

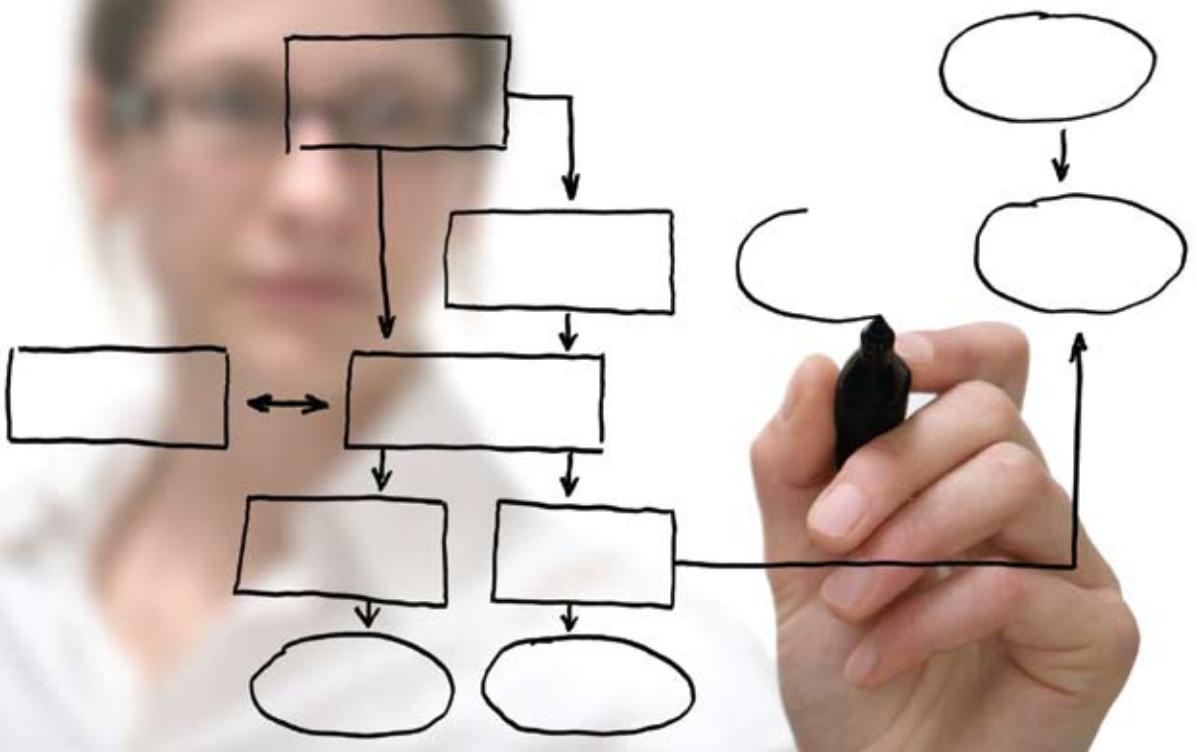
# A Road Map for Credit Union Back-Office Collaboration

**Michael Taylor**

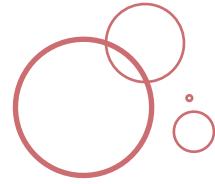
*Principal*

*SchellingPoint LLC*

**filene**  
RESEARCH INSTITUTE







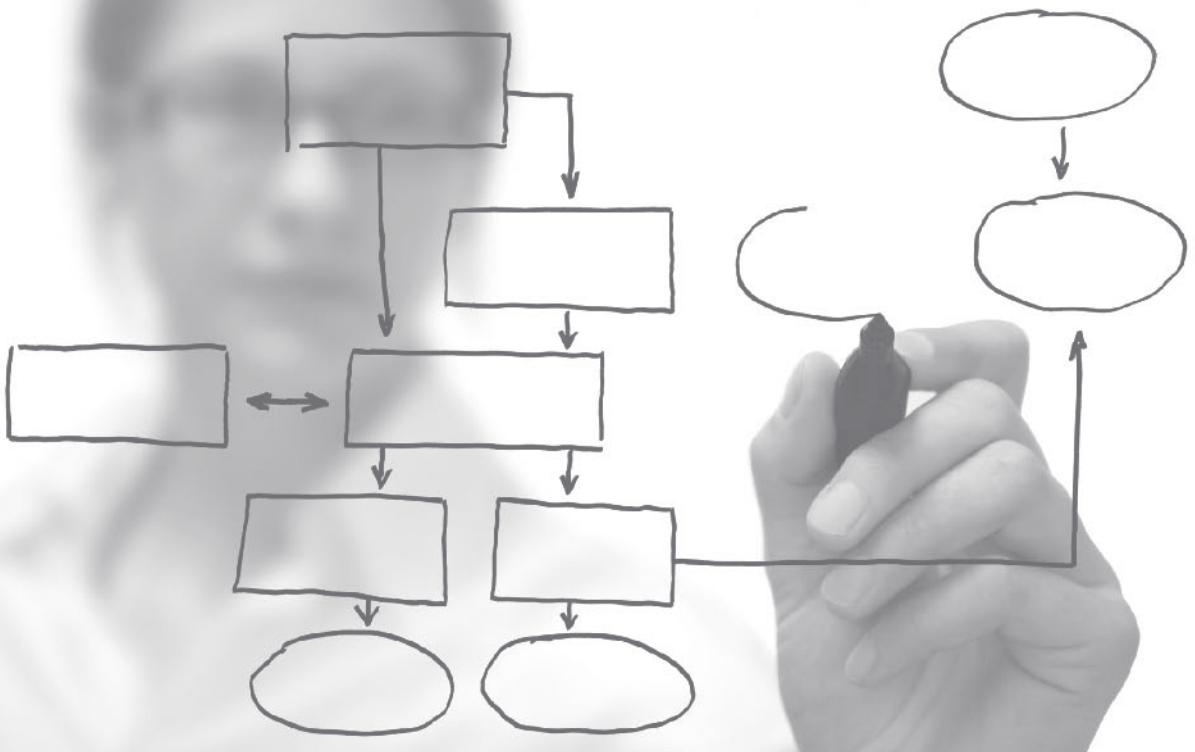
# A Road Map for Credit Union Back-Office Collaboration

**Michael Taylor**

*Principal*

*SchellingPoint LLC*

**filene**  
RESEARCH INSTITUTE







*Progress is the constant replacing of the best there is with something still better!*

— ***Edward A. Filene***

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

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

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

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i<sup>3</sup>, an assembly of credit union executives screened for entrepreneurial competencies.

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

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



I would like to thank the more than 150 senior executives interviewed for this project. Additionally, I would like to thank the Filene Research Council, which gave invaluable feedback on the project.

A special thanks goes to CO-OP Financial Services for their generous support of this study and future studies on the power of collaboration and the potential success it represents for the future of the credit union system.



	Executive Summary and Commentary	ix
	About the Author	xiii
Chapter 1	Who Needs a Road Map?	1
Chapter 2	Making the Business Case	5
Chapter 3	Architecting the Collaboration	21
Chapter 4	Conducting the Collaboration	31
Chapter 5	Conclusions	41
Appendix 1	Research Methodology	45
Appendix 2	Alignment Index	49



## Executive Summary and Commentary

By George A. Hofheimer,  
*Chief Research Officer*

Imagine you work on an oil platform in the North Sea. In your day-to-day work you monitor the operations of oil drilling, maintain the complex industrial equipment, and occasionally peek at the foreboding weather conditions. Your job is predictable, but potentially dangerous. One day a raging fire on the platform breaks the monotony of your job. Your choice: Stay on the burning platform and face certain death, or jump from the burning platform 150 feet into the icy North Sea and face probable death. From this real-world story, the business world coined the term “burning platform” to describe a dramatic external event that prompts a business to change its practices, strategies, and outlook. Credit unions, and most businesses for that matter, infrequently experience burning platforms, but when they do, there is no doubt that something dramatic is occurring.

In the past, academics, consultants, analysts, regulators, credit union leaders, and vendors have persuasively pointed out certain trends that hint at a better future if credit unions would simply start sharing resources, processes, or technologies. The problem is that these important trends and arguments do not conjure up a dramatic burning platform for credit unions to collaborate on any large, systematic scale. Their advice would be akin to telling the North Sea oil worker that the platform needs serious maintenance. The roughneck will surely take your observations seriously, but this advice would not spur a leap into the foreboding waters.

It is an understatement to say times have changed since this research project began in early 2008. In a little over a year we have seen a seismic shift in the world of banking. The likelihood of even more dramatic changes in the regulatory, competitive, and consumer front remains a near certainty. When the dust settles, what will the brave

new world of banking look like? Will there be a burning platform that spurs credit unions to consider a dramatic shift in the way they operate? Does collaboration play a role? Are you willing to wait for the burning

In this report, “large-scale collaboration” is defined as a shared service, back-office utility owned, operated, and governed by multiple credit unions.

platform? All these questions make this research report that much more relevant. In this report, “large-scale collaboration” is defined as a shared service, back-office utility owned, operated, and governed by multiple credit unions.

## What Did the Researcher Discover?

Michael Taylor, the lead researcher and a seasoned expert in getting diverse groups to collaborate, was tasked with developing a comprehensive road map for large-scale back-office credit union collaboration. Taylor interviewed, surveyed, and reinterviewed more than 150 senior executives in small, medium, and large credit unions, as well as consultants, vendors, and credit union trade association executives. This report, a synthesis of Taylor's findings, lays out a credit union collaboration road map that avoids the likely hazards, identifies a range of suitable routes, and advises credit unions on how to continue or start the collaboration journey. The road map includes the following steps:

- *Step 1—Make the business case:* Even though a burning platform does not currently exist for large-scale credit union collaboration, certain areas such as compliance, card services, and bulk purchases were identified as prime candidates for collaboration because of the clear business case. Still, research indicates collaboration is not top of mind for most credit unions, because case studies of collaborations are not very well known, decision makers lack understanding of collaboration benefits, and the overcapitalization of credit unions does not encourage efficiencies.
- *Step 2—Design the collaboration:* This section of the road map describes the various collaborative business model considerations, including choosing the right organizational structure and models to scale a collaborative venture, dealing with loss of control concerns, and selecting suitable partners. In general, credit unions feel the key design elements of a collaboration involve attracting top talent, creating a flexible and adaptable partnership structure, and developing efficient ways to allocate partnership costs and revenues.
- *Step 3—Conduct the collaboration:* This final section of the road map relies on the expertise of interviewees who have already conducted a collaborative credit union venture. The most common issues to arise in this section include partner competency concerns, development of the right metrics and measures of success, fostering and maintaining partner relationships, and specific technology barriers/enablers. Given the relatively small number of credit union collaborations, this section will likely expand as time progresses and more organizations share their collaborative experiences.

## Implications for Credit Unions

Regardless of your experience with joint ventures or strategic partnerships, this report provides a number of important implications to encourage, enhance, and enlarge large-scale credit union collaboration.

First, better *document the successes and failures of existing collaborative ventures* through effective case study development. While many credit unions are already collaborating on large-scale back-office issues like payment system, core data processing, and ATM networks, this research finds many do not understand or have not heard about the benefits of collaboration.

Second, develop business metrics that tie your collaborative efforts to improvement of the *member experience and cost savings*. While cost savings and efficiency are laudable goals, study participants' yearn for a metric that shows how these collaborative efforts will positively impact the member.

Third, study participants tended to focus on differences rather than similarities across credit unions as a roadblock for future collaboration. Therefore, any initial collaborative effort must necessarily home in on processes that can be standardized and help *multiple credit unions achieve a common, shared goal*.

Fourth, credit unions need to *increase the role of operational excellence*. As evidenced by the second point above, credit unions are laser focused on the member, to the potential detriment of operational efficiency. A more even balance between members and efficiency may need to be struck, and collaboration may hold the key.

Finally, the first step of any collaboration begins with a small step. *Start your efforts small, scale up, learn, and repeat*. This study uncovers many hazards and reasons to “go it alone”; however, as the fog lifts and you get a glimpse of what the future may hold for your credit union, the platform on which you are standing may begin to smolder. Large-scale collaboration may be one of the evasive actions necessary for your long-term survival.





