to depositors as dividends

Supporting Indicators

Managing Growth

Vital Sign	Interpretation
Asset Growth	Percent change (plus or minus) in assets over the past period
Deposit Growth	Percent change (plus or minus) in deposits over the past period
Loan Growth	Percent change (plus or minus) in loans over the past period

Supporting Indicators

Managing Yield on Earning Assets

Vital Sign	Interpretation
Loan Yield	Average annual yield earned on loans
Investment Yield	Average annual yield on investments
Earning Asset Yield	Weighted average annual yield on loans and investments

Supporting Indicators

Managing ROA

Vital Sign	Interpretation
Net Interest Margin (NII)	Interest income minus interest expenses as a percent of assets
Operating Expense	Total operating expenses as a percent of assets
Net Fee Subsidy	Amount of fee subsidy required to breakeven as a percent of assets

Supporting Indicators

Managing Loan Quality

Vital Sign	Interpretation
Delinquency Ratio	Balance of delinquent loans divided by total loans
Charge Off Ratio	Total loan charge offs divided by total loans

How Can We Improve Vital Signs?

Vital Signs Group	Management Method
Managing our sources of funds	Deposit Pricing
Managing Growth	Deposit and Loan Pricing, Loan Underwriting
Managing ROA	Deposit and Loan Pricing, Fee Income
Managing Yield on Earning Assets	Loan Pricing, Underwriting
Managing Loan Quality	Credit Risk Management

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Operational Performance

Vital Sign	Interpretation
Compliance	Policies and procedures compliant with regulations
Staff Productivity	Staff are efficiently completing work
Core Systems	Systems are cost effective & support operations
Marketing and Brand Management	Outreach to members is effective

Inventory of Operational Factors

Factor (Vital Sign)	Interpretation
Facilities	Access Points for member interaction
Systems	Tool to support operations and connect with members
Staffing	Positions and skills needed to achieve success
Products	Offerings available to meet members needs
Compliance	Systems and tools to assure compliance with regulations
Marketing & Outreach	Methods to connect with FOM

Summary and Review

Start with 4 key questions

1. What is the Central Purpose of this credit union?
2. What are our Guiding Principles?
3. What elements of our operating environment are changing?
4. How can we best adapt to these changes?

Conduct thorough review of Financial Vital Signs



1. Identify and highlight those signs that require attention



2. Examine interconnections between signs



3. Catalogue actions that may improve signs

Conduct thorough review of Operational Vital Signs



1. Identify and highlight those signs that require attention



2. Examine interconnections between operational and financial signs



3. Catalogue actions that may improve signs

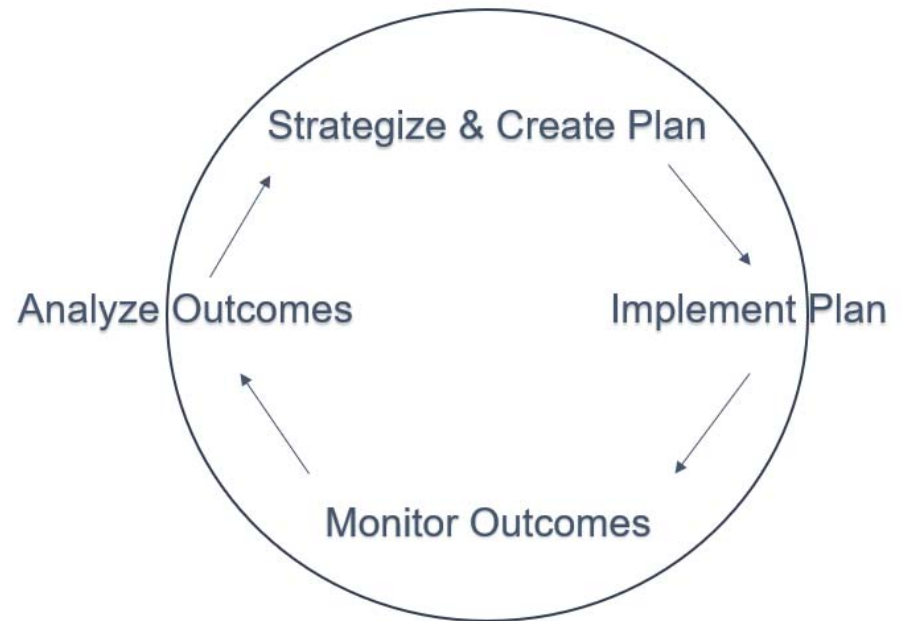
Conduct Operational Inventory

1. Identify resources that are not well spent

2. Identify resources that will be needed over the next 3-5 years

3. Catalogue resources that may be adjusted for reallocated to meet objectives

Governance/ Management Cycle



Cycle	Primary	Secondary
1. Create Plan	Board	Management
2. Implement Plan	Management	Board
3. Monitor	Management	Board
4. Analyze	Board	Management