

A STRATEGIC ANALYSIS OF A CREDIT UNION'S TECHNOLOGY OUTSOURCING

by

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ABSTRACT

Envision Credit Union, the third largest credit union in British Columbia, operates in a highly competitive banking industry and attempts to differentiate itself through superior face-to-face customer service and employee satisfaction. Many low-cost competitors leverage technology to electronically simulate face-to-face service to become a virtual differentiator.

To compete with low-cost rivals, Envision developed the Pathways partnership with First Calgary Savings Credit Union. This allows Envision to enter new markets and improve cost effectiveness by merging technology departments into one service provider called ITCo.

This paper focuses on the implementation of ITCo by first performing an external industry analysis to validate the ITCo strategy and then conducting an internal analysis of ITCo's capability to implement the strategy.

This paper proposes an action plan that fills ITCo's capability gaps to successfully transform into a technology services organization, with focus on cultural change management processes, customizing performance management standards, and reconfiguring organization structure.

DEDICATION

I would like to dedicate this effort to my wife, Kathy and my sons, Keegan and Tom. You all have been pillars of strength throughout this process, and I could not have done this without your patience, understanding, and love. You inspire me to be my best each day.

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GLOSSARY

ATM	Automated Teller Machine.
CBS	Core banking system – This refers to a financial institution’s primary software system to manage banking transactions and data.
CRM	Customer Relationship Management – this is software used to track birthdays, anniversaries, and other life events as a means to better understand the needs of the customer to improve service quality.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
ERP	Enterprise Resource Planning – This refers to software that performs and integrates various functions and data including accounting, finance, human resources, and inventory management for medium and large enterprises.
ITCo	This is a generic term to represent the new technology services company that is the subject of this paper. It is pronounced ‘eye-TEE-koh’.
IWB	This is ‘i-Wealthview Banking’ – The name of the core banking system software application utilized by Envision Credit Union.
KSF	Key Success Factor
LOS	Loans Origination System – this is a software application used to process loans within a financial institution.
Operating Efficiency	This is a financial ratio of total operating expenses for a period divided by total operating revenue.
RedFrog™	This is a mortgage product offered exclusively by Envision that uses internet technology in an innovative manner to allow individuals to better manage their mortgage. The objective is to save customers thousands of dollars in interest over the life of the mortgage.
ROAA	Return on average assets can be calculated using either net operating income or net income divided by the average total assets.
SME	Small and Medium Enterprises

1 OVERVIEW AND INTRODUCTION

1.1 Overview

Envision Financial (“Envision”) is a credit union based in British Columbia that attempts to differentiate itself within the financial services industry by offering exceptional customer service to its member-owners. It is also recognized as one of Canada’s top employers by placing ninth overall on *The Globe and Mail’s Report on Business* top 50 employers listing in 2006.

The subject of this paper is Envision’s ‘Pathways’ strategy that was developed in partnership with First Calgary Savings Credit Union (“First Calgary”) based in Alberta. The primary purpose of this strategy is to generate a strong inter-provincial network of information technology services to both credit unions, called ITCo. There is also an opportunity to service third party credit unions. The Pathways strategy also looks at expanding other operational lines of business such as wealth management and insurance services, but this part of the strategy is outside the scope of this paper.

The purpose of this paper is to perform an external analysis to validate the ITCo portion of the Pathways strategy relative to the external environment. This paper will also analyze the internal capabilities of ITCo, which include management preferences, organization structure and resources, and recommends an action plan that will contribute to the successful implementation of the ITCo strategy.

1.2 Introduction

The financial services sector plays a critical role in a market economy, providing a means to channel savings into various investment opportunities and driving economic growth. It

provides the capital necessary for the growth of existing businesses and the start-up capital needed for new businesses. It also allows governments to finance new debt issues and support programs and services. At the same time, the sector enables Canadians to carry out their everyday financial transactions, including chequing, savings and wealth management, and to insure against risk and unexpected events.¹

This paper consists of four chapters. Chapter One provides an overview and background of Envision and more specifically the Pathways ITCo strategy. Chapter Two will first present an external analysis of the financial services industry in Canada using Porter's Five Forces model. It will then identify and analyze key success factors on which Envision will be evaluated relative to its competitors as a means to validate the ITCo strategy. The third chapter consists of an internal analysis of the ITCo strategy. The objective in this chapter is to assess the existing capabilities of Envision's and First Calgary's technology group (who will become the employees of ITCo) and compare them with the capabilities necessary to successfully implement the Pathways ITCo strategy. The second objective is to present implementation alternatives for ITCo that will bridge the capability gaps. Finally, chapter Four will present an action plan that address the issues identified in chapter Three.

1.3 Company Background

1.3.1 The Credit Union Movement

In 1900, Alfonse Desjardins created Canada's first caisse populaire (or credit union for the English speaking Canadians) in Quebec. This and other credit unions began as an alternative to commercially centralized, largely inaccessible banking system. A credit union's policies are set and monitored by an elected board of directors and an executive management team handle the daily operations. One of the characteristics that set credit unions apart from traditional banks is

¹ Department of Finance Canada, The Canadian Financial Services Sector [online], 2005.

their democratic structure. Each member-owner gets one vote as well as an equal voice in the management and direction of a credit union's operations.²

Outside Quebec, the credit union movement began in Ottawa in 1908 in order to service public service employees³. Credit unions formed in the Atlantic provinces and British Columbia during the 1930's and 1940's in response to the needs of fishers, farmers and miners. The need for credit unions in the Prairie provinces arose in response to difficulties faced by farmers in finding financing during the Great Depression.

Membership in credit unions has grown steadily over the past several decades from one million members in 1950 to over 10 million by the end of 2001, which represents approximately one-third of Canada's population⁴. As a result, Canada has the largest per capita membership in the credit union movement relative to other countries in the world. Figure 1 on the next page shows the percentage of population with a credit union membership in 2001.

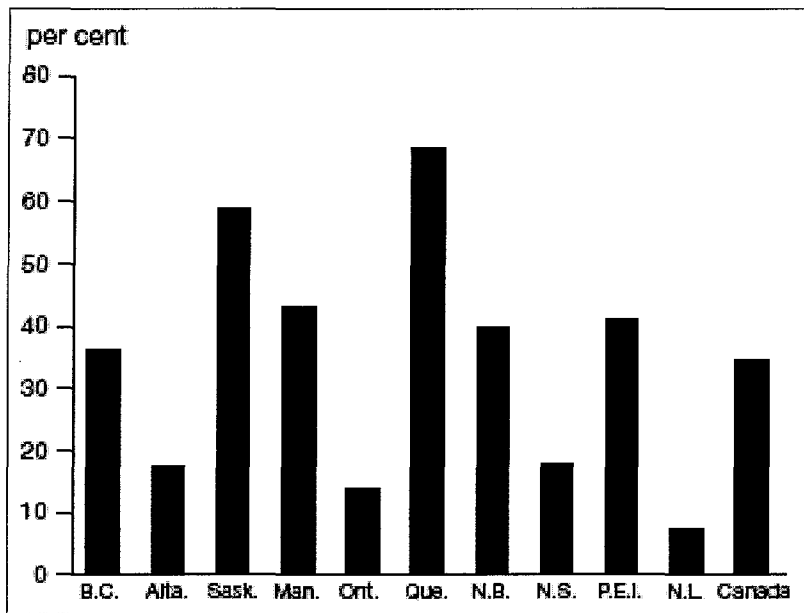
The credit union mandate of serving its member-owners' financial needs is much different than banks or trust companies, which exist mainly to earn dividends for their shareholders. From this focus on member-owners' needs, the credit unions are responsible for introducing innovative products and services most of us take for granted today. Examples of this innovative nature include the introduction of the automated teller machine ("ATM") in the 1970's, products such as daily interest savings accounts and consumer loans, and transactional services such as payroll deductions.

² Ontario Educational Credit Union Limited, Frequently Asked Questions [online], 2006.

³ Department of Finance Canada, Canada's Credit Unions and Caisses Populaires [online], 2003.

⁴ *ibid.*

Figure 1 Percentage of Population with Membership in Credit Unions 2001



Source: Department of Finance Canada

As in other areas of the financial services sector, there is a trend toward consolidation in the credit union system. The total number of credit unions declined by more than half from about 2,700 in 1990 to approximately 1,300 at the end of 2003⁵. At the end of 2005 the total was 1,156⁶. Of these remaining credit unions there are 3,456 locations, which is an average of three branches per credit union. This means that most credit unions are relatively small in size with one or two branches.

The majority of the consolidations have occurred in Ontario, British Columbia, and the Prairie provinces. This caused the average asset size of the remaining credit unions to double. Today, the two largest credit unions in Canada are based in British Columbia. VanCity Savings Credit Union and Coast Capital Savings Credit Union manage \$11.8 billion and \$8.2 billion in total assets respectively as of December 2005 per their respective annual reports. In comparison,

⁵ Department of Finance Canada, The Canadian Financial Services Sector [online], 2005.

⁶ Credit Union Central of Canada, Fourth Quarter 2005: Credit Union / Caisse Populaire System Results [online], 2006.

Envision is the third largest credit union in British Columbia relative to assets managed, but is fifth overall in Canada with \$2.4 billion in total balance sheet assets at the end of 2005.

1.3.2 Corporate History

Envision was formed as a result of the merger between two predecessor credit unions, Delta Credit Union and First Heritage Savings Credit Union, on January 1, 2001. Each of the predecessor credit unions began decades earlier as part of the credit union movement and in 2006 Envision will celebrate its 60th anniversary. The original purpose for forming Delta Credit Union was to support the financial needs of the lower mainland's fishing community, and First Heritage's primary customer base at its inception were the farmers situated in the Upper Fraser Valley.

At the time of the merger in 2001, Envision was Canada's fourth largest credit union with almost \$1.6 billion in total assets, serving over 75,000 member-owners with approximately 700 employees within an 18 branch network.

1.3.3 Differentiation Strategy

In line with the credit union movement, Envision tries to differentiate itself from the chartered banks. Its primary mandate is to optimize the member-owner experience with high levels of customer service, provide its employees with an ideal work environment, and lead the industry in corporate citizenship.

Within the banking industry, however, there are companies that utilize a cost-based strategy that compete against companies utilizing differentiation strategies. For example, ING Direct uses a virtual banking model by leveraging low cost technology such as the internet to access and serve its customers. This model simulates face-to-face interaction with customers in an attempt to behave as a virtual differentiator. This is a cost-based strategy that is contrary to

Envision's strategy to utilize a bricks and mortar approach as a primary access channel to its member-owners. This virtual differentiation puts pressure on the competition, forcing them to look for ways to expand to new markets or improve cost effectiveness to stay competitive.

As a result, not all credit unions subscribe to the differentiation strategy. Take for example Coast Capital Savings, which offers its member-owners free chequing using television advertising as a means to compare themselves to banks. This behaviour is more in line with a cost-based strategy.

Envision also faces the pressure to shift away from a differentiation strategy toward a cost-based strategy. There are several factors that indicate this trend. For instance, Envision has been using more of a rapid follower product strategy by introducing free chequing accounts and high interest savings accounts to match Coast Capital and ING Direct. Envision's introduction of a unique mortgage product called RedFrog™ keeps the product strategy variable from completely moving to the rapid follower side.

Modest investment in research and development, a more centralized organization structure, and an increased focus on achieving economies of scale to lower its cost structure are other examples of how Envision is shifting away from a differentiation strategy toward a cost-based strategy. This move is putting Envision into 'no man's land' where it is less clear as to what strategy is being followed. This uncertainty could adversely affect the company's financial performance in the short-term. However, the use of virtual differentiation is disguising this shift in strategy somewhat by offering machine-to-human interfaces to replace or simulate the human-to-human interfaces.

1.3.4 Products and Services

Envision offers a complete line of products and services that fit a wide range of individual and business needs that are competitive and comparable to other financial institutions. Products include loans, lines of credit, and fixed and variable mortgage products. Within this product offering is new and innovative mortgage product for individuals called RedFrog™. This product differentiates itself from conventional mortgages by using technology to virtually manage the product via the internet. The benefit for customers is that they can potentially save thousands of dollars of interest over the life of the mortgage. This form of product innovation keeps Envision from completely positioning itself as a rapid follower as a means to compete with other banks.

Envision also offers registered and non-registered term deposits, a comprehensive line-up of chequing and savings accounts, as well as transactional services out of its branch network. Member-owners can also access their accounts through a national ATM network, the internet or via telephone. In addition to the credit union's primary business there are four operating subsidiaries that offer insurance services, wealth management services, automobile leasing and automobile dealer financing services. Figure 2 on the next page shows Envision's existing branch network.

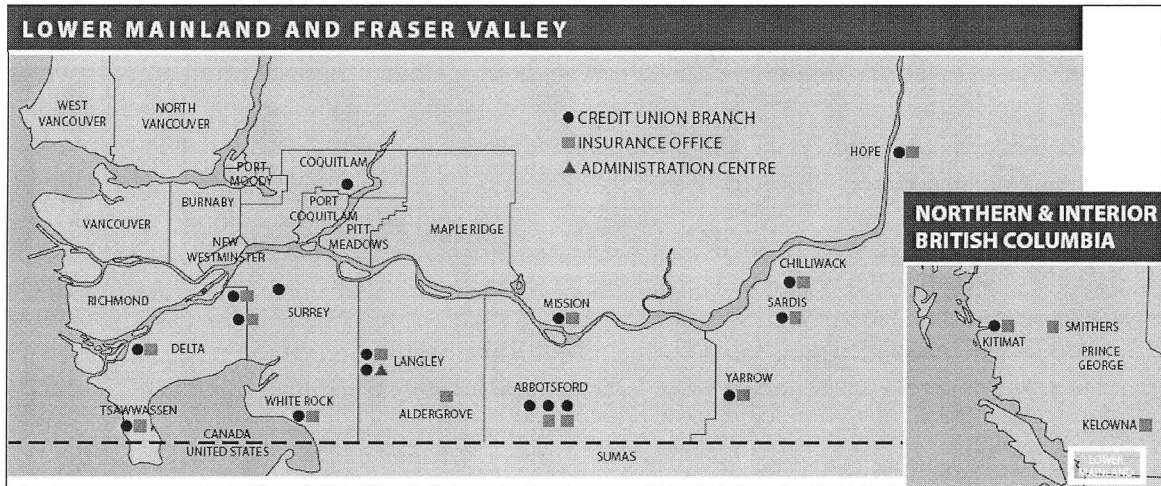
1.3.5 Financial Performance

Although Envision tries to differentiate itself with respect to its customer service and employee satisfaction, there is intense competitive pressure that causes Envision to shift its focus to cost strategies to remain competitive and profitable. Envision's vision statement includes four key principles, which are:

1. To be the best place member-owners have ever done business,
2. To be the best place employees have ever worked,

3. To be a leader in corporate citizenship, and
4. To be an industry leader in financial success.

Figure 2 Envision's Geographic Presence



Source: *Envision's 2005 Annual Report*

Envision's incentive plans are geared toward these four vision principles, and strategies like Pathways ITCo (the focus of this paper) along with others adopted by the credit union are structured to deliver on all four aspects of the vision. As a result, these four principles that make up the company's vision will be used as decision criteria to evaluate the ITCo strategy at the end of chapter Two.

In the five years since the merger, Envision has increased its total balance sheet assets by over 50 percent to \$2.4 billion and its total assets under administration including sold loans is over \$3.0 billion. The company still has 18 branches and has increased its member-owner base to approximately 80,000⁷.

The 2005 fiscal year was the most profitable year in Envision's history. Compared to other credit unions with assets over \$1 billion in British Columbia, Envision had the highest Net

⁷ Envision Credit Union, *2005 Annual Report*.

Operating Income return on average assets (“ROAA”) of 1.13 percent. The next best credit union in this asset group achieved a ROAA of 0.90 percent. With average balance sheet assets of \$2.2 billion in 2005, the 23 basis point difference in ROAA translates to over \$5 million in incremental net operating income for Envision. This increases Envision’s ability to reinvest in capital to continue to grow operations as well as distribute it to its membership by way of dividends or more competitive pricing. Figure 3 highlights comparative financial information from Envision’s 2005 annual report.

Figure 3 Envision’s Comparative Financial Information

Comparative Highlights <i>(\$ in thousands)</i>			
As of December 31,	2005	2004	% Change
Balance sheet assets	2,410,722	2,120,409	13.7
Funds under administration	1,004,858	917,901	9.5
Loans to members*	2,118,478	1,833,395	15.5
Member-owner deposits	2,074,490	1,861,908	11.4
Retained earnings & equity shares	131,308	112,707	16.5
Total financing income & other income	151,263	135,042	12.0
Net income	20,834	15,220	36.9

*Excludes sold loans under administration

Source: Envision’s 2005 Annual Report

There are two main drivers of this financial performance. The first is its ability to take advantage of a strong residential housing market. The second is effective asset and liability management, which is the process of engaging in interest rate swaps, financial derivatives, hedging instruments and selling loan pools to generate liquidity. This process reduces interest rate risk and optimizes financial margin earnings from the credit union’s existing portfolio.

The development of the mortgage broker channel in Canada over the last few years gives customers easier access to financial institutions and their mortgage products. This compounded

the loan growth experienced by the credit unions during that time. However, the competitive nature of this channel lowers loan interest rates to customers, commoditizes the mortgage product and squeezes the margin income for financial institutions. Credit unions like Envision that differentiate through its member service, innovative products and employee satisfaction find it more difficult to compete against larger financial institutions that employ a cost-based strategy. Even though the broker channel increased competition in the industry, Envision still performed well financially in 2005 because interest income earned from the growth in volume offset the impact of the squeeze in margin pricing.

Recent economic forecasts from Credit Union Central of British Columbia continue to show steady growth in the near term, but may not be as strong as recently experienced. As a result, financial institutions may feel the squeeze over the next year or two as margins tighten and volume growth stabilizes or even decreases.

