Building a Culture of Credit Union Excellence: A Colloquium at Loyola University Chicago
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Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry’s top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i3, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the U.S. credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.
Acknowledgments

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Executive Summary and Commentary

By Denise Gabel, Chief Innovation Officer

The 20th Century has been a hothouse of management fads... In the meantime one truly big idea has bubbled along since the 1940’s, never receiving the accolades we regularly bestow on more modest insights. And it's surprising considering this one has all the elements of a blockbuster. Its watchwords read like an abstract of 50 years' worth of business hot buttons: Employee participation, management-labor cooperation, collaborative problem-solving, teamwork, trust, gainsharing, open-book management and servant leadership. But you probably won't recognize one of the best-kept secrets in the management world: The Scanlon Plan.

—Training Magazine

As the financial services environment continues to become more complex, more competitive, and more crowded, engaged employees are the critical ingredient for credit union success. Filene Research Institute's colloquium, “Building a Culture of Credit Union Excellence,” held at Loyola University in Chicago, examines the roles that compensation, human resource management, and organizational development play in a credit union's ability to create a culture of excellence and a workforce that engages in exceeding members’ expectations.

Recall that the purpose of a colloquium is to deeply explore a particular topic. To close with full agreement is not the desired outcome from this type of forum, but rather to engage participants and create thought, dialogue, and discussion. In this context, the time spent in Chicago was a tremendous success, and this report captures the essence of the colloquium. As you read the following pages, consider using a pen and paper to fully capture the ideas that are presented, to doodle some thoughts of your own, and to establish your plan for building a culture of excellence in your credit union.

Sketching Out the Key Findings

First, draw a circle that represents people at the center. Next, in one of the margins, note the various management theories described in Chapter 1 by Paul Davis, president of the Scanlon Leadership Network. Davis is the first to describe the Scanlon Plan. Circle “Scanlon Plan,” as this will become increasingly important as one way to build a culture of excellence.

Next, draw a triangle around the circle. The three points of the triangle represent investors, customers, and employees. Dow Scott, professor of human resources at Loyola University Chicago and president of Performance Development International, Inc., makes the case that, based on Scanlon methodology, all three of these organizational stakeholder groups must have their needs met. I’ll admit that,
initially, for credit unions, I wanted to omit investors. Clearly, for credit unions, members represent customers and investors. However, after I thought about this a little more, I decided that investors could easily represent nonmembers who could “invest” in the credit union by joining. So, the triangle remains.

Scott illustrates the following four key principles of the Scanlon Plan:

- Identity.
- Participation.
- Equity.
- Competence.

In Chapter 2, Dr. Scott connects the dots between a culture of excellence and a culture of innovation. Again, people remain at the center. Save some room on your page to expand the definitions of these key principles.

Chapter 3 provides the opportunity to doodle on your page as you read the case study from Watermark Credit Union in Seattle, Washington. Watermark is newer to the Scanlon process and is building on W. Edwards Deming’s principles to drive growth and profitability. Have a highlighter handy—Chuck Cockburn, Watermark’s CEO, punctuates some early changes the credit union made by doing away with standard incentives like employee-of-the-month awards and individual sales incentives.

Cockburn describes his “gain-sharing” formula, which uses a ratio of operating expense to gross income to measure increases in productivity. Baselines are developed over three-year periods, pools of monies are created, and percentages are attached for payouts. Cockburn also describes how Watermark applies the four Scanlon principles within the organization.

Chapter 4 peers into the Landscape Forms organization, which is outside the credit union industry and has used a Scanlon Plan for many years. Actually, the organization describes its early process as “Scanlonization.” Later, it describes “Scanlonness” as being part of the natural fabric of the company. Again, doodling on your document works here, as Landscape Forms has made many modifications to the original Scanlon concept.

One doodle worth drawing on your page is the change to the triangle that Landscape Forms is considering. They are contemplating modifying the triangle (investors, customers, employees) into a star by adding two more points: vendors/partners and the environment/community. As it relates to identifying key stakeholders, this alteration drives additional strategic opportunity for Landscape Forms. Would these same stakeholders apply to credit unions?
Finally, the last chapter walks you through the Scanlon Trip Planning exercise completed by participants. There is nothing like a hands-on exercise to round out a colloquium. Your doodle is now complete.

**Sketching Out Reality**

If you followed the preceding instructions, you’ve sketched out a map outlining the steps for creating a culture of excellence in your credit union. You will notice that there is no one secret ingredient, no shortcut, no one answer to creating this type of culture in your organization. The fairly obvious consensus of this colloquium seems to be: Building employee engagement and a culture of excellence is fairly straightforward, but it takes a great deal of hard work.

Thomas Edison, one of the most brilliant innovators of our time, once said, “There is no substitute for hard work.” This sentiment is the big “so what” of this entire exercise. All types of organizations tend to get caught up in new management fads to grow their business, to engage their employees, or to innovate. The fact of the matter is that an idea born in a steel mill in the 1930s may be the wisest management lesson credit unions can apply to the challenges they face in the twenty-first century.
Ideas about what motivates people at work have evolved over the years, but competing theories, and the workplace practices based on them, still abound. Both carrots and sticks have become more complex over time.
Employers are a bit like alchemists. Constantly adjusting the proportions of their chief ingredients—carrots and sticks—they hunt endlessly for the mysterious formula that will yield motivational gold. The history of employee relations is essentially the story of that experimentation. Ideas about what motivates people at work have evolved over the years, but competing theories, and the workplace practices based on them, still abound. Both carrots and sticks have become more complex over time. And while modern managers have reams of research...
on which to base their strategies, consensus regarding how best to motivate employees to peak performance remains elusive. Still, the available research strongly suggests that some approaches work better than others. The reason that most people go to work is not a mystery: They need the money. What they do once they get there, and why, are murkier issues. Compensation is no doubt an important ingredient in the alchemical brew, but there is a lot more to the recipe than that.

How to Influence People, with or without Making Friends

People in positions of authority have been trying to figure out the secret to human motivation since the dawn of time. Consider this ridiculously oversimplified, and yet not entirely inaccurate, account of the history of the science of motivation: Early societies tended to rely heavily on pure coercion; you conquered another tribe and made its members your slaves. You motivated them by feeding them if they worked and starving them if they didn’t. The threat of violence against uncooperative workers, and perhaps the promise of extra comforts for those who performed well, added additional incentive to the mix. As societies became more complex, brute coercion was supplanted to some degree by material reward. Wages were invented as a means to connect work to the purchase of goods necessary for survival. Eventually people became skilled enough at producing and began making more than what was needed for the community to survive. Wages then became something you could use to buy optional luxuries and services, like fancy coffee and stylish haircuts.