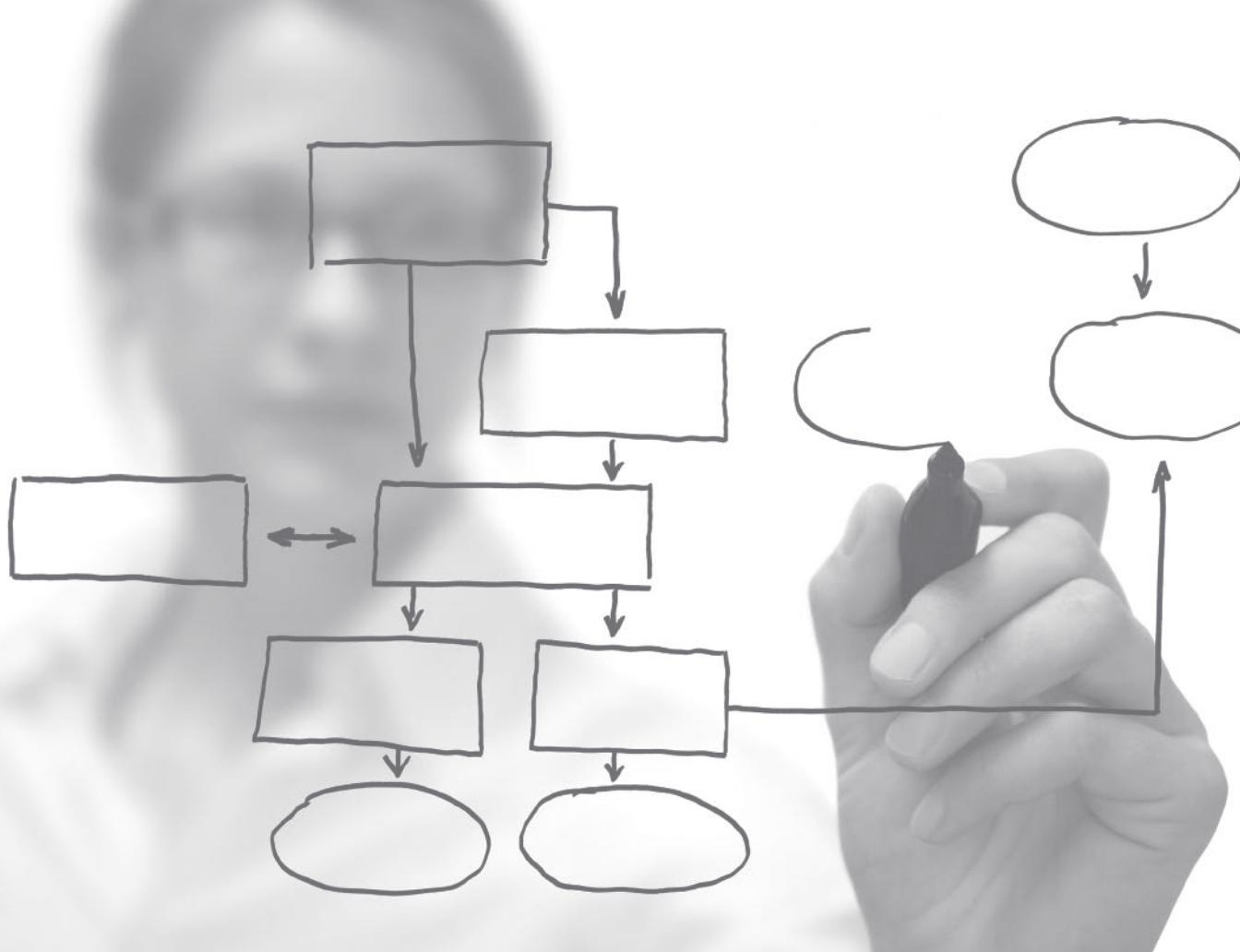
### **Michael Taylor**

Mike is cofounder and CEO of SchellingPoint, which specializes in coordinated agility and provides tools to remove the hidden barriers and restraining forces to absolute collaboration. Mike's focus is enabling multiparty groups to design and execute sustained growth and change initiatives.

Prior to forming SchellingPoint, Mike was the turnaround CEO of an Indian IT firm after building SCT Manufacturing & Distribution Systems with five colleagues from Andersen Consulting. At Andersen Consulting, Mike was a director in the products industry, operating from the world headquarters to support transformation and reengineering programs at global and U.S. corporations.

Mike holds a BSc (Hons.) in mathematics, operational research, statistics, and economics from the University of Warwick, England, and he has a diploma in electrics and electronics from the UK IEW. He has attended Wharton executive training courses and has guest lectured on alignment dynamics at Wharton's and Cornell's MBA programs.





## CHAPTER 1

### Who Needs a Road Map?

*As with any road map, there is no single, rigid well-defined trail. For some, a more direct route is suitable; others may want to go off-road or pause along the way. This report distills a “road map” for credit unions to use on the journey to collaboration.*



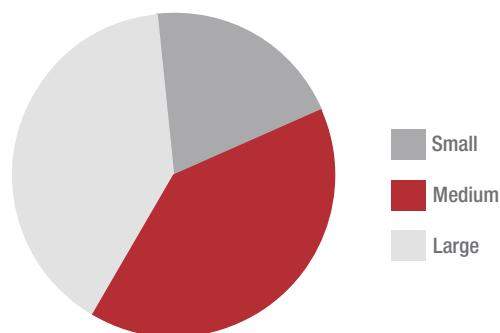
The charter for this research was to distill a “road map” for credit unions to use on the journey to collaboration. As previous research has mentioned, plenty of attention has been paid to collaboration at a high level, but the reason there are so few examples to compel more activity may stem from the lack of a clear road map.

The research methodology, detailed in Appendix 1, involved the participation of more than 150 senior executives in small, medium, and large credit unions, as well as consultants, vendors, and members of trade associations in the credit union system. This report is a synthesis of the guidance that surfaced through phone interviews and Web-based surveys with the people involved in the credit union decision-making process and those offering the solutions or the “destinations.” This crystallized the journey by reducing the fog and letting me examine the landscape to be covered. This road map will show the must-see sites, the hazards to avoid, and the landscape likely to be encountered. As with any road map, there is no single, rigid well-defined trail. For some, a more direct route is suitable; others may want to go off-road or pause along the way.

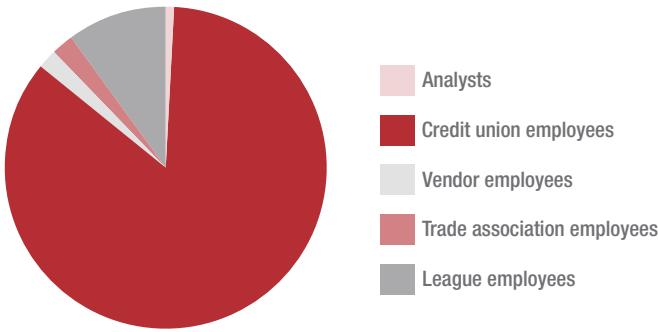
Like any geography, the terrain is shifting and molding itself according to the environment, and therefore the map must be periodically updated to reflect the realities. This report details one snapshot in time, and as the saying goes, “Your mileage may vary.” The next few chapters detail the journey in a chronological sense, covering the “trip” from planning through arrival at the desired destination. Each credit union’s tour is unique—and therefore the guide must be tailored to your own journey’s goals.

In Chapter 2, “Making the Business Case,” I describe the considerations this research uncovered around the impediments to embarking on a collaboration. It covers the best areas in which to collaborate, the benefits in terms of costs, the impact on the member community, and the preparation that is appropriate in strategy development and

*Figure 1: Size of Participating Credit Unions*



*Figure 2: Breakdown of All Participants Surveyed*



stakeholder communication/education. This section is designed for each organization to assess individually as preparation for taking action on a specific collaboration.

In Chapter 3, “Architecting the Collaboration,” I describe the various business model considerations, including impact on control. I cover selecting the appropriate partner(s) and prerequisites such as internal knowledge and process preparedness. This section covers aspects to be jointly evaluated between potential partners as you begin to form your collaboration.

In Chapter 4, “Conducting the Collaboration,” I cover issues and barriers that may appear during the journey. These include competency concerns, metrics and measures, relationships to foster and maintain, staff concerns, and technology barriers/enablers. This section will likely expand as time progresses and more organizations share their collaborative experience.

Finally, Chapter 5, “Conclusions,” presents a series of actions credit union can undertake to further hone and develop the multiple competencies needed to create sustainable collaborative ventures.

**HOW TO READ THIS REPORT**

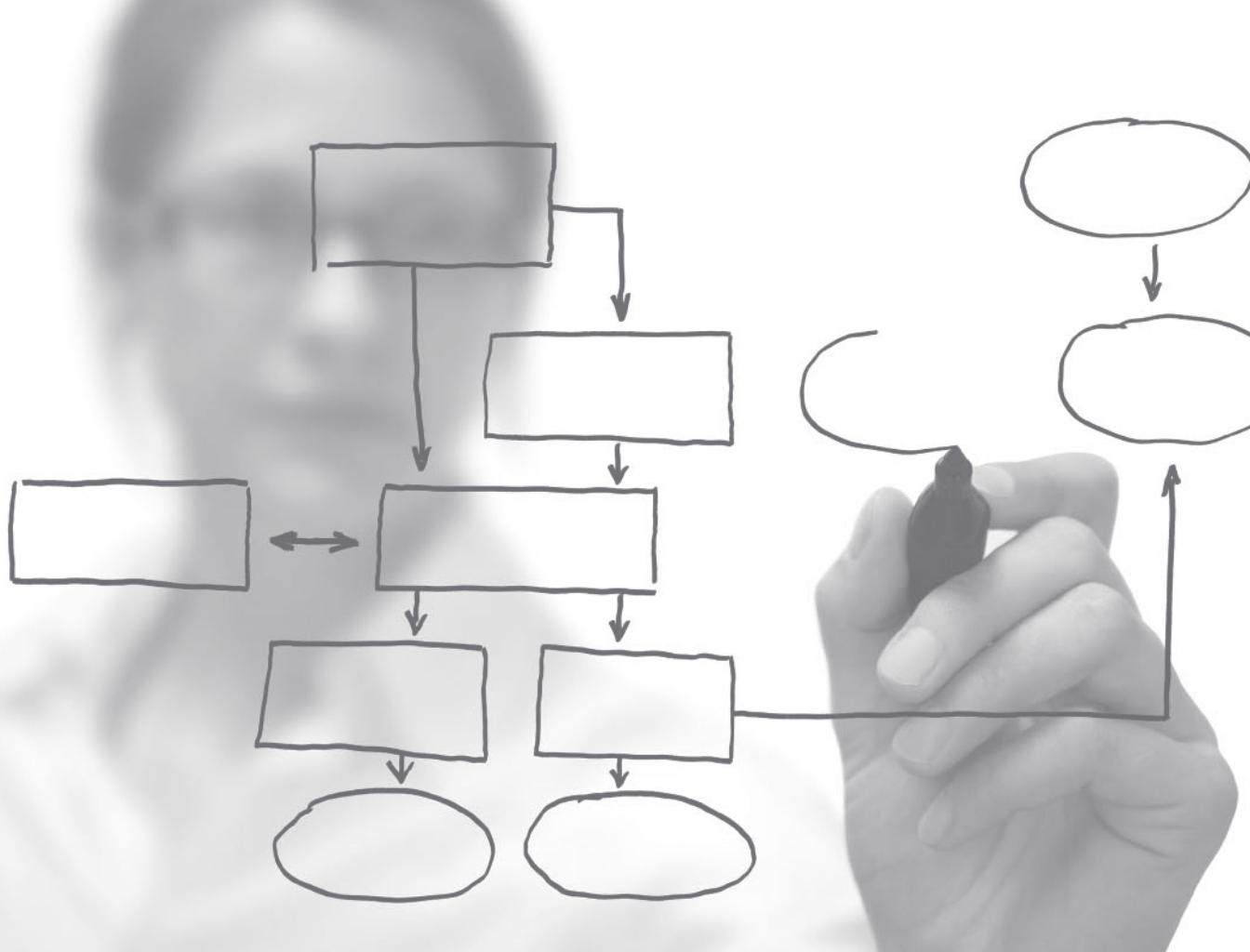
Throughout the chapters many statements are followed by a number, for example, “(88).” This is an Alignment Index—on a scale of 0 to 100, 100 represents total and complete alignment by the community, and 0 indicates polar misalignment (strong

opinions by two equally sized groups that are diametrically opposed). This index (see Figure 3) is included to enhance the statements with a measure of clarity. Appendix 2 describes this index in greater detail.

Figure 3: The Alignment Index

Alignment Index	Meaning
91–100	Strong alignment—either agreement or disagreement with the statement is clearly present.
81–90	Convergent—most concurring, with minor dissent.
71–80	Moderately convergent—contrary opinions exist but with significant alignment.
51–70	Clearly divergent—little common ground.
0–50	Highly divergent—opposing opinions of a significant level.





## CHAPTER 2

### Making the Business Case

*Research shows that credit unions often cite a reduction in operating expenses as the top reason to collaborate. So why isn't more collaboration taking place?*



Prior to deploying resources on any activity, organizations frequently put together a “business case” whose elements include a statement of the problem to be addressed, the likely solution, challenges, and costs. This research indicates that for most credit unions, the business case is neither clear nor compelling for an individual credit union to take the next step in large-scale collaboration. Developing a business case tailored to your own credit union before engaging with potential partners brings clarity to your desired “destination” and provides a measurement device with which to assess suitable architectures that serve your particular strategies.

