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libro credit union: from better to best

Mano Majumdar wrote this case under the supervision of Julie Gosse solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Tania Goodine, executive vice-president of Engagement at Libro Credit Union (Libro), reflected on the journey that had led to the busiest and most rewarding year of her career. Libro Financial Group (Libro Financial) had announced its combination with United Communities Credit Union (United) just over 18 months ago. Since then, it had been a storm of activity, and the technical part of the combination had been a success. Now, Goodine finally had time to shift her attention to a concern that had yet to be addressed. The two organizations had brought to the combination their own distinct, and sometimes contrary, cultures. Left unattended, these differences could weaken the combined company from the inside. Goodine knew that a plan was needed to resolve this problem, and fast.

CO-OPERATIVES and CREDIT UNIONS

A co-operative, or co-op, was an organization owned and operated by the people who worked there or used its services. In a worker co-op, employees were also the owners of the business and shared in the profits. In a consumer co-op, the business was owned by customers pooling their purchasing power to make goods and services more affordable. Supermarkets were a natural fit for such a situation; Italy, Norway, The Netherlands, and Switzerland all had co-op supermarket chains—all named “coop.” A credit union was a financial institution structured as a consumer co-op. At Libro, customers owned shares and were called “owners.” At United, they were “members.” As with any co-op, credit unions were often a viable choice for small or underserved groups. Although co-ops needed to remain profitable, most aimed to serve their communities as well.

Co-ops and Credit Unions in Canada

Co-operatives in Canada had a long history and were mainly active in the retail and banking sectors. The largest among these was *Federated Co-ops*, a federation of western Canadian co-operatives that ran retail and wholesale operations, feed and fertilizer plants, and even its own oil refinery. Credit unions were particularly important in Quebec, where the Desjardins Group was a federation of hundreds of *caisses populaires* with over CA$250 billion[[1]](#footnote-1) in combined assets and 6 million members between them. On a smaller scale, there were single-branch workplace or ethnic credit unions, such as The Fire Services Credit Union and The Estonian Credit Union in Toronto. Over 30 credit unions nationwide had $1 billion or more in assets, and all the credit unions combined would place among the five biggest banks in Canada.

LIBRO FINANCIAL GROUP and UNITED COMMUNITIES credit union

Founded by Dutch immigrants in 1951 as the St. Willibrord Credit Union, Libro Financial had enjoyed strong roots in the farming community in southwestern Ontario. By the late 2000s, Libro Financial had expanded to $2.2 billion in assets under management and 59,000 members through organic growth as well as mergers and acquisitions. For example, Libro Financial had entered the Kitchener-Waterloo market in 2000 by acquiring Kingswood Credit Union. Overall, Libro Financial was concentrated in London, St. Thomas, and Lambton-Middlesex, with considerable diversity across urban and rural markets.

United was formed in 2006 with the merger of Woodslee Credit Union, founded in 1943, and Heartland Credit Union, founded in 1952. United inherited the strong popularity these credit unions had enjoyed in their respective communities. The organization had an 85 per cent market share in Essex County—its headquarters and the birthplace of Woodslee Credit Union.

The Combination in Theory

The combination of Libro Financial and United was a major undertaking, given the relatively equal size of both credit unions. Libro Financial had 16 branches and 351 employees, while United had 11 branches and 205 employees. The combined entity had $3 billion in assets and 95,000 members. Beyond their similar size and structure, Libro Financial and United were also well-matched in other ways. The two were thought to be aligned culturally (see Exhibit 1) and had similar member demographics (see Exhibit 2). Even the average term of service per employee was 10 years at both credit unions. Libro Financial’s president and chief executive officer (CEO), Stephen Bolton, had described the merger as “two puzzle pieces coming together perfectly.” Although both credit unions were active in southwestern Ontario, they were predominant in different markets but had worked together on several syndicated loans.[[2]](#footnote-2) Familiarity had grown between staff at the two organizations, and Goodine herself had observed that “success felt the same” to both.

External forces also made a merger opportune. The financial sector had faced heightened scrutiny since the 2008 global recession, and smaller entities were finding compliance with new regulations burdensome. It was hoped that by joining forces, both credit unions would be better positioned for the future. Consequently, the phrase “Better to Best” was used to announce the merger and had become the project’s guiding principle.

While cost saving was not the motivation behind the merger, some financial efficiencies were expected to be realized. Initial estimates showed that resource sharing would lead to savings of $1.3 million per year, and moving United’s banking system to Libro Financial’s would save an additional $1 million annually. The amalgamated entity was projected to generate earnings before taxes, profit sharing, and community investment of $125 million—13 per cent more than the sum of the two pre-merger organizations on their own. The merged entity was projected to have $100 million more in total assets than the sum of the two operating as separate co-ops, five years following the merger.