Sometime after the invention of money, people initiated the field of psychology and used it to try to figure out how human motivation really works. Psychologists questioned whether people could genuinely motivate one another, or if true motivation came from within the individual. They investigated what made people work hard at their jobs and whether money was the most important factor. And they wondered how managers could elicit their employees’ best efforts.

Abraham Maslow holds one of the first prominent theories of motivation. He first unveiled his ideas about the “hierarchy of needs” in the 1943 paper “A Theory of Motivation.” Maslow argues that people are motivated by their drive to fulfill certain needs and that these needs must be fulfilled in a certain order, starting with biological basics such as eating and sleeping. Once those fundamental needs are met, people can turn their attention to things like security and safety. Only when these lower-order needs have been taken care of

The deepest principle in human nature is the craving to be appreciated.

—William James
do higher-order needs such as ego gratification and social acceptance come into the picture.

In the late 1950s, Frederick Herzberg unveiled his two-factor theory, which states that job satisfaction is based on two separate influences: (1) motivators, which tend to be intrinsic things like recognition, achievement, responsibility, and enjoyment of the work itself, and (2) hygiene factors, which include pay, status, and job security. Herzberg believed that motivators are what drive people to perform, while hygiene factors can only contribute, by virtue of being absent, to dissatisfaction. Much of Herzberg’s research has since been discredited on methodological grounds, but his conclusions remain influential. Countless managers over the years have read and absorbed his 1968 article “One More Time: How Do You Motivate Employees?” (Harvard Business Review 46(1): 53–62).

While all of this evolving was going on, however, most managers still clung to old-school ideas about motivation, such as those developed in the early twentieth century by Frederick Taylor. Taylor’s approach, as described in his influential book The Principles of Scientific Management, is based on the notion that some people are good at thinking, but most people should just shut up and do the job they were told to do. He believed that the main mechanisms for motivating employees were to pay them when they performed their assigned tasks adequately, and punish them when they screwed up. Questions of worker input (undesirable) and job satisfaction (irrelevant) were simply not part of the equation. According to this way of thinking, workers are by nature lazy, untrustworthy, and apathetic, and it is up to management to prod them into performing well.

In the 1960s, Douglas McGregor of MIT’s Sloan School of Management developed a formula for contrasting old-fashioned management approaches like Taylor’s with the new, more humane styles emerging that were based on a more sophisticated understanding of motivation. He called the philosophy behind approaches like Taylor’s “Theory X.” In contrast, “Theory Y” was composed of the opposite assumptions about what motivates workers, such as humanistic practices grounded in Maslow’s ideas.

By the 1970s it was clear that people are motivated at work by a combination of intrinsic and extrinsic factors, but how these two types of motivators interact with each other remains hazy. Intrinsic motivation is what makes people act when they have no obvious external incentive—such as a reward or threat—to do so. Extrinsic motivation is the exact opposite. When you pay, praise, threaten, or beat somebody, you are attempting to motivate him or her extrinsically. In a 1993 Harvard Business Review article, author and social critic Alfie Kohn argued that extrinsic motivators in the workplace not only don’t work but are actually counterproductive. He wrote that pay ranks well down the list of what most employees care
about, and that incentive programs actually function more like punishments than rewards. Incentives, according to Kohn, kill creativity and poison relationships in the workplace. Meanwhile, rewards and incentives, in his view, do nothing to change workers’ attitudes toward their work; they simply get people to change their behavior temporarily.

Professor Dow Scott of Loyola University Chicago, an expert on employee compensation, notes that the preponderance of scholarly research contradicts Kohn’s assertions, supporting instead the argument that extrinsic factors, like money, are indeed powerful motivators that do not undermine the intrinsic benefits that contribute to a positive work experience. On the other hand, the anecdotal experience of some managers, including longtime credit union executive Chuck Cockburn, suggests that intrinsic motivation, not money, is the real key to employee performance.

The intrinsic vs. extrinsic motivation debate rages on in workplaces across America and the world, but in reality they are not competing models. Traditional employers, including credit unions, tend to cling to older ideas about what motivates workers, focusing primarily on extrinsic factors, especially wages and bonuses. Meanwhile, innovative managers are exploring approaches that emphasize employee participation in decision making and creative ways of distributing gains from improved productivity. Both categories of motivation play a role.

This colloquium begins at precisely that point in the dialogue. We assume that workers are motivated by some combination of intrinsic and extrinsic factors; moreover, they are motivated by factors that transcend the intrinsic/extrinsic construction. They respond to a system of rewards that is inextricably tied to overall business strategy, encompassing employee involvement in decision making and continual skill development and personal growth. In short, they respond to the entire culture of an organization. Improve the culture and you improve employee performance. Improve employee performance and you improve productivity. As your organization’s CAO (chief alchemy officer), you must figure out the formula that will successfully transform your own culture. We hope the following information will assist you in that task.

Enter the Scanlon Plan

At the crossroads of questions of motivation, compensation, and organizational culture is a signpost bearing a name you will read over and over for the duration of this report: Scanlon. Who is or was this Scanlon, and what does this person have to do with creating a culture of credit union excellence? Let’s enter the Wayback Machine and find out.
Back in September 1955, Time magazine called Joe Scanlon, then 56 years old, the “most sought-after labor-relations adviser in the U.S. today.”

[This] one-time prizefighter, open-hearth tender, steel company cost accountant, union local president and now a lecturer in industrial relations at Massachusetts Institute of Technology . . . [W]earing an open-neck sport shirt and studding his shop lingo with four-letter words . . . looks and sounds like anything but what he is: a fervent evangelist for the mutual interests of labor and management, who knows how to sell the idea to both sides. His selling device: the Scanlon Plan, designed to (1) cut the worker in on the adventure, the decisions and the profits of increased production, and (2) help management tap the ingenuity of employees as a means of improving production.¹

To get the full backstory, we must set our dial back even further, to 1927, the year an obscure but talented millwright named Herman Rummelt died. When D. J. DePree—the founder of Herman Miller,

¹ www.time.com/time/magazine/article/0,9171,807657,00.html.
the small furniture company at which Rummelt worked—went to pay his respects to Rummelt’s widow, he discovered that in addition to being a brilliant millwright, Rummelt was a war hero and gifted poet. Upon leaving the Rummelt home, DePree had a revelation of sorts. He realized that everybody was extraordinary and that the disrespectful treatment of employees he had long practiced was totally misguided. He determined that from then on he would appreciate everybody’s talents, treat individuals with whom he came into contact as if they were extraordinary, and view every meeting as an important encounter to be valued and learned from. He began making employee input a key part of his management strategy at Herman Miller. The company prospered under that approach.