Even though internal volume projections show that the 2006 year will be a solid one for asset growth throughout the credit union network in British Columbia, it will be difficult for Envision to match the financial results it enjoyed in 2005. One of the main reasons for this is the flattening of the interest rate yield curve, which means that short term product interest rates are closer in value to long-term product interest rates. This causes thinner margin spreads or “margin squeeze”, making it more difficult to sustain margin revenue. Also, the boom in the mortgage broker channel increases price competition among financial institutions and commoditizes mortgage products, thereby exacerbating the margin squeeze problem as well as making it more difficult for credit unions to differentiate its products. Essentially, the economic conditions that previously made financial institutions successful are expected to worsen, thereby reducing the ability to maximize earnings.

The financial institutions that are able to sustain profitability during times of margin squeeze are the ones that achieve economies of scale and can effectively manage their costs, which is more indicative of a cost-based strategy. Figure 4 below shows Envision's financial performance for 2005 in dollars as well as a ratio to average assets in 2005. The top arrow points to Envision's gross margin ROAA of 4.07 percent including non-interest income, which led all credit unions in British Columbia for the year. The second arrow points to the expense ratio of 2.94 percent, which is below average relative to the credit union system. Envision is large enough to be able to sustain some economies of scale with respect to operating expenses, but the results show that this is not happening.

Figure 4 Comparative Analysis Report Summary 2005

Envision Credit Union		Comparative Analysis Report		
Period Ended December 31, 2005				
Operating Statement		Envision	Envision	All Credit Unions
Financial Margin	64,066,555	2.87	2.70	
Non-interest Income	26,793,823	1.20	0.85	
Gross Margin	90,860,378	4.07	3.55	
Non-Financial Expense				
Salaries & Benefits	32,883,145	1.47	1.35	
Data Processing	5,346,457	0.24	0.21	
Premises & Equipment	4,700,697	0.21	0.21	
Depreciation/Amortization	2,379,346	0.11	0.13	
Loan Losses	1,629,219	0.07	0.08	
Other	18,734,356	0.84	0.73	
Total Non-Financial Expense	65,673,220	2.94	2.72	
Net Operating Income	25,187,158	1.13	0.83	

Above average margin returns → (points to 4.07)
Below average expense ratio → (points to 2.94)

Source: Comparative Analysis Report

Envision's expense ratio is substantially underperforming compared to the two largest credit unions in British Columbia.

1.3.6 Comparison to First Calgary

1.3.6.1 Background Information

First Calgary began its operations in Alberta effective November 1, 1986 as a result of a merger among seven Calgary-based credit unions⁸. One of the primary reasons this merger took place is because the predecessor credit unions were not performing well financially. The merger may have effectively prevented some of these credit unions from dissolving operations and ceasing to exist.

The credit union movement in Alberta did not achieve the same success relative to the neighboring provinces of British Columbia and Saskatchewan. The penetration rates in Figure 1 on page four reveal that Alberta is one of only four provinces where credit union members make up fewer than 20 percent of the population. As a result, the credit unions are smaller in size relative to the rest of the country.

1.3.6.2 Financial Performance

From First Calgary's *2005 Annual Report*, the company holds over \$1.5 billion in total assets and earned a net income of \$4 million. The company operates out of 15 branches situated in the Calgary area. Their primary competition is the chartered banks.

Compared to Envision, First Calgary's asset base is a little more than 60 percent the size of Envision's asset base. With respect to annual earnings, Figure 5 below shows that First Calgary's financial performance for the year ended 2005 pales in comparison to Envision's. The four statistical measures that confirm this underperformance are net income per member, assets per branch, ROAA, and Operating Efficiency, which is the percentage of total operating expenses over total revenue.

⁸ First Calgary Savings Credit Union, *2005 Annual Report*.

Figure 5 Financial Comparison between Envision and First Calgary

	<u>Envision</u>	<u>First Calgary</u>
As at Fiscal Year End 2005:		
Total Assets (\$ millions)	\$ 2,400	\$ 1,500
Membership (approx.)	80,000	100,000
Number of branches	18	15
For Year Ended in 2005 (\$ in thousands):		
Gross margin	\$ 100,577	\$ 52,517
Operating expenses	76,283	45,262
Net operating income	24,294	7,255
Taxes	3,460	3,239
Net income	\$ 20,834	\$ 4,016
Key Statistical Data:		
Net income per member	\$ 260	\$ 40
Assets per Branch (\$ millions)	\$ 133	\$ 100
Return on Average Assets	0.88%	0.28%
Operating Efficiency	75.85%	86.19%

Source: Respective 2005 Annual Reports

First Calgary's net income per member is significantly underperforming relative to Envision. This is because the company is not running efficiently, as seen by the higher Operating Efficiency ratio. This percentage means that First Calgary is spending \$86 for every \$100 it earns, so the higher the ratio, the less efficient the operations.

First Calgary faces similar competitive pressures as Envision. Low-cost competitors reduce prices to attract new customers and use cheaper technology to simulate service differentiation. For a company that is struggling financially, First Calgary sees the Pathways ITCo project as a means to improve the ability to compete against these rivals. The primary objectives of Pathways ITCo from First Calgary's perspective are the same as Envision's: to reduce the cost of technology and to enter new markets.

1.3.6.3 First Calgary's Strategy

First Calgary's generic strategy is similar to that of Envision. The company attempts to differentiate itself from the chartered banks by offering its members exceptional service and also provides its employees a highly satisfying working environment.

The respective CEO's of Envision and First Calgary therefore share the same generic differentiation strategy. They also feel the same competitive pressures to improve financially in order to compete against low-cost rivals within the banking industry. As a result, both companies are shifting away from a differentiation strategy toward that of a cost-based strategy in order to not only compete with rivals, but to stay profitable. The ITCo strategy is a step in that direction.

1.4 The Pathways Project and ITCo

1.4.1 Introduction

Envision's strong financial performance over the last five years gives them the ability to be more selective in identifying strategic opportunities. For example, they could seek new markets, develop partnerships or strategic alliances with other companies in order to diversify its revenue portfolio, and develop effective cost management strategies. The ITCo strategy seems to fit this focus, but it is a shift away from a differentiation strategy for the credit union to that of a cost-based strategy.

Although Envision's overall financial performance has been very good over the last few years, its expense ratio is performing below average relative to the British Columbia credit unions and is significantly lower (between 60 and 70 basis points) than the two largest credit unions. Envision's executive team is aware that Envision cannot match this cost effectiveness under its current business model because the company is not large enough to achieve comparable economies of scale, but there is agreement that there is opportunity for improvement. For

Envision, the Pathways project's ITCo strategy was identified as a unique opportunity to meet the needs of the credit union.

1.4.2 The Strategy

Credit unions are provincially legislated financial institutions that cannot cross provincial boundaries with respect to offering core banking services to member-owners. Because of this legislation, Envision's core banking operations are restricted to British Columbia. However, there are fewer restrictions on partnering non-core banking services with other organizations extra-provincially. As a result, the Board of Directors and Executive teams from Envision and First Calgary have joined forces to develop the Pathways Project.

The objective of Pathways is two-fold. First, diversify existing revenue portfolios with non-banking services such as insurance, wealth management, and automobile dealer financing. This part of the Pathways project is out of the scope of this paper and will not be analyzed. Second, effectively reduce costs of technology by leveraging economies of scale for both credit unions. This is the ITCo portion of Pathways, which will be the main focus of this paper.

ITCo is a newly formed company spawned from Pathways that is meant to house the technology operations of Envision and First Calgary. The primary mandate is for ITCo to become a third party service provider of the core banking system ("CBS") and other technology application platforms. The implementation of the ITCo strategy is divided into two key phases. Phase I focuses on becoming the exclusive shared service provider for Envision and First Calgary. The time frame for this implementation and stabilization is approximately three years. After year three, ITCo's plans are to secure service contracts with third party credit unions and become their exclusive CBS service provider. This is Phase II of the implementation plan.

Initially, ITCo will be selling its services only to Envision and First Calgary in the first three years of operation. These services include all aspects of information technology, but are primarily focused on consolidating core banking systems, which are IWB, LOS, and CRM. After year three, ITCo plans to sell these services to not only Envision and First Calgary, but to other third party credit unions in Canada.

In 2004 and 2005, Envision and First Calgary worked with an external group of consultants and legal teams to prepare a feasibility study related to this strategy. In the summer of 2005 the joint-steering committee and board of directors approved the study, paving the way for Envision and First Calgary to start building the business plan for implementation.

As part of this study, Envision and First Calgary analyzed the potential market opportunity for ITCo services. From this analysis, the optimal target market is considered to be growth-focused small to medium sized credit unions in Canada. Small to medium size credit unions in this case are defined as companies with an asset base within the range of \$150 million to \$1 billion. Currently, there are over 40 credit unions that fit these parameters. Therefore, a market does exist for this service outside Envision and First Calgary. An internal estimate of the potential impact on ITCo's revenue exceeds \$100 million.

1.4.3 Implementation Challenges

The primary problem that many credit unions face with respect to technology, and Envision is one of them, is whether they can effectively utilize their information technology resources. As the ITCo strategy becomes implemented, the two most important stakeholders, Envision and First Calgary, are keenly interested in ensuring the company can solve five key problems. These problems are presented below and because they are specific to ITCo they will be used as decision criteria by the stakeholders to evaluate the success of the ITCo implementation in chapter Three.

1.4.3.1 Reduce Cost of Technology

The average cost of technology has been increasing steadily in two areas. The first comes in the form of higher salaries required to attract and retain properly specialized expertise to run the technology. For example, many software providers require a company's technology group to designate employees to become certified. The cost of training is high, and the skill learned by these employees is transferable, thereby making them more valuable to employers. This higher skill set requirement for the technology work force coupled with increased demand from employers drives up the cost of acquiring and retaining talent within an organization like Envision that relies heavily on technology.

The second area where cost of technology is increasing is in the technology itself. In the credit unions, the three primary software applications include a CBS, customer relationship management ("CRM") system, and loans origination system ("LOS"). These applications are increasingly complex and expensive to acquire, implement, and maintain. They were also developed independently of each other because no software provider is currently capable of providing all three systems, which limits their ability to 'speak' to each other in an integrated manner. Therefore, companies can spend millions of dollars to acquire or develop integration programs to streamline data flow in order to properly manage data and reduce the number of times it takes to enter information.

The scope of technology costs not only includes the cost of labour and software, it includes research, development, hardware such as servers and desktop computers, support and maintenance to name a few. The objective with ITCo is to stabilize the total cost of technology through economies of scale by having one technology group serve two entities in the first three years and other third party entities after year three. ITCo will therefore be evaluated on whether it can effectively lower the cost of technology per member-owner. At the end of 2005, Envision's cost of data processing per member-owner was 43 percent higher than the credit union average in

British Columbia and was one of the highest within its peer group⁹. Envision's goal is to reduce this cost to get it closer to average. There is currently no specific target, only general reductions are expected so to enable each credit union to increase overall ROAA over the next five years.

Also, the industry has developed and implemented additional software to better utilize data. Examples include enterprise resource planning ("ERP") that integrates accounting, human resources, payroll, and other infrastructure processes into one integrated network. Profitability systems can track revenue and expenses of products, services and transactional activity down to a membership level. Fraud prevention and detection software can analyze data to recognize suspicious activity in a customer's account in order to uncover fraudulent activities such as debit card skimming (a form of identity theft where fraudsters duplicate debit cards to gain access to an unsuspecting victim's bank accounts), cheque altering and kiting.

1.4.3.2 Timing of Implementation

Phase I of the ITCo strategy implementation is centred on providing technology services to Envision and First Calgary. The timeframe for this phase is three years, beginning in 2007 and ending in 2009. The objective for ITCo with respect to implementation is to stabilize their operations, develop a service oriented business model, and be an effective service provider to the two credit unions. If this is demonstrated, then ITCo will be in a stronger position to offer these services to third-party credit unions.

1.4.3.3 Improving Levels of Service

From discussions with ITCo's Chief Information Officer ("CIO"), transforming the existing technology delivery infrastructure to that of a third party service provider is a key challenge. Historically, the Technology group's behaviour is reactionary and maintenance oriented. For example, if someone in the Marketing department wants a change made to the

⁹ Stabilization Central Credit Union, *Comparative Analysis Report* (2005).

banking system to reflect a new product, that marketing Manager would merely call a meeting with the Technology group and the Technology Analyst would get it done, no questions asked. Now multiply this request dozens of times and add Finance, Human Resources, Sales and Service, etcetera to the list of departments with similar requests. The amount of operational projects mushrooms out of control and any chance of effectively managing the operational requirements of technology is compromised.

Strategic projects also play a role in this process because they take a significant amount of resources that are expended over a longer period of time. Unfortunately, there is only limited qualitative and quantitative analysis that occurs at the beginning of the project and there are no checkpoints to gauge progress over time to see if resources are being used effectively or if the project is running on schedule. There is also no final reckoning to determine at the end of a project if the objectives are met, thereby eliminating an important measure of accountability for the department managers.

ITCo must develop a service delivery model that can identify the costs and benefits of each particular service, whether it is a strategic implementation of new software or an operational project such as improving existing software functionality. ITCo must also incorporate a better discipline of managing resources to improve productivity. Internal credit union sources perceive the existing technology group's operations as inefficient and fragmented, and could improve productivity to deliver more services with existing resources. ITCo will need to develop internal performance measures, both financial and non-financial, that can help with the prioritization, selection, and implementation of strategic and operational projects for the credit unions. Success will be measured through effective execution of projects (on-time and on-budget) and better labour productivity through the use of time management systems, which will be translated into lower overall cost of technology.

1.4.3.4 Rationalizing Existing and Legacy Systems

Since the merger in 2001, Envision has converted its three legacy core banking applications to one consolidated system called i-Wealthview Banking (“IWB”). Envision has made little progress converting or consolidating other legacy systems because significant effort was required to stabilize IWB, a system provided through a partnership between Fincentric and Telus.

Because of this, Envision currently maintains more than 100 different software applications, some of which are redundant or potentially underutilized. Several senior managers within Envision believe the operating performance of the existing IT department is not operating at optimal levels and the department holds insufficient resources to operate effectively. So much time and resources were required to stabilize IWB that few resources were available for anything else. Envision could not maintain its other systems and fell behind with important software and hardware updates. The results of a baseline hardware audit in 2004 found several fundamental issues that required immediate action to remedy, including Envision’s lack of a formal system to install operating system patches. It took over one year to correct most issues. The shortfalls identified in this report and the lack of responsiveness from the IT group was a symptom of a larger problem, which is that the department does not have the infrastructure or the discipline to carry out required maintenance functions.

The objective for ITCo with this problem is to effectively manage their responsibility with these existing systems. From discussion with the CIO, much of the focus of resources is on the core systems and the other applications require little or no resources. However, an action plan is required to rationalize these systems in order to operate more effectively. A measure of success with respect to this problem will be to significantly reduce the number of systems by eliminating the ones that are redundant or unused.

1.4.3.5 First Calgary's Banking System Conversion

In order for ITCo to effectively leverage its resources for both credit unions, First Calgary must successfully convert its core banking system to IWB. This conversion is currently underway and will be complete at the end of 2006 or the beginning of 2007.

1.4.4 The Next Steps

The first chapter provided an overview of the ITCo strategy and the decision criteria that will be used as a measure of performance. The next chapter will look at the external environment, how Envision operates within it, and will identify KSF's for Envision relative to the industry in which it competes.

2 EXTERNAL ANALYSIS

2.1 Introduction

The objective of this chapter is to assess the Canadian financial services sector using Porter's Five Forces model¹⁰ as a means to analyze the threat of new entrants into the industry, the bargaining power of suppliers and buyers, and the threat of substitute products and services. The chapter will also provide an overall assessment of the attractiveness of the industry and highlight key success factors ("KSF"). These KSF's will be used to assess the rivalry among existing competitors as a means of evaluating the efficacy of the strategy.

2.2 The Financial Services Industry in Canada

Most people think of banking in generic terms relative to the products and services it offers¹¹. For example, a person would normally say "I am going to buy an RRSP" or "I am going to get money out of the ATM" and we would not normally hear "I am going to the CIBC". To draw a parallel, coffee drinkers associate their buying behaviour with a brand and would say something more brand specific like "I am going to Starbucks".

Financial services firms have always struggled with differentiating themselves over the years but none have really been successful at creating a unique identity, except for credit unions.

¹⁰ Michael Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review* (1979).

¹¹ CIBC, Annual General Meeting Speech [online], 2003.

2.2.1 Scope of Industry

The Canadian financial services industry is made up of banks, trust and loan companies, credit unions and caisses populaires, insurance companies, securities dealers and exchanges, mutual fund companies and distributors, finance and leasing companies, as well as independent financial advisors, pension fund managers and independent insurance agents and brokers¹². However, there are several factors that are causing change within this sector that allow non-traditional new entrants into the industry and provide incumbents the opportunity to diversify its revenue stream by offering multiple forms of products and services.

In terms of economic growth, the Canadian financial services sector employs over 600,000 Canadians with an annual payroll over \$35 billion in 2003¹³. The industry also represented over six percent of total contribution to gross domestic product in 2003 and contributed over \$13 billion in taxes to all levels of government.