If you feel you already have a concrete business case for collaborating, you may be tempted to skip this section and jump directly to “Architecting the Collaboration.” The research, however, suggests you can improve and refine your business case by looking at the results in this section.

## What Is “Back-Office Collaboration”?

This research defines back-office collaboration as a shared service utility owned, operated, and governed by the credit unions (80). A business case for collaboration begins with the reasons to collaborate, and how a credit union will benefit by collaborating on back-office functions. Typically, research shows the responses centered on reduced operating expense ratios (83), but my research shows there are many other valuable responses, including:

- Routine process outsourcing allows a credit union to focus on growth areas and strategy.
- Collaborations allow focus on better or additional services to offer members—less focus on generic back-office processes.
- Collaboration can provide access to specialized talent

A business case for collaboration begins with the reasons to collaborate, and how a credit union will benefit by collaborating on back-office functions.

<b>91-100</b> Strong alignment—either agreement or disagreement with the statement is clearly present.	<b>81-90</b> Convergent—most concurring, with minor dissent.	<b>71-80</b> Moderately convergent—contrary opinions exist but with significant alignment.	<b>51-70</b> Clearly divergent—little common ground.	<b>0-50</b> Highly divergent—opposing opinions of a significant level.
---	---	---	---	---

(legal counsel, human resource expertise, compliance, and audit services).

- Collaborators enjoy risk mitigation by sharing expertise and widening their support network for critical functions.
- Organizations that collaborate reduce errors and improve accuracy and process consistency, leading to increased member satisfaction and better efficiencies.
- Collaborators can share excess capacity—both their staffs and their technology resources.

## THE INTERVIEWS

By asking interviewees to describe all opinions in action terms—minimizing the use of adjectives, adverbs, and general phraseology—the SchellingPoint process surfaced that 34 industry representatives share 364 explicit, distinct opinions on the subject (see Figure 4).

The notion of mass back-office collaboration could be described as achieving any or all of the 111 different outcomes. Of these, the entire group agreed on one (SchellingPoint), two-thirds were convergent (the bias of the group being to support them but with dissension), and a full one-third were divergent (essentially meaning that half the group feels collaboration should produce these outcomes to be successful, while the other half doesn't think they

should be aspired to). There were no suggestions that received minimal support.

Combining the low degree of alignment on the underlying assumptions—what is collaboration, what's making us consider it, who's doing it—with the wide scope for what collaboration should deliver and with the underlying insights such as a lack of taxonomy and common definitions, it's reasonable to say that this topic is young and immature at the industry level.

Without convergence on what collaboration is, it will be hard to ever say whether the industry is doing it, and to what degree and in what form, other than by judging the number of active collaborations and assuming they must be doing "something valuable."

Figure 4: Breakdown of Participants' Feedback

	Description	Points raised	SchellingPoints	Convergent	Divergent	Minimal (discard)
<b>G</b>	Goals/Objectives/Indicators of success	111	1 (+1)	74 (-1)	36 (+6)	0 (-6)
<b>U</b>	Potential unintended consequences	28	0	20	8 (+3)	0 (-3)
<b>B</b>	Issues or barriers	53	0	34	19 (+3)	0 (-3)
<b>A</b>	Underlying assumptions/ Current state	172	0	133	39 (+7)	0 (-7)

So why isn't more collaboration taking place? The credit unions themselves provided the following reasons:

- There is a perceived lack of education as to the specific benefits of collaboration in the credit unions' own situations.
- Credit unions are not looking at collaboration strategically—it needs to be tied to critical strategic objectives.
- A clear and compelling business case has not been generated.
- There is a lack of motivation—no burning platform.
- Most credit unions find it difficult to tie back-office collaboration benefits directly to member service—the spirit of the movement is not a catalyst to action.
- There is insufficient time left in day-to-day business to focus on collaboration for smaller credit unions.
- There are not enough success stories supported by hard evidence.
- Collaboration could negatively affect employee morale and impact the member experience.
- The lengthy list of barriers is larger than the perceived magnitude of the benefits.

Credit unions, it was cited, do not take action until there is a crisis, and many do not see collaboration as the solution to the declining number of credit unions.

## Where Should Credit Unions Look to Collaborate?

When considering where to collaborate, credit unions noted the following key factors of concern:

- What are the strengths of your organization?
- Where are your weak areas—what headaches do you experience in your back-office?
- What are the touch points with members in your environment, and how might collaborating help or hinder them?
- Are your processes “ready” for collaboration?
- Where could others benefit from your specific expertise and unique capabilities?
- Where is volume of transactions an opportunity?
- What level of privacy do you require for your culture?

Figure 5 indicates areas within the back-office that the community cited as candidates for collaborating.

<b>91-100</b>	<b>81-90</b>	<b>71-80</b>	<b>51-70</b>	<b>0-50</b>
Strong alignment—either agreement or disagreement with the statement is clearly present.	Convergent—most concurring, with minor dissent.	Moderately convergent—contrary opinions exist but with significant alignment.	Clearly divergent—little common ground.	Highly divergent—opposing opinions of a significant level.

*Figure 5: Top Opportunities for Credit Union Collaboration*

Area	Pros	Cons
<b>ACH transfers (77)</b>	Common practice	Monitoring requirements and compliance
<b>Asset liability management (63)</b>	Improve credit union performance Shared investment expertise	Art form, not science
<b>Bulk purchasing (89)</b>	Lower expenses	
<b>Business intelligence (80)</b>	Leveraging shared research	Concern about differentiating
<b>Call centers (75)</b>	Offers convenience and 24/7 service	Risk losing brand uniqueness
<b>Card services (89)</b>	Fraud and chargeback work Specialized skills	Too many variables (rates, late fees, grace periods)
<b>Compliance management (90)</b>	Industry experts could interpret current regulations and offer guidance	Complex Liability concerns
<b>Deposit and loan operations (64)</b>	Highly standardized	
<b>Facility maintenance (73)</b>		Geographical proximity
<b>General ledger and accounting (75)</b>		Requires strong procedures
<b>Home banking (79)</b>		Too core system dependent Concern over brand management
<b>Human resources (71)</b>	Universal need Specialized skills	Cultural aspect Talent theft
<b>Internal audit (89)</b>		
<b>International remittances (77)</b>		Qualifications for currency conversion Monitoring requirements
<b>IT services (61)</b>	Universal service Foundation for other services	Lack of common platform Customizations Loss of control
<b>Legal counsel (86)</b>		Requires knowledge of specific credit unions Varying needs of participants
<b>Lending operations (66)</b>	Highly standardized	Need strong review processes
<b>New vendor due diligence (83)</b>		
<b>Payroll processing (89)</b>	Commonly outsourced	
<b>Real estate mortgages (82)</b>		
<b>Training/Education (87)</b>	Regulations and common procedures	Cultural component Technology specifics
<b>Wire transfers (73)</b>	Common service	Concern for fraud Monitoring requirements

Areas such as bill presentment, online bill paying, and financial services were predominantly seen as requiring collaborative venues (59), although some credit unions feel they could go it alone. There are considerable differences of opinion as to whether initial collaborations should focus on areas that are generic to many credit unions so that the proprietary technology systems that many credit unions have will not be an impediment (66). Collaborators should look to their core competencies with excess capacity to offer to others (88).

## Why Collaborate?

The community feels that if routine processing was outsourced, credit unions could focus more effectively on growth areas through strategic planning (90); and by collaborating, staff could reduce routine transaction handling time and increase advising or assisting time (87). It was cited that through effective collaboration, credit unions could compete on a national level by combining the cost centers to gain the economy of scale of a larger branded bank while retaining the leadership and individual affinity with the member communities.

There is universal agreement that dealing with a partner that specializes in a particular area allows you to benefit in something that is otherwise costly to replicate (93). With back-office collaboration in place, you enhance focus on the frontline and there is less back-office distraction (88). While most concur that eliminating back-office functions that are common to all credit unions is a prime reason to consider collaboration (79), the ability to bring new services, better quality, and faster responsiveness to the members appeals to many. The community is extremely divergent on whether collaboration should be primarily a growth enabler (65). The comments suggest growth is “only” a byproduct of the other benefits of collaboration, not a prime driver.

There is divergence as to whether large credit unions that collaborate should get service revenue benefits but *not* gain access to the collaborator’s membership (54). The comments indicate an extreme level of concern regarding motivations and the need for a clear statement of intent before entering into any collaborative venture. The consistency in the underwriting process that a collaboration brings to an area such as indirect lending elicited a divergent response (60). The inference is that those with experience in this area enjoy the consistency, whereas those with less experience do not share that knowledge. Concerns were expressed that there may be consistency in judgments, but they do not permit “individualized” standards that take into account unique facets of the member.

Involvement in collaborations allows a credit union to benefit from partners taking the lead in introducing new technology and processes and, through rotation, could reduce individual risk (84). Finally, moderate alignment is seen around the thought that financial services are commoditized and a focus on efficiency is required to differentiate oneself (76).

### *Why Collaborate? Top Three Reasons*

1. To benefit from others’ expertise and reduce expenses.
2. To focus more effectively on growth.
3. To enhance focus on the frontline.

## Why Isn't More Collaboration Occurring in the Industry?

There is a strong belief that there is a lack of understanding as to the specific benefits of collaboration (83) and that collaborations need to be strategic (74), i.e., critical to the business. The credit union community feels that the competitive situation of the financial services industry is evolving slowly enough that for most credit unions there is sufficient time left to consider collaboration as a future step, not as an immediate imperative (67). Another rationale cited for not collaborating is that overcapitalization in the credit union system does not encourage efficiencies (74). Additionally, many small credit unions do not feel there is time in the workday to focus on collaborating, even if desired (65).

There are mixed opinions on whether a clear business case was lacking (63); however, nearly everyone responded affirmatively to the need for success stories with clear benefits told by the people who experienced them (85). There is considerable divergence around any interest to invest in “unproven” collaborations (57).

There are very mixed opinions, too, as to whether collaboration services will fail if they are not innovative (55), or whether the capital limitations (55) or charter limitations (54) of a credit union are a barrier. Most feel that branding would *not* be more difficult in a

back-office collaborative environment (70). There is concern, though, that consolidation of back-office technology could reduce overall innovation in the industry.

A very large percentage agrees that there is adequate capital

in the credit union environment to fund collaborations—in short, funding collaborations is not seen as a barrier (90). Collaborations should plan on capital requirements for future expenditures (e.g., technology upgrades) (80).

The underlying thinking is that back-office collaboration has a loose association with serving members better (81) and a tighter association with efficiencies and with returning more to the members. The latter is seen as a secondary priority for many in the credit union system, and the former—direct member service—is job one. For small credit unions, entering into a collaboration is seen as a major hurdle since the devotion of time and preparation detract from the time spent on member service.

### *Why Isn't There More Collaboration? Top Three Reasons*

1. Studies of successful collaborations are not very well known.
2. Lack of understanding of benefits.
3. Overcapitalization does not encourage efficiencies.

There is a clear like-mindedness that, regardless of current levels of efficiency, collaboration will always bring benefits (83), and operating near capacity may seem the most efficient model to the majority (79). Still, concerns are expressed that embracing collaboration may cause an undue focus on efficiencies at the cost of member service. There is also divergence on which takes precedence—productivity or excellent service—in most credit unions (65).

Collaboration is seen as a mitigation tactic for reliance on highly trained specialized individuals who may be subject to turnover (78). There is some divergence of responses regarding call centers—the inference is most credit unions already provide 24/7 access, so collaborating to gain more member access, while seen as valuable if not already available, is not the prime reason to collaborate on call centers (68). Primary reasons cited are to provide more consistent service at lower cost by sharing the resources across many credit unions, and defer error handling and routine transactions away from the on-site staff so they can focus more on advising and assisting.

Members do not care if credit unions collaborate. The research suggests that since it is not a member desire, collaboration generates a lower level of interest internally; i.e., if the satisfaction of members were tied to collaboration, then active collaboration would be pushed to the forefront (69).

There is moderate divergence over reduced litigation risk as a benefit to collaborating in the legal area (66). Collaborating on legal expertise is seen to be beneficial if it provides a pool of highly skilled legal counselors with broader industry knowledge, whereas negative reactions centered on potential divulgence of legal matters and exposure of sensitive information.

Staff concerns relative to back-office collaboration start with the obvious—fear of job loss. However, there is interest in reducing the current routine workload and freeing staff to provide more direct member service. Subsequent retraining is an area of some concern. The challenges for small credit unions where cross-training is required open up new opportunities for collaboration—there is less cross-training required as the processes are shifted to a collaborating party.

A line of inquiry regarding a shift from the spirit of credit unions—member service—to focus more on business imperatives hit a nerve among the community (52). The research indicates that many feel they are not mutually exclusive, that in fact the spirit is akin to the business imperative. Many see a need to balance the spirit and the business imperatives in order to focus more on the long term and not just to survive in the short term.