Meanwhile, Joe Scanlon was working toward becoming the “most sought-after labor-relations adviser in the U.S.” Scanlon, the son of Irish immigrants, began his career as a cost accountant at Empire Steel and Plate Co., a small operation in Mansfield, Ohio. During the Depression, he became active in the steelworkers union. In 1938 Empire was on the brink of bankruptcy. Scanlon succeeded in bringing management and the union together to hash out a way to save the plant by setting aside their conflicting interests and working together.

More opportunities to apply his ideas about worker-management collaboration arose, and Scanlon spent the next several years refining his ideas and turning companies around. His work eventually caught the attention of Dr. Douglas McGregor of the Massachusetts Institute of Technology (MIT), and Scanlon was invited to join the MIT faculty. One of Scanlon’s disciples at MIT was Carl Frost, who brought Scanlon’s ideas with him when he joined the faculty of Michigan State University in East Lansing in 1949. Herman Miller’s D. J. DePree and his son Hugh DePree were first exposed to the Scanlon principles the following year, when they heard a presentation by Frost at a meeting of the Grand Rapids Furniture Manufacturers Association. The concept resonated with DePree’s management philosophy. DePree and his son asked Frost to help set up a Scanlon Plan at Herman Miller, and the plan soon became the cornerstone of the company’s ongoing success.

Frost continued to refine and systematize Scanlon’s teachings, eventually formulating them into the four principles central to Scanlon Plans: identity, participation, equity, and competency. Identity refers to a shared understanding of the organization’s goals and culture. Participation means membership in the team, with full representation and accountability in decision making. Equity is the assurance that the interests of all key players—for example, investors, employees, and customers—are considered. And finally, competency means a commitment to continual education, skill development, and improvement.
Scanlon died in 1956, and his teachings were carried on by Frost and others. In 1960 D. J. DePree handed over control of Herman Miller to his sons Hugh and Max, and they became leading voices in the movement toward worker participation and a culture of excellence. Today, the East Lansing–based Scanlon Leadership Network, founded in 1964, serves as a clearinghouse for training and the collection and sharing of best practices for companies interested in implementing a plan based on the ideas pioneered by Scanlon, Frost, the DePrees, and other business leaders who shared in their vision.

**Why Us and Why Now?**

So, beyond having something to do with the four principles noted above, what exactly is a Scanlon Plan, and why is it something a credit union might consider installing as part of its strategy to remain competitive in an increasingly challenging financial services environment? Well, here's one definition from Scanlon visionary Carl Frost:

*The Scanlon Plan is an innovative management process for total organization development. It consists of a set of assumptions about human motivation and behavior, general principles for the man-*

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**Figure 3: Number of U.S. Credit Unions, 1939–2004**

![Graph showing the number of U.S. credit unions from 1939 to 2004](image)
agement of organizations based on those assumptions and specific procedures for implementing these principles.²

The specifics and subtleties of Scanlon Plans will be explored in the chapters that follow. There are a number of reasons why a credit union might consider joining the Scanlon movement. Foremost among them is that the credit union system is at a crossroads, and its survival hinges on the ability to operate much more efficiently than in the past. There is a great need for industry leaders to innovate and for innovations that prove successful to spread across the credit union movement. As the competitive environment grows more challenging each year, the wave of consolidation in financial services continues. The choices for survival seem to be either to become much larger in order to take advantage of economies of scale, or to become much more productive in terms of return on expenses (see Figures 3 and 4).

Employees can be viewed in different ways in the struggle to maximize productivity. One approach—one that a Theory X manager would likely apply—is to treat employees as if they were solely on the cost side of the equation, i.e., get the necessary work done with the fewest employees possible trained to the minimal level of competence. However, there is mounting evidence that this is not the best way.

We often pay lip service to the notion that, as Mark Meyer, executive director of the Filene Research Institute, put it in his introductory remarks at the colloquium, “People are our most valuable assets.” If we genuinely believe this statement to be true, it follows that employees are something to be invested in, rather than a cost to be cut. When we invest in employees, we create a high level of competency and a culture that values worker input. By tapping into employees’ creativity and ingenuity, we
improve processes and add value to the organization. We also achieve the key Scanlon principle of equity, a value that should be second nature to those in the credit union movement; after all, weren’t credit unions essentially invented to balance the needs of members with those of investors? Given that background, adding the interests of employees into the mix is not much of a stretch.
Every organization has a culture. Some organizations create their culture intentionally and carefully. At others, culture just happens, for better or worse. Factors that go into the creation of organizational culture include the words and actions of leaders, human resources policies and practices, employee interactions, and the rewards employees may or may not receive.
The world of business today is fraught with uncertainty and pressure. Technology is advancing at a dizzying pace. Political upheaval is a global constant. Competition is intense. And consumers display an insatiable demand for new products and services at lower and lower prices. In this environment, business leaders have no choice but to innovate. The alternative is death.
The problem is that innovation takes time and resources, which in the short term negatively impacts productivity, since sitting around dreaming up ways to improve the operation does not generate immediate financial payback. Another problem is that change is frightening; many managers are risk averse by nature, and they find the thought that a new idea might not work troubling. Scott, in the colloquium, argued that innovation, and the excellence it breeds, is not an end in itself but rather a “road you must travel each day; you must get better and better or else.” Quoting Aristotle, whom he called “one of my favorite consultants,” Scott noted, “We are what we repeatedly do. Excellence, then, is not an act, but a habit.”

Therefore, the drive to innovate must be part of an organization’s culture, a core belief shared by everybody within the organization. What exactly is meant by “culture” in the context of an organization? Culture simply refers to the way the organization thinks about things and goes about doing things. As Scott put it, “It defines who we are by ‘baking in’ our deeply held values and ideals.” Culture provides the context for decision making and shapes the unwritten rules about how people within the organization deal with one another. Every organization has a culture. Some organizations create their culture intentionally and carefully. At others, culture just happens, for better or worse. Factors that go into the creation of organizational culture include the words and actions of leaders, human resources policies and practices, employee interactions, and the rewards employees may or may not receive.

The Scanlon principles are all about creating a culture of innovation, where leaders not only tolerate but support risk taking and work that may not be productive in the short term; where ideas from all stakeholders, including workers, customers, and business partners, are welcome; and where there is a commitment to transforming these ideas into reality.