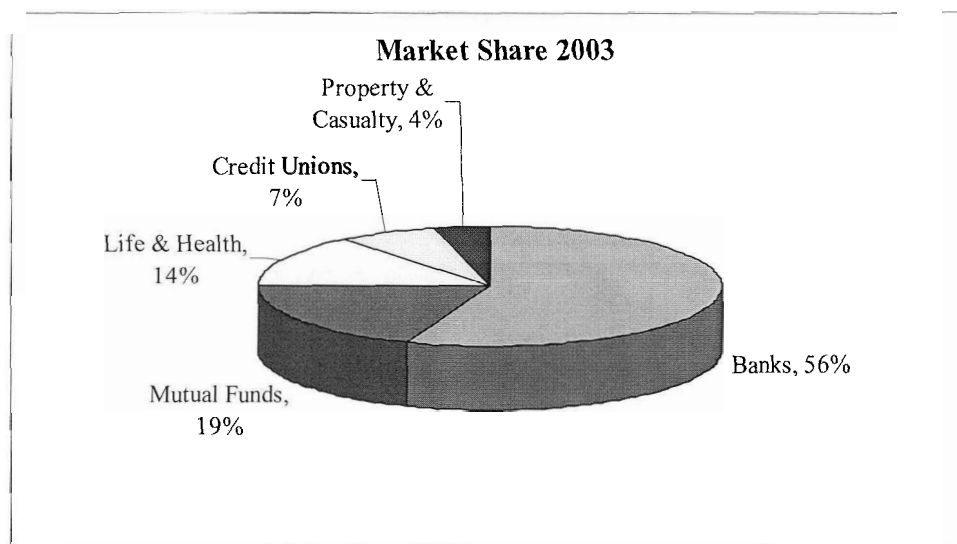
With respect to asset size, banks take the majority share of the market with 56 percent of total domestic assets in 2003 (see Figure 6). Mutual fund companies are a distant second with 19 percent. Life and health insurance, credit unions and caisses populaires, and property and casualty insurance firms all pale in comparison to the domination of banks. The six largest banks still make up over 90 percent of total bank assets and represent over 75 percent of the total assets for the deposit-taking sector.

The banks, however, have been experiencing a downward trend in market share over the last several years in terms of relative share of revenues. Figure 7 reveals that market share from a revenue perspective is shifting away from banks and toward life insurers and property and casualty insurers. The main driver for this change is reduced revenue on the banking side due to thinner margins and better pricing on the insurance side.

¹²Department of Finance Canada, The Canadian Financial Services Sector [online], 2005.

¹³ibid.

Figure 6 Market Share by Domestic Assets



Source: Department of Finance Canada

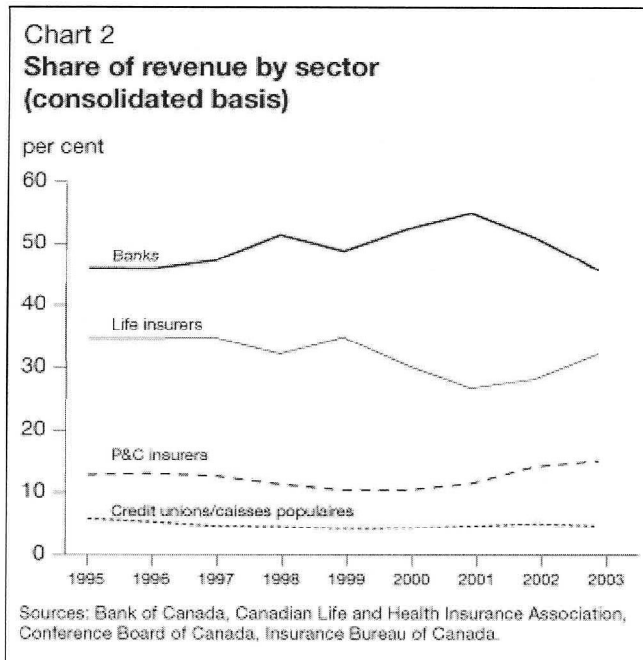
There has also been a shift in income from traditional sources, as presented in Figure 8. From 1995 to 2000, banks have seen a large decline in its proportionate share of net interest income in favour of non-traditional sources such as insurance and wealth management. However, that trend for banks has reversed itself slightly as of 2003. The credit unions/caisses populaires, on the other hand, have continued on the trend to diversify its revenue streams.

2.2.2 Consolidation Trend

Another current competitive trend in the financial services sector is consolidation through mergers and acquisitions. This has created large financial groups that provide a variety of services that cross over traditional lines of business. The four traditional 'pillars' of the financial sector are banks, trust companies, insurers and securities dealers¹⁴. There has been a breakdown of these pillars through integration and consolidation, where financial groups or conglomerates are now able to cut across these pillars and offer a wider range of products and services. Today, many different players offer similar services, thereby increasing the competitive environment.

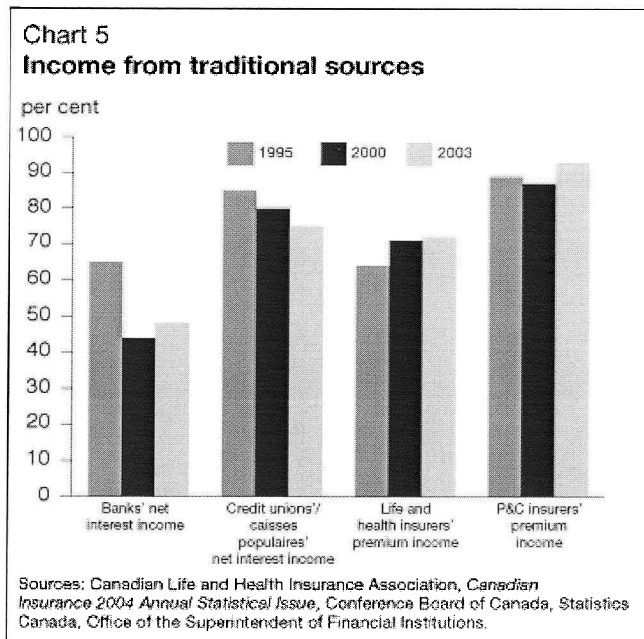
¹⁴Department of Finance Canada, The Canadian Financial Services Sector [online], 2005

Figure 7 Market Share by Revenue



Source: Department of Finance, Government of Canada

Figure 8 Shifts in Income from Traditional Sources



Source: Department of Finance, Government of Canada

2.3 Competitive Analysis

The Five Forces model is a strategic tool designed by Michael Porter to evaluate industry competitiveness¹⁵. This particular model examines the threat of new entrants into the market, the threat of substitute products, the bargaining power of suppliers, the bargaining power of customers, and finally the rivalry among industry competitors. This section adapts Porter's model to analyze the competitive forces of the financial services industry in Canada. The key drivers within the five forces are shown in Figure 9, which along with the following analysis will show that the rivalry among competitors within the financial services industry is severe.

2.3.1 New Entrants

The overall threat of new entrants is very high, and all factors below reveal that this threat will continue to remain that way.

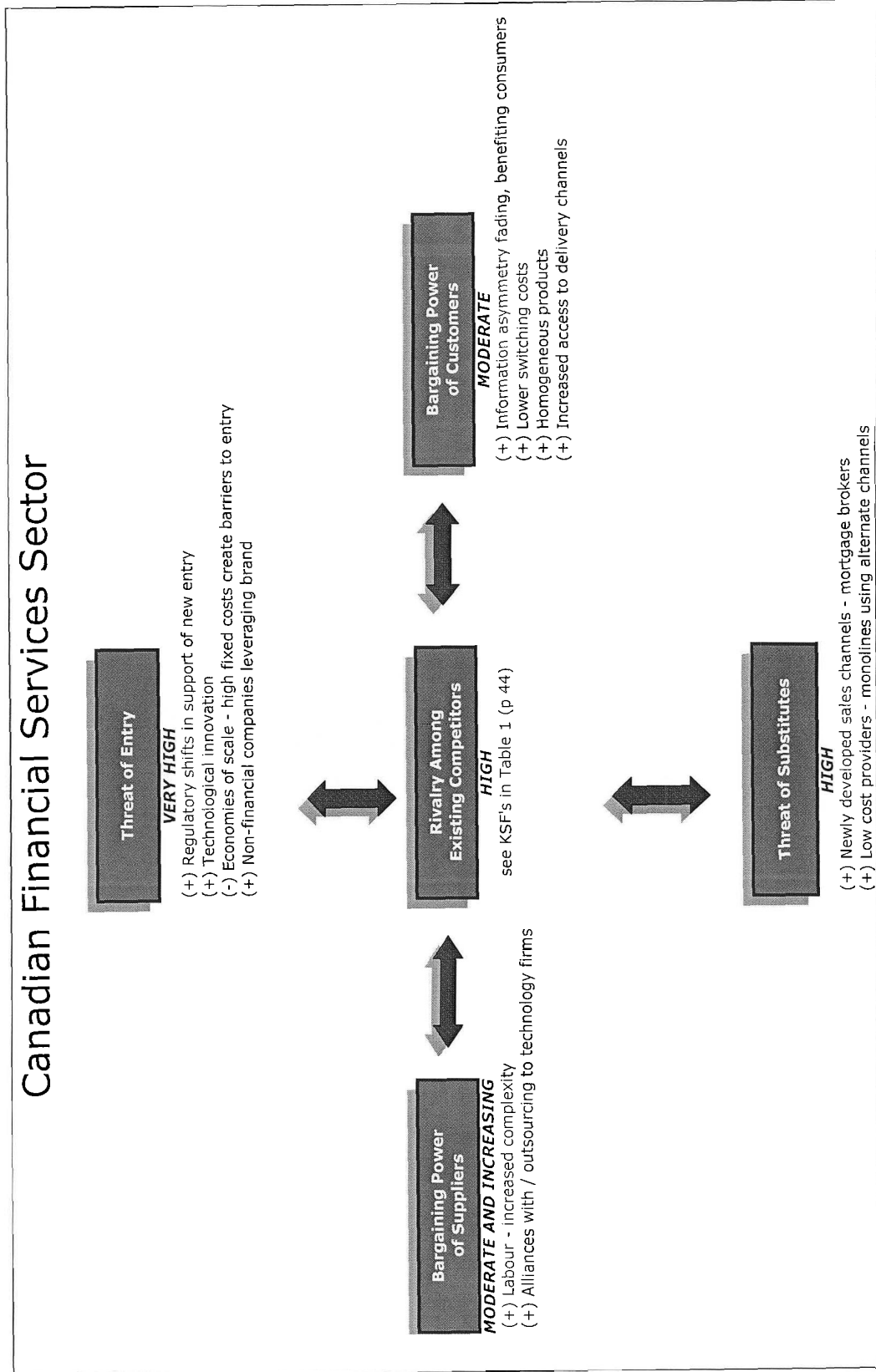
2.3.1.1 Regulatory Shifts (increases threat)

Since the Government of Canada relaxed its restrictions on foreign ownership of financial services companies as well as the restrictions on the ability of Canadian financial services companies to expand into foreign markets, there has been a lot of movement. In 2003, approximately one-third of banks total revenue and almost 60 percent of life and health insurer revenue came from foreign sources, primarily from the USA¹⁶.

¹⁵Michael Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review* (1979).

¹⁶Department of Finance Canada, The Canadian Financial Services Sector [online], 2005.

Figure 9 Financial Services Industry in Canada



Adapted from Bukszar 2006

Bill C-8 in 2001 introduced the change in ownership regime and also reduced the amount of capital required to open a small bank. Monoline service providers that offer one core product or service offering like ING Direct are a prime example. First National Mortgage is another example of a 'virtual bank' that is able to utilize low-cost channels like the mortgage broker system, the internet, and electronic banking services to keep operating costs down while effectively simulating face-to-face interaction with the customer. These companies are seen as virtual differentiators that compete directly with bricks and mortar institutions like Envision.

Financial services firms like First National are better able to integrate operations and cross over into new lines of business. First National has recently entered into a credit card program offering a specialized credit card for mortgage customers that offer unique incentive programs. Although the institution has a weaker brand relative to banks such as CIBC and offers fewer products and services, it can still tap into an existing customer base to attract new business and diversify revenue streams.

Big box retailer brands like President's Choice or Wal-Mart are now more eager than ever to enter the market as a result of these regulatory changes and can take advantage of their existing customer base by offering financial services to them. These retailers can leverage their brand to diversify revenue streams and increase the share of the customer's wallet.

As a result, the regulatory changes have reduced barriers to entry for new companies and they allowed incumbents to diversify by crossing over into new markets, both domestic and foreign. The rivalry of competitors will only increase as these new firms come on-line. Incumbents like CIBC have reacted by providing the expertise in the President's Choice brand of financial services and act like a strategic partner in the relationship with the retailer. TD Canada Trust's foray into kiosk banking at Wal-Mart stores in Canada was less successful. However, this

likely will not stop Wal-Mart from trying again with a better business model. Because of these regulatory changes, the competition is as fierce as ever.

2.3.1.2 Technological Innovation (increases threat)

There are three key areas in which financial institutions are leveraging new technology to gain an edge in the industry. They are: increasing access to customers, using customer data to manage customer relationships, and differentiating products and services.

First, access to customers has improved dramatically as a result of new technology. ING Direct can be successful as a monoline provider of deposit gathering services because it can use electronic banking and the internet to service its customers. There is a reduced need to rely on the traditional bricks and mortar strategy held by incumbents to serve a customer. This improved technology will lower the costs for companies like ING Direct, which employ a cost-based strategy, to access the customer. This reduces the barriers to entry for these companies. Improving access to customers will also increase buyer power, which will be discussed in section 2.3.4 on page 37. Companies like Envision continue to use the more expensive physical branching strategy to differentiate itself, but is also required to follow these low cost companies to stay competitive.

This strategy, although cost effective for low cost providers, has one main drawback. Customer relationship management is more difficult to manage virtually. In response, ING Direct has opened physical locations in four major centres across Canada to alleviate concerns from existing and potential customers that a bank or banker needs to be physically accessible.

Second, CRM software tools are used by the financial institutions to take advantage of all the data that are accumulated and are readily available to them. The CRM software can in some cases be merely a contact management tool that keeps track of birthdays and life events such as weddings, a new home or family planning. The software can also be taken up one level to allow

banks to improve service quality and profitability by suggesting products or services that complement the customer's existing portfolio. Some credit unions in British Columbia are integrating CRM into their core suite of software products to serve their member-owners. This trend to develop virtual customer relationship is another example of a cost strategy becoming popular with companies that perceive themselves as differentiators. The heightened competition in the industry is causing credit unions to shift to these cost based strategies.

Finally, homogeneous product offerings within the industry require some financial institutions to leverage the use of technology to develop new products and services. Historically, credit unions have been industry leaders with, for example, the introduction of the ATM. In 2005 Envision continued along those lines in its offering of a new mortgage product called RedFrog™. This is simply an equity line of credit for individual homeowners, but Envision has internally developed software to differentiate the product. The main differentiation is that it allows users to put paycheques and other savings into the balance, thereby reducing the daily interest calculated on the outstanding amount. This can shorten the lifespan of the debt and reduce interest costs to the member-owner. The software interface is used to keep these different products virtually separated into pots (mortgage balance, savings balance, etc.) and allows new virtual pots to be created (like saving for a vacation) without having to open a new account.

2.3.1.3 Economies of Scale (decreases threat)

For financial services companies to remain competitive in what is becoming a very price sensitive market, they must be able to manage their overall cost base and achieve economies of scale. Industry insiders within the credit union system in British Columbia believe that the asset base required for a credit union to operate most efficiently is within the \$10 billion to \$12 billion range. As a result, for new entrants that want to offer more than one product or service must realize it will take a long period of time and considerable resources to be competitive and

sustainable compared to incumbent organizations. A consolidation strategy is an alternative to organic growth that will allow financial services firms to achieve this scale.

Monoline entrants will be able to take advantage of relaxed regulations on capital requirements, lower cost of technology and leverage the internet channel to access customers at a lower cost. This allows them to become competitive more quickly. ING Direct Canada is a good example of a business successfully capitalizing on this opportunity. The ING Direct business model got its start in Canada because the Dutch company believed Canada was an ideal test candidate for the model. Today, ING Direct Canada has over \$14 billion in assets and serves over one million customers. It also has a presence in eight other countries with a worldwide asset base of over \$60 billion in funds under administration¹⁷.

2.3.1.4 Non-Financial Companies Leveraging their Brand (increases threat)

Brand equity is an important part of a financial services relationship with a customer. The customer must be sure the institution is stable and can be trusted with his/her money. As a result, new entrants with limited brand awareness will find it more difficult to establish a foothold in the financial services sector.

However, the potential for new entrants to leverage their existing brand that was built outside of the financial services sector creates a threat for incumbents. The President's Choice brand in Canada, for example, is attempting to do just that through its joint venture with CIBC called President's Choice Financial. This venture offers an entire suite of products and services including daily transactional banking, mortgages, savings products, credit cards and insurance services. The opportunity exists for a company like Loblaws, who owns the President's Choice brand, to leverage its strong brand presence and access existing customers to gain a foothold into

¹⁷ING Direct Canada, The ING Direct Story in Canada [online], 2006.

the financial services industry. Loblaws can also cross-promote its grocery chain by offering a credit card that allows its customers to earn reward points.

Loblaws employs a cost-based strategy with its retail grocery chain and also touts itself as a low-cost provider of financial services for its customers. It is difficult whether this strategy is proving profitable for President's Choice Financial. However, the presence of this new entrant makes the financial industry more competitive and companies like Envision are required to continue to find ways to retain its membership base.

Other companies like AAA in the USA, the Alberta Motor Association in Canada, and Wal-Mart are prospectively developing ways to offer financial services. Because this is a relatively new trend, it is likely that brand equity for incumbent financial services companies will become less valuable and competition will become more intense.

2.3.1.5 Key Success Factors for New Entrants Variable

When new entrants come into the industry, there is usually a shift in market share among incumbents because the majority of new customers are taken from these incumbent financial institutions. These new entrants are able to use technology to develop a cost-based strategy and compete within what has been a differentiation based industry. Increased competition results as more companies are fighting for their share of a pie that does not significantly change in size, which in many cases shrinks each incumbent's relative slice of the pie.

As a result, the KSF's for financial institutions like Envision are to first leverage technology resources to develop innovative products and services. Second, Envision must seek new markets by building branches in new trade areas and/or expanding non-banking operations extra-provincially. Finally, Envision must become more operationally proficient by controlling costs in order to stay competitive with these new entrants employing cost-based strategies. The

Pathways ITCo strategy is a response to the KSF's of finding new markets to obtain a compensatory share as well as controlling costs to be more price competitive.

2.3.2 Threat of Substitutes

The overall threat in this area is high and will remain high.

