This is George Huffheimer, Chief Research Officer at the Filene Research Institute, and welcome to our podcast series entitled, Ideas Grow Here. Today, we will be having a conversation with Randy Karnes who is CEO of CU*Answers, a service provider to over 165 credit unions across the United States. Randy is an expert in credit union collaboration and was a presenter at Filene’s Colloquium on Large Scale Credit Union Collaboration, held at University of Pennsylvania’s Wharton School last summer. I hope you enjoy today’s show.

George: Randy, welcome to our podcast series entitled Ideas Grow Here, and I was wondering if you could tell our audience a little bit about yourself, your background, and your interest in collaborative strategies for credit unions.

Randy: Sure. I’m lucky enough to be the CEO of a data processing organization that was a CUSO and in its efforts to carve out a niche for itself, we found that really the big thing that we had was a unique insight to collaborating. Credit unions, over 85 + credit unions, own CU*Answers and by the very idea that we have a data processing backbone, it seemed to lend itself very well to the new ideas of networking and collaboration and building business models amongst stand alone organizations instead of through just one stand alone organization, and we’ve been fairly successful at it, and been having a good time.

George: Great! You were part of a colloquium that we had last summer at the University of Pennsylvania’s Wharton School, and we talked about the concept of large scale collaborations, not just, perhaps, two credit unions collaborating on something that they could share in terms of resources, but large scale. Working from that experience and your current profession, what’s your definition of large scale collaboration?

Randy: Well, that’s a hard one. Usually I would duck the question and say that I was more interested in relevant collaborations, but in this case...if you look at the size of the credit union market, if we were to say that a large scale collaboration is anything more than a million members, I think that’s an interesting way to look at it. I think collaborations that would be able to raise the regional or national awareness of credit unions would be considered large scale collaborations. I think it’s very, very difficult, because you start out an individual credit union that joins a network, and if enough networks are added to join other networks, then I think you have a large scale collaboration. But it always does start with two people saying, “Let’s get together and do something.”

George: Now, kind of speaking about that, why should credit unions collaborate? You know, what is the impetus for folks to get together? Is it on the revenue side of things, the awareness side, or is it on the expense side of the ledger, or is it a combination of all three?

Randy: Definitely a combination. I would say survival. I would say, actually, to build an organization today that is relevant to members, you have to be relevant to a network kind of thinking. From television to cell phones to everything possible, the consumer today is hearing, “network, network, network.” Those kinds of network ideas are large collaborations that can go anywhere, move fluidly, and participate in a member’s life. For credit unions to do that, they need to find a way to join with others to be included in the member’s life, or be “mega-big.” “Mega-big” is not really the reality most credit unions can envision or should plan for. It’s a losing model for them to think they will catch up to the scale of the largest competitors in the United States.

George: Interesting. So, what is then holding back credit unions from
collaborating more? If you look at some of the financial reasons it seems fairly clear: operating expenses are increasing at a quick pace, consumers are demanding more, they want convenience, they want great service...and it seems like the handwriting is on the wall that credit unions do need to collaborate more. What is holding them back?

Randy: Well, I think basically it’s a template of tradition. I think the tradition is to take care of people at home; you’re a local organization, think locally. You’re entitled to these members; this is your field of membership, only care about that. Well, today that world’s changed. Field of memberships and the people that make up field of membership are very, very fluid. And from that nature, that traditional template, we just need to shatter that whole idea. We need to think about networks as being more the core driver for building a credit union, not just something you use as a credit union. How do you start over with a template that says, “We’re going to join with others to serve our members and do it effectively as partners, not stand alone organizations?” That’s a lot of history to break. Because the other side of that is, as you watch every other organization in the profit sector, Bank of America, Wachovia, Wells Fargo, they’re going to do it by themselves. They’re going to make that brand so big in the minds of people that that kind of sets the template for how we, as competitors of theirs, think about our own businesses. We have to stop that. We have to turn that tradition around and say, “Let’s get back to being a unique charter and one that thinks differently and for its own competitive advantages.”

George: What role, since you work with a number of credit unions, what role does the Board of Directors play in this discussion?