To recap and expand a bit on the origins of the Scanlon philosophy, the idea behind the Scanlon Plan was born of necessity. As the steel company where Joe Scanlon worked teetered on the brink of failure in the 1930s, he was able to sell to management the idea that the people best equipped to generate ideas for improving productivity were those closest to the action—namely, the workers themselves. Scanlon also believed and convinced management that the workforce

—Hugh DePree, former CEO, Herman Miller, Inc.
should share in the fruits of that increased productivity. Scanlon’s strategy succeeded in creating a culture of innovation and excellence, and it spread to other steel companies.

One of Scanlon’s students at MIT, Carl Frost, essentially became Scanlon’s evangelist, carrying his word to corporate America. Frost molded Scanlon’s ideas into a more cohesive form. As the concept evolved, a key idea was that to flourish, a business must serve the interests of three key groups, which can be viewed as the sides of an equilateral triangle. The company must provide the best value and service for customers; job security, equity, and opportunity for employees; and the best return for investors.

A real-world example of the three-sided strategy can be found at Sears. Sears applied the concept by articulating that it had to be a compelling place for customers to shop, a compelling place for employees to work, and a compelling place for investors to put their money. At one time, a large number of Sears stores had Scanlon Plans in place. Since some stores had plans and others did not, Sears provided a natural laboratory for studying the impact of Scanlon principles. When stores with a plan were compared with stores without a plan, the Scanlonized stores were found to outperform their Scanlonless peers.

Creating a culture of innovation and excellence requires employee participation, but this participation cannot be isolated from other aspects of company practice. Employees must not only have the opportunity to take part in decision making, but they must also have a good reason to participate and the necessary knowledge and information to participate intelligently. Scott cites the example of Sara Lee’s knit products division, which makes the Hanes brand of underwear, T-shirts, etc. A few years ago, when this division was falling on hard times and struggling to compete in an industry with too much capacity, management called on employees for suggestions for improving productivity and righting the faltering company. Thousands of suggestions poured in, but most were not helpful. Because employees had not been steeped in a culture of participation that included ensuring that everybody understood how the overall business functioned, they had no idea what would work and what was totally impractical. Management ignored all of these ill-conceived ideas, which in turn bred resentment in the workforce and created a cycle of misery throughout the organization. Workers had the oppor-

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**Figure 6: The Scanlon Mandate**

To survive and flourish, a business must provide:

- The best value and service for customers
- Job security, equity, and opportunity for employees
- The best return for investors

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![Figure 6: The Scanlon Mandate](image-url)
tunity to participate, but they had neither the capacity to participate intelligently nor a good reason to participate, beyond the short-term fear that management had injected into the conversation. And fear is a bad motivator when it comes to fostering meaningful, positive long-term change.

The Four Core Scanlon Principles

Applying the Scanlon principles and processes is one way to create a culture of innovation and excellence in an organization. The first principle, identity, establishes that the organization is committed to innovation and excellence and ensures that this commitment is woven into every corner of the operation. This is accomplished through ongoing employee education. It is crucial that everybody understand the competitive realities of the organization. Identity can be articulated in a variety of forms, including mission statements, charters, formal goals and objectives, mandates for change, and speeches and letters authored by leaders. Sharing financial information and information about competitors is also an effective identity tool.

Just as education is the yang to identity’s yin, the complementary value to the second Scanlon principle, participation, is responsibility. An employee empowered to influence decisions must accept responsibility for the outcomes of those decisions. The participation component of a Scanlon Plan can take many forms, such as an open-door policy, suggestion boxes, self-directed work teams, task forces, labor-management committees, and strategic planning retreats. Scanlon organizations generally form production committees, which can carry a variety of names. Their role is to stimulate suggestions for improving productivity and directly implement those suggestions deemed worthy of action. A production committee is typically composed of representatives chosen by employees, and chaired by a supervisor. Above production committees there is usually one steering committee, charged with acting on suggestions and calculating productivity bonuses. The steering committee is generally chaired by the CEO, who also appoints half the committee’s members. Employee representatives are selected from among the production committees.

Like identity/education and participation/responsibility, equity and accountability form an intertwined pair of principles. Scanlon

Our culture is defined by our open-door, open-forum policy. This lends itself to participation from our employees. Employees are willing to speak their mind.

—Colloquium participant Nathan Saller, vice president of marketing, Bellwether Community Credit Union
organizations make a genuine commitment to consider the needs of all constituents. To that end, the organization must hold itself accountable for maintaining this critical balance.

The goal of equity is pursued by sharing the rewards of increased productivity among all stakeholders, usually customers (or, in the case of a credit union, members), investors, and employees. The process recognizes the contributions of each group and rewards those contributions with a share of the value created through constant innovation and improvement. Each organization must come up with the most appropriate formula for measuring outcomes, such as productivity, quality, profitability, etc., and devise a fair method of distributing those gains. The equity component of a Scanlon Plan typically involves a gain-sharing, goal-sharing, or profit-sharing formula. The financial formula in this context describes an organizational process designed to increase productivity, quality, and financial performance by sharing rewards with groups of employees. A financial formula generally incorporates practices that include establishing specific baselines and goals, communicating these baselines and goals to employees, and sharing the rewards when these goals are met or exceeded. Scanlon financial formulas differ from traditional bonus structures in that rewards are not tied to individual performance but to measurable improvements in the organization’s productivity.

The remaining core Scanlon principle is competence. Developing competence involves hiring the most qualified employees, providing development opportunities, and giving performance feedback. Scanlon organizations tend to provide more opportunities for development than do traditional organizations. Only by investing in people can the organization expect individuals to perform at their highest level.

Closely related to competence is commitment. Everybody in the organization must be committed to not only constantly improving their own skills and knowledge but also sharing their knowledge with others to maximize their competence as well.

Once the organization develops a plan that addresses these four core Scanlon principles, it must review the plan periodically and adjust it as necessary to accommodate changes in the internal and external environment. Everybody in the organization should be involved in this constant process of reevaluation, renewal, and rebirth.

The next two chapters examine the Scanlon approach to excellence and innovation as applied in two companies, one within the credit union industry and one outside.
Watermark Credit Union developed a management philosophy based on human relations. The key points of this philosophy are a commitment to leadership training and development.
So what would a Scanlon Plan look like when implemented in a credit union environment? As it happens, there is a concrete, successful model already in place that merits study. Watermark Credit Union was chartered in 1938 as the Seattle Telco Federal Credit Union. Its original role was to serve employees of the King County telephone company and their families. Since then, Watermark has grown into a 72,000-member institution with assets of about $500 million (M) and 190 employees serving people in the Puget Sound area.