2.3.2.1 Newly-developed Sales Channels (increases threat)

Banking, securities trading, insurance policy renewal, etcetera are services that can all be performed electronically. Traditionally, customers would need to visit the supplier to obtain these services, but intermediaries like mortgage brokers are beginning to drive the sourcing of business for financial services firms. Also, as customers can now book trades on line, there is no need for an individual as an intermediary. In fact, the internet becomes the intermediary.

Although many customers prefer bricks and mortar face-to-face interaction with banks, the internet and mortgage broker channels still pose a threat to credit unions because there is an increasing trend to electronic forms of banking and customer preferences are changing toward electronic channels. Compared to the chartered banks, credit unions are very small and the amounts of technology spending required to maintain market share are proportionately higher for credit unions.

These forms of lower cost technology are being used by cost strategy companies in order to replace the personal interaction with a customer. They are essentially simulating the face-to-face differentiation strategy utilized by bricks and mortar institutions.

2.3.2.2 Low Cost Providers (increases threat)

The newly-developed sales channels noted above make way for low cost providers. The low cost providers such as ING Direct and First National Mortgage are constructively reshaping the way the financial services sector looks. The next few years will be more competitive than

ever in the industry, and significant changes in current operating processes and product/service offerings will occur within incumbent firms in order to remain competitive. In 2005 TD Canada Trust attempted to cut costs by simply consolidating the number of legal firms used to handle legal issues with financial products. This move was estimated to save them \$75 million annually.

2.3.2.3 Key Success Factors for Substitute Variable

The primary consequence of the mortgage broker channel is margin squeeze. Therefore, a KSF for Envision with respect to this factor is keeping margins from getting squeezed any further. However, this is difficult to do in such a competitive environment.

Due to low-cost providers there is not only a risk of margin squeeze, there is also downward pressure on non-interest income sources such as service charges. Substitute products like free chequing accounts as part of a cost based strategy will put pressure on companies like Envision that look to differentiate themselves.

Therefore, in response to these low cost substitute products that are commoditizing the industry, another KSF for Envision will be to compete on price with these products but still be able to sustain its profitability (and viability for that matter) by managing costs and by growing its non-interest income through continued service differentiation. This KSF underscores the importance of the ITCo strategy.

Finally, because it is easy for member-owners to have several products within their portfolio disbursed among several financial institutions, a KSF related to strength of relationship is quite important. For example, a member-owner may have a mortgage at the credit union, but still has savings at ING Direct and wealth management funds and RSP's at TD Canada Trust. Therefore, determining what percentage of the member-owner's total portfolio is held at the credit union would be a valuable tool. This KSF is a challenge to measure and compare to the competition. As a result, this information is not fully reliable, but financial institutions are using

CRM and other data tracking mechanisms like member profitability systems to obtain a clearer understanding of a customer's entire portfolio and how it translates to strength of relationship.

2.3.3 Bargaining Power of Suppliers

The overall threat in this area is moderate but is increasing due to the escalating need to rely on technology and specialized labour.

2.3.3.1 Labour (increases threat)

The financial services sector is becoming increasingly complex, and with this complexity comes the need for these organizations to have talented skilled professionals able to address the complexity. For example, the use of derivatives in treasury management has required a great deal of specialization that only a few are capable of handling competently. Many institutions must rely on outsourcing/contracting these specialized services as a result.

Unfortunately, there is a shortage of these skilled employees and the labour market in the financial services industry is becoming more competitive. Average wage costs are increasing at a higher rate, causing organizations to be less cost-effective. Also, the first wave of baby boomers are nearing retirement, creating a stir in the industry and causing many firms to develop succession planning strategies.

As a result, the labour market in the industry has become much more powerful than ever before and firms are scrambling to retain key employees by offering lucrative employment packages and more robust benefits.

2.3.3.2 Information Technology Suppliers (increases threat)

Software providers like Microsoft offer complex systems such as CRM, ERP, and data management software solutions in addition to their standard operating and application software platforms. Other providers offer highly specialized proprietary banking technology for handling

daily operations as well as profitability analysis. Due to this complexity, financial services organizations are ill-equipped and are simply not qualified to develop and maintain the technological requirements for these systems. As a result, a greater reliance on the suppliers of this technology is required. This reliance has put much more power and control in the hands of these technology providers and will continue to trend this way as technology becomes more complex and integrated. Envision faces this particular issue as its core banking system is offered through a joint relationship between Fincentric, the banking system proprietor, and Telus, the delivery channel supplier.

The core competency for financial institutions mainly rests in areas such as customer service or treasury management. Even though financial services firms are able to invest in the latest technology, it is not their core competency to be able to manage the technology most efficiently. Because these firms do not normally have technology management as a core competency coupled with increased price competition, they must find economical ways to manage operations. One of these solutions is to outsource technology operations. There are many benefits and risks associated with this strategy. First, a key benefit is cost efficiency. However, the trade-off is a reduction in flexibility as there is less control over the technology that financial services firms rely upon on a daily basis. The risk must be reduced through service level agreements, business resumption plans, etcetera that in turn eats up the expected savings the outsourcing strategy was initially meant to provide. The ITCo strategy will face these issues.

A direct result of technological advancements is the enhanced ability to access sensitive electronic data. Because of this, more costs are incurred by financial services companies to acquire technology that manages technology network security. Software and hardware must operate under secure networks that possess fraud prevention systems, physical security measures, and periodic audit and reporting requirements to regulatory authorities. Privacy legislation requires a proper governance framework to actively mitigate risk of unauthorized access to a

customer's confidential information. Identity theft (mostly through debit card skimming) has recently overtaken altered cheques as the number one source of fraud losses in Canada.

The recommendations from the Sarbanes Oxley Act in the USA have been criticized for the substantial governance requirements that cost some firms millions of dollars. Similar regulations affect the financial services sector including Basel II, which require financial services firms to extensively restructure their governance and risk management programs. Expertise from consulting firms and software providers are currently reaping the benefits by adding value to the process of enabling firms to keep pace with regulatory requirement deadlines.

2.3.3.3 Key Success Factors for Supplier Variable

The cost of technology and the cost of salaries and wages are two KSF's that are directly related to this factor of competition, which reinforces the importance of the ITCo strategy.

2.3.4 Bargaining Power of Buyers

The overall threat in this area is moderate. However, current trends are greatly increasing the strength of customers within this sector. An intriguing question to ask is 'who are the buyers?' With financial services, the buyers are customers that could also be suppliers as well, either as employees or corporate entities. The credit union system in particular does face this issue where there is significant overlap among buyers and suppliers.

2.3.4.1 Information Asymmetry is Fading (increases threat)

The technology age has allowed customers to improve knowledge through research. Internet searches can provide a wealth of information at the fingertips of most Canadians. As a result, the customer has gotten more discerning when it comes to selecting financial service providers, making customers more powerful.

Bringing the right information in the right format at the right time to customers is very important for financial institutions because they strive to improve their relationships with customers, and to that end the internet has helped tremendously. Several banking websites provide rate sheets for prospective customers who need to obtain a mortgage. TD Canada Trust has taken this process a step further recently by advertising a new feature that assists customers who use their website. If at any time customers need to clarify some information or are ready to speak to someone about a new product or service, they merely need to click on a part of the webpage, provide a phone number, and someone from their call centre will contact them immediately. This is another good example of attempting to simulate face-to-face differentiation using a low-cost technology.

2.3.4.2 Lower Switching Costs (increases threat)

Technological advancements coupled with simple desire by financial services firms have made it much less painful for customers to become more mobile. Financial incentives like mortgage rate discounts, rebates to customers if they purchase multiple products, free gifts for bringing new business, etcetera are effective signals that customers are more powerful than ever. Mortgage broker sales agents are also increasing the choices available to potential mortgage customers. Customer choices are increasing and firms recognize that a low-cost push strategy is required to do business today. This strategy makes it even more difficult to be a differentiator within the industry.

Using TD Canada Trust again as an example, a prospective customer merely needs to fill out an on-line application form to be able to switch his/her core services over to them. In return, the company will give this new customer a free iPod Shuffle. Going a step further, if the customer also applies and qualifies for a TD Visa card, the iPod Shuffle will be upgraded to an iPod Nano.

2.3.4.3 Homogeneous Products (increases threat)

The homogeneous products within the financial services industry cause more firms to compete on price. Customers take advantage of this and price shop providers. Commoditization of products and some services create a more competitive environment and put more power into the hands of the consumer. In order to reclaim some power, firms try to differentiate their products by attaching specialized services that are set apart from the competition. Listening to the customer and providing noticeably improved customer service has allowed the credit unions/caisses populaires to differentiate themselves from charter banks. The chartered banks are better known for accruing better services to customers with large balances and a lengthy term of service, and are arguably using this service behaviour as a means to improve the bottom line.

Not all customers are price seekers, however. Envision uses its service quality differentiation as a means to attract and retain these customers that are willing to pay a bit more for services and products but get in return the value proposition of great service. It is important for Envision to continue to not only advertise this differentiated service to its member-owners but to walk the talk by continually exceeding member-owner expectations each time they walk into a branch.

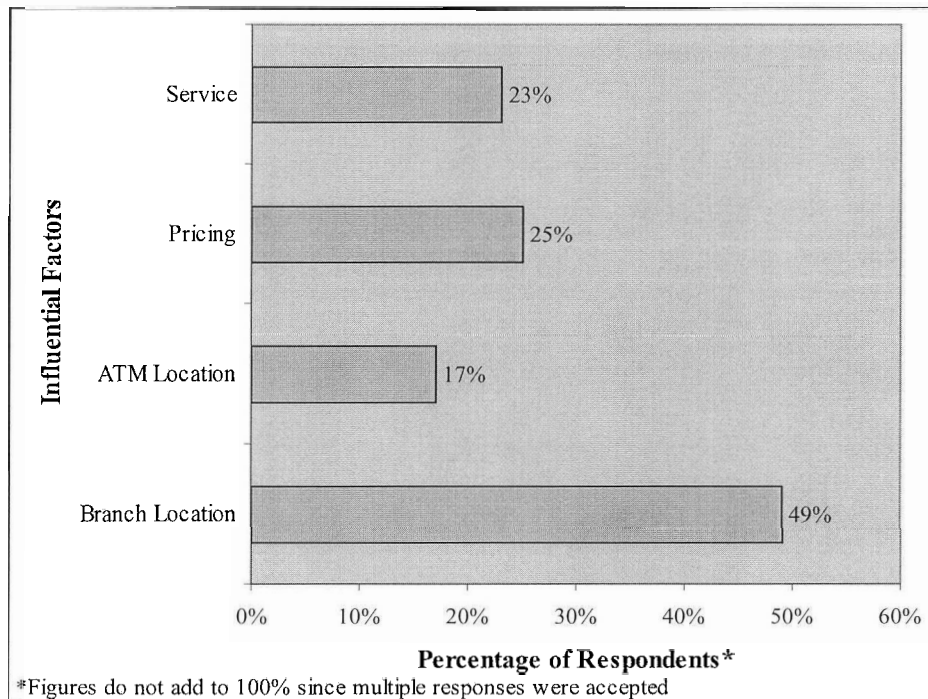
2.3.4.4 Increased Access to Delivery Channels (increases threat)

The internet and broker channel access points have been developed to a point where search costs are practically eliminated. Customers become more powerful because these costs are minimized.

When consumers are making a choice of bank, many are looking for easy access to their financial provider via different channels and different geographies, with the most influential factor being the branch location (see Figure 10). However, as human perception changes, it is

quite possible the need for branching will shrink but will not disappear, but for now the key driver of choice remains a physical presence.

Figure 10 Factors Influencing Consumers' Choice of Bank



Source: Deloitte Inc. 2006

2.3.4.5 Key Success Factors for Buyer Bargaining Power Variable

Financial institutions like Envision need to leverage their technology and use their delivery channels more effectively to allow new and existing member-owners improved access to information. The two forms of delivery reside with the internet and with face-to-face service in a branch.

The consequence of lower switching costs and more homogeneous products is that it becomes more difficult to retain customers. Therefore, a KSF for Envision to continue to combat these issues is to deepen its relationship with its member-owners by focusing on service quality. Deepening the relationship involves understanding the client's needs and providing a bundled

suite of products and services that enhances the member-owner's perception of value. This will make the choice more difficult for member-owners to switch to other financial institutions.

Finally, with respect to access to delivery channels Envision must continue to develop its face-to-face differentiation through branching, which is the process of strategically selecting locations and building physical bricks and mortar branches in new or existing markets.

2.3.5 Industry Attractiveness

The analysis of the four factors that affect competition reveals that the industry is intensely competitive and it is fundamentally transforming itself away from a differentiated industry toward that of a cost-based industry. This makes the industry much less attractive than in the past.

New entrants that employ a cost strategy and compete on price are drawing away customers and shrinking profits of incumbents, making it especially difficult for differentiators to compete. Companies like Envision who try to employ a differentiation strategy are motivated to shift their focus to cost-based strategies in order to stay competitive.

2.4 Rivalry among Existing Competitors

The conclusion reached from the analysis on the four factors affecting competition is that the rivalry among competitors is intense and will likely stay that way. The largest threat for Envision and for other incumbent financial institutions is the new entry of non-financial services companies that will leverage existing brand strength and use low cost strategies like price competition to lure financial services customers.

This section will look at the rivalry among existing competitors by identifying Envision's existing competitors and using the KSF's identified in the previous section to compare Envision

to them. The comparison will look at competitive advantages related to each KSF, discuss how they compete and differentiate, and will conclude on how these KSF's validate the ITCo strategy.

2.4.1 Key Success Factors Comparison

2.4.1.1 Profile of Existing Competitors

Apart from the chartered banks, at the end of 2005 there were 52 credit unions within British Columbia serving over one-third of the province's population. This penetration rate is one of the highest in the country. Envision's trade area is isolated to the lower mainland and upper Fraser Valley. Therefore, not all 52 credit unions are considered direct competitors of Envision because they serve smaller communities outside Envision's trade area. Within Envision's trade area there are approximately ten competing credit unions, six of which have assets over \$1 billion at the end of 2005, including Envision. British Columbia Central Credit Union bundles these six credit unions into one 'peer group' for some of its financial reporting requirements. For illustrative purposes, Figure 11 lists these six competitors and provides some financial indicators to give an impression of their relative size.

Figure 11 Credit Union Peer Group 2005

	<u>Van City</u>	<u>Coast Capital</u>	<u>Envision</u>	<u>Prospera</u>	<u>Westminster</u>	<u>North Shore</u>
As at Fiscal Year End 2005:						
Total Assets (\$ millions)	\$ 11,800	\$ 8,200	\$ 2,400	\$ 1,600	\$ 1,300	\$ 1,200
Membership (approx.)	337,000	340,000	80,000	48,000	51,000	36,000
Number of branches	52	47	18	17	12	12
For Year Ended in 2005:						
Gross margin (\$ thousands)	\$ 347,500	\$ 248,272	\$ 100,600	\$ 66,900	\$ 48,011	\$ 10,618
Net income (\$ thousands)	\$ 47,100	\$ 47,136	\$ 20,800	\$ 6,800	\$ 8,600	\$ 8,800
Net Income per Member	\$ 140	\$ 139	\$ 260	\$ 142	\$ 169	\$ 244
Assets per Branch (\$ millions)	\$ 227	\$ 174	\$ 133	\$ 94	\$ 108	\$ 100

Source: Respective Annual Reports for 2005

In addition to the credit unions, Envision competes against the chartered banks like TD Canada Trust as well as monoline providers like ING Direct.

2.4.1.2 KSF Assessment

Table 1 on page 44 summarizes the assessment of Envision's KSF's relative to its key competition, which are defined as the peer group credit unions identified in Figure 11 above as well as the chartered banks and monoline providers. Because there are so many different competitor firms in the industry, it is better to logically group them into these distinct categories as a basis for comparison than to name them all.

There are three key ratings within this comparison: STRONG, AVERAGE, and WEAK. The STRONG rating means that the KSF is an area of strength for that competitor and is outperforming its competition. The AVERAGE rating means that the KSF for that competitor is performing similar to that of the competition. Finally, the WEAK rating means that the KSF for that competitor is not being achieved, and are thereby underperforming relative to the competition.

Threats to Envision are represented by KSF's where the company is assessed as WEAK relative to the competition. The KSF's where Envision is rated as STRONG and is outperforming the competition is considered an opportunity for the company to sustain a competitive advantage.

The first KSF is technological innovation, where Envision is performing at par with its competition and no competitor is seen as a leader at this time. Since the merger in 2001, Envision has spent millions of dollars to develop and implement systems such as the CBS, CRM, and the RedFrog™ mortgage product, which differentiates itself from others within the industry through its unique technology. The monoline providers are classified as weak because they use low-cost technology to serve its customers and likely spend little on technological advancements.

Table 1 KSF Comparison among Competitors

Key Success Factor	Competitive Factor	Peer Group CU's	Chartered Banks	Monoline Provider ING Direct	Envision
Technological Innovation	New Entry	AVERAGE	AVERAGE	WEAK	AVERAGE
Economies of Scale	New Entry	AVERAGE	STRONG	STRONG	WEAK (threat)
Price	New Entry & Substitutes	AVERAGE	STRONG	STRONG	WEAK (threat)
Seek New Market Opportunities	New Entry	AVERAGE	STRONG	STRONG	AVERAGE
Strength of Relationship	Substitutes & Buyer Power	STRONG	AVERAGE	WEAK	STRONG (opportunity)
Access to Information	Buyer Power	AVERAGE	AVERAGE	AVERAGE	AVERAGE
Retention (Bundling)	Buyer Power	AVERAGE	AVERAGE	AVERAGE	AVERAGE
Service Quality	Buyer Power	STRONG	WEAK	WEAK	STRONG (opportunity)
Branching	Buyer Power	AVERAGE	STRONG	WEAK	AVERAGE
Cost of Technology	Supplier Power	AVERAGE	STRONG	STRONG	WEAK (threat)
Cost of Labour	Supplier Power	AVERAGE	STRONG	STRONG	WEAK (threat)

Source: Author

Achieving economies of scale is elusive for Envision because of its asset size relative to the competition. The top two credit unions in the peer group and ING Direct Canada are several times larger than Envision. These competitors still pale in comparison with chartered banks that hold the majority of market share in the industry. Price competition is related to economies of scale as part of a cost-based strategy because it is economies of scale that improves the firm's ability to compete on price and remain profitable. Envision realizes that it cannot compete on price because its cost structure is weaker. However, the pressure within the industry to be price

competitive still motivates Envision to look for opportunities to manage costs and sustain profitability. In this case, the ITCo strategy is a valid response to these threats.