<b>91–100</b>	<b>81–90</b>	<b>71–80</b>	<b>51–70</b>	<b>0–50</b>
Strong alignment—either agreement or disagreement with the statement is clearly present.	Convergent—most concurring, with minor dissent.	Moderately convergent—contrary opinions exist but with significant alignment.	Clearly divergent—little common ground.	Highly divergent—opposing opinions of a significant level.

Another divergent topic is the suggestion that education on collaboration is a prime reason credit unions currently do not collaborate (66). The comments indicate that motivation, not solely education, is the primary missing element and that some catalysts are required to motivate collaboration. Back-office collaboration is *not* seen as critical to maintaining the charter of credit unions (60), nor is collaboration universally seen as the only strategy that will keep credit unions in business (59). The prime strategies are serving members and managing the business properly.

Collaboration is seen as a worthy activity even if the strategy of a credit union is to focus on revenue growth (79). Regardless of credit union size, collaboration is thought to be a suitable mechanism for gaining efficiencies (67). There are mixed responses as to whether credit unions are capable of the tough conversation about their strengths and weaknesses (72).

While strong alignment exists around the need to have a disciplined approach and proof that savings will result before acting (86), many in the community indicate that the intuitive approach is also desirable—that collaboration should be undertaken regardless of any provable savings.

From the above consensus, we can conclude that many credit unions are waiting for someone else to prove that collaborations are worthy of the effort, that the compelling proof to catalyze some action is lacking, and that for many—if not most—credit unions, clear proof in their own context is the barrier to embarking on a collaboration.

## How Are Members Affected?

Small credit unions that share services could appear much larger and serve members better (83). A moderate amount of divergence exists on whether back-office collaboration is transparent to members (69). For those who do not see it as totally transparent, the expectation is that if done properly, collaboration should have a positive effect on the member experience. There is significant alignment around collaboration on common services being a key to focusing on unique value to members (90).

A side benefit of certain types of collaboration is that if members want to switch credit unions, they can do so more easily if similar services exist at the new credit union (72). This tactic keeps members in a credit union environment rather than losing them to banks or other financial institutions if they move out of the geographical service area.

There are mixed opinions regarding collaborations that allow a large credit union to test services via small credit union collaborators (62),

with most not seeing that as a possibility. Small credit unions are not seen as being as nimble as some would expect, and they do not have the capacity to try new things regularly. The response to the suggestion of larger credit unions getting access to members from small credit unions is similarly mixed (59). The impediment is the concern over merger motives and the viability of the small credit unions.

Back-office streamlining and conforming to a standard clearly do not restrict member choice (78). Credit unions do share a concern that giving up custom systems they have built may impact their members if they switch to a collaborative environment (81).

## Whose Leadership Will Encourage Collaboration?

The community's views on state leagues taking a leadership role in helping to support local collaboration are extremely divergent (63). Many feel the leagues' agenda is more focused on internal matters and not focused on what helps the credit unions' members. Their focus on political action and fees makes them less suited to support collaboration. They are seen, however, as having the critical knowledge about specific credit unions that would benefit from collaboration. The decision makers in many credit unions are not seen as having contact with the leagues directly. The leagues may at best be an avenue to conversation among interested collaborators.

The consensus is clear that no one organization should have responsibility for fostering and facilitating collaboration in the credit union system (84) . . . but a more direct interest lies in seeing credit union CEOs present their personal positive experiences directly (85).

While there is divergence with a slightly positive bias for having leagues encourage collaboration, there is a corresponding divergence with a slightly negative bias for the trade associations doing so (50). The main concern here is that the trade associations would be like central planning, and there is a fear of industry mandates. While many feel there should be tools for collaboration from the Credit Union National Association (CUNA), there is much dissent and an inference that they could expect more hindrance than help from the trade association (76). Many feel the need for a blueprint to guide them on effective collaborations (74), but they are concerned over how much of a blueprint vs. a guideline would be established. Even more divergent thinking is evident regarding industry research groups and consultants developing the viable collaboration

model (63), as the inference is they have differing agendas and no participation requirement—no skin in the game. Those who are asked to participate in and support the collaboration model should be the prime developers. The consensus is clear that no one organization should have responsibility for fostering and facilitating collaboration in the credit union system (84).

### *Incentivizing Collaboration?*

Offering financial incentives for leaders to collaborate is another clearly divergent topic (59). There is very high alignment on the need for the decision makers to be motivated (90), and proponents see the initial savings through collaboration being a part of the CEO's or the senior management team's compensation as a strong motivating factor. While not “required,” the compensation may be an incentive to counter concerns of ego and control. The incentives, though, need to come from inside the organization.

Regarding who should communicate the effectiveness of collaborations, there is some agreement that the industry research groups and consultants are capable of bringing that information forward (67). A more direct interest, however, lies in seeing credit union CEOs present their personal positive experiences directly (85). The industry research groups are seen as sometimes having biased agendas. In addition, while the trade associations are seen as contributors to encouraging collaboration (65), they are also seen as having biases relative to their own membership and even subsets of that membership, preventing them from having a completely objective point of view. Middle management in the credit union is also considered to be a vulnerable breakdown point (67), as they may not truly understand the vision of collaboration. Nearly everyone feels that back-office collaboration requires senior leadership to establish an actionable vision (93) and that many senior managers need to shift their role from an operational to a strategic focus to accomplish this (88). The majority opinion is that many credit unions are not operating from a clearly established strategy and therefore lack the guidelines needed to establish what appropriate collaborative actions to take (88). Some credit unions are seen as effective long-term thinkers, and others are not (71). Additionally, the community has mixed opinions about whether credit unions act strategically (65). Highly divergent responses also concern whether CEOs nearing the end of their career are interested in the long term (48). Most feel the CEOs are not, and cited a long-term view as a prerequisite for embarking on any collaboration.

## What Is the Director's Role in Collaborations?

Most feel that credit union boards are inadequately educated about the opportunities and challenges of back-office collaboration (78) and that boards must trust the CEO and management teams to embark on appropriate collaborations (94). Most community members place the responsibility for educating the board on management and industry trade groups (78). Very divergent opinions surround whether specific strategies on collaboration are even a board-level discussion. While by far most feel it is a strategic discussion, the details are not board-worthy (65). Opinions are mixed as to whether the board should intercede where the ego of a CEO inhibits collaboration (72).

With a high degree of divergence, most see collaboration as a board-level decision (60). For those who do not consider it a board decision, it is seen as purely operational, and not strategic. By far most feel that boards should receive updates on industry collaborations (86). Those who disagree cite the board's role to be a singular institution governor and not an industry expert. It is felt that boards often don't know the basics of credit unions, and it is management's role to understand opportunities and successful strategies.

There is also divergent thinking on whether the credit unions' boards of directors see working with other credit unions as common practice (67). Some say their directors are unwilling to work with other credit unions in meaningful ways, and feel their boards are not involved enough in this issue. Because credit union directors are often volunteers, their limited skill set and knowledge prevent many from adequately participating in the discussion without further awareness and education.

## What Impact Does the Regulatory Environment Have?

Most of the credit union community feels that the regulatory environment currently in place does not preclude collaboration (72), but having regulators promoting benefits of collaboration would be desirable. Some are concerned that certain types of collaboration may be subject to regulatory boundaries (although no specifics were cited) (66), and the divergence and comments suggest any regulatory impediments that may exist have not been sufficiently researched.

While technology costs continue to decrease, regulation costs continue to increase (88); suggestions include making the regulatory environment more user-friendly, especially for smaller credit unions.

## Recommended Actions

### For the Credit Union System

- Develop a common terminology—what does “collaboration” mean? How is it cooperative?
- Build additional collaboration pilot programs and capture an understanding of the resulting benefits and challenges:
  - Examine other countries that have tried this (understand failures and successes).
  - Examine local, regional, and national successes (farm co-ops are an example).
  - Provide case studies and document the value of collaborating.
  - Document success in real terms, not just the “happy stories”; include the hurdles and how they were surmounted.
  - Make certain the demographics of the case studies match the targets—so credit unions can see themselves in each case.
  - Ensure that the broadest credit union community is aware of the specific cases through trade association communications, independent research papers and articles, and conference agendas.
- Quantify the benefits—understand the baseline against which to derive improvement (develop benchmarks on the bases of full-time employees or asset size).
- Standardize collaboration metrics—determine what is appropriate (e.g., service, operation efficiency, what members value).
- Involve related industries for benchmarking.
- Build one or more “strawman” models:
  - Criticize each model intellectually.
  - Make certain credit union management is involved in those discussions.
  - Expect to refine the models through continuing dialogue.
- Understand what control is released by each area of collaboration.

- Identify for each area what level of standardization vs. customization likely exists (e.g., compliance may be highly standardized, while call center technology is customized).
- Understand the potential for brand impact on a scale from none to deeply tied to brand for each possible area of back-office collaboration.

### **For Your Individual Credit Union**

Build your business case:

- Ensure you have an actionable vision that can be well articulated by management at all levels. Ensure that a long-term view is considered.
- Create a strategic plan for your credit union if it is missing. Your vision and strategic plan will be your criteria for selecting the optimal areas of collaboration.
- Take a strategic look at your individual credit union's strengths and weaknesses. A willingness to discuss those strengths and weaknesses with others beyond your organization can surface opportunities for improvement and support.
  - The strengths become areas for potential collaboration, and those talents can be shared with others.
  - The weaknesses are opportunities to consider collaborating with others to benefit from their strengths and reduce those restraining forces.
- Determine suitable areas to target collaboration:
  - Review the list of potential back-office collaborative areas, taking into account your vision and strategy. For each area consider the following:
    - Is this area critical to our vision and strategy?
    - Is this a member touch point where service can be improved? Is it an area that detracts from providing member service?
    - Is this area in need of process improvement (reducing errors, excessively time consuming, low member value, finite resources)?
    - Is this an area where others do better? Do you perhaps have a unique competency or an efficient process to offer other credit unions?
    - Is this an area where you are at risk because of critical staff competencies you cannot afford to lose?

<b>91–100</b>	<b>81–90</b>	<b>71–80</b>	<b>51–70</b>	<b>0–50</b>
Strong alignment—either agreement or disagreement with the statement is clearly present.	Convergent—most concurring, with minor dissent.	Moderately convergent—contrary opinions exist but with significant alignment.	Clearly divergent—little common ground.	Highly divergent—opposing opinions of a significant level.

- Is this an area with extensive customizations to the process or technology?
- How much monetary return is likely for the effort?
- Consider whether compensation incentives are an appropriate motivator for personnel in your credit union.
  - Establish targets and who to incentivize.
    - The incentives should focus on the expected benefits and make stretch targets concrete.

## MAKING THE BUSINESS CASE IN PRACTICE

The business case, not the business plan, should answer the question of why mass back-office collaboration is the right thing to do—not the practicality or feasibility of doing it, but when done, what new value, capability, knowledge, or economics it will provide. What benefit does a credit union, its members, and its target market enjoy that could be better produced via a joint effort?

In the language of the Discipline of Market Leaders, the credit union system thrives on customer intimacy. Back-office collaboration—in a massive implementation—is about operational excellence developed through shared expertise and efficiencies. Operational excellence does not replace or constrain, but rather enhances customer intimacy. FedEx, Charles Schwab, and Procter & Gamble certainly recognize and delight in satisfying their customers, at the same time providing their unique offerings with excellent value by managing efficiencies in product and delivery.

