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## Consolidate or Build Alliances: Either Way, Be Good at What You Choose

Industry professionals are simply not on the same page about whether or not credit union mergers are the most effective way to take our industry forward. Randy Karnes compares two philosophical approaches to credit union ‘combinations’: the Consolidation Model and the Alliance-Building Model.

**When it comes to merger strategies, I am usually asked to comment from one of two perspectives:** either from a project management perspective, or from the perspective of a strategy consultant looking at credit union growth. Seldom am I asked to do both at the same time.

This dichotomy of perspectives says a lot about our industry. It also says something about the problem with the common belief that mergers are inevitable and that the drive to “get bigger” as standalone organizations is the only goal worth achieving. Industry professionals are simply not on the same page about whether or not credit union mergers are the most effective way to take our industry forward. And even if they were on the same page, no one seems to have a clear idea how to make it happen.

In one camp, you have the people who believe that there will be some organic response to economic pressures, regulatory mandates, or catastrophic events, galvanizing everyone to action. (How is that working for the Corporates?) This group believes several thousand credit unions will become several hundred. I happen to be in a different camp. I believe that if our industry is waiting to consolidate from several thousand standalone players to several hundred—organizations with the same “standalone” mentality—then we are all in trouble.

### The Consolidation Model

When the problem is what to do with a credit union—either from the perspective of an examiner, a retiring leader, or even a Board of Directors who have run out of

steam—in most cases, mergers are not strategic; they are one-time consolidation events. I wouldn’t even call it a merger; I’d call this tactic a consolidation.

The issues with consolidations:

- ▶ Consolidations generally reduce member options because they assume the final organization will choose just one way to do any particular thing.
- ▶ Consolidations require short-term expense to realign internal practices into a single mode of operation. It takes the focus off the external customer and turns it inward, to process management instead of opportunity expansion. These short-term expenses can drag on for years.
- ▶ Credit unions are not traditionally liquidators, and do not always have the mindset to make effective decisions about slashing internal expenses and resources. Consolidation projects stretch on too long, and the excess expense often outweighs the envisioned yield or savings.
- ▶ A connection with local communities is a traditional credit union strength. Consolidations often erode local identity and goodwill. It can be tough to regain what is lost.

### An Alliance-Building Model

When the problem is how to create a long-term strategy to expand opportunity for members, staff, and future players, over and over, then the term merger doesn’t really fit either. I would call this strategy an alliance-building model. I’m not talking about cooperating around a third party; I mean alliances built credit union to credit union, over and over.

The issues with alliance-building models:

- ▶ Few credit unions have established resumes for building operational alliances with their peers. Their responses to potential alliances rely too much on ad hoc, off-the-cuff negotiations rather than standing policies and procedures.
- ▶ Few credit unions have a diverse tool set for alliance solutions. They have little experience with sharing employees, providing wholesale services to other credit unions, or creating unique side-by-side opportunities with a partner. Their actions default to defining a “survivor” and a “deceased” rather than two equal winners.
- ▶ Even fewer credit unions have a top-to-bottom mentality about their services, capabilities, strengths, and weaknesses, with the perspective that they could guarantee those services in a wholesale manner to another credit union—or to another credit union’s membership. Just because the credit union can successfully fend for itself doesn’t mean that it can do those things for another organization, or even

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that they know exactly what it is they do. It’s hard to sell wholesale services to your peers, and most credit unions have not done the work to field a sales team and attract partners.

I’m not saying consolidations are never warranted, or that credit unions shouldn’t carry them out in an effective and efficient way when they are warranted. I’m not saying that every credit union should have an aggressive alliance-building model, either. What I am saying is that credit unions need to identify which process is in play, how they are going to earn a return on their investment, and make sure that when they sell their intentions to their Board and internal stakeholders, they are candid about what is really going on.

Do the work to be an effective consolidator, and pick your projects carefully. Do the work to be an effective alliance-builder, and understand what it means to count on finding opportunity and partners as a growth strategy.



### **Which Process Will Carry Us Further?**

Now back to which carries the most promise for our industry. It’s a simple test: when you hand your business card to your peers, should the job description read Credit Union Consolidator or Credit Union Alliance Builder? From an external perspective, how would future business people view an industry’s long-term sustainability if it was dominated by a consolidator’s point of view? (Be careful here; without de novo CUs, consolidators soon run out of work.) You decide, and do the work.

Still on the fence? Still scratching your head wondering how it could possibly be wrong to believe that scale is the ultimate solution? Try this test: when it comes to consumers, is the world becoming more networked or less networked? Are alliances and network solutions gaining traction or losing it? Could alliances even lead to more effective and less traumatic consolidations down the road?

In a world struggling with the social cost of too-big-to-fail organizations, are we approaching a national mindset where too big to fail is too much to risk? How will we insure our future? How will Americans insure their participation in credit unions?

Alliances are the future of the credit union industry. We can redesign ourselves with a network mentality and do the work required to carry a new resume into the future. ▶