In seeking new market opportunities, Envision is performing on average relative to its credit union peers. The Pathways project is a good example of seeking new opportunities to expand operations by both diversifying its revenue streams and lowering costs by consolidating technology operations. Envision has also historically attempted to form strategic alliances with other companies in order to access new markets. Building new branches is another means to access new markets and to that end Envision opened a new branch in 2005 with plans to open two more within the next year. The banks and monoline providers have an advantage here due to their ability to compete nationally and globally, which is why they were ranked strong in this category.

Strength of relationship is a difficult KSF to measure as it is subjective and has several variables. Some of the criteria for defining strength of relationship are number of products, value of portfolio, relative profitability of portfolio, number of years as a member-owner, and so on. With existing membership, Envision relies on bundling its superior customer service with its product line to retain customers and build loyalty with them. Envision sees itself as a differentiator in this area along with the other credit unions and as a result outperforms the competition. Monoline providers will find it more difficult to compete because they cannot bundle with a limited product line and no frills service, causing them to under perform the competition. The ITCo strategy may help Envision take advantage of this opportunity by improving system development and integration, which will allow Envision to improve its bundling of services and products to its members.

The Buyer Power factor of competition has four KSF's. They are improving access to information, retaining customers through bundling products and services, improving service

quality and branching. Of these KSF's, Envision and the peer group credit unions are outperforming the chartered banks and monoline providers with respect to service quality. The ITCo strategy may help Envision capitalize on this opportunity by finding a way to use technology to improve service quality. Examples include reducing the amount of paperwork required to open accounts and obtain new loans or term deposits, electronic statement processing and delivery, and reducing line-ups in branches by improving CBS functionality to speed up transaction processing.

The low cost monoline providers use technology as a virtual means to access the customer, which puts them in a weaker position relative to Envision and the other credit unions because most customers still prefer bricks and mortar face-to-face interaction. Chartered banks are not known for personalized service because their business model is more global, with high branch staff turnover due to rotational assignments. As a result, Envision's continuity of staff as well as its focus on community are differentiators.

With respect to access to information, Envision is comparative to the competition and there are no leaders in this category. Credit unions in British Columbia utilize the same internet banking functionality and the design of their websites is quite similar to each other. There is still a question as to whether improving access to information is seen as an incentive for customers to remain loyal to financial institutions.

To minimize the impact of lower switching costs, companies like Envision must develop retention strategies like adding value to member-owners through product and service bundles. Chartered banks and monolines are creating a competitive advantage by actively reducing switching costs to their favour with the use of incentives and technology. This strategy employed by the chartered banks and monolines is more of a cost strategy relative to bundling, therefore the

competitive edge goes to the chartered banks and monolines as the industry is becoming more receptive to that approach.

Envision's branching capability that is used as a means to increase access to customers is weaker than the chartered banks because of the ability of the chartered banks to have a national presence. However, the credit union branching capability compared to monoline providers is better because branching defies the monoline business model. ING Direct has opened four branches across Canada to respond to this issue, but relatively speaking they are still in a weaker position because their access is limited.

Under the Supplier Power factor of competition, the two main KSF's are to reduce the cost of technology as well as the cost of labour. These KSF's are important to Envision as the level of specialization and complexity under both areas are increasing, causing the costs in these areas to increase significantly. Envision is classified as weak in this area compared to the two largest credit unions in the peer group, the chartered banks and the monoline provider for two reasons. First, Envision does not have the scale to manage these costs relative to the competition. Second, Envision's differentiating commitment to its employees through training and wellness programs comes at a premium. As a result, the cost-based KSF's are directly at odds with Envision's desire to differentiate. However, the ITCo strategy is considered an effective response to reduce this threat from the competition.

2.5 Conclusions from External Industry Analysis

Based on the industry analysis in this section, the financial services sector is highly competitive and is becoming less attractive as low-cost providers are entering the market and creating fierce price competition. Credit unions like Envision who want to be seen as differentiators are forced to seek cost-effective strategies to remain competitive and profitable.

From the competitor analysis the four KSF's where Envision is classified as weaker than the competition are economies of scale, price, cost of technology, and cost of labour. Notice that all four weaknesses are directly associated with a cost-based strategy. The successful implementation of the Pathways ITCo strategy will effectively address these threats, as the main focus of the strategy is to achieve scale economies with its technology group to lower average costs and allow the credit unions to be more competitive.

The KSF's where Envision is classified as stronger than the competition are strength of relationship and service quality. The ITCo strategy can address these opportunities by improving delivery of technology to the credit unions. For example, ITCo will speed up development of new products and make software changes to allow the credit unions to improve their product and service bundles. Service quality can be improved by developing existing technology to run faster and streamline the user interface so that member-owners can spend less time standing in line. Technology can also be leveraged to reduce paperwork with electronic forms and improve security to prevent identity theft. There are literally dozens of opportunities that are available, and with ITCo's more cost effective model the credit unions will be able to realize these opportunities faster and more frequently, thereby enhancing its competitive advantage.

The ITCo strategy satisfies the general decision criteria in section 1.3.5 in the following ways. First, the strategy improves the credit union's service quality to its member-owners, which improves their face-to-face experience in a branch or their virtual experience online. Second, the employee experiences fewer problems with the software used to serve member-owners. This reduces the amount of time to perform transactions and increasing the time to service the customer, causing a more pleasant work environment for employees. Lastly, the improved cost structure created by ITCo allows Envision improve financial performance by lowering the average cost of technology.

In conclusion, the ITCo strategy as it stands fits well within the context of the external environment. Chapter Three will discuss the successful implementation based on the five decision criteria presented in chapter One.

3 INTERNAL ANALYSIS

The second chapter looked at the financial services industry and identified key success factors that companies like Envision need to succeed within the industry. This analysis validated the Pathways ITCo strategy as an effective means to address the KSF's where Envision was underperforming relative to its competition, as well as take advantage of opportunities where Envision is classified as performing stronger than the competition.

To be able to successfully implement the ITCo strategy, Envision and First Calgary must ensure that ITCo has the internal capabilities to move their technology function into this new direction. The purpose of this chapter is to perform an internal analysis of ITCo and its employees as they transform themselves from an internal department that is integrated with Envision's and First Calgary's operations to a third party service provider with two customers under a shared services model. The objective is to assess the short term capability risk that the strategic demands of ITCo exceed the capacity to execute the strategy.

The internal analysis will be performed using the Diamond-E framework as presented by Crossan et al¹⁸, which analyzes the management preferences, the organization structure, and the resources that are needed to successfully implement the ITCo strategy.

¹⁸Mary M. Crossan, Joseph N. Fry and Peter J. Killing, *Strategic Analysis and Action*, Sixth Edition (Toronto, Ontario: Canada: Pearson Prentice Hall, 2005), 43-54.

3.1 Analysis of Management Preferences

This section of the analysis will determine whether the required management preferences for the ITCo strategy are present and if not what may be required to facilitate successful implementation of the strategy.

3.1.1 Management Preferences as they Relate to the Implementation Challenges

There were five key implementation challenges presented in chapter One that are considered decision criteria to assess the successful implementation of the strategy. This section summarizes whether management preferences exist to overcome these challenges and identify gaps that need to be addressed.

3.1.1.1 Reduce Cost of Technology

Historically, the management preferences in Envision's technology group before transforming to ITCo were not aligned with cost management but were focused on stabilizing operations. The department had its hands full with several key strategic projects such as converting and stabilizing the CBS, and developing and implementing the CRM and Red Frog™ systems. The department also experienced turnover in three key management positions: the CIO, Director of Systems Development, and Director of Technical Services.

Therefore, the gap that exists is management's ability to inject a financial and operating discipline within its operating structure. This must be done so they can understand the cost drivers, reconfigure the operating structure to be able to deliver services more efficiently, and hire or place key managers in positions to influence this change.

To address this gap, management needs to assign individual accountability to its cost accounts and projects to select employees. The individuals will be responsible for setting budgets for operational costs and project costs and be held accountable for the consequences of cost

overruns. An appraisal process for each project will assess performance and allow owners to immediately identify and correct errors in implementation. This learning will then be translated to subsequent jobs in the form of best practice.

3.1.1.2 Timing of Implementation

Management preferences are in line with the timing of implementation. The transformation of the technology group to ITCo has been in the works for two years and management is very anxious to complete the transformation. Therefore, there are no material gaps in management preferences in this area that would hamper the implementation.

3.1.1.3 Improving Service Levels

Both credit unions as well as ITCo are fully supportive of addressing this challenge. However, the difficulty is transforming operations from a maintenance provider to a service provider, being held accountable for the results (good and bad), and shifting the culture of the organization. These gaps are significant and are addressed in section 3.2.2 starting on page 63.

3.1.1.4 Rationalizing Existing and Legacy Systems

Management preferences are in line with this challenge. However, the gap here is that there is no formal plan in place to manage this problem. As a result, it is necessary for ITCo to incorporate into its business plan a section on managing legacy systems. The goal is to understand the scope of the project and assess the cost impact of status quo versus rationalizing systems.

3.1.1.5 First Calgary's Banking Systems Conversion

The banking system conversion is already underway. As a result, the management preferences are aligned with this particular challenge and there are no gaps. To minimize the cost

of implementation and reduce the stabilization period, Envision employees who have participated in a similar conversion a few years earlier are assisting the First Calgary team in this conversion.

3.1.2 Existing Management Preferences

This section will discuss the two key strategies driving Pathways: the growth strategy and the cost management strategy (i.e. ITCo). This distinction is relevant as the management preferences differ with respect to each strategy.

3.1.2.1 Pathways Growth Strategy

The concept of Pathways from a growth perspective was embraced and accepted by Envision's executive team, its senior management and board of directors. The strategy was conceptually introduced in 2004 and in 2005 many of the executives and senior managers were involved in assembling a business case to develop the strategy.

Pathways is an extra-provincial growth strategy in partnership with First Calgary. It is also intended to be a cost management strategy with respect to back-office support services. From a growth strategy perspective, the Pathways strategy is in alignment with the management preferences of all Envision executives and senior managers. This alignment is supported by the organization's historical financial results that show significant balance sheet and earnings growth since the merger in 2001. Also, the company's incentive plans and performance management tools are structured to reward growth and profitability, causing most of Envision's strategies to focus on growth. Examples include the strategy to build new branches, increasing the business services portfolio through a focused strategy on small and medium enterprises ("SME"), and growing member deposits as a means to be able to fund loan growth.

The Sales and Service group, which includes branch operations, business services, insurance services, wealth management services, mortgage broker operations and central

processing, is supportive of Pathways because it is aligned with their growth strategy that includes building more branches and expanding Envision's trade area beyond British Columbia's lower mainland. One risk in this area, however, is that existing Sales and Service initiatives such as building new branches or developing SME may take precedence over Pathways. Also, the Sales and Service team has not adjusted its incentive programs toward the Pathways strategy, further challenging the capability of this group to help execute the strategy.

The Marketing group's preferences are similar to those of Sales and Service as their functions are more in line with each other. Marketing's current mandate is to develop the credit union's brand strength and little time has been dedicated to developing an ITCo branding strategy. Therefore, another risk is that the Marketing department may also supersede ITCo because of existing operational commitments with the Sales and Service growth strategy and Marketing's branding strategy.

3.1.2.2 Pathways Cost Management Strategy (ITCo)

From a cost-management perspective, there are inconsistencies in management preferences among operating departments. The Finance department supports the Pathways ITCo initiative and this department's preferences are in alignment. It is a natural course of action for the Chief Financial Officer ("CFO") to be concerned with managing costs and ITCo falls in line with the department's objectives to increase profitability. However, to improve this department's support of this initiative, it needs to focus on two key activities. First, develop specific benchmarks and performance measurement tools in order to measure the success of the implementation. For example, the total cost of ownership of the technology group at Envision and First Calgary should be determined and used as a benchmark against the operating effectiveness of ITCo when it starts operations in 2007. If ITCo is expected to reduce costs for its shareholder credit unions, then the Finance department must effectively communicate the key

financial measures to the ITCo executive and offer solutions to improve operational effectiveness. Second, the Finance group needs to take a leadership role and set the tone in delivering its specific business acumen to the technology professionals that make up ITCo. Part of this role will come in the form of creating new Finance positions in ITCo before operations begin that are dedicated full-time to the development and management of the business.

The Human Resources department is aligned with the ITCo strategy in that it fully supports the needs of the ITCo employees. However, much work needs to be done with respect to developing human resource policies, procedures, employment benefits and performance management tools for ITCo as its operations will be much different relative to the credit unions. For example, the incentive program for ITCo will need to include standards for operational effectiveness and have key success factors for effective project management as a technology service provider.

Envision's former Chief Operating Officer ("COO") is now the Chief Executive Officer ("CEO") of ITCo and Envision's CIO is now the CIO of ITCo. Both of these individuals are in charge of the ITCo implementation and there is no question that their preferences are aligned with the strategy. In order to successfully deliver this strategy to the credit unions, they will need to exhibit exceptional leadership and set the tone for developing and delivering a business model that will add value to all stakeholders. In this case the stakeholders include the shareholder credit unions, their member-owners and employees, and the ITCo employees.

There are two risks within this area. The first is that these executive are involved in every detail of the operational implementation and may micromanage themselves to a point where they are less effective. They will need to create an organization chart with roles and responsibilities of all employees, quickly appoint key managers and delegate implementation

responsibilities to them. This organization chart will be the result of the development of the business model that is being created in the third quarter of 2006.

The second risk is that the executive may look for third party customers too soon. Focusing on the task at hand, which is the Phase I mandate of setting up the business model and delivering on its promises to reduce the overall cost of technology systems and labour to Envision and First Calgary, should be the short term objective in the first year or two. Granted, the sales cycle for this service may range between 18-30 months, causing an inevitable overlap. Because of this, the executive may spread their efforts too thin by focusing on both phases of implementation.

3.1.3 Summary of Gaps in Management Preferences

The primary gap for the Finance department is its tentative approach to committing resources to the strategy. Currently, the department has committed two people on a part-time basis to assist with the pre-operating requirement of converting First Calgary's banking system to a common platform shared with Envision. The department has also assigned a third person over to ITCo for two months to help the company develop a financial structure for internal control, financial reporting, budgeting and forecasting, risk management and developing key performance indicators. However, temporary help will not be the answer for ITCo. Permanent full-time resources will be required to properly inject the business discipline into a start-up company. ITCo should therefore recruit a Finance team led by a CFO and a Controller that have solid lines of responsibility to the ITCo CEO but understands the needs of the shareholder CFO's.

The Human Resources department's main gap is the development of a transition plan for Envision and First Calgary technologies employees who will be transformed into ITCo employees by the end of 2006. Not only will the policies, procedures, comprehensive benefits, and performance management tools be changed, the culture of ITCo will likely change as well.

The change will not only affect ITCo employees, it will also affect Envision and First Calgary non-technology employees. There is a risk that the Human Resources group's current activities that support existing credit union strategies may supersede the requirements for change management efforts as ITCo starts operations. An ITCo transition team comprised of members from all three organizations should be created to develop and implement a plan to address change management issues for all employees.

The Sales and Service department's gaps with respect to management preferences rest with the potential alignment of the ITCo strategy with its own. Many Sales and Service strategies require ITCo resources, which will be limited as ITCo builds its operations. As a result, Sales and Service and ITCo will need to work more closely to perform cost/benefit analysis and prioritize activities in order to maximize the value received from these resources.

3.2 Analysis of Organizational Capabilities

This section of the chapter analyzes Envision's organization and in particular the technology group that will form the structure of ITCo in terms of its culture, processes, systems and structure. This section will also identify gaps that need to be filled in order to successfully execute the ITCo strategy.

3.2.1 Culture

Envision's cultural footprint is directly aligned with the credit union philosophy of 'people before profits', and moving to a cost strategy conflicts with this philosophy. Credit unions by nature are very community and family oriented businesses and Envision is in alignment with this perspective. The company's vision statement includes clear directives related to optimizing the experience of its employees, member-owners, and the company's relationship with and contribution to the community it serves.

With reference to Wexler¹⁹, Envision holds a Communitarian world view where the company and its employees strive to seek a meaningful existence within the community. This culture uses group settings for learning and personal growth. For example, Envision has extensive training programs for all employees that are delivered via an in-house training facility. Envision also has several meeting rooms at its administrative centre to facilitate open dialogue. Participants in this culture have a basic need for inclusion within this society, which makes Envision employees feel they are part of a family. It is a co-operative tribal environment where respected tribal elders (executive and senior managers) mentor and guide not only their own employees but share experiences with other credit unions throughout the world. Each employee has a voice and interactions are founded on the basis of mutual respect and dignity.

Envision has been successful in translating this culture into a differentiation strategy that focuses on maximizing member-owner service and providing its employees a great work environment. As an example, a branch's employees at a local credit union are able to spend more time at one location over a period of time, allowing them to grow roots within the community as well as deepen relationships with its member-owners and fellow employees. Chartered bank branches, on the other hand, normally have higher turnover at a branch because positions like branch manager require frequent periodic rotation in and out of branches and communities. This limits the ability of the manager to forge relationships with customers and other employees. Therefore, the relationship strength built by a credit union branch becomes a source of sustainable competitive advantage over chartered banks.

