Chapter 10

An Application of Knowledge Management and Human Capital Valuation: The Case of Credit Unions

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ABSTRACT

The purpose of this study is to investigate the level of Knowledge Management (KM) and Human Capital Valuation (HCV) as it is applied in credit unions. Knowledge has been recognized as one of the most important assets, which if appropriately managed, provides a foundation for creating core competencies and competitive advantages for organizations. KM applications and strategies have become critical and significant in the credit union industry, as they operate in a highly competitive and knowledge-intensive financial marketplace. A few factors depict the level of KM maturity within an organization, the priority of implementation, and the availability and affordability of resources. HCV is the balance sheet metric from a development of systems and infrastructure, which can tie metrics of employee behavior of value offering back to the member owners (stakeholders). The case studies described in this chapter are based on the business experience of the author, a credit union CEO of 12 years and a business consultant to the Midwest-region of the United States, in the credit union industry for 6 years. A KM audit and an HCV were conducted in a mid-sized credit union. The appreciation of KM and HCV are developing in the credit union industry; however, it is found that organizations have not been able to capitalize on the expected benefits and leverage their performances with KM solutions and HC Strategies, unless it is priority and a planned event. This is a developing industry with signs of future improvement. There are examples siting various Midwest credit unions, where KM applications and HC Strategies are evident at various stages with opportunities for intellectual growth and learning.

DOI: 10.4018/978-1-4666-9652-5.ch010
INTRODUCTION TO THE CREDIT UNION INDUSTRY

Credit unions originated in Germany in 1846 by a group of farmers who collectively pooled their money to assist another farmer. This cooperative trend, led to the collective pooling of money and the development of the first credit union. Pooled savings dollars were lent out to small local trade businesses and farmers. Credit unions in the United States originated during the industrial revolution by labor unions or company employee groups in the early 1900’s, as a free employee benefit that companies sponsored promoting employees to form this cooperative financial institution, pool their savings and grant loans to improve the financial well-being of their employees. Many employees, who were member-owners of their credit union, were able to get a loan for their first house, their first car, or save for their kids to go to college; great pride was taken in the credit union relationship that the company sponsored.

Credit unions occupy a unique position as not-for-profit financial cooperatives where the profits go back to the member-owners, not to a small group of shareholders. Today credit unions offer a variety of financial products and services to local communities and small business owners, comparable to other financial institutions; however, the lower loan rates, higher return of products and services, their service experience and social responsibility sets them apart. The credit union structure is different from other financial institutions because the board of directors is elected through a democratic process. They serve as a governing body offering vision and strategic direction to the CEO, who in-turn leads the management team and staff to best serve the member-owners with products and services that complement a profitable business model for their credit union and the local communities that they serve.

Despite the advantages that credit unions offer, they have endured challenges affecting the profitability and even the very existence of credit unions. The profitability challenges are due to a combination of global business and technology changes, increased operating expenses, size – capitalizing on economies of scale, compressed margins and regulatory infringement. The regulatory challenges have been excessive and have squeezed profit margins and increased competition.

Another challenging variable in the credit union industry is the aging population of credit union CEO’s and management. There are large numbers of aging baby-boomer managers who are exiting the industry in the next 5-8 years and there are two very concerning challenges:

1. CEO’s and management are retiring and taking their knowledge and experience levels with them; with little to no succession planning considered. The talent pool is smaller and very price competitive.
2. Aging leadership teams are also showing characteristics of being tired and are operating in a status quo mindset. Those individuals operating in this mindset, have a tendency to not pay attention or lead with performance metrics toward a profitable business model. They can be honored for running a credit union for many years; however, in our current economy this is proving to be very tasking and some are simply not up to the task. This mindset of dwindling performance has a trickle-down effect with a reduction in profitability, which ultimately leads to a dwindling of the organizational capital and safety/soundness of the financial institution. This negative trend causes merger and consolidation considerations not by choice, but an expectation, endorsed by state regulatory agencies.

The financial institution market has experienced an increase in consolidation trends since 2007 and credit unions have not been insulated from this. At the end of 2014 there were 6,273 credit unions in the United States, this number is declining at a rate of 4% annually via mergers and acquisitions (www.