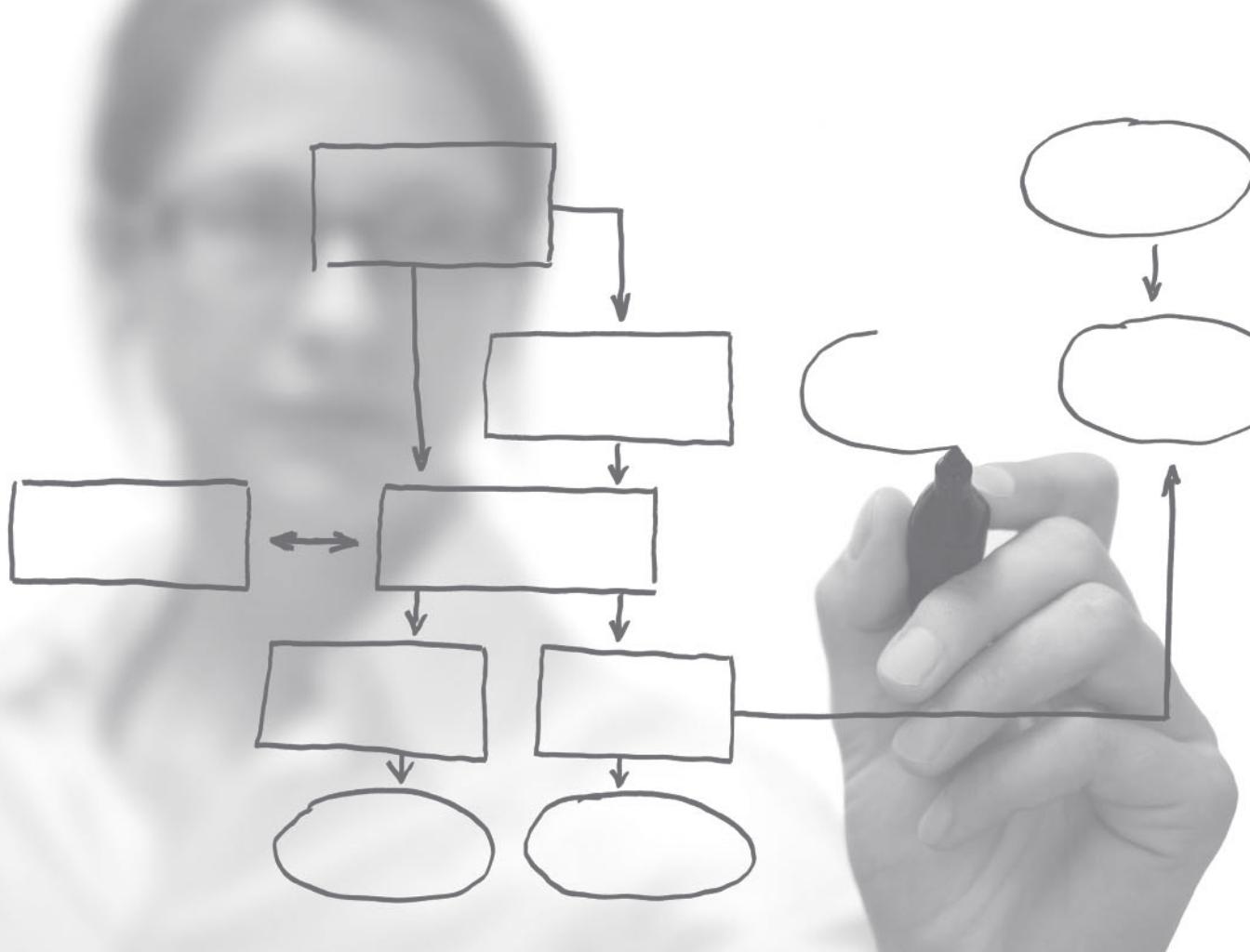
The key to an “appropriate” business case is not volume but a level of specificity that can be discussed objectively by multiple parties. A business case provides a way

for those who can’t commit yet to have something tangible to critique, to share with others, to talk about, and to improve, along with an opportunity to gain insight from the dialogue to support decision making. A written business case ensures collaborating members are on the same page and have a common expectation to work toward.

A venture capital investment-grade business plan with competitive analysis, organizational charts, and product features with comprehensive five-year spreadsheets is *not* what is being described here. A two- or three-page document with a simple financial model will likely suffice to show the benefits to be realized. The business case should identify exactly how collaboration supports your credit union’s specific strategic vision. Which elements of the strategy does it advance, how does it advance them, and what are their relative priorities? (This may challenge some organizations to refresh or improve their strategic plan.)

For those readers who feel they have an adequate business case, write it down and share it so that it may be understood and supported by all involved.





## CHAPTER 3

### Architecting the Collaboration

*Constructing a custom collaboration model for your credit union includes many considerations that could be critical to your success: choosing the right structure, scaling your collaboration, dealing with loss of control concerns, and selecting a suitable partner.*



Assuming you already had a compelling business case for collaboration and skipped the previous section, or have constructed one using the actions above, you are now ready to explore the landscape for collaboration models that match the requirements of your business case. This section covers those elements critical to constructing the collaborative environment:

- Choosing the right structure.
- Scaling your collaboration.
- Dealing with loss of control concerns.
- Selecting a suitable partner.

## Choosing the Right Structure for Collaboration

Key factors in architecting any collaboration include the following: the shared services organizations need top talent (92), they must have flexibility and scalability considered from the beginning (91), and they need an effective way of allocating the costs (90).

In any collaboration it is best to start small, preferably between a couple partners that share trust, and expand later (85). To get started, most feel there should be external resources available to assist them in exploring the possibilities (86). Collaborations may involve not only multiple credit unions but also third-party vendors (85). It's possible that third-party vendors might assist in forming the collaboration.

Few support having a senior manager assigned in a credit union to own the supplier relationships (62). And most see CUSOs being driven by leagues as a conflict of interest (81). Very few support the notion of a “self-sustaining industry fund” to help catalyze collaborations, paid back by the savings generated (58).

Generally the community expressed concern that poorly

### *Most Important Structural Elements of Collaboration*

- Top talent.
- Flexibility and adaptability.
- Ways to allocate costs.

<b>91-100</b>	<b>81-90</b>	<b>71-80</b>	<b>51-70</b>	<b>0-50</b>
Strong alignment—either agreement or disagreement with the statement is clearly present.	Convergent—most concurring, with minor dissent.	Moderately convergent—contrary opinions exist but with significant alignment.	Clearly divergent—little common ground.	Highly divergent—opposing opinions of a significant level.

structured or poorly executed collaborations could affect a large number of credit unions simultaneously (84), and that a collaboration project could become its own bureaucracy (80).

Far more divergent points of view exist as to whether large credit unions could possibly leave smaller ones with problems if they were to pull out of a collaboration (59), and there is mixed reaction as to whether collaborations would get bogged down in consensus decision making (66).

The community feels that a good strategy would be to have interested parties fund a detailed

business plan in a modest way, and from that plan identify funders who want to move forward (84).

Thoughts on the applicability of the Desjardins model to U.S. credit unions are highly divergent based on “egos involved” (53). Even considering it as a template is moderately convergent (75), and even a smaller scale statewide or regional Desjardins model is barely convergent (73).

Convergence exists on the points that a detailed understanding of joint needs to any collaboration is essential (90), that collaborators need to plan for a long-term horizon (89), and that any collaboration will still allow credit unions to differentiate (87).

Another critical issue cited by the community is to consider how the cost of a collaboration is charged (% of gross incomes vs. transaction charges, etc.)—in order to avoid debates over equitability and to allow the collaborations to flourish (61). There is mixed opinion regarding the terms of collaboration pricing models (66), most not feeling the terms are long enough to see benefits accrue. Certain cost structures could be impediments to certain asset sizes. While the notion of having the shared services offered by a for-profit company is rejected by most of the community (75), the suggestion that the collaboration itself should have a profit motive is accepted by most (76). The majority feels there should be a short-term payoff in any collaboration (73), while still planning for the long term.

Thoughts on the eventual creation of a separate organization and management for the collaboration are divergent (71), and reasons for this include overhead, cost, complexity, and regulation as barriers. CUSOs were noted to have the same issues (68). Service bureaus are seen as optimal to many, but this concept has a high degree of divergence (65) and is not seen to fit the definition of collaboration due to the active engagement desired and the lack of flexibility. On

Thoughts on the applicability of the Desjardins model to U.S. credit unions are divergent based on “egos involved” (53). Even considering it as a template is moderately convergent (75), and even a smaller scale statewide or regional Desjardins model is barely convergent (73).

the positive side it is noted that service bureaus can provide access at costs that some credit unions can afford. Very few feel that collaboration requires a legally separate entity (58).

## How Large Is an Effective Collaboration?

Regarding scale, one of the most divergent points is whether effective collaboration requires hundreds vs. two or three organizations collaborating together (57). While having more obviously spreads the costs better, and the more viewpoints might create a better collaboration, the smaller collaborations can provide proof of concept; for most of the community the low end of the scale is the place to start. Some in the community want big wins with large-scale projects to demonstrate the efficiencies, while most advocate a “start small/gain confidence/expand” approach.

There is considerable divergence as to whether stand-alone credit unions can decrease their fixed costs (62). Staffing, noted by many as their largest cost, is dependent on the efficiency of internal processes.

### THE ROAD MAP

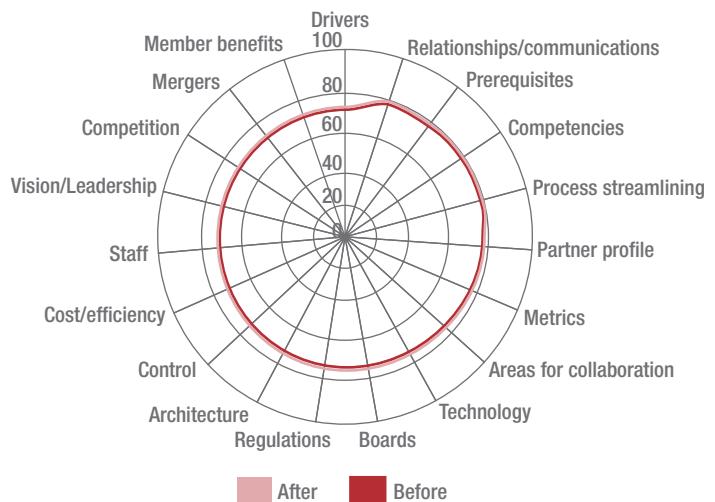
The 364 opinions on the subject covered 19 themes. The radar analysis sorts the themes by descending Alignment Index clockwise from 1 o’clock.

We can see that the more tactical relationships and communications statements, part of “Conducting the Collaboration,” enjoy the greatest relative alignment. On the other hand, the strategic question of the drivers to form and conduct collaborations, and the impact on member benefits suffer the two lowest relative alignments across the 150 participants.

The small difference between the pink and the red shows

little adjustment to positions when people had an opportunity to reexamine their positions when not in the bias of the group.

Figure 6: A Road Map for Credit Union Back-Office Collaboration



Automating back-office tasks is a way to reduce these costs, through staff reductions, without affecting the member experience. Having a cafeteria-style list of collaborative services allows choice (79), but to get scale it is seen as necessary to have bundles of services in place.

## What about Loss of Control?

One hundred percent responded that credit unions need to set aside egos in order for collaborations to form (90). Strong support exists for the need for a clear vision and succinct governance in place to mitigate control issues (82). The need for a voice is agreed to by most with moderate divergence. Comments show that while many started out feeling that a voice in the collaboration was mandatory, only a few ever exercised it. The need to have a voice is seen as far less of an issue if the collaboration is well run.

Strong divergence exists on the topic of larger credit unions in a collaboration swaying the decisions and exercising more control than smaller credit unions (58). However, this loss of control is seen as acceptable if the gains justify it (87).

While most are indifferent to the particular model of collaboration if they retain the control, many do express their “favorite” model (71). Some see the partners providing the service as a vendor, while others are more interested in having the best platform or the right team.

In regard to retaining control so they can act in the members’ best interests, many agree, but it is significantly divergent (67). Equally divergent is the issue of collaboration inhibited by the need to retain brand (66)—many feeling that, if isolated to back-office collaboration, brand would not be impacted, while others feel strongly that it

would. When testing the opinion that collaborating requires giving up control, most feel that is not the case, but again were not exceedingly like-minded (69). Giving up control means

One hundred percent responded that credit unions need to set aside egos in order for collaborations to form (90).

retaining your strategy and philosophies while considering your partner’s concerns and processes. For example, choices in how you exercise your processes, like deposit sequencing and fees for certain conditions, are seen by most as retained in a collaborative environment (77).

Concerning control, there is moderate alignment around the notion that there must be a balance between the amount paid for services and the amount of control retained by the credit unions (76). Control for many seems a key startup issue.

## What Makes an Ideal Partner?

Most feel it is best to partner with one that shares a similar strategy and invests in similar areas (78). Everyone indicated that a partner should be interested in creating value for the members (92), and that reputation, ego, personality, and willingness to trust are the key elements to consider when partnering (90). Nearly the whole community agrees that partners that have complementary strengths and weaknesses on skill sets are desirable (86).

Not so clear is whether collaborating partners need to have parallel visions on how they treat members in order to effectively collaborate (70). In areas where collaboration activities do impact members, having a parallel vision is felt to be a prerequisite, but for those areas where it does not, this is a nonissue.

Certainly it's necessary that the partners providing the services are competent to perform the task (95). While having a consistent decision-making process between partners is advocated by the vast majority (84), they do not see alignment between the collaborators on member treatment as necessary (77) for a back-office collaboration. Early establishment of a protocol for disagreement is seen by nearly all as critical to success (86).

Having the partner share the same focus—community or common bond—was not generally seen as extremely relevant (66).

There are very mixed opinions as to the ideal number of partners necessary to retain adequate control in an effective collaboration (60), and many feel it should be limited. For those advocating more partners, a benefit is in more varied viewpoints, and while partnering may take longer, the result will be better and more sustainable. The smaller the number of partners, the more likely there will be strong commitment to the collaboration.