However, shifting to a cost-based strategy will create a large culture gap, especially when physical face-to-face relationships are being replaced through the use of technology to that of a virtual relationship. To address this gap it is important to understand the other world views

¹⁹Mark N. Wexler, *Leadership in Context: The Four Faces of Capitalism*, (Northampton, MA: USA: Edward Elgar, 2005).

(which are the Regulatory, Entrepreneurial, and Network) relative to the Communitarian world view because the ITCo strategy will need to embody the characteristics and behaviours of these other world views to be successful.

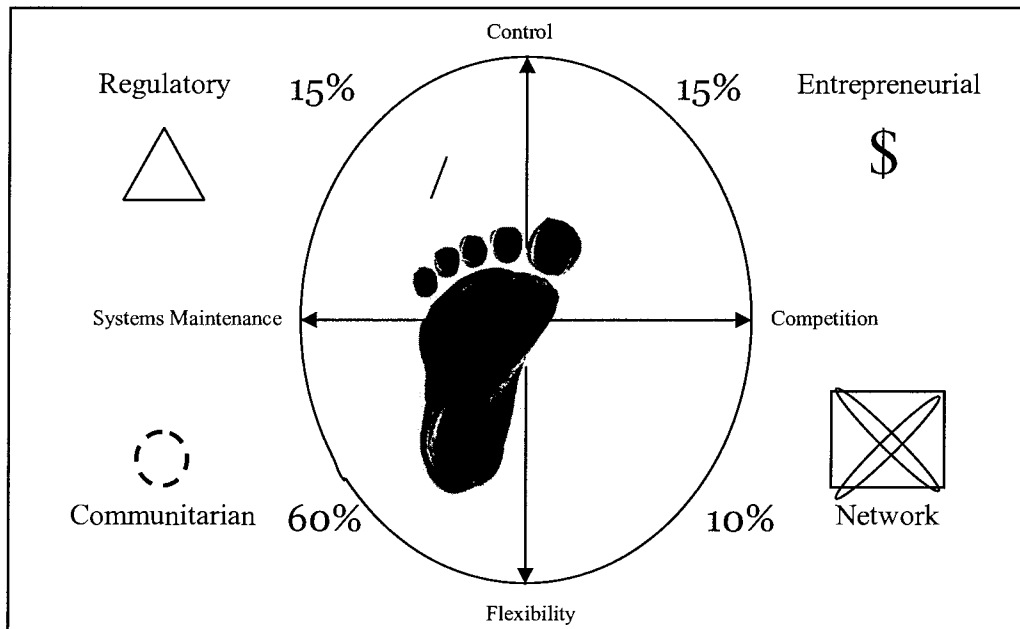
A business with a Regulatory world view is more bureaucratic and structured with a hierarchy where there is one leader and a well-defined chain of command. A company with this view looks toward long-term sustainability and strives to reduce uncertainty in its business. Telus is an example of a company that would fit the Regulatory profile.

A company with a Network world view is the opposite in nature to a Regulatory company in that it is much more flexible and competitive instead of being highly controlled and regulated. A Network organization wants fewer boundaries because its members believe rules and regulations hamper creativity. Boundaries create unwanted roadblocks to change and innovation, thereby compromising the objective of having a stimulating and challenging environment. A bio-pharmaceutical company on the edge of a new breakthrough medicine would fit in this category.

Finally, the Entrepreneurial world view is on the opposite spectrum from the Communitarian, with more of a sense of individualism, power, and profit maximization. Instead of a participative leader, an entrepreneurial company has an individual leader or a 'Boss' that drives the business forward. Employees are treated as a means to an end and they enter and exit the company as needed. Many publicly held enterprises that are accountable to their shareholders can be described as having an Entrepreneurial world view.

Figure 12 below is an adaptation of Wexler's world views and highlights Envision's current position or footprint relative to these world views. Most businesses have some aspects of each world view within its domain, but there is usually one dominant feature. In Envision's case it is Communitarian.

Figure 12 Wexler's World Views Adapted to Envision and ITCo



Source: Adapted from Wexler

The primary shift in the ITCo footprint will be along the horizontal axis to that of increased competition. ITCo will need to become a lean organization that can survive in a cost-based industry. The secondary shift is along the vertical axis to that of increased control, which means that ITCo must become more structured and evolve to a system of individual responsibility, accountability, and consequence in contrast to its existing communal approach. Shifting ITCo's world view to narrow this gap could be met with resistance from both the employees of ITCo and the employees of the credit unions, which would jeopardize the successful implementation of the ITCo strategy.

Note, however, that the existing operation already requires some Regulatory capacity as it is a provincially legislated financial institution that must follow certain rules in order for it to exist. The company operates in a very competitive industry that requires it to seek profits and look for opportunities to grow. It has historically taken a page from an entrepreneurial enterprise by starting up new businesses such as insurance services, automobile dealer financing,

automobile leasing, and now with Pathways ITCo. From a Network perspective, Envision uses innovation as a means to an end, and the RedFrog™ product is a good example of developing internet functionality to create a differentiated product offering to its member-owners.

The most important gap is the capability of a Communitarian-based culture to deal with significant change in a short period of time. Dealing with rapid transformational change is not a core strength of a Communitarian culture, thereby increasing the risk that Envision will not be able to successfully implement the ITCo strategy within its existing timeframe. Also, employees that resist this need for a cultural shift may leave the company, causing a resource gap that further increases the implementation risk.

To manage this risk, ITCo must take more of a page out of an Entrepreneurial enterprise when dealing with change, not by completely abandoning all existing cultural values and behavioural norms, but gradually shifting its world view footprint. This can be accomplished by implementing a change management process that is meant to reduce the anxiety and stress that comes as a by-product of transformational change. The Human Resources group can develop this program or bring in a consultant to work along side management and employees to deal with their concerns and keep them on track.

ITCo must also consider its leadership team when it comes to cultural change. It is critical to have the executive of ITCo shift its leadership behaviour from that of a purely participative leader found within a Communitarian environment that seeks consensus, mutual learning and understanding to that of an individual leader or boss that has an Entrepreneurial world view. As with the employees, the change does not need to be drastic, there merely needs to be a shift in world views so that more weighting is placed on the Entrepreneurial world view. One way to achieve this is to hire a key manager that already embodies the desired world view and use that person as a change agent. Also, the existing leaders will need to take the role of

advocate to accommodate the transformation. Advocates will be able to champion a position, stimulate controversy, critically evaluate values and most importantly promote task accomplishment. The leaders must appear to be in control, be decisive and realistic in their approach to building the ITCo business.

Finally, ITCo must address the potential cultural differences between Envision and First Calgary. On most fronts, both credit unions are philosophically aligned when it comes to its corporate vision, company values, commitment to employees, and service to its member-owners. However, there will still be gaps that exist between cultures that must be identified and resolved. Even with Envision's merger at the beginning of 2001 there were cultural differences between predecessor credit unions that are still discussed today, and these credit unions were situated closely to each other geographically. The fact that the majority of ownership, executive presence, and employee base will be skewed towards Envision may not help the situation either.

The implication of this cultural tension is an inability to successfully complete projects on time and on budget. The transaction costs associated with making decisions increases. Examples of transaction costs are legal fees for arbitration and higher salary costs because it takes longer for project implementation. Also, some employees may exit the company, increasing the costs of recruiting for new employees and retention of existing employees.

However, there is a process being developed to resolve differences in opinion and settle disputes among credit unions, which is designed to ensure each party is treated fairly. This reduces the risk of tension but will not eliminate all of it. As a result, ITCo and both credit unions must work together to minimize cultural gaps as they arise.

3.2.2 Systems and Processes

3.2.2.1 Technology Service Processes

The CIO of ITCo expressed concern about being able to successfully transform internal business processes from that of an internally-structured maintenance provider to that of a third-party service provider. The difference between the two is primarily a reactive versus proactive set of behaviours. A maintenance provider can be defined as one who is empowered to manage existing technology applications and infrastructure. In this case, the Technology department as it exists today is responsible for responding to issues that arise from the user group and therefore behave in a reactive manner so to keep the systems operating at acceptable levels. A service provider's approach is more proactive in that it has the ability to understand the needs of the user group and it can more readily anticipate and make changes required to maximize the value to the customer. The service provider is also able to effectively prioritize projects and manage resources with the objective of optimally utilizing its staff to maximize profits for ITCo.

The transformation to a service provider from a maintenance provider is a large gap to bridge for ITCo. The business model of being a service provider does not exist because ITCo is a new enterprise and the existing technology service processes at Envision are not designed to meet that need. The traditional method of handling issues can be described as a 'tap on the shoulder' approach, where a person in operations that required a technology resource would merely need to send a request to any technology department employee and ask him/her to solve the issue quickly.

An inherent behaviour within the Technology group as it exists today is to try to accommodate the needs of all users, so it is customary to accept virtually all requests. In a Communitarian environment where participants are less comfortable with conflict or confrontation, saying 'no' to a request is rare. Therefore, this behaviour is deeply rooted in its cultural norms.

To close this gap, ITCo needs to reduce its points of contact with its customers from several to one. This shift to a single point of contact has many benefits. First, the customers get a consistent message from one person who represents the collective. Second, one person can better scope the needs of the customer and reduce fragmentation. Finally, the other employees in ITCo will not be inundated with requests, allowing them to focus on their existing workload. This will help make them more operationally proficient.

A second gap in technology processes relates to the capability of ITCo to manage its projects, which includes prioritizing, planning, and executing of technology-based projects for its user group. The current Technology department's processes are limited. In the past year, the department developed a Project Management Office ("PMO") with a mandate to identify, prioritize, and analyze resource requirements for all strategic and operational projects at Envision. The PMO created a manual process to document the objectives and requirements of each project and required business unit managers to develop detailed business cases for all strategic projects.

This current process is a step in the right direction for ITCo's implementation. However, the PMO process over the last year has not been fully embraced by Envision stakeholders. Two key concerns have surfaced that still have not been addressed. First, the selection criteria to prioritize strategic projects are not clearly identified. As a result, user groups are concerned that politics and subjective measures supersede objective criteria, compromising the integrity and the fairness of the process. For example, several of the top strategic priorities taking the lion's share of resources are driven by one department, and other departments are left wondering why their projects are left out and why they are considered less important. Second, operating departments continue to develop new strategic projects that are forced into implementation regardless of the drain on resources or where they may be prioritized by the PMO. This circumvention of the PMO undermines the integrity of the project prioritization process as well as the authority of the PMO itself.

The project prioritization process for ITCo will need to be more robust relative to what exists today and must address the key concerns of the stakeholders. Once developed, proper communication and training are required not only for ITCo staff but for Envision and First Calgary management groups that are the key customers for ITCo.

3.2.2.2 Systems

There is no technology solution in place for ITCo that integrates the effective management of its own strategic and operational projects as well as those of its customers. The existing project management process for identifying, prioritizing, analyzing resource requirements and implementing projects is manual and not integrated. It needs a lot of development and may not serve the specific needs of ITCo. This is a significant gap for ITCo that must be addressed upon implementation.

The company needs to investigate solution alternatives by looking at other technology service providers and their best practices. First Calgary has existing software capabilities with its ERP system that may aid ITCo in the short-term. An ERP system is a software technology that integrates various functions and data including accounting, human resources, payroll, inventory procurement and manufacturing processes for medium sized and large enterprises. ITCo executives will need to investigate what their short-term and long-term needs are with respect to project accounting and resource management and compare them to what is available at First Calgary today. In reality, an independent ERP system solution for ITCo will be expensive and difficult to implement effectively, so seeking an independent ERP solution will not be possible at this time.

Because effective cost management is a key objective of ITCo's operations, the company needs to develop a service pricing and costing model. This model will be used as a tool to effectively quantify the costs of implementing a project for its customers as well as understanding

what price to charge its customers. Some work has already begun in this area, as ITCo retained services of an outside consulting firm to develop a Microsoft Excel spreadsheet model. This model is quite complex and robust. It is meant to provide a five year forecast of cash flows, earnings, and other performance indicators that are relevant not only to ITCo but to Envision and First Calgary. These indicators include return on investment, net present value, and net cash flow required from each shareholder. The model is also scalable when it comes to adding third party customers to ITCo's operations after year three.

However, there are risks in relying on a MS Excel spreadsheet model. In particular, there is a serious risk of formula and reference errors within the spreadsheet that may go unnoticed for a long time. This risk is a gap that should be addressed by ITCo management. An error in the spreadsheet may create inaccurate results on which ITCo will rely when making business decisions. To bridge this gap, ITCo must perform integrity analysis on the spreadsheet by either having internal personnel review the model or have an independent third party perform an integrity audit.

With respect to the systems employed by Envision and First Calgary, the one key gap that needs to be addressed is the consolidation of core systems including IWB, CRM and LOS. A current step to manage this gap is First Calgary's conversion of its banking system to IWB to match Envision. However, there is an existing debate over which LOS and CRM systems to implement as core systems within ITCo. This gap needs to be addressed upon implementation in order for ITCo to effectively manage its cost structure. To do this, there needs to be a project team named to identify, select and implement an LOS and CRM solution that will satisfy the objectives of both credit unions. This could take several months to achieve, which makes it important to move quickly. Otherwise, the cost effectiveness of ITCo will be compromised.

3.2.2.3 Internal Control Processes

One of the primary concerns that corporate entities have is the proper safeguarding of its assets. In order to address this concern, a company must have a functional set of internal controls. Examples of internal controls include policies and procedures around purchasing and payment authority, contract negotiation, risk management, etcetera.

To that end, ITCo is currently planning to create and implement an internal control framework by the time operations commence in 2007. However, no framework exists today. The potential gap in this area once policies and procedures are in place is mostly cultural, especially in the area of policy enforcement. Companies with a Communitarian world view such as Envision seek harmony and avoid confrontation and conflict. Also, individual accountability is superseded by group accountability in this cultural setting, making it difficult to enforce policy violations. Internal control mechanisms are more stringently followed in companies with more of a Regulatory world view versus Communitarian. As a result, the internal control framework should clearly communicate the consequences of violations, and the ITCo leadership team will need to address the issue of individual accountability as part of the change management process. The objective is to minimize the impact of this change in discipline and avoid any active or passive resistance to these changes.

3.2.3 Organization Structure

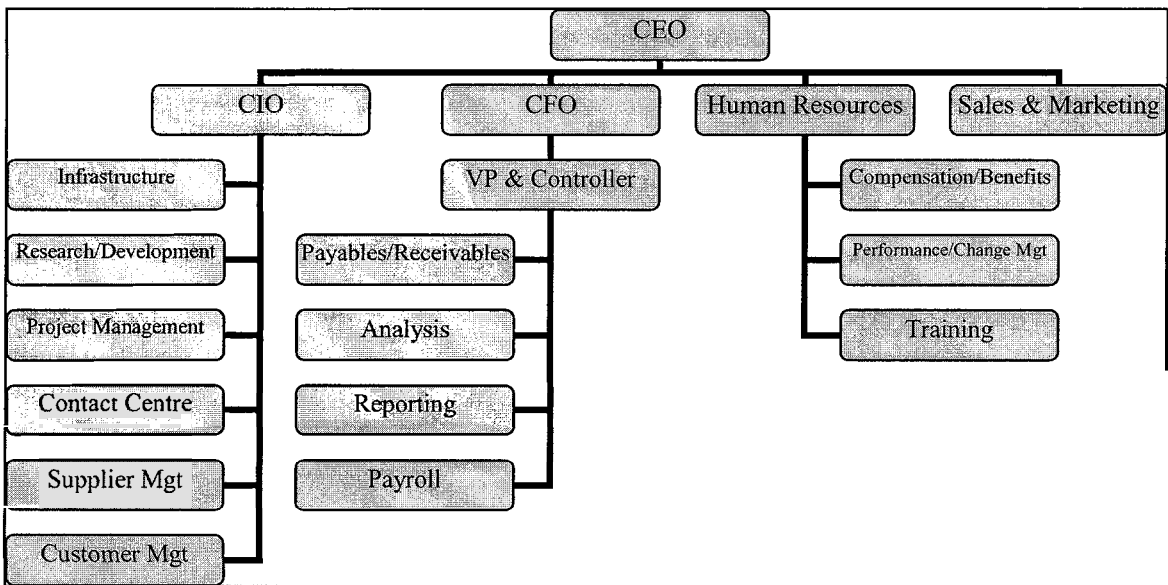
3.2.3.1 Organization Chart

As ITCo is a newly-formed company, no formal organization chart has been prepared. However, in the next few months the leadership team will prepare a chart that will align with the company's proposed business model. Regardless, there are some issues that need to be addressed quickly with respect to the organizational structure. The author proposes the following organization chart as shown below in Figure 13. The resource gaps that are derived from what is

presented in this figure relative to what exists today will be discussed in the Resources section 3.3 on page 73.

Currently, virtually all employees of ITCo have a technology background and none possess a core discipline related to Finance, Human Resources, Marketing, Sales, or Banking Operations. The risk in the short term is that the business model and entire operational structure will be developed from only one perspective. To fill this gap, ITCo is renting the services of Human Resources, Finance, and Marketing professionals from the shareholder credit unions to help start-up the business. This solution is the most cost effective alternative at this time because the existing Envision and First Calgary employees have a good knowledge of systems and each other. This reduces the costs of recruiting, training and development. However, these are temporary assignments and the consequences of temporary assignments are lost continuity of resources and lost depth of knowledge after these professionals go back to their regular posts.

Figure 13 Proposed Organization Structure



Source: Author

3.2.3.2 Location of Head Office

Because the CEO and CIO of ITCo originated from Envision, the ITCo head office will likely be at Envision's head office in Langley. Also, the majority of the employee base of ITCo's Technology department comes from Envision, with an approximate split of 50 Envision staff to 20 First Calgary staff. A potential issue with this arrangement is that First Calgary may feel the mind and management is lopsided toward Envision. This issue is compounded by the fact that Envision will hold a majority shareholder interest in ITCo. Any potential disagreements in strategy and operational direction of ITCo may cause First Calgary to become frustrated and create tension between both Technology departments. However, both credit unions are aware of this issue and have developed a dispute resolution process as part of its operational and shareholder agreements. The objective of these agreements is to minimize this tension and ensure both credit unions are treated fairly. As a result, the current gap that exists here is narrow, but it could widen at any time depending on the issue.