Colloquium presenter Chuck Cockburn, president and CEO of Watermark, described the journey that led Watermark to establish
a Scanlon Plan. Prior to arriving at Watermark, Cockburn had held leadership positions at a number of other credit unions, including Kaiser Permanente FCU, Rockwell FCU, Digital FCU, and Hudson Valley FCU. It was while serving as president at Digital that Cockburn was exposed to the philosophy of W. Edwards Deming, the author, scholar, and consultant credited with playing a key role in helping transform Japanese industry into a world leader in quality and efficiency. Cockburn became convinced that adopting Deming principles at Digital was the key to making it an excellent organization.

Cockburn’s attraction to the Deming approach stems to some degree from his belief that organizational effectiveness is a function of sound strategic planning coupled with a strong culture; success cannot happen without both in place. The best strategic plan in the world will fail, according to this view, if the corporate culture in place is not up to the task of implementing it. A good culture allows the organization to perform at a high level and ultimately fulfill the goals of the strategic plan.

Various definitions can be found in numerous business textbooks, but to Cockburn, corporate culture simply means the personality or environment of a workplace, encompassing the organization’s attitudes and values. A strong culture, according to Cockburn, exists when an organization’s stated values and the actual behaviors of its employees are in alignment.

The Deming Way
Cockburn became convinced that adopting the Deming philosophy was key to creating the kind of culture capable of transforming his organization in the ways he envisioned. Deming’s idea, in a nutshell, is that by adopting the right management principles, you could increase quality and reduce costs at the same time by, for example, reducing waste and increasing customer loyalty. Deming believed that the key to achieving these seemingly contradictory goals was to practice continual improvement, as opposed to improving operations in a piecemeal fashion.

Deming outlined 14 points necessary to achieve the goal of simultaneously reducing costs and improving quality. The details of Deming’s 14-point system are beyond the scope of this colloquium; however, it is important to recognize that some of them touch on employee relations issues, such as the principles of continual staff development, worker input, teamwork, and the elimination of fear from the workplace. As it happens, all these ideas are compatible with the thinking behind the Scanlon philosophy. For example, Deming believed that the traditional top-down style of leadership is completely wrong. He taught that effective leadership means
listening to the people on the front lines, who actually know what’s going on, and that embracing rather than discouraging feedback from workers makes them care more about the quality of the work they perform. Wiping out fear and inspiring creativity in the workplace are central pieces of the Deming philosophy. Deming believed that most employees are intrinsically motivated and that poor performance is most often the result of poor systems. Management, not employees, is responsible for creating organizational systems. The goal of constant improvement can be achieved only if the people who have to do the improving—the employees themselves—feel genuinely connected with their work and enjoy doing it. Employees will not feel this way if their managers believe in using fear as a motivator.

Accordingly, Watermark developed a management philosophy based on these principles, including a substantial component focused on human relations. The key points of this component are a commitment to leadership training and development; a commitment to open communication and information sharing; the removal of barriers to taking pride in one’s work, including the elimination of performance evaluations and merit pay; banishment of the sources of fear and mistrust between workers and management; and an emphasis on intrinsic rather than extrinsic motivation.

Like Alfie Kohn, Cockburn is convinced that traditional incentives are not only ineffective as motivators but actually counterproductive. Money, according to this view, is not what motivates workers to perform well. Moreover, incentives breed resentment on the part of those who are not rewarded, and they may undermine genuine interest in the work as its own reward. They discourage risk taking and distract from efforts to get at the root causes of systemic problems. With this orientation, Watermark did away with standard incentives like employee-of-the-month awards, sales incentives, and other performance-based perks.

Cockburn’s ideas about motivation focus on what he calls the “three C’s”: **collaboration**, meaning people feel more motivated to work hard when they have opportunities to help one another succeed; **content**, meaning people understand how their work fits into and adds value to the overall process; and **choice**, meaning people like to be empowered—to have a say in decisions about their work.

A few years ago, senior managers at Watermark found themselves at a crossroads. In order to remain competitive in the face of industry consolidation and aggressive tactics on the part of financial services behemoths, Cockburn and his associates determined that they needed to grow Watermark’s assets to at least $1 billion (B) and achieve a capital ratio of at least 10% by the year 2012. To meet
these goals, they would have to significantly improve productivity, as measured by an expense-to-asset ratio. With a corporate culture already steeped in Deming principles, it seemed only natural to turn to Scanlon as a strategy for accomplishing this productivity upgrade. After all, teamwork, open communication, and a commitment to constant improvement were already second nature at Watermark.

A crucial first step in adopting Scanlon principles was to gain the support of senior management, as well as the rest of the staff. Senior leaders at Watermark spent substantial time studying Scanlon-related materials and met with representatives of the Scanlon Leadership Network. Once the senior leaders were sold on the concept, Cockburn drafted a “mandate for change” to be distributed among the entire Watermark family describing the need for action. Managers at all levels voted on whether to develop a Scanlon Plan. Support for it was overwhelming. With management on board, information was presented to the entire Watermark workforce. Over 80% of employees voted to proceed with development of a plan.

Watermark created a 14-member design team to develop its Scanlon Plan, and the written plan was completed in five months. The plan then went through an approval process, which entailed managers signing off, staff education followed by a vote, and final approval by the board. About 85% of employees voted to approve the plan, and the board tally was unanimous. Watermark implemented its Scanlon Plan in January 2006. Watermark’s Scanlon Plan is called EPIC, an acronym representing the four core Scanlon principles of equity, participation, identity, and competency. The design team reviews the plan annually.

Essentially what Watermark did was to graft a Scanlon branch onto the quality processes already in place, as shown in Figure 8, which Cockburn adapted from a chart found in William Conway’s *The Quality Secret: The Right Way to Manage* (Conway Quality, 1995).

**Equity**

Equity in the context of a Scanlon Plan means that the interests of all key stakeholders must be balanced. For a credit union, this means balancing the interests of investors, members, and employees. Investors want growth and financial soundness. Members want good service and competitive prices. Employees want decent pay (regardless of whether this is a chief motivator) and benefits, decision-making involvement, job security, and a stake in the organization’s financial success. To satisfy the equity mandate, Watermark adopted a gain-sharing formula based on increases in productivity, using a ratio of operating expenses to gross income. The baseline for measuring this increase is a rolling quarterly average over three years. The pool generated by increased productivity is paid out each quarter.
according to the following formula: 50% remains with the credit union in the form of capital, 40% is paid out to employees, and the remaining 10% is held in a reserve account that can be accessed if productivity falls short of the three-year average.