Most feel that an ideal partner does not have to be more successful (75), but those in favor point to the benefits of learning and improving from their partner's expertise. Key considerations when choosing a partner include membership size, credit union culture, and overall goals.

Many do not feel that the size of the credit union inhibits it from being a "provider" of services, and that it is a matter of expertise (75). However, the larger credit unions typically have more depth and capacity to offer services. Nearly all feel that partnerships could be successful between disparate sizes of credit unions (84).

### *Most Important Elements of a Collaboration Partner*

- Competent.
- Creates value.
- Trusting.
- Complementary skill set.

## Should Neighboring Credit Unions Collaborate?

Many in the credit union community feel that they are competing with one another in addition to other local financial institutions and that this inhibits collaboration (63). Those disagreeing with this notion feel that the market share for credit unions is quite low and that the number of potential members is sufficiently large that they won't compete with one another.

Geography is not seen as a barrier to collaboration by most (81); however, there are concerns that competition in the same geographic area could limit collaboration if there is a potential for overlapping membership territory, and that partnering farther afield is safer.

The research shows very high divergence around the idea of collaboration being most successful when the participants don't compete for members (59). Some feel that being in the same community is beneficial because they understand the external factors and unique needs of that geography. Additionally, being in the same area allows credit unions to leverage and combat other competitive forces more effectively.

Geography is not seen as a barrier to collaboration by most (81); however, there are concerns that competition in the same geographic area could limit collaboration if there is a potential for overlapping membership territory, and that partnering farther afield is safer. It is thought that most “successful” collaborations published today are regional in nature. Trust is cited as the key factor in measuring whether geography should be a concern.

In response to specific questions about whether partnering is working between credit unions in their region, most feel it is doing well, but with significant divergence (70). The articulated responses came from larger credit unions, indicating that the smaller credit unions in their region are leery of partnering with them. When responding to the thought that a local partner would provide more opportunity to know and trust that individual, the group is highly divergent (62). The ability to coordinate activities if the other partners are not in the same community is not an issue of geography; it is solely an issue of trust and shared respect.

The research shows that competitive feelings clearly do matter and are a barrier to collaboration (83). Almost all feel that with credit unions collaborating, they are a bigger competitive force compared to those that are not (86).

Few in the credit union community are concerned about members not getting the same level of support if the back-office tasks were conducted in another geographic area (77). Locating the collaboration at one of the partner sites is quite acceptable (74), with the only concerns expressed being those of control and the ability to deal with disagreements with the local owner.

## Recommended Actions

### Structure

- Jointly develop a set of possible business model definitions:
  - Describe the characteristics of each model (pros and cons).
  - Understand the full slate of benefits that the model provides.
  - Integrate a costing model that is simple yet sustainable under a variety of conditions.
  - Identify the win for all stakeholders (including employees).
  - Distinguish the minimum startup requirements from the potential ultimate business models.

### IS COLLABORATION THE STEPPING STONE TO A MERGER?

The strong consensus is that there should be no connection between mergers and collaboration (76), and that if you collaborate successfully, that should not imply the next step is merging (78). The opinion of the community is that within three years there will be a few mega-mergers, and back-office collaboration will occur as a natural result (75).

There is mixed opinion around collaborations being an “antidote” for mergers (68). By far most feel collaboration to be a great alternative to contemplating merging due to the regulatory issues (79), while others feel that collaborating will just make mergers easier, and by inference more frequent.

The research shows mixed responses regarding how larger credit unions treat collaboration as a way to cultivate merger targets (67)—most of the community feels they do not, but some of the larger credit unions that responded indicated they consciously consider mergers as a possible end result of their collaborations with smaller credit unions.

While by far most agree that a mass consolidation in the credit union system is undesirable (69), those who responded feel it is inevitable. There is considerable divergence on whether credit unions need to grow—either through consolidation, normal growth, or collaborations that enlarge their capabilities (58).

- Develop service level agreements for the collaboration to ensure process continuity.
- Ensure that your collaboration deals adequately with critical credit union system and process customizations. Ask the following questions:
  - What do we have that is “custom”?
  - What member value does it bring?
  - What does that flexibility cost?
  - How much flexibility will a collaborative environment provide for that customization?

### Partners

- Locate like-minded collaborators.
  - When forming a collaboration, ensure that each party communicates its culture, mission, values, and commitment.
  - Create a clear and simple statement of purpose between the collaborators.
  - Document a protocol for resolving disagreements.
- Select the optimal model with representation from all the parties.

### Scale

- Consider how large both your initial and ultimate collaboration will extend.
  - For the initial collaboration environment, agree on a rollout plan that considers capabilities and resources.
  - Discuss considerations for inviting additional partners.
  - Evaluate cost curve vs. size to pick an optimal number of partners that is balanced against manageability.
- Ensure that credit unions leverage their strengths and acknowledge their weaknesses regardless of size within the collaboration.

### Control

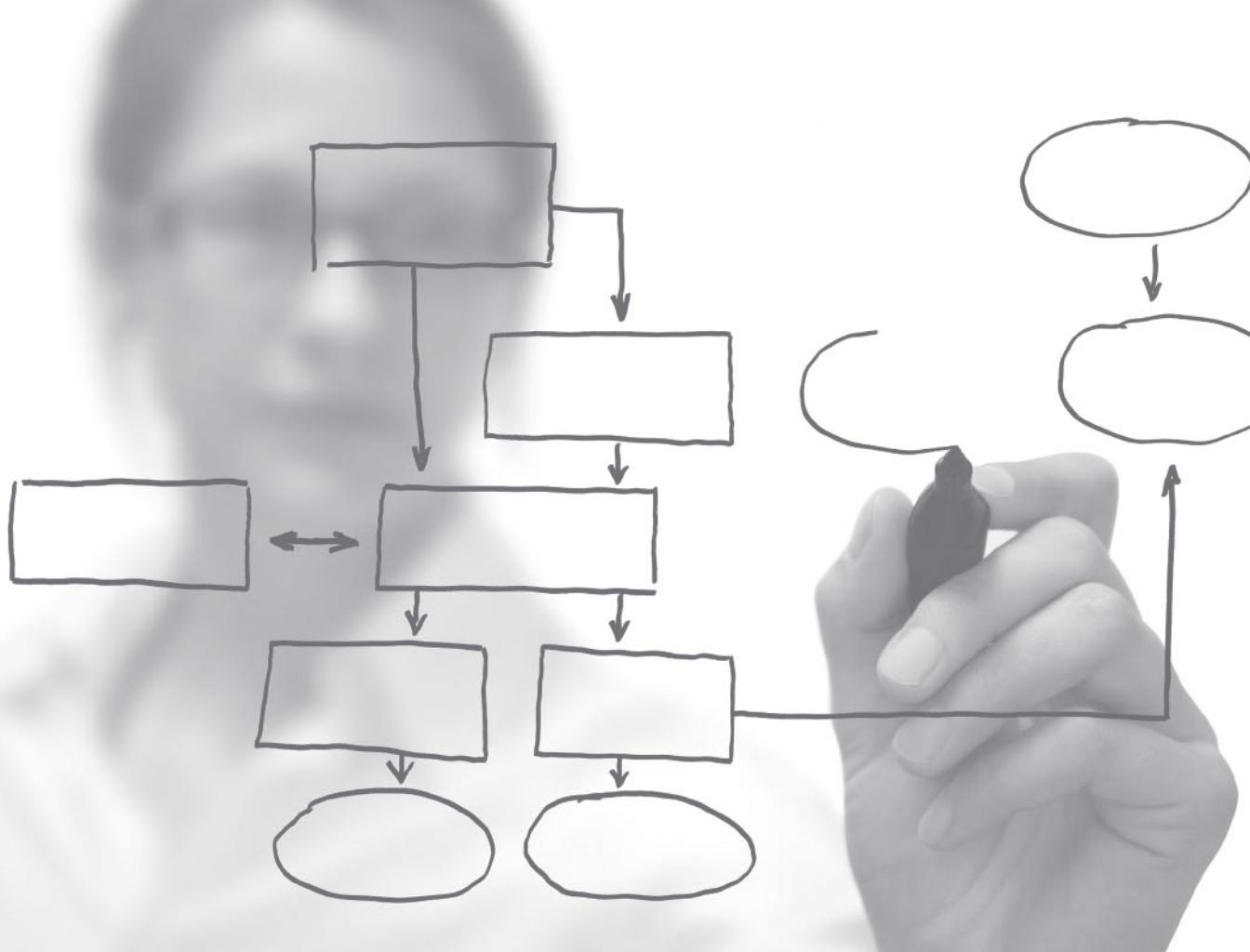
- Discuss and seek to align around areas of concern over loss of control.
- Ensure that the personnel conducting the collaboration have a positive attitude in its regard and are able to articulate the benefits to their organization.
- Celebrate your collaborative efforts with the member community.

While some credit unions appear ready to enter a mass collaboration, many prefer to start small. Large efforts often fail under their own weight, whereas grassroots movements can blossom out of nowhere. Even if the return on investment (ROI) or break-even point is at 100 participants, it's not necessary to start there. Long-term success in many collaborations in other industries started with a small group of passionate core believers.

Other industries, especially those with multiple stages of a supply chain (like the grocery and food service industry), have been forced to standardize and use common practices as they mature to improve efficiencies due to strained margins. The dilemma is deciding where they will focus on being different. Rather than defining the ultimate structure first, start simple, make it demonstrably work, and prove it is viable. Acknowledge that the optimal future state model will be identified once the collaboration is operating and understood.

Industries experienced with co-opetition have recognized that working together—even while competing—provides the optimal value net. This comes not from doing the same thing using the same organizational mind-set but by changing the game. The bottom line is that each credit union's fortune needs to be seen as dependent on what the others do, to flourish as an industry. So architecting in a way that aligns charter and objectives, and provides joint funding and resources while at the same time possibly competing for membership is not only doable but common in many industries.

For the sake of encouraging scale, many larger collaborations select an executive committee and then sponsor one or more working committees to advance the topic. Commitment to regular reviews and communications across all involved is crucial to maintaining momentum.



## CHAPTER 4

### Conducting the Collaboration

*All credit unions should do an introspective examination of their competencies before embarking on any collaboration. Considerations include ensuring metrics are in place to encourage and monitor collaboration, testing that processes and technology are ready for collaboration, and making sure staff and morale do not suffer.*



This section details the research results gathered from those who are in back-office collaborations today. Given the current dearth of citable examples of collaboration, this composes the wisdom of those few that exist. This section will grow and expand as more collaborations take root, and it will provide meaningful guidance through experiences over the longer term.

## What Competencies Are Needed to Collaborate?

All credit unions should do an introspective examination of their competencies before embarking on any collaboration (88). The community indicated that the most important competencies when embarking on a collaboration are project management and process design skills (81). Most in the credit union community feel that the necessary competencies exist in the industry with a moderate amount of divergence (72). Specific areas of weakness in the industry are measurement expertise, benchmarks, process reengineering skills, and financial analysis skills for collaborative models. The research indicates that staff throughout the industry have not been hired for their skills in process excellence, so cultivating this across the credit union system should be a goal. By a large margin, respondents feel the efficiency of back-office collaboration should be developed as a critical skill set within a credit union (87).

## Are the Metrics in Place to Encourage and Monitor Collaboration?

Members of the credit union community feel they should select a set of industry metrics that are most appropriate to judge the effectiveness of collaboration efforts (88). There is a high degree of alignment that collaborations make processes reliable and less error prone (86). The effects of any specific collaboration are unique, and therefore the measurements should be tailored to the goals. Most feel that in

<b>91-100</b> Strong alignment—either agreement or disagreement with the statement is clearly present.	<b>81-90</b> Convergent—most concurring, with minor dissent.	<b>71-80</b> Moderately convergent—contrary opinions exist but with significant alignment.	<b>51-70</b> Clearly divergent—little common ground.	<b>0-50</b> Highly divergent—opposing opinions of a significant level.
---	---	---	---	---

order for smaller credit unions to compete with larger credit unions, they need a lower cost per transaction (76). Most feel that the overall industry efficiency ratio needs to decrease to signal a healthier industry.

There is significant divergence over the suggestion of forming an industry standards committee to encourage consistency for efficiency (63). Proponents suggest this would allow for dissemination of best practices throughout the industry and support publishing valuable benchmarking data. It could be a clearinghouse for the industry “health” metrics beyond standard financial metrics. Opponents to standards see this process as a means to level the playing field and remove organizational uniqueness.

Savings in any collaboration take time to accrue, so having leading indicators—metrics—that foretell the success and identify the weaknesses in any collaboration will help keep the effort on track. For any collaboration you need to have a service level measurement process in place between parties before embarking on the collaboration (83). The leading indicator metrics should join with service level targets to ensure the collaboration is achieving the goals—financial measurements alone are not sufficient.