Currently, both Envision and First Calgary house their technology operations centrally at their respective head offices. Envision's head office is located in Langley, British Columbia and First Calgary's is in Calgary, Alberta. The branches for each credit union do not have in-house technology staff to assist with issues. Normally a technician will be dispatched to a branch when the need arises after a call is placed to the Help Desk. Each credit union does have an off-site data centre, which houses the network equipment required to operate the non-banking business systems. Both data centres are close in proximity to each credit union's respective head office location.

As part of ITCo's implementation, there is an internal debate as to how the operations will be physically organized, regardless of the functional organization structure in Figure 13 above. The first alternative is to completely centralize all of ITCo at an offsite location independent of both credit unions. This alternative may not be the most cost effective in the

short-term because there will be incremental costs associated with moving all employees to a new location. Such costs include acquisition or lease of a new building, building improvements, moving costs for all existing employees, acquisition of office fixtures, and moving the network equipment. This additional cost will materially impact the potential savings anticipated from merging systems. The credit unions also own their current head offices and hold long-term leases with the data centres. These are considered sunk costs as existing technology operations are housed there. Any incremental cost of consolidating offices would therefore deviate from the objective of reducing cost of technology. As a result, this alternative is not being pursued at this time.

However, a cost/benefit analysis of this alternative should be completed before Phase I of the ITCo strategy is complete. This is important because it is likely that additional physical and human resources will be required to service third party credit unions as part of Phase II of ITCo's implementation. The existing facilities may be too small to manage all operations once additional credit unions come on board. Also, the third party credit unions that sign-on as new customers will be interested in ensuring that ITCo is operationally independent from Envision and First Calgary in order to prevent any conflict of interest issues.

The second alternative is to consolidate functions on the organization chart at each credit union's head office. This alternative is currently being pursued and implemented. For example, the Contact Centre will be housed at Envision's head office in Langley, but will service both credit unions. Each credit union will have its own deployment staff on site made up of existing employees that will be dedicated to servicing the calls from the Contact Centre. This removes ITCo from any short-term incremental cost associated a pure consolidation alternative.

This alternative is also meant to reduce costs associated with turnover and moving employees. In virtually all cases, the existing employees of Envision and First Calgary are

expected to stay on and adapt to their new roles at existing locations. If employees feel burned out or are placed in positions that are not suited to their skills, they may be given the option to transfer to another department or leave the company. Technology employees in general are familiar with this kind of turnover, but it conflicts with the credit union mentality of employee loyalty and longevity.

At this time, there has been no significant turnover within ITCo. With the backlog of operational and strategic projects including the conversion of First Calgary's CBS, the demand for the existing personnel is high. It is anticipated that over time the overall employee count will lower once operations of ITCo have stabilized, but for now there is a need for all staff. It is possible that some form of attrition will result, but it will not be the result of efficient operations in years one and two. Therefore, the main issue that could lead to stressful situations among staff is the enormous workload that exists today.

3.2.4 Summary of Gaps in Organizational Capabilities

ITCo's management team is developing a detailed business plan to address some of the gaps identified in this section, particularly the issues related to business processes and organization structure. However, one of the more urgent gaps to fill is to create an organization chart and define the roles and responsibilities of each position within the chart. Having a group of people in a room ready to implement the strategy is a good start, but without defined roles and responsibilities and assigned individual accountability could lead to lack of focus and direction. The consequence of this is a costly delay in implementation.

In addition to creating and defining the organization chart, ITCo needs to fill these positions with the right people. For example, the 'right person' required to address a culture gap may be an operational change agent that can set the tone, lead by example and has the experience to assist others in changing behaviours. Also, to develop proper continuity of resources and

reduce the loss of intellectual property, positions in Finance and Human Resources should be filled with permanent employees. These employees can be found within existing credit union operations or recruited externally. Because the head office of the ITCo employees is based in Langley, it is likely that the majority of internal recruitment will come from Envision employees and external hires will come from British Columbia's lower mainland. A more detailed look at the qualifications of these employees will be addressed in the Resources section of this chapter starting on page 73.

Finally, the culture gap cannot be easily bridged by merely writing a business plan. The Human Resources department must work closely with the ITCo leadership team in order to help shift the cultural footprint away from Communitarian. One way to address culture gaps is through recruitment, where new employees are brought in from companies that exhibit the behaviour sought by ITCo. Also, Human Resources can develop role profiles for existing positions and develop compensation and incentive programs that reward the new behaviour.

Performance management tools for employees such as performance appraisal documents need to be created to assist with this shift. These tools must explicitly provide incentives toward desired behaviour and highlight measurable implementation objectives. Current documents used by the credit union will not suffice as they do not reward the required behaviour to make ITCo succeed. They are focused on growth and not cost effectiveness. These tools also need to identify individual accountability and integrity along with the consequence of non-compliance. Overall, the reward system should be linked to performance and desired behaviour.

Two possible alternatives that can be used as a catalyst for this change management are to first hire a change management consultant. This person will instruct ITCo management on how to define the performance management systems, conduct performance reviews, develop recruiting practices, and deal with undesired behaviours. The change management consultant will

also be responsible for advising the ITCo management team on how to reduce the stress associated with any cultural tension that arises between Envision and First Calgary personnel. Stress could arise for First Calgary technology employees, for example, because they will become the minority within ITCo.

Second, hire employees that exhibit the behaviour needed for ITCo to successfully implement its operating strategy. These employees can be considered change agents that lead by example. They would come from public companies that understand what it is like to work in a lean environment, develop new processes to save money and run operations more effectively. The ideal candidate will have a take charge attitude, but must still be considerate, respectful and have good communication skills. This is necessary because there is a need to effectively communicate the message to existing employees and minimize any form of resistance.

3.3 Analysis of Resources

This final section of internal analysis will identify what resources are available in ITCo, what resources are required to support the strategy and address gaps that may exist between what exists and what is required. In addition to addressing the gaps, this section will also identify the costs and benefits associated with these gaps.

3.3.1 Resource Requirements

To be able to execute this strategy, there are a number of resource issues that need to be addressed. There is an urgent need to develop the business model required to serve Envision and First Calgary, and then create an ITCo organization chart based on that business model. The author proposed an organization chart in section 3.2.3 on page 68. The three core areas of focus on this chart that will be discussed in this section in terms of resource requirements are the Technology group headed by the CIO, the Finance group headed up by the CFO, and the Human Resources group.

3.3.1.1 General ITCo Resource Issues

There are several issues that affect ITCo as a company and are not department specific. For example, ITCo must determine who will fill all key positions within the company. The majority of positions in the new service delivery model will likely be filled by existing Envision and First Calgary employees. Currently, the key executive positions of CIO and CEO come from Envision, and of the 70 technology staff, 50 are from Envision. Therefore, it is logical to assume that the majority of all key positions within ITCo will be filled by Envision staff.

Second, within the operational structure, it will be important for ITCo to determine what operational departments will be situated in Langley or Calgary. In some cases these functional responsibilities will need to be split. For example, on-site technicians to deploy new equipment are required for each site, so dedicated employees will be situated at each credit union's head office. Other departments may need to be completely consolidated in order to properly reap the benefits from efficiency. The Infrastructure department, for example, may struggle to do this because of geographic separation. Therefore, there is a risk that not all efficiencies will be fully realized as a result of the ITCo strategy. It is important for ITCo managers to fully analyze the costs and benefits associated with situating each functional area.

The third issue relates to turnover of employees. During the transition to ITCo, existing Envision and First Calgary employees may be shifting positional responsibilities and it is possible that some employees will burn out or will not be best suited within the ITCo model. As a result, ITCo will face employee turnover, which increases the risk that there will not be enough resources to fulfil the requirements of ITCo's operational structure.

3.3.1.2 The Technology Group

Envision's existing Technology group is separated into two key functional areas. The first area is Systems Development and Delivery, which works with the development and management of all applications software systems that are required to run the banking operations. Examples include the IWB core banking system, the LOS, and the CRM system.

The second functional area is called Technical Services. This department is primarily responsible for information systems infrastructure including hardware (network servers, personal computers, telephones, etcetera), network services and network security.

As Envision's Technology group transforms to ITCo, there is an opportunity to revisit the technology business model and create a new organization structure geared toward a services model instead of a maintenance model. Looking from a services perspective, it is important to understand how ITCo will be servicing or 'touching' its customers and suppliers. It is these touch points that form the basis of the operating structure of ITCo.

At the top of the chart on page 68 is the Infrastructure area. Infrastructure does not directly touch the customer or the supplier, but it does serve an indirect function. The Infrastructure department ensures all operating network systems and hardware are operating at optimal levels. The goal is to minimize downtime, have effective security, scalability of technology, and redundancy. Currently there are few gaps to fill here. In the past year the Envision technology department has been replenishing its network equipment and putting a lot of effort into achieving these objectives. However, once the implementation begins this department must develop a plan to audit its existing structure against the requirements of the ITCo service model. An internal network hardware and security audit may be required to help achieve this goal.

The work performed by the Research and Development department is meant to satisfy ITCo's objective of being more proactive as a company in creating better technology solutions for its customers. This department will work closely with the other operational technology departments at first by helping stabilize current development needs. Looking at the existing employee base, there are few employees that have the development skills to effectively run this department. Historically, Envision has contracted out development work to third party vendors. As a result, ITCo will need to develop this department by recruiting developers and hiring them as employees. There is a risk that there will not be enough qualified individuals available to fill this gap, especially in British Columbia where the market demand for technology professionals is very strong. The market for technology professionals in Alberta is even more intense.

The Project Management department will be split into two separate areas: Strategic Projects and Operational Projects. Decision criteria and definitions will be developed to discern the two areas. For illustrative purposes, a strategic project may require time and materials effort in excess of \$100,000 and relate to specifically identifiable initiatives like implementing a new software system. An operational project could be as simple as creating a new automated report for the branches that draws information from three separate systems. Each strategic project will have a team for implementation and will be budgeted and priced independently. This functional group will likely be the financial lifeblood of the entire organization. Therefore, two KSF's for ITCo in this department will be effective execution of each project as well as proper pricing to ensure the customer gets value for their money and ITCo optimizes its return on investment.

An inherent risk in the Project Management area is that the current technology group that will become ITCo has little experience working within a job costing discipline and they will not be able to execute jobs effectively. Also, there are currently no systems in place to manage these projects. The department will need to develop a system for tracking their time to the jobs they work and become diligent at setting and achieving budgets for each project. They will also be

held individually accountable for improving productivity as well as the overall results of each project. Because of the need for someone with a job costing discipline, a Project or Operations Controller may be an ideal solution for this department. This person will have the acumen described above plus have a Finance background, allowing a dotted line responsibility to the Controller in the Finance department.

The Contact Centre will be used as a point of contact for the customer user group for basic day-to-day activities. Currently, Envision has a technology Help Desk, which can be used as a starting point toward the development of a contact centre for ITCo. It is important for the Contact Centre to clearly define its roles and responsibilities and communicate them to its customers to effectively manage their expectations.

Once these responsibilities are defined, measurable performance management statistics will be created to manage results. For example, the tracking of types of call such as ATM downtime or member-card rejections at point-of-sale terminals could be used to assess the overall effectiveness of the Infrastructure department. To achieve this, there may be a need for a call centre software system.

The Customer Management department is included because an ITCo objective is to have a consistent single point of contact for its customers. This person can manage the relationship as well as work with the Project Management group and other ITCo departments in fulfilling the needs of its customers. This department is seen as a critical liaison between ITCo and Envision/First Calgary.

Finally, the Supplier Management function is meant to manage the relationship and service levels with ITCo's suppliers of technology. For example, the banking system is offered through a joint venture between Fincentric, the software provider, and Telus, the delivery channel. It is vital for ITCo to properly manage the relationships with suppliers such as these

because they rely on them to deliver the core systems to ITCo's customers. It is a form of economic dependence that should not be taken for granted.

Overall, the Technology group's organization structure will need to be overhauled and reconfigured to resemble the structure that is identified in this section. The key risk is determining whether the existing ITCo employees that have come from the two credit unions will fit well into these functional areas.

3.3.1.3 Finance Department

Currently there is no Finance department in ITCo. However, in order to instill a discipline of internal control, perform diligent financial analysis and develop financial reporting for a start-up such as ITCo, an accounting department is critical to its successful implementation. On a temporary basis to fill the gap ITCo has contracted the services of a senior manager from Envision's Finance department. This person's responsibility is to help create a three year financial forecast for the company, develop an internal control structure, and create a pricing model. This move is definitely a step in the right direction, but having only one person in this position for a few months increases the risk that the individual is micromanaging his/her responsibilities and the short-term nature of the engagement creates continuity issues.

As a result, the organization structure was presented to include a few key functional areas in Finance that are necessary for successful implementation. First, the company needs a single point of responsibility over the financial operations of the company. For ITCo, the author recommends a CFO to address this need. The CFO will be responsible for the internal control framework, risk management, financial reporting, and tax compliance matters for a multi-million dollar operation. The shareholders of ITCo will want to rest assured there is someone they can trust at the helm of the Finance department. Therefore, this person should be aptly qualified to start-up new operations and understand all the critical steps needed to get the job done within

timelines. This person must also be an effective change agent that advocates the need for more fiscal discipline and must be in a peer position with the CIO and CEO in order to balance the executive team at ITCo.

In addition to the CFO, a Controller position is required. This person will have enough business acumen to understand the big picture and will also have the technical ability and leadership to manage the department's operations. The Controller must also be able to manage every detail to develop the company's control and financial infrastructure. Currently this position does not exist at ITCo, but it is recommended that this person be recruited as soon as possible in order to reduce the continuity risk.

The Accounts Payable and Accounts Receivable areas are staples in Finance departments. They are the functional internal control mechanism for a company to ensure the integrity of the inflow and outflow of cash assets. As a start-up, it is possible that only one person is needed to fill this position for now, but this person must be competent enough to understand how to develop, communicate and enforce policies and procedures. It is likely that an opportunity exists for an existing credit union employee to assume this position. As a result, the gap in this area is manageable.

The Analysis and Reporting positions are shown on the chart as two separate functions on the organization chart. However, at start-up they could be combined into one position until the amount of work required demands the separation. The purpose of these functions is to have a financial analyst that can work with the operating departments to develop budgets and perform financial analysis. This reduces the risk of the Controller micromanaging his/her position. This person will also become the lead analyst for the pricing model.

Finally, the Payroll department is another resource issue that falls under the Finance department's responsibility. Currently, there is no Payroll department at ITCo. The alternatives

at this time are to create an independent payroll department that reports to the Controller, or to contract the services out to one of the credit unions. In the short-term contracting out the payroll may be considered the best way to fill this gap, but if ITCo needs to become an independent service provider it will need to take this process in-house. For ITCo this is not a large gap to fill, but it is an important issue that will be addressed as it develops its business plan later in 2006.

3.3.1.4 Human Resources

Similar to the Finance department, the Human Resources department does not yet exist at ITCo. Human Resources services are now temporarily sourced by a senior manager from one of the credit unions. Throughout the Internal Analysis section the one overriding theme that has resonated strongly is the importance of change management, especially the cultural impact that will occur when the ITCo business model is shifted slightly away from the credit union model. As a result, it is recommended that a Change Management team is created to fill this gap. The responsibility of this department will include creating programs to facilitate change in organizations, mediation services, conflict resolution services, and so on. These services will not only benefit ITCo employees. The credit unions will also be subjected to a significant change in how they deal with technology personnel. As a result, this Change Management team will come in the form of internal employees or consultants. They will likely need to cross over into the credit unions in order to establish new lines of communication and rebuild relationships between ITCo employees and credit union employees. They will possess the skills and perform the duties as described in section 3.2.4.

With respect to the Training and Compensation/Benefits departments within Human Resources, there is a need to have these positions filled, but currently they are not seen as wide gaps to bridge. The current contracted employee is developing, as part of the ITCo business plan, an action plan to address issues related to compensation, benefits and training. The objective of

this plan is to mitigate any negative impact of transferring credit union technology employees to ITCo from a financial well-being perspective.

3.3.2 Summary of Gaps in Resources

The recommended organization chart for ITCo includes resources that have not yet been committed. Therefore, an additional investment in these new positions is necessary to execute the ITCo strategy. In addition to the Technology group within ITCo, the Human Resources department and Finance department are the two key areas where investment is required.

3.3.2.1 General Resource Issues

The current risk of employee turnover at ITCo is low at this time, as all hands are needed to implement the strategy. The risk right now is not being able to fill the vacant positions with qualified personnel. Because the oil and gas industry is booming in Calgary in 2006, the demand for personnel is at its peak in that location. Therefore, the ability to recruit ITCo employees to support First Calgary is limited. Fortunately, the bulk of the technology jobs are located in British Columbia at Envision's head office. The demand for talented technology individuals is lower than Calgary, thereby increasing the likelihood of successful recruitment of technology employees.

To reduce the risk of turnover of First Calgary employees as they transition to ITCo, the change management consultant must work along side the ITCo management to survey these employees to ensure they are managing stress appropriately. It may become necessary to develop activities and retention incentives in order to keep the employees motivated and to reduce the risk of turnover.

3.3.2.2 Finance Gaps

During start-up, the minimum requirement in Finance will be the CFO, Controller and an analyst. Once operations commence in 2007, a fourth resource to handle the daily activity of managing Accounts Payable/Accounts Receivable will become necessary. Finally, the payroll issue will need to be addressed, and in the short-term ITCo will require the shareholder credit unions to offer a resource and utilize existing systems to ensure the payroll is set up by year end. After the first six months to one year of operations, the size of the job will be such that it will require a full-time resource, thereby making it necessary for ITCo to internalize this process and hire a payroll employee for 2008.

