Manager Turnover and its Consequences for Small Asset Credit Unions

By Gregory McKee

Small credit unions face prospects of substantial change during management succession. Given the relatively small size of credit union staff--small asset credit unions typically have only a handful of full time employees--managers are principally responsible for monitoring the market environment and developing and executing organizational strategy to meet credit union member needs. The inertia of how a manager interprets the market environment is potentially lost when an external successor brings a new strategic perspective.

One can observe these changes from information provided to the National Credit Union Administration (NCUA). These data show that most US credit unions are small; approximately 60 percent of all US credit unions have $10 million or less in assets. A new credit union manager may do business in a new way.

Table 1 contains information for credit unions with manager changes between 2009 and 2015. There were almost 1,300 manager changes during this period. NCUA data show differences in operations of credit unions experiencing a manager change as compared to those where the incumbent manager remains. Consider what happens to credit union size, the amount of deposits, profitability, and so forth.

Table 1. Comparison of Credit Unions Business based on whether Manager Changed. Changes between 2009 and 2015.

	Credit union with manager change			Credit union with **no** manager change		
Variable	Year before manager change	Year after manager change	Percentage change	Any year	Two years later	Percentage change
Assets	14,423,064	14,707,506	2.0%	15,056,972	13,854,013	-8.0%
Deposits	12,441,705	12,783,324	2.7%	12,885,570	11,846,955	-8.1%
Capital ratio	11.0%	10.2%	-6.5%	11.4%	11.5%	1.0%
Loan volume	7,373,765	7,410,176	0.5%	8,337,068	7,569,529	-9.2%
Net income	11,122	51,845	366.2%	64,970	56,026	-13.8%

The numbers in the left panel of Table 1 show statistics in credit unions where the manager changed. The credit union's situation over a three year period is examined, beginning at the year before, through the year after, the management change. The numbers in the right panel show the

situation of credit unions with no management change. Credit unions with a management change experience growth in average assets and deposits, and declining capitalization. These changes were accompanied by growth in average loan volume and net income. In credit unions with no management change, three year trends show declining average assets, deposits, loan volume and net income, but increasing capital.

Small credit unions change in other, distinct, ways when the manager changes. Again, the performance of credit unions with a change is compared for the three years before, during, and after the change with a three year period for credit unions with no management change. Credit unions with a management change tend to increase volume for certain loan types (1st mortgages, credit cards, unsecured loans, used cars) and increase the concentration of their loans during these years. These changes are larger than in credit unions not experiencing a change. Credit unions with a management change grow their net income, as a share of assets, increase their non-interest income, and diversify their sources of income by more than credit unions not experiencing a change in the general manager. Credit unions with general manager changes tended to have greater fractions of delinquent loans than those with no change.

Employee productivity and expenses are distinct for credit unions experiencing a manager change. Average non-interest expense, which includes employee compensation, in credit unions with a general manager change were $549,000 in the year before the change, $535,000 the year after. This compares with average non-interest expenses of $565,000 in credit unions with no change in any year and $517,000 two years later. Small credit unions also have larger changes in interest and non-interest income per employee than credit unions with no management change.

The scope of these changes underscores the role of the board of directors. Boards oversee credit union performance. When new general managers begin their tenure, they will need to have frank discussions with directors about achieving the credit union's mission. The statistics in this article should help generate that discussion.