## SAMPLE COLLABORATION METRICS

### Overall

- Costs/member (85) (lower is better).
- Cost/transaction (81) (lower is better).
- Income/employee (83) (higher is better).
- # Member facing employees/total employees (79) (neutral or increasing).
- Errors/thousand transactions (66) (lower is better).
- % back-office collaborative (higher is better).
- % value-added transaction/overall transactions (higher is better).

### Call Center Metrics

- Call center—average hold times (65) (lower is better).
- Call center—abandonment rates (65) (lower is better).
- Error correction interactions as a percentage of all transactions (lower is better).

### Collections

- Delinquency ratios (64).

## Are Your Processes Ready for Collaboration?

Most agree that their processes would have to change in some way to accommodate collaboration. How much so is an issue of both control and efficiency. The community indicated that collaborators should view the processes in a credit union from a member's point of view (84).

As an industry the community feels it should be more skilled in process improvement (85). However, there is strong divergence among the community about whether a neutral third party involved in process improvement could be an objective catalyst to innovation (66). The comments suggest this is crucial to applying best practices and to break out of the current operational paradigm in order to see where efficiencies can be gained.

There is strong support around collaboration requiring that credit unions standardize their processes (80), and standardizing processes is not seen as detrimental to uniqueness (72). Strong alignment exists around the need to be willing to reengineer and streamline processes (89) and to understand them before collaborating (84). Still, there is concern that outsourcing parts of a process to a collaboration could lead to lower quality.

Most credit unions are seen as not knowing how to take full advantage of IT systems to make tasks more efficient (84). The technology itself is not seen as the barrier to collaboration; it is the business processes (80). There is quite high divergence around the statement that employees don't think about automating tasks they have performed manually for some period of time. This sentiment parallels the researcher's experience in other industries where process efficiency takes a secondary role to customer intimacy. Even with significant standardization, variations that are key to a particular credit union can be successfully accommodated, as was cited by a number of credit unions.

There is strong support around collaboration requiring that credit unions standardize their processes (80), and standardizing processes is not seen as detrimental to uniqueness (72).

## How Do We Relate and Communicate in a Collaborative Environment?

Significant changes in participant organizations' senior management could inhibit the collaboration's success (81). The community insists there must be a true partnership in place (89), extending beyond just the executive ranks.

<b>91-100</b>	<b>81-90</b>	<b>71-80</b>	<b>51-70</b>	<b>0-50</b>
Strong alignment—either agreement or disagreement with the statement is clearly present.	Convergent—most concurring, with minor dissent.	Moderately convergent—contrary opinions exist but with significant alignment.	Clearly divergent—little common ground.	Highly divergent—opposing opinions of a significant level.

Nearly everyone concurs that a collaboration requires the willingness to make concessions (92), that a high and constant level of communication is required among the collaborators (91), and that the partners need to prepare for the eventuality of going in different directions in the future (89). Building this possibility into the contractual agreement up front is recommended, to relieve those at a future time of crafting under difficult circumstances an exit mechanism satisfactory to the parties.

Few feel that partnering exposes a credit union’s vulnerabilities (76), and for those weaknesses exposed, the collaboration itself may be the mitigating vehicle.

Nearly everyone concurs that a collaboration requires the willingness to make concessions (92), that a high and constant level of communication is required among the collaborators (91), and that the partners need to prepare for the eventuality of going in different directions in the future (89).

## What about Staff and Morale?

Many collaborations that emphasize improved economies of scale and higher efficiency will, by their intent, result in staff reductions. Through effective change management, anticipating and reacting to those staff concerns go hand in hand with the efficiency emphasis (80). As to be expected, the community expressed concern over staff protecting their jobs against outsourcing and undermining the effectiveness of a collaboration (79), and of the other partners potentially poaching good employees (76). The challenge of accountabilities when staff are involved in processes beyond their own credit unions is also convergent (79), indicating through the research that careful attention needs to be paid to how collaborative processes are constructed and conducted.

The community is divergent regarding staff potentially not having the skills to transfer positions when displaced by back-office collaboration (68); of concerns over the negative impact of losing shared employees who have key competencies (62); of the public image that a credit union might have if it is seen as outsourcing jobs to another region (59); and the possibility of a “we-they” mentality between the credit union’s employees and the service organization’s employees.

There is mixed opinion about whether the current level of skill sets of the credit union’s staff will be adequate in a collaborative environment (66). Nearly all cited that the necessity to cross-train staff in smaller organizations would be reduced by collaborating with

others—a big benefit (85). Access to the best talent was cited by the vast majority of those envisioning collaborations (82). Reaction to the idea of reducing the staff workload as a reason to collaborate is mixed (65).

For many, the staff reductions associated with collaboration are seen to come from natural attrition and will not occur immediately (77). When embarking on a collaboration, most feel no need to increase staff—even temporarily—to handle the coordination (72).

## Is Technology a Help or a Hindrance to Collaborating?

The need for a common technology platform is not seen as a barrier to collaborations (76). Strong support exists for the IT infrastructure in credit unions becoming more open and less proprietary as a means to enable collaborative services (85). However, most in the credit union community—albeit with considerable divergence—feel that one common IT backbone for the industry is not a requirement to scale collaboration (58). A mismatch between a credit union’s technology and that of a potential collaborator is more frequently seen as a costly barrier (68). The degree to which credit unions are willing or are not willing to give up their customizations gives rise to a mixed opinion (67); even more mixed is the response to whether credit unions will change IT platforms in order to collaborate (50).

Strong support exists for the IT infrastructure in credit unions becoming more open and less proprietary as a means to enable collaborative services (85).

Most feel it would be possible to have multiple core systems and still have streamlined operational collaborations, although this was a divergent viewpoint (66). Those who feel otherwise point out that it would be far more complex, and less streamlined from a technology point, than would be possible on similar core systems.

The IT infrastructure necessary to enable collaboration is seen to be available today in the industry (85). Any technology differences are seen as minor and able to be worked around (84), although some think that the cost and complexity will detract from the economies of scale.

The degree to which IT can support the business processes necessary for collaboration is felt to be strong (87), and having vendors offer reviews of systems and processes is also strongly supported (80). IT’s role is seen as a subject matter expert, and not as a driver, for developing collaborations (81).

In general, the community feels that the technology in the industry is better than that in the for-profit industry, as it is more current and capable. However, the knowledge of how to apply the technology for collaborative benefit is weaker, and technology as a product differentiator is an area of opportunity yet to be explored. Credit unions are seen as fast followers in the area of product creation, and not as leaders or innovators in the financial industry.

Most agree that in a collaboration there may be a disparity over technology needs—larger credit unions may need more advanced components in a technology suite than smaller credit unions and may therefore have a disproportionate impact on the costs of technology acquisition (79).

Those already in collaborations have taken the approach of parameterizing the technology features to allow a level of “customizing” while retaining a standard core. Those choosing to take advantage of “additional” features share the costs of those enhanced capabilities.

Those already in collaborations

have taken the approach of parameterizing the technology features to allow a level of “customizing” while retaining a standard core. Those choosing to take advantage of “additional” features share the costs of those enhanced capabilities.

IT’s role is seen as a subject matter expert, and not as a driver, for developing collaborations (81).

## Recommended Actions

### Competencies

- Ensure that your collaboration has personnel with the following skills:
  - Project management.
  - Process improvement skills.
  - Metric or scorecard development skills.
  - Financial analysis.

### Metrics

- Determine the minimum standards.
- Assess and determine the reasonable cost savings and time frame.
- Look to other external benchmarks as a guideline.
- Break down the cost savings in other efforts like integration and future programming. Ensure those metrics are accounted for in your financial indicators.
- Understand common issues and create metrics around the solutions for these issues.

## Process

- Form a process review team:
  - Have people who are unfamiliar with the processes review them to catch things often overlooked.
  - Get external personnel or a member to help determine how the process should work.
  - Ensure a member representative is truly representative.
  - Appreciate that you may expose weaknesses in the process to members.
- Identify the critical processes.
- Assess “unique” requirements—what is and needs to remain nonstandard.
- Make certain that in areas of process construction, the member’s viewpoint is consciously represented.

## Relationships

- Establish frequent and consistent communication sessions between the collaborating parties as venues for discussing:
  - Scorecard status.
  - Issues and resolutions.
  - Future events/activities.
- Ensure that the communications are kept regular so that problems are addressed rapidly and relationships are maintained and enhanced.
- Make certain you prepare to discuss any weaknesses that surface in your own credit union relative to the collaboration and encourage others to do so. This will foster an open and supportive environment.

## Staff

- Communicate the collaboration plan and your long-term commitment.
- Create standardized training for the back-office staff on technology—especially technology that supports the collaboration.
- Make a proactive statement of intent about any intended layoffs (including specifics to the extent known).
- Create a training program around how the collaboration will help maintain the focus on the members and communicate this to staff.
- Educate the staff about the cost and efficiency benefits to the credit union and ultimately to members.

<b>91-100</b> Strong alignment—either agreement or disagreement with the statement is clearly present.	<b>81-90</b> Convergent—most concurring, with minor dissent.	<b>71-80</b> Moderately convergent—contrary opinions exist but with significant alignment.	<b>51-70</b> Clearly divergent—little common ground.	<b>0-50</b> Highly divergent—opposing opinions of a significant level.
---	---	---	---	---

- Reassess when staff exits as to how to fulfill needs—consider collaborating as an alternative to direct replacement.
- Ensure retained employees receive compensation and more personal development, as this engenders commitment.
- Form a cross-organization team whose job is to ensure the standards are maintained (because there are multiple credit unions involved).

## CONDUCTING A COLLABORATION IN PRACTICE

Collaborations require transparency to foster trust, and metrics provide the basis for that communication. The business case should suggest a scorecard that allows all participants to know where they stand and provides joint metrics they can review and manage to. Metrics drive accountability and responsibility. The absence of metrics, or an incomplete joint scorecard, rapidly leads to finger-pointing and distrust. Ideal metrics provide all parties with reliable leading indicators, rather than traditional lagging indicators like financial metrics. Leading indicators are critical in new ventures, to provide early warning so that adjustments can be made.

Back-office collaboration, including IT outsourcing and business process outsourcing, is a form of “dis-integration,” allowing the organizations to focus on what they do best. The business case is realized directly through the value of the collaboration, but operating the collaboration relies on a shift in the organization’s skills and competencies toward influencing and relying on talents outside direct control.

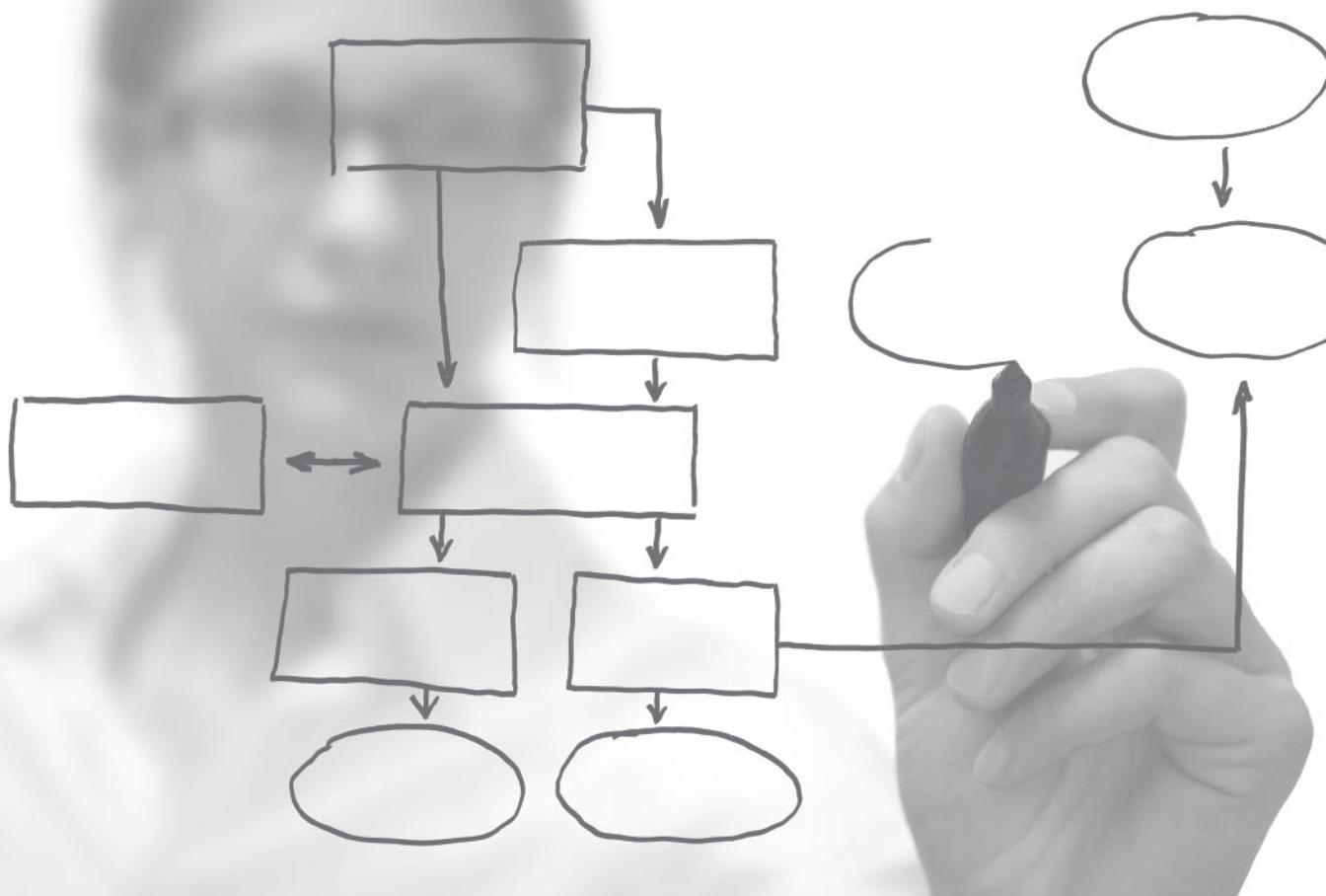
Dis-integration via externalization calls for new competencies, such as relationship management. Whether directly outsourced to a vendor or merged with peers, externalization of back-office processes means influencing others you don’t have direct

control over. Dis-integration often induces a shift from less “general management” to more “specialization” as processes one used to control now end up being shared across a broader set of organizations. Dis-integration adds more moving pieces into the credit union “supply chain.” Credit union managers will increasingly develop the skills other industries have previously learned in order to effectively synchronize multiple tiers in the supply chain.