3.3.2.3 Human Resources Gaps

In the Human Resources department at least two resources are required. The first person will be in charge of the entire department and will cover the Compensation/Benefits area in the short-term. The second position will be responsible for the Change Management function for ITCo. It is possible this change management position is unique and it will be difficult to find a person uniquely qualified to satisfy its requirements. Therefore, an alternative would be to retain the services of a consultant or other specialist to fill the role.

3.3.2.4 Technology Department Gaps

With respect to the Technology department, there are several areas where gaps exist as a result of the proposed business model in Figure 13 on page 68. Currently, ITCo is in the middle of a business planning process that will identify these resource deficiencies related to managing existing implementation issues. Once this is complete, ITCo will analyze the cost/benefit of each additional resource and how it affects the implementation timeline.

In the meantime, the author recommends that under the Project Management department a Project or Operations Controller is hired. This person will have both the operational

understanding of how to deliver technology services plus have a good financial background to coordinate operational services with financial requirements.

The Customer Service area requires two senior managers to be exclusive points of contact for each of the credit unions. Their operational objective is to be the liaison between the credit unions and ITCo and maintain customer intimacy. Along the same lines, the Supplier Management department requires two senior managers to effectively manage the supplier relationships with ITCo's core banking, lending, and CRM applications that will make up the core delivery to customers.

In the Research and Development department, there is a need to hire two developers to use in-house to begin researching opportunities to improve the software used in the banking operations. Because the core systems are not owned by ITCo, the developers will need to work with the Supplier Management team.

A Project Management consultant is required to assist in the transformation to the service delivery model required to successfully implement the ITCo strategy. There are gaps in the current capabilities with Envision and First Calgary employees, therefore an expert is required to offer expertise and minimize the ripple effect.

For the remaining ITCo management team, the entire team will need to work hard to transform its current maintenance operations to a service model. Potential additional resources for this transformation may be required, but it is likely that several of the existing staff will need to rise to the occasion and show they are capable of leading this transformational change. To assess gaps during implementation, it is recommended that frequent assessments of the Technology group and leadership are performed to evaluate the stage of progress. Also, ITCo must assess how effectively the employees are performing in their new roles. It is certain that not

all employees will fit well within their new roles, so there will be an opportunity to shift resources to new positions, hire new members, or shift members out of the organization.

3.3.3 Cost of Resource Gaps

Because the significant employee infrastructure required to start a new company uses much needed cash flow, the rationale to justify new positions in ITCo will likely come only if it is absolutely necessary. All stakeholders, including Envision and First Calgary, agree that the benefits of adding positions should outweigh the risks and costs of maintaining status quo. As a result, there will be a short-term cost associated with adding resources to ITCo.

The resource requirements for the Technology, Finance and Human Resources departments are considered necessary to create the service-based infrastructure to successfully implement the ITCo strategy. The incremental cost impact of these resources is summarized in Figure 14 below. Based on this analysis, the total cost of incremental resources is over \$1.6 million, which is a material amount to ITCo.

3.3.4 Measurable Benefits of ITCo

In order to properly justify this incremental cost, the company must be able to demonstrate that it can reduce operational effectiveness in other areas of operations. An example of this operational effectiveness is lower license fees from software providers now that the systems are shared. This form of analysis will be necessary as part of the company's three year financial forecast that will be prepared as part of the ITCo business planning document that is currently being formulated. This plan will be completed by the end of September 2006.

At a high level, the consolidation of the CBS, CRM and LOS should reduce software licensing fees by several hundreds of thousands of dollars. Transforming the Infrastructure department to one set of servers with one offsite disaster recovery plan on one network will also

save hundreds of thousands of dollars for ITCo. Overall, it is quite possible that these initial costs of implementation presented in Figure 14 will be completely offset by these operational benefits. It is not possible to obtain accurate estimates of the dollar value of these savings at this time, but the Finance department will be mandated to develop a scorecard that tracks these savings relative to the incremental costs.

Figure 14 Incremental Costs of Resources

Department	Position	Salary and Benefits
Technology	Project Controller	\$ 90,000
	Customer Service Mgrs (2)	200,000
	Supplier Service Mgrs (2)	200,000
	Product Devel. Mgrs (2)	200,000
	Project Mgt Consultant**	200,000
	Total Technology	\$ 890,000
Finance	CFO	\$ 150,000
	Controller	100,000
	Analyst	75,000
	Payable/Receivables	50,000
	Payroll (contract half time)	25,000
	Total Finance	\$ 400,000
Human Resources	Change Mgt. Consultant**	\$ 165,000
	Compensation Mgr	75,000
	Training Supervisor	60,000
	Trainer	50,000
	Total HR	\$ 350,000
TOTAL RESOURCE COST		\$ 1,640,000
** this is a contract consultant position		

Source: Author

4 SUMMARY AND RECOMMENDATIONS

4.1 Summary

The Pathways ITCo strategy was developed as a means to not only to seek new markets and grow Envision's operations extra-provincially, but to more effectively manage the delivery and reduce the average cost of its technology. The ITCo strategy comes at a time where the financial services industry is at its most competitive and credit unions like Envision are finding it very difficult to maintain their differentiation strategies. Low cost competitors use technology to become virtual differentiators by simulating the face-to-face interaction with the customer. This puts pressure on Envision to shift to a cost-based strategy in order to remain competitive and profitable relative to its competition. ITCo is a prime example of this shift in behaviour.

Relative to the external environment, the ITCo strategy validates itself by allowing Envision to address its threats that pertain to economies of scale, price competition, and the cost of technology and labour. It also helps Envision take advantage of its opportunities to improve service quality and strengthen the member-owner relationships in an attempt to develop a sustainable competitive advantage.

Internally, Envision has worked diligently over the past two years alongside First Calgary to develop the ITCo strategy. External consultants were hired to assist with the development of the strategy. Key executives from each credit union also dedicated much of their time over the past year to build the foundation required to start the implementation planning process and resolve regulatory issues.

Now that the research is substantially completed, the next step is to implement the strategy. The management team of the shareholder credit unions and ITCo have little experience in transforming their technology groups to an external shared services provider, which increases the risk that the implementation may not satisfy its decision criteria. Management has put forth considerable effort and commitment to get to this stage, but much more work is required before ITCo can be judged successful. The Internal Analysis in chapter Three identified several capability gaps that need to be addressed. These gaps, if filled, will greatly improve the probability that ITCo's implementation will be a success.

4.2 Recommendations

The recommendations that follow are structured to address short-term and medium-term gaps that were identified in chapter Three. The recommendations are structured in the form of an action plan that explain what should be done, by whom, and when. The timing of the short-term process begins immediately and runs until the end of 2006. The medium-term time frame starts at the beginning of 2007 and ends in 2008.

4.2.1 Short-term Action Items

4.2.1.1 Develop Operational Model

The executive of ITCo, currently the CEO and CIO, must immediately develop the organization structure for the technology function in ITCo and introduce this structure to the ITCo employees. The existing structure is still meant to serve the individual credit unions and the employees will continue to work the same way until they are told how the department's structure will need to look once it becomes ITCo.

To accomplish this, they must create an organization chart similar to the author's recommendation in Figure 13 on page 68. This is the starting point. Next, look at all existing

employees and their capabilities to see how they will fit into the new structure. Have the key managers in charge of each functional department work with the employees to rebuild role profiles and responsibilities. They can use the existing role profiles as a starting point. The Human Resources department at Envision or First Calgary will participate in this process by coordinating the process and accumulating the documentation. The Finance department will also require this information in order to properly develop a financial forecast for ITCo.

From this work positions will be identified within ITCo's Technology department that are either vacant or did not exist before. To address this, the CIO must create those role profiles and begin recruiting for those positions immediately.

4.2.1.2 Resources

The three key areas where there is an urgent need to acquire resources is the Technology department, the Finance department and the Human Resources department.

With respect to Technology, the high demand for resources in this discipline in British Columbia heightens the sense of urgency for recruiting vacant positions. Therefore, the CIO must work with Envision's Human Resources department and use the role profiles created as part of the recommendation in the previous section to begin recruiting. The positions that need to be filled are highlighted in Figure 14 on page 85, the most urgent of which are the Project Controller and the Project Management Consultant. The Project Controller will be responsible for integrating a financial discipline into the technology services model. The qualified candidate will need to understand both technology and managerial accounting and have relevant experience in project management. This person will be required to work with the Finance team to develop budgets, forecasts, and variance reporting for the technology operations. The first action of this new hire will be to create a system for internal control for technology operations that includes a financial template to track the costs of projects and compare them to budget. A project resource

time management system is necessary to properly track the time each employee spends on a customer-related project. This Project Controller will be in charge of creating the system and deploying it.

The Project Management Consultant will be retained specifically to instruct the Project Management team on how to build a proper project management process that is set up to deliver its shared services operating model to First Calgary and Envision. This consultant must have extensive experience in the area of building systems and processes and must be an effective communicator in order to transfer knowledge to the project management team at ITCo. The end result is a documented process of delivery to the credit unions.

The Finance department requires at least three people immediately. They are the Controller, a financial analyst, and a senior accountant. The most critical position is the Controller. The candidate must be an officer of ITCo (vice-president) because of the need to execute contracts and involvement in governance related matters with the board of directors. The Controller must have experience in starting-up operations and have strong business acumen in order to interact at a high level with the executives and boards of directors. The Controller must also have a detailed understanding of processes to effectively execute the details of starting a new business. The Controller must have experience in more culturally entrepreneurial enterprises in order to be seen as a change agent or an advocate for change. This person must also be effective in communication so to minimize resistance to change.

The financial analyst should be a newly-minted chartered accountant that understands how to perform financial analysis, understands generally accepted accounting principles, and has a solid understanding of auditing. This person's responsibility will be to develop the pricing model and cost recovery model for ITCo. The senior accountant must have a minimum professional designation of a CGA who has experience running the Accounts Payable/Accounts

Receivable function as well as the periodic financial reporting of ITCo. Once hired, this person will initially be required to build the internal control policies and procedures for ITCo, and then implement them. This person will also need to create the external financial reporting structure that includes basic financial statements, variance reports, and performance-related statistical reports.

The payroll position in Finance will be addressed in the short-term by using existing resources within one of the two shareholder credit unions.

Finally, with respect to the Human Resources department, the most critical need rests with the change management process. To that end, the Change Management Consultant will be required immediately. This person's responsibility will be to work with existing ITCo management and employees to create a change management program. The details of the program will be presented in the next section.

To address the other immediate Human Resources issues such as developing compensation policies and benefits plans, it is recommended the existing credit union Human Resource departments be utilized. They are more intimately cognizant of the needs of the ITCo employees and understand the requirement to minimize the transformational impact. For example, the medical, dental and vision plans need to be implemented, and a vacation and sick leave policy can be adapted from existing standards within the credit unions. However, a tricky issue rests with the pension plan. Envision employees have one and First Calgary employees do not. As a result, the Human Resources team must resolve these gaps between credit unions before operations commence in 2007. To reduce the risk of turnover, the Human Resources department should consider implementing retention incentives for technology employees, particularly for the First Calgary employees that may be affected most by the change in operations.

4.2.1.3 Culture Gap

From an organizational perspective, the culture gap is one of the widest gaps that exist. Therefore, as highlighted in the Resources section above, the Change Management consultant is required. The role of this consultant is to minimize the impact of this gap on the implementation of the ITCo strategy from the perspective of not only ITCo but the stakeholder credit unions.

This change management professional will select key Human Resources employees at Envision and First Calgary to assist with the ITCo transformation. This transformation team will prepare new performance appraisals for ITCo employees. The technology employees that work on projects will need a job appraisal form where they will be assessed on their performance on each project. Performance measures include completing jobs on-time and on budget.

Other performance measurement tools include annual performance appraisals for all employees. This appraisal is an annual scorecard that has company targets as well as individual growth targets. For example, the company must achieve its cost mandate, and the employee contributes to this by individually meeting all of his/her objectives with projects and being held accountable for budget variances. The consultant will also develop an incentive program that rewards the behaviours and is synchronized with the project and annual appraisal documents. Measurements are not all financial. Some employees will be measured as to their ability to serve the client. To that end, the consultant will help ITCo develop customer satisfaction surveys that will be used as a measure of performance for the company and individually for each job.

Another way to reduce the culture shock is to hire employees to fill vacant positions who have experience with working in a similar environment. Not only will these people have the business experience to develop best practices, they will also behave and possess the attitude to lead the other employees toward the service oriented model, thereby reducing the culture gap.

4.2.1.4 Systems

The Finance department must put together an internal control framework, including accounting systems, internal control policies and procedures. Examples of internal control policies are the purchasing/payables/payments cycle, revenue recognition, fixed assets, budgeting and forecasting, management fees, signing authority, risk management, and so on. The Accounting Supervisor can utilize Envision's existing subscription to policy development software as a starting point. However, once the policy documents are created, they must be distributed to the ITCo staff and integrated into operations. To do this, the Finance team must work with the Change Management team in Human Resources to communicate the policies and include incentives in the performance appraisals. This communication must also reinforce adherence to policy and inform employees about penalties for non-compliance.

The pricing model that has been developed by an external consulting firm must be audited and modified to suit the new operating model that will be unveiled by the senior executive of ITCo. The Financial Analyst in the Finance department will be tasked with the modifications, but an audit of the model's integrity should be performed by an independent third party. The author recommends one of the credit union's existing external audit firms should perform this work. The objective is to manage the risk of any formula or reference errors within the spreadsheet, which could result in management relying reports from this model and making incorrect decisions if material errors exist.

Another key area for Finance to address in the short-term is the creation of a three-year financial forecast. This forecast must translate into dollars all the activities associated with implementation and operations for ITCo. Part of this process is to understand the existing technology cost structure of Envision and First Calgary. The interim Finance team must compile the cost of technology, obtain a new organization chart from the CEO and translate the cost of technology to suit the operational requirements of ITCo. This is a big job that must be performed

immediately in order to assess whether the strategy satisfies one of the most critical decision criteria: lower the cost of technology.

4.2.2 Medium-term Actions

4.2.2.1 Processes

To promote individual accountability, the standards, forms, processes and measures developed by the Change Management team are a good start. However, there is a need to continue to reinforce this desired behaviour and one of the ways is through training. The performance management and project management processes must have their own training programs. It is recommended the Change Management team should work on developing and delivering this training program in the first year of operations.

The training program for project management will take the trainee through every part of the service cycle from start to finish. The objective is to learn how each department interacts together, with suppliers, with customers, and ITCo must also identify ways to improve this interaction so to become more operationally proficient. The program for performance management is meant to reinforce the understanding of desired practices and link rewards to performance.

With respect to the Technology department, the Customer Management, Supplier Management and Contact Centre departments will begin interacting with the shareholder credit unions at the beginning of 2007. During this time, it is important for these departments to develop specific roles, responsibilities and service level standards for working with the customers. For example, the Contact Centre must develop performance standards that are measurable and can be used as a tool to assess performance on a periodic basis. The Call Centre can track all calls that affect the credit union membership such as system downtime and member card failures. It can also track the number and type of calls it receives from credit union

employees that relate to post-implementation service, project complaints, and so on. The message here is to develop service level standards that can be used to assess performance not only from an individual level but from a corporate perspective.

Another way to identify and implement best practices into operations is to interview and visit other organizations that are willing to share this information. The author recommends that the CIO and key operational managers of the Technology group contact these companies. They must also utilize the expertise of the Project Management Consultant to ease the transition in operations.

4.2.2.2 Systems

To satisfy one of the key decision criteria for implementation, ITCo management must construct a plan to review the existing software programs (over 100 of them) and determine which ones are redundant or dormant. The goal is to rationalize these systems to a more manageable number in order to reduce the cost of maintaining these systems and improve operational processes. Realistically, this process could not be performed in the short-term, but this is an immediate concern that should be addressed in 2007. The author recommends the Project Management team within ITCo use their expertise in managing this project.

The Infrastructure department of ITCo must also perform a gap analysis that identifies the network hardware and software requirements of ITCo and compare it to the existing framework within Envision and First Calgary. The department owner must then put together an action plan to integrate this infrastructure with a fast implementation timeline. This is required in order to better integrate operations, reduce costs, improve security and reduce risk of failures. As part of this analysis, the author recommends an infrastructure audit of network systems that tests integrity of these systems as well as the security of the data within these systems.

From a Finance perspective, the accounting and payroll systems that will be used in the short-term will be sourced from one of the existing credit unions. This is a feasible alternative but will not suffice in the long-term. Therefore, the author recommends that ITCo start looking for ways to independently own and manage accounting and payroll functions. One alternative is to have ITCo fold ERP into its core suite of products and use this system as the delivery channel.

Also, the internal control structure that was developed in the short-term must be audited by internal audit group before the end of 2007 in order to identify and address any gaps. Similarly, the external auditor must review financial reporting integrity before end of 2007 in preparation of the 2007 audit. However, in order to do these two things, ITCo must select and retain an internal auditor and external auditor.

4.2.2.3 Resources

The Finance team must hire a CFO to be added to the executive team at ITCo. The company will be responsible for revenue and expenses in the tens of millions of dollars, and the company's governance requirements will mandate a CFO to be hired. ITCo may be able to get along without a CFO in the short-term as the existing shareholder CFO's can fill gaps, but this solution is temporary and cannot be sustained. After a while, independence concerns will arise where the credit union CFO's may make decisions to suit credit union needs instead of ITCo needs. Therefore, the author recommends this position filled before the end of ITCo's first fiscal year.

The Human Resources team for ITCo is temporarily being managed using existing credit union staff. However, as ITCo begins operations there will be a need to become independent and the author recommends the Human Resources team be recruited to suit the structure identified in Figure 13 on page 68.

4.3 Conclusion

Overall, the ITCo strategy is a good solution to address the needs of the credit union. However, to be successful, the ITCo team must work hard in reducing the key gaps identified in the Recommendations section. These gaps are not insurmountable, and the author believes the management preferences, coupled with the energy and commitment from the ITCo team and the shareholder credit unions will greatly contribute to the success of the strategy.

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