**Participation**
Employee input is a key component of Watermark’s EPIC plan. The idea is to solicit input and solve problems at the point closest to where the problem exists, i.e., the lowest level possible. Meanwhile, ideas for improving processes and productivity are openly shared through-
out the company. Two types of committees work together to collect and implement the suggestions. Each department elects a review committee, composed of two to five members, that is charged with assessing and responding to suggestions from within its area. Review committees then forward the suggestions to a screening committee, which evaluates suggestions, approves those deemed worthwhile, and oversees their implementation. The screening committee is made up of both appointed and elected members. Both the review committee and the screening committee are able to form special improvement teams to investigate and carry out specific suggestions that have been approved. These teams follow a cycle of activity known as “Plan, Do, Check, Act,” originally introduced by Deming. It is important to note that the individual employee who comes up with a successful suggestion that improves productivity does not receive any special rewards or incentives. All employees share in the returns.

Identity
For Watermark, fostering a shared sense of identity among employees entailed educating them about the organization’s mission, history, and goals. It also involved expanding their knowledge about credit unions in general, and the external constraints under which they operate. The final step was to create a sense of necessity regarding management’s plans to improve productivity as a matter of survival. Watermark’s Scanlon Plan, therefore, functions as a tool for helping employees understand both the organization and the Scanlon principles it has put into place. Specifically, the plan’s identity section covers the history of both Watermark and the credit union movement; Watermark’s business strategy and governance structure; information about how capital affects the organization, its members, and its employees; and reasons for implementing this sweeping plan for change.

Competency
Committing to Scanlon principles involves buying into the belief that continual improvement requires continual learning. Just as a democratic society demands a better-educated electorate than does a nation under a totalitarian monarchy, an organization built on the concept of worker input requires a workforce with the knowledge to make useful suggestions. Watermark provides its employees with a
number of opportunities for developing their skills and knowledge, including tuition assistance, access to an online university, internal training on Scanlon principles and the EPIC Plan, on-the-job training, software training, Deming training, and leadership development.

While Watermark’s Scanlon era is still quite young, there is substantial evidence that the organization’s commitment to Scanlon principles is having a positive effect. In 2006, 390 improvement suggestions were submitted, 281 of which were ultimately approved. As of the preparation of Cockburn’s colloquium presentation, 184 more suggestions out of 272 submitted were approved in 2007. An employee survey found improvement from 2006 to 2007 in employee feedback in 9 of the 10 categories measured (see Figure 9). In addition, since 2006, Watermark has been recognized as an excellent employer by a variety of entities, including the Washington Psychological Association, *Washington CEO Magazine*, and *Seattle Business Monthly*. Of course, excellence is its own reward. But this kind of recognition suggests that Watermark is on the right track.

**Figure 9: Watermark Employee Survey Scores by Category**
By the beginning of the 1980s, Landscape Forms had reached a size where the informal conversations around the coffeepot were no longer adequate for facilitating intracompany communication. There were too many employees for the owner to know all of them personally. Working with Scanlon experts, Landscape Forms developed a plan and put it to an employee vote in 1981.
In contrast to Watermark, a relative newbie in the Scanlon universe, the outdoor furniture designer and manufacturer Landscape Forms, based in Kalamazoo, Michigan, has had a Scanlon Plan in place since 1981—nearly three-quarters of the company’s life. In fact, CEO Bill Main and Vice President Becky Fulgoni are both former chairs of the Scanlon Leadership Network and have long been central figures in promoting the Scanlon principles and processes. Landscape Forms has followed the Scanlon principles long enough to have evolved its plan considerably, and its experience presents a useful example of the interplay between compensation (i.e., gain sharing) and more abstract and intrinsic incentives, such as employee input and mutual trust.

John Chipman, a landscape architect, founded Landscape Forms in 1969. As anybody from the upper Midwest knows, running a landscape business in that part of the country means having little or no business for a big chunk of the year. Consequently, Chipman found himself laying off his entire workforce every winter and starting from scratch each spring. He expanded into outdoor furniture making as a way to keep his good employees around during the off-season. The furniture business turned out to be a big success, and within six or seven years, Landscape Forms was no longer a landscaping business. Chipman found success filling a previously ignored need for high-quality outdoor furniture, primarily for public spaces.

By the beginning of the 1980s, Landscape Forms had grown to 40 employees, but its management model was still that of the benevolent dictator. While he was well liked by his team and welcomed their input on decisions, Chipman called all the shots. However, the company had reached a size where the informal conversations around the coffeepot were no longer adequate for facilitating intracompany communication. There

Companies are rightly judged by their products and services, but they must also face scrutiny as to their humanity.

—D. J. DePree, founder of Herman Miller, Inc.
were too many employees for him to know all of them personally. Having outgrown his informal system of soliciting ideas, Chipman decided that it was time to install a more structured system for involving employees in company decisions. As he sought an approach, he found inspiration in another furniture company that happened to be based only an hour away—Herman Miller, the Zeeland, Michigan–based business furniture pioneer. Herman Miller had installed its first Scanlon Plan back in 1950.

Working with Scanlon experts Carl Frost and Bill Greenwood as consultants, Landscape Forms developed a plan and put it to an employee vote. It is important to recognize that the environment in 1981 was very different from what a company considering a big...
change today might face. Involving employees to the degree required by Scanlon principles was much less common at that time. Main recalls giving a presentation at a community organization meeting later in the 1980s and being received incredulously when he talked about employee votes and open books. “People looked at me like I just had come from Mars,” he said. Balancing that, however, was the legacy of trust that had been built over the years between Chipman and his employees. The workers had no reason to believe that management was leading them astray with this exotic scheme.

Once the plan was approved by an employee vote, Landscape Forms began a process of “Scanlonization.” The identity component of the Scanlonization process involved convening companywide meetings, during which all operations were shut down and the entire crew assembled to discuss big-picture topics: direction, performance, and any other issues related to the broad understanding of what the company was about. For the participation component, the company established a formal suggestion system.

The company fulfilled its equity objective by putting into place a “Scanlon bonus.” Initially, the bonus was calculated according to a fairly standard formula based on manufacturing costs. Whatever savings compared to target cost that were generated through suggestions or improvements were split evenly between employees and the company. The competence component probably received the least attention in the earliest incarnation of Landscape Forms’ Scanlon Plan, creating tension between veterans and new employees. Incumbent workers sometimes viewed the newcomers as taking a share of the bonus without contributing much to—or perhaps even taking away from—the basis of the bonus. Meanwhile, training had not yet developed to the point where a new worker could necessarily be expected to hit the ground running.