Lean manufacturing techniques, which strive to reduce variation, are directly applicable to service industries. For example, Marriott Hotels and the Army Depot, just like credit unions, have volume fluctuations directly impacting the customer experience. Taking this into the back-office arena means creating consistent processing times and minimizing the “work in process,” often generated by longer than desired lead times, whether that be for loans, setting up new accounts, closing activities, etc. Lean techniques, when combined with shared services in a collaboration, should enable each credit union to accommodate higher workloads while drastically reducing costs. Collaborating with a common goal lets everyone share in these benefits and mitigates the strengths and weaknesses of individual credit unions.

## Technology

- Contract with experts who understand the technology needs of credit unions to bridge the issues of disparate technology and demonstrate how the customizations can be sacrificed to the benefit of collaborators.
- Create a plan that details what is involved in software requirements—e.g., frequency of updates—so that there are no surprises.
- Train on the benefits of the upgrades.
- Have a group of experts to assist smaller credit unions in upgrading their technology to levels that do not inhibit collaboration.
- Leverage those who are familiar with the primary processing systems (the common systems) to educate the staff.
- Identify areas of potential process improvement for existing technology capabilities—both internally and via the collaboration’s technology support.
- Ensure that adequate safeguards exist in processes and technologies to avoid the transport and exchange of member information that could lead to secure data compromises.



## CHAPTER 5

### Conclusions

*Communicating collaboration successes is the first step to overcoming credit unions' concerns about collaboration. Second, credit unions must focus on their commonalities rather than their uniqueness. Finally, large-scale collaboration starts with small-scale collaboration. Once goals are accomplished on a small scale, credit unions can work on large-scale goals.*



Credit unions, by their nature, are collaborative. So what can the credit union system as a whole do to encourage collaboration?

This research suggests that for those collaborations already in progress, communicating their successes and actions by way of case studies is the first crucial step to overcoming the trepidation that even credit unions with the desire have about taking the next step. A critical element in the story is the relevancy to each credit union—the story must be about organizations “just like me.” The benefits, tactics, hurdles, and accomplishments must be clearly spelled out so that trust and confidence can be improved.

Second, but not necessarily any less important, the research suggests that metrics need to be instilled into the dialogue that tie back-office collaboration—as seen by many as either not touching the member or avoiding touch-point areas—more directly to the member experience. Similar to existing metrics for financial performance and staffing (e.g., members per employee and income per employee), collaboration metrics need to connect the dots back to the spirit of the credit union system—member service. Economies of scale and efficiency ratios capture important aspects of the financial return, but as collaborative actions impact member benefits directly, more traction is likely to occur. Process measurements such as hours on direct member assistance vs. hours on back-office activities can set the stage for a collaborative baseline applicable to each credit union. Baselineing the measurements across a variety of asset sizes can uncover opportunities not yet surfaced in this research.

Third, the research highlights a need to encourage a focus on commonality, not uniqueness. The concerns about control and egos hampering the formation of collaborations can be best overcome if the common ground—that which is common to most all credit unions—can be the focus of collaboration. Ask why each process, task, or activity *has* to be different, accommodating those that vary and through collaboration those that are the same. The need for control appears to stem from the mandate to respond to member needs. If responsiveness can be accomplished more efficiently

through collaborations, then collaborations are the best alternatives for improving the member experience. The metrics should accentuate this result.

Fourth, increase the role of operational excellence in the credit union culture. Perhaps as a result of the career paths of many credit union staff and management, process orientation is relegated secondary to customer intimacy. A focus on process approaches that are common in other industries (e.g., lean manufacturing or Six Sigma) is prominent by their absence from the conversations regarding back-office collaboration. A focus on best practices, coupled with these process improvement methodologies in application, has driven other industries in the direction of shared services around efficiency. They should be further embraced by credit unions, in this researcher's opinion.

Excellent examples cited by the press include North Island Financial Credit Union and Altura Credit Union. North Island Financial CU has worked on process quality initiatives and continues to apply regularly for the state and national Malcolm Baldrige Award. In fact, partly due to the lobbying efforts of North Island Financial CU in 2005, an act of Congress created a nonprofit category for the Baldrige Award, a category that previously did not exist. Altura Credit Union in Riverside, California, has formalized its quality program using Six Sigma techniques, along with an innovative internal system called TASQ, which collects process defects for future improvement activities. Board chair Ron Pardee, PhD, was well aware years ago that “without developing sound process management, we simply would not be able to sustain performance by brute force alone.” Altura Credit Union's activities indicate a direct positive impact on both cost management and the member experience.

Finally, large-scale collaboration begins with small-scale collaborations. First it will be necessary to prove that the many concerns expressed in this research do not outweigh the benefits accrued, even on a small scale. Once collaboration is accomplished at this initial level, collaborators can scale that up. There are far fewer issues associated with scale than there are with taking the first step to large-scale credit union collaboration.



# Research Methodology

This research was conducted under the standard SchellingPoint methodology.

Initially 34 representatives derived from a cross section of the organization types in the industry—vendors, trade associations, credit unions, consultants, and analysts—were “seed” interviewed. They were invited to respond to a series of open-ended questions in four topic areas:

- Goals and objectives for back-office collaboration.
- Potential unintended consequences of back-office collaborations.
- Issues or barriers inhibiting back-office collaboration.
- Underlying assumptions regarding back-office collaboration.

From the 800-plus seed interview statements, a set of 364 questions was chosen. More than 700 participants were surveyed to assess their like-mindedness about these statements, out of which 138 responded (20%). Subsequent to the initial survey, a second round—referred to as convergence—was performed, where the respondents were shown the statements where they diverged from the group and were offered the opportunity to converge or state their reasoning for their response. Fifty-eight participants (42%) provided detailed comments about their reasoning on divergent points.

Subsequent to the survey, nine telephone follow-up design sessions were held to discuss the remaining issues that surfaced during the survey and convergence. From those nine sessions, actions and solutions were developed by those attending to supplement the comments already offered.

The intent of this research mechanism is to leverage the wisdom and like-mindedness of the contributors in a quantifiable form to offer specific recommendations, not just supporting theory.

## The Theme Analysis

The theme analysis enables synthesis of the data. For example, the greatest like-mindedness is around the required competencies (87), whereas the greatest disagreement is around the role of mergers (50). The overall conclusion is that the group is least aligned about the goals and underlying assumptions in the first section, the strategic question of why to collaborate.

Figure 7: Theme Analysis

		G	U	B	A
		Goals/Objectives/ Indicators of success	Unintended consequences	Barriers or issues	Assumptions
<b>Making the business case</b>	Areas for collaboration	77	56	65	71
	Boards	86		64	76
	Competition		62	83	72
	Cost/efficiency	68	67	67	74
	Drivers	72	62	65	74
	Member benefits/experience	63	73	68	79
	Mergers	50	78		72
	Regulations	81		57	69
	Vision/Leadership	66		73	74
<b>Architecting the collaboration</b>	Architecture	78	70	62	76
	Control	79	66	65	73
	Partner profile	78			76
	Prerequisites	85			78
<b>Conducting a collaboration</b>	Competencies	87		65	75
	Metrics	76		70	78
	Process streamlining	78	72	73	85
	Relationships/communications		76	77	83
	Staff	78	63	71	76
	Technology	80		60	80

An empty cell means none of the 34 interviewees made a statement in that theme/category. For example, in the “Making the business case” section, the group made no statements as to the goals mass back-office collaboration could have related to the competition. Should there have been?

After “Mergers,” “Member benefits and impact of mass collaboration on their experience” produced an array of disagreement (63), and there are divergent views on the impact of regulations on the ability to collaborate (69).

Figure 8 shows the theme analysis by class and allows us to learn where opinions align within the communities where the 150 participants are members. The expanse of red shade in the business case section—regardless of size of credit union, and within the credit union members overall—illustrates the broad spectrum of aspirations and beliefs in all aspects of collaboration, particularly the business case-oriented themes.

Figure 8: Theme Analysis by Class

		Size			Category				
		Small	Medium	Large	Credit union	Analyst	Vendor	League	Trade association
<b>Making the business case</b>	Areas for collaboration	78	75	75	75	85	77	77	89
	Boards	69	79	76	75	85	75	76	95
	Competition	70	73	71	71	86	85	76	80
	Cost/efficiency	75	73	73	73	86	82	72	80
	Drivers	70	72	73	70	88	80	71	85
	Member benefits/experience	68	71	76	71	86	73	71	83
	Mergers	68	73	71	70	91	80	73	77
	Regulations	79	76	76	75	95	69	76	88
	Vision/Leadership	71	74	75	72	82	86	78	85
<b>Architecting the collaboration</b>	Architecture	74	77	76	75	86	76	74	84
	Control	76	77	73	74	87	69	70	78
	Partner profile	76	80	76	77	93	79	77	88
	Prerequisites	80	82	81	81	91	82	79	92
<b>Conducting a collaboration</b>	Competencies	80	79	80	80	82	85	77	93
	Metrics	80	76	77	76	83	83	77	90
	Process streamlining	80	79	77	77	82	80	82	90
	Relationships/communications	79	81	81	80	87	80	82	93
	Staff	73	72	75	72	87	79	72	84
	Technology	72	77	77	75	89	76	79	88

On the other hand, “Analyst” and “Trade association,” and to some degree “Vendor” communities (those whose role in the topic is more of an external observer of the credit unions) were of greater like-mind than the individual credit unions.



## Alignment Index

Throughout this report many statements are followed by a number, for example, “(75).” This is referred to as an Alignment Index. The Alignment Index quantifies the degree of alignment, or like-mindedness, that exists around the statements.

During the Web survey, respondents were asked to rate each statement on a scale of “strongly agree” to “strongly disagree.” Following that step, a significant number of participants in the credit union community went through the convergence phase. There the survey group’s results were contrasted with their own, and the participants were asked after deliberation whether they were willing to concur with the bias of the group or preferred to maintain their position if contrary.

The Alignment Index was computed from the set of responses each statement elicited on a scale of 0 to 100. An Alignment Index of 100 means complete alignment around any of the possible six values—for example, if everyone “slightly agreed” with a statement, then the Alignment Index would be 100. Conversely, an Alignment Index of 0 is polar misalignment or “extreme divergence of opinion.” An Alignment Index of 0 means that if 16 people responded to a statement, 8 would “strongly agree” and 8 would “strongly disagree” in order for there to be polar conditions—basically two equal-sized groups as far apart as is possible on the scale. For a response group in excess of 100 individuals (the size of the response group that participated in this research), an Alignment Index of 0 or 100 would be unexpected. Figure 9 shows what is suitable, based on experience.

*Figure 9: The Alignment Index*

Alignment Index	Meaning
91–100	Strong alignment—either agreement or disagreement with the statement is clearly present.
81–90	Convergent—most concurring, with minor dissent.
71–80	Moderately convergent—contrary opinions exist but with significant alignment.
51–70	Clearly divergent—little common ground.
0–50	Highly divergent—opposing opinions of a significant level.



ideas grow here

PO Box 2998  
Madison, WI 53701-2998  
Phone (608) 231-8550

[www.filene.org](http://www.filene.org)

PUBLICATION #183 (4/09)  
ISBN 978-1-932795-62-2

# filene

RESEARCH INSTITUTE