Randy: Well, I think it’s huge because Board of Directors has a tendency to think about us and them, even more than, sometimes, credit union professionals. As a staff member you can see the advantages of adding resources and adding assets and doing things effectively because you have a job to get done. Sometimes, credit union boards have an entrenchment about them that says, “We’re here to protect our constituents.” Now, protect does not mean separate and keep them in a little silo all by themselves. It means protect their interests and we’ve got to show Board of Directors how they can embrace these ideas of being more than just the protector of this organization. They need to be the protector of everyone’s interests and joining a network is a way to do that. But, it is a big education effort and then their role is to actually reach out to other sets of volunteers and pass that message along. It sounds so theoretical here, you know, it’d be easier to say, “process A joins process B... process C,” but this is really a mindset thing; it’s a narrative, it’s a way of talking about business that gets contagious. One chairman of the board talks to another chairman of the board, and then when the next time a CEO comes in with a collaborative business template, it doesn’t shake the place down to its core. We need staff members, leaders, and board members all to expect to see collaborative efforts on every RFP. Maybe not selected every time, maybe there are things we do internally and we do them in a node effort as a stand alone organization. But, at least there is always a collaborative network alternative with each time we go through that process, no matter what we’re doing.

George: Now, in Philadelphia, we saw a number of models presented. We had a professor here who an expert in the Franchising Model, we looked at Bank Holding Company models, we had a guest there from Desjardins and Beth Page Credit Union from Long Island was collaborating with four other credit unions across the country. Are certain collaborative models that credit unions should know about, that, perhaps we didn’t talk about in Philadelphia? We obviously talked about your organization, but what are some that you have seen that are especially effective?

Randy: Well, you know, the interesting thing about Philadelphia was that I thought all of them were to be learned from. I think the idea of franchising is huge. I think that most of the time when we think about franchising, we think about the brand and then the process. But, we can
franchise processes and hold on to the local brands of credit unions. I really do think that more people should study franchises and what the actual local stakeholder gets out of a franchise and why they vest so heavily in that instead of going it alone. I think that’s a model we already have. We have credit unions with strong local brands and they are vested in their communities and they are invested in what they’re doing, but how could they have so much more by looking at a hub or a franchise or to actually inspire more through a game plan that was a little bit broader and had the benefits at a scale. There’s no doubt about that. I think the big thing here is you look at models that either help craft an industry, you know, they connect credit unions and networking models that connect credit unions, or you look for models that actually help you build an organization. I think if you look at the model that Kirk talked about, about three, four large organizations that were pretty good at building stand alone organizations and why they might need network ideas to help them move things along. So, I’m not sure the perfect model is out there. I sometimes look at very large organizations, such as WaMu, that is not good at managing many offices, that many people, that many all those kinds of things, and they have the power. But when you really look at the organization, it’s a series of networks and individually vested people working side by side more than straight up and down. Those templates are out there and we can find them. The model from Canada got me excited because of not as much as the way they do it, it’s the way they talk. They talk like volunteers were valuable, and we’ve kind of lost that, the whole idea, the social value, the idea that this is a democratic process, all of those things. I think it shows how networks can have a narrative that could attach to today’s consumer thinking. Much like green is good for marketing; I believe that social networking and the ideas of collaboration is very good for marketing right now with consumers as well. So, there are a lot of models out there. I’m not sure I was very specific there, but Philadelphia was valuable to me.

Randy: I think so. If we can get to the point that we had a competitive environment of network architects, I mean, I don’t look for one network model to make the national scene for credit union thinking. I really hope we end up with, I hope people can say there are 15, 20, 30, 500 great networks out there that make up the credit union industry today and each of those networks is competing to be a stronger collaboration and those are spurring on new ideas.

George: Good. Last question for you: we’re obviously a research organization and we’re trying to point people in the directions of finding answers to the question that are in their brains. Any future questions, research questions, arise out of the whole topic of collaboration, is there any more research that needs to be done around this arena or is it due time now?

Randy: I think that how we connect to networks is not talked about enough. I think today I wish we would say what are the skills necessary to join consumer networks more effectively and where are they and how do you do it and how do you actually equate those to your own business plan. But I do think it’s a time for action. The problem that we have is that we’re still using old terminology: collaboration, cooperation, even networking has a lot of technical aspects to it and people just don’t connect to it yet. I don’t know if there is research needed or we just need the vocabulary that inspires, as you say, time to go, activity.

George: Interesting. Well, thanks a lot Randy. We really appreciate your time. Randy Karnes, President and CEO of CU*Answers in Michigan. And for those of you who are on our website right now, logged in as members, you’ll be able to download our full research report, “Connecting the Dots: Credit Union Collaboration,” a colloquium held at the Wharton Business School. Thanks again Randy, I really appreciate your time.

Randy: Thank you.
For more information about the 2007 Colloquium on Large-Scale Collaboration, sponsored by Filene in conjunction with the Wharton School, visit filene.org