The Plan Evolves
Landscape Forms’ plan has evolved considerably since its early days of Scanlonization. Like most Scanlon companies, Landscape Forms put its own stamp on the program by naming it. It called the plan QUEST, an acronym for Quality, Understanding, Employees, Safety/Service, and Training/Teamwork. While undergoing the process of remaking Scanlonism in its own image, Scanlonness began to seep into company culture in a way that allowed decisions to flow naturally rather than having to stop and deliberate how Scanlon prin-
ciples apply to every detail of management. Over time, doing things the Scanlon way became second nature.

The bonus system in particular has been substantially transformed since the early days. As personnel at the front end of the business—engineers, salespeople, marketers, etc.—were added to the bonus program, they couldn’t help but feel somewhat left out. They benefited from the bonus system, but because it was rooted in manufacturing costs, they did not feel connected to the process of generating it. Another problem with a bonus system driven by manufacturing costs is that it leads to tactics like building long runs of inventory, which drives down costs but is not consistent with overall business goals. There is also no safeguard against a situation where the company would have to pay big bonuses at a time when it is not turning a profit. In response, Landscape switched to a purely profit-based bonus system. The bonus is based on 28% of pretax profit, which is the historical average of what had been paid out previously.

Landscape Forms’ suggestion system also underwent some adjustments. Initially, the company implemented a very traditional Scanlon suggestion system, the main purpose of which was simply to get workers used to the idea of submitting suggestions. Suggestions were then vetted via a screening system similar to Watermark’s, described previously. Over the years a number of improvements were tried and ultimately dumped, such as rewarding people with cash for making suggestions, adding layers to the approval process, and computerizing the whole system. As the suggestion system grew more complex, things started getting bogged down and it became more difficult to implement necessary changes. The suggestion system was the primary vehicle for change, but there were other vehicles as well, such as the formal Corporate Plan and Engineering Change Orders. However, changes proposed through one of these channels sometimes conflicted with the priorities of another.

**The Move to Muda Remova**

To escape from the tangle of suggestions in various states of examination, approval, and implementation—though few of them were actually getting to implementation—a new system, known as “muda remova,” was devised. “Muda” is a Japanese term meaning “waste,” borrowed from Lean management terminology. The idea, as presented at the colloquium by Becky Fulgoni, is that when you thoroughly understand the work process in which you are involved, you are able to see the waste built into the process. If you see waste in your area, get rid of it and then tell management what you did. In this way, the entire messy suggestion process is skirted. You don’t have to tell company leadership about it until you’ve already implemented the change. In other words, just do it!
This concept can be terrifying to managers. It only works for Landscape Forms because of the years the company spent creating a culture in which it can work. Employees understand their areas of competency; they also understand the other vehicles for change available to them. And they don’t abuse muda remova by applying it to a major change that should take place through corporate planning or by making a trivial change that nobody cares about and that does not really affect productivity. One way of looking at it is that a process like muda remova works as a participation component of a Scanlon Plan because the plan also has an identity component and an equity component, meaning that the people who make the changes should have a deep understanding of how the change might impact the company’s overall goals and affect other employees. If a change is going to conflict with another process or disrupt another worker’s activities, the individual considering making the change should realize that it is a bad idea. Make no mistake; this is a process suited for companies that enjoy an extraordinary level of trust between managers and employees. As of mid-December, Landscape’s 200 employees had implemented 1,133 muda removas in 2007.

In order for all this to work, there must be an unusually high level of worker competency. Seeking improvements is not simply an option for employees; it is a mandate. They must be prepared to share their competence with one another. And there must be a way to indoctrinate new employees into this way of thinking, to prepare them for this degree of accountability. To that end, Landscape Forms developed what it calls the OnTRAC Criteria for Success, a process that essentially defines the company’s values and expectations. OnTRAC (yes, it’s yet another acronym: Organizational success, Trust building, Respect, Accountability, and Competence) represents a way to talk about the company culture, adding accountability to the muda remova process.

This all leads up to the concept that Landscape Forms calls the Equity Triangle, which is really no different from the triangle discussed in Chapter 2. The idea behind the Equity Triangle is that the three constituencies that make up the three sides of the triangle—customers, investors, and employees—must be fairly rewarded for their contributions to the organization’s success. Each group has expectations that must receive equal priority in company decisions. Customers must view the company as a compelling choice based on the quality and beauty of its products and fairness of its prices. Employees expect fair compensation and a rewarding work environment in return for their service and talent. Investors expect good returns on their investments and a role in the governance of the company. Buying into the idea of the Equity Triangle means having faith that everybody benefits the most by growing the pie. Rather than pursuing policies that benefit one side or the other, the best strategy for success is to make decisions that provide each of the three constituencies with what it needs. As CEO Main describes it, “I
tend not to like the idea of balance . . . because it sounds too much to me like dividing. I like to think that it’s about making sure each group gets what they need, not just balancing what happens to be there.”

There are many examples of the Equity Triangle in action in day-to-day activities. Landscape Forms involves its customers explicitly in the product development process. One project, X-Treme LA, involved connecting a group of about 30 young designers from the Kalamazoo area with some nationally known leaders in their field. The dynamics of governance and the relationship between management and the board represent another concrete application of the triangle.

Figure 12: The Equity Triangle
Like all aspects of Landscape’s Scanlon Plan, the Equity Triangle concept continues to evolve. Company leaders have come to recognize the key roles of two additional groups of stakeholders. There is a growing understanding of the value of considering vendors as partners whose interests must be factored into strategic decisions. And there is an increasing recognition that the needs of the environment and the community must also play a role in the company’s future direction. The addition of these two constituencies to the company’s thinking about equity is leading to the creation of an Equity Star to replace the Equity Triangle, a process that is currently under development. And there’s no reason to expect the evolution to stop there—why not an Equity Octogram some time down the road?

**Figure 13: Landscape Forms’ Equity Star**

- **Customer pledge**: We will be our customers’ best choice for site furniture and their trusted source for design, quality, and service at a fair price.
- **Organizational pledge**: We will fulfill our mission to enrich outdoor spaces by producing the best site furniture in the world, and we will fairly reward our customers, employees, partners, and investors; and we will be a good corporate citizen in the communities in which we work.
- **Partner pledge**: We will partner with our suppliers to achieve a fair price for quality parts and timely delivery, and we engage our professional advisers as valued members of our team.
- **Employee pledge**: We will give our people opportunities for personal and financial growth in exchange for their competence, talent, and teamwork.
- **Investor pledge**: We will attract and hold long-term investors who share our values and will reward their risk with excellent returns.
- **Community and environment pledge**: We help make our communities a better places to live, learn, and work; and model sustainable practices as we grow.
- **Customer pledge**: We will be our customers’ best choice for site furniture and their trusted source for design, quality, and service at a fair price.
The Scanlon people say that excellence and innovations are not destinations in themselves, but a journey, a path to be traveled continuously.
So what does all of this information mean for a credit union manager seeking to create a culture of excellence at his or her institution? The Scanlon people say that excellence and innovations are not destinations in themselves, but a journey, a path to be traveled continuously. And we all know that every journey requires a road map. The Scanlon Leadership Network was kind enough to provide a road map for that journey in the form of a Scanlon Trip Planner. This planner was used as a guide for an exercise conducted at the colloquium, in which small groups shared ideas about supporting innovation and excellence within their organizations.

The first stop on the trip planner requires the top leadership to gain corporate approval to study the Scanlon principles. Without board buy-in, the organization can proceed no farther along the route. The second stop requires top leaders to develop a mandate for change. What are the compelling reasons for a credit union to commit to change? Some possibilities that arose during the exercise included fiscal discipline and market share growth. Other groups talked about redefining and enhancing the value of membership in order to remain viable, and embracing change in order to accommodate increases in competition, regulation, changing demographics, and changing technology. This change was seen as necessary for survival. Another idea was to offer the consumer a compelling reason to be a credit union member, which would allow the organization to grow and create economies of scale. A common theme was to grow market share to deal with a business environment that is becoming more challenging in every way, from competition to regulation to political uncertainties.

The next two stops on the trip planner require management to explore Scanlon and to vote on whether to proceed. The part of the journey that follows management’s go-ahead is to conduct a vote among all employees on whether to create a design team composed of a cross section of the entire organization. Eighty to 90% approval
is required in order for the journey to continue. At the next stop, the design team evaluates the plan it has developed and then sends it to all employees. Employees then vote on whether to commit to the proposal for an initial one-year period. Again, it usually takes 80 to 90% approval to move forward. There can be as many stops as necessary added along the way to ensure that the plan is reviewed and renewed periodically.

**Guides for a Safe Journey**

The Scanlon Trip Planner contains four guides for a safe journey, which correspond with the four key Scanlon principles. The first guide is identity, which has already been defined in earlier chapters. Compared to companies operating in other industries, credit unions have an advantage when it comes to establishing identity. Unlike, say, a widget manufacturer, a credit union is already part of a *movement* that was built upon a set of well-established ideals and philosophies. These values will inevitably be part of any credit union’s identity, and they would certainly be articulated in any formal plan for moving toward excellence. Embracing a greater degree of employee participation should be a less jarring adjustment for an organization whose culture already embraces customer/member participation.

The second guide is participation. What are the obstacles to creating a culture of participation? Who is responsible for making sure participation is actually happening, that it is not only allowed but considered mandatory? Participation requires a level of trust that many managers are not comfortable with. How can this apprehension be overcome? The key seems to be employee development. That means investing in the workforce at a time when resources may be scarce at many credit unions. Managers and board members must be willing to take a leap of faith in the notion that investing in workers is a positive-equity decision.

In the credit union context, the third guide, equity, must apply to three groups: members, the organization (investors), and employees. Arguably, this could be expanded to include vendors, partners (such as CUSOs), and the broader community in which the credit union operates. Key to achieving equity is knowing what these three groups want and need. Do you have mechanisms in place for learning
exactly what members expect? Are employees treated fairly in both the financial and social senses of the word? What exactly do investors need? If maximizing return is their sole interest, how, then, do they differ from investors in a corporation whose culture gives no thought to equity?

Practicing each of the three principles above requires possession of the fourth: competence. The level of competence of the people in the organization will determine the speed at which the organization travels along the route toward excellence. A piecemeal approach to employee training is not sufficient. There must be a genuine commitment to continual skill development and the spread of knowledge to all parts of the organization.
The discussion of building a culture of credit union excellence goes beyond questions of the relative value of intrinsic and extrinsic motivation and the role of compensation in coaxing good performance out of employees. We have discussed creating a culture where excellent performance is the norm, where it does not need to be coaxed out of employees, because it is how they want and expect to perform.
In his introductory remarks at the colloquium, Filene Executive Director/CEO Mark Meyer told the story of the invention of the Frappuccino, the cold coffee drink made by Starbucks. Frappuccino helped make coffee a popular summer beverage in warm parts of the country, and it has made a lot of money for Starbucks. Starbucks gave the employee who invented the Frappuccino $5,000. Do you think that bonus encouraged other Starbucks employees to come up with the company’s next great idea? What, Mark wondered, would you give your employee who invents the credit union equivalent of the Frappuccino?

Some of the ideas presented at this colloquium are controversial. The social sciences are different from the physical sciences. If you heat the same collection of chemicals at the same pressure to the same temperature in two different cities, the reactions will be identical. Humans are not as consistent. While we know a few things about what makes them tick, our understanding is far from complete.

The discussion of building a culture of credit union excellence goes beyond questions of the relative value of intrinsic and extrinsic motivation and the role of compensation in coaxing good performance out of employees. We have discussed creating a culture where excellent performance is the norm, where it does not need to be coaxed out of employees, because it is how they want and expect to perform. Motivation is a tricky affair, and so is culture. But we have some successful models upon which to build. The Scanlon approach is one such model. The ideas presented at Loyola University Chicago can contribute to the development of an environment where excellence and innovation are encouraged and nurtured, where employees are treated as equal partners in the organization’s success, and where the goals and interests of all key stakeholders are aligned.

You have already taken a small first step along the path toward a cultural paradigm shift simply by reading this publication. If you did not already believe that change was necessary, you would not have
taken the time to do this. The next step is to make the commitment to excel. Talk to your colleagues and your board. Ask questions. Call the staff of the Filene Research Institute or the folks at the Scanlon Leadership Network. Draft a preliminary mandate for change and show it to your leadership team. And above all, talk to your employees—you can't change a culture by decree. Excellence must percolate into the system from the ground up. Now break out the test tubes and get to work.
## Colloquium Attendees

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<td>Wayne A. Lindholm</td>
<td>MAI—Scanlon Leadership Network</td>
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Building a Culture of Credit Union Excellence:
A Colloquium at Loyola University Chicago