The Combination in Practice

Libro Financial and United agreed early on that there would be no loss of employment due to their combination and that no branches would be closed. Libro Financial’s president and CEO had always been insistent that if ever there were layoffs, “[he] would be the first to go.” Bolton had been with Libro Financial since 1988 and believed that Libro Financial existed to grow prosperity in southwestern Ontario; layoffs resulting from the merger would contravene this mandate.

Naturally, many overlapping roles between the two organizations had to be addressed. Senior officers were asked to interview afresh for their roles, allowing a post-merger team to be formed in a competitive manner. Several employees nearing the end of their careers took this opportunity to take early retirement, including United CEO Jim Lynn. The board appointed Bolton as the CEO of the new organization, while Lynn agreed to stay on as strategic advisor for six months to ensure a smooth transition.

Many practical details needed to be resolved for the combination to be successful. A steering committee of six directors, equally drawn from Libro Financial and United, was created to provide the necessary leadership required to guarantee a successful union. Libro Financial’s products and business processes were retained, as was United’s automated lending system. Consequently, both groups of employees were required to re-learn a significant part of their jobs in the first year. Trained personnel were sent to each branch to provide technical support for the first two weeks post-combination.

One of the biggest decisions of the combination was the name and branding of the new entity. A marketing study had shown that the Libro name enjoyed greater awareness in the market, and it was decided that it would be retained in the form of “Libro Credit Union.” There was a concern that this move might be viewed as a Libro Financial takeover of United and be received poorly by United members. To address this concern, attempts were made to combine the two legacy logos. The result was, in the words of United’s chief marketing officer, “ugly.” Ultimately, an entirely new logo and style were developed.

A Tale of Two Cultures

Despite the positivity and promise surrounding this exciting new chapter for both organizations, some fundamental differences in culture were evident from the start. The personalities of the organizations were not always in sync. The Libro Financial culture was seen as adaptive and principles-based, whereas the United culture was perceived as prescriptive and rules-based. One suggested explanation for United’s approach was a response to the economic pressure that Windsor and Essex—core markets for United—had faced during the 2008 recession, creating a more risk-averse culture. Whatever the reason, the differing philosophies of the two organizations were apparent in a variety of ways. For example, a Libro Financial employee submitting a travel expense was guided to “act like an owner” and do what was necessary, while a United employee was explicitly directed to use the least expensive travel option and was allocated a specific dollar amount per meal. Where a Libro Financial employee might bring a project to her supervisor for “support,” a United employee might bring it for “permission.”

These established attitudes could not be easily changed, and transitioning United employees into the Libro Financial way of thinking was proving a challenge. In early meetings with United employees, Libro Financial managers would encourage them to feel empowered, bring forward new ideas, and experiment. Some of the responses they received were, “If I act empowered, will I be in trouble if it doesn’t work?” and “You’re asking me to speak candidly, but what’s going to happen to me if I do?”

Goodine believed that culture was a major competitive advantage for Libro. The principles-based system had allowed Libro to differentiate itself in a competitive market by staying nimble and entrepreneurial, and being able to treat customers as individuals. The credit union structure already did much to align the interests of customers and management, but Libro had gone further by designing policies that deepened a sense of ownership and community.

The prime example of this was its system of branch democracy. Each Libro branch had a branch council, composed of five to nine owner representatives (owner-reps) elected by and from the branch’s ownership base. These representatives, in turn, elected the board of directors. The owner-reps also acted as an advisory body for management, keeping it apprised of market trends. Following the merger, branch councils were formed in each of the former United branches. The branch democracy model not only gave management a unique insight into market conditions, but also generated strong customer engagement. In 2012, Libro had reported engagement results[[3]](#footnote-3) of 85 per cent with a 91 per cent participation rate, while United had 80 per cent and 83 per cent, respectively.

In her work to align the two companies’ cultures, Goodine had come across other instances where the organizations had chosen sharply different policies. One of the larger areas was their respective pension and benefits plans. United had a defined contribution pension plan, whereas Libro had a defined benefits plan.[[4]](#footnote-4) Libro paid the short-term and long-term disability premiums for its employees, whereas United employees were required to pay their own. While both credit unions had an employee wellness program, Libro’s cost twice as much as United’s. While both had provisions for educational assistance and tuition reimbursement, only United had a cap on either. In some areas, however, United employees received better benefits than Libro employees, such as 50 basis points[[5]](#footnote-5) more in interest than posted rates. Overall, the companies decided that for each policy, the more generous of the two would be carried forward for the new combined entity.

ALTERNATIVES

Goodine wanted to make a strong proposal to the rest of the senior management team. She was considering several options to further integrate United and Libro’s differing cultures. She reviewed her choices while she organized her thoughts.

Replacing Low-Performing Leaders

Goodine remembered a recent report that had shown employee engagement to be particularly low in some branches, where others had taken the changes in stride far more readily. Carol Normandeau, executive vice-president of Advice and Service Delivery at Libro and former United employee, had once told Goodine that Heartland Credit Union employees had felt left out when United had been formed and the head office functions moved to Essex County. Perhaps history was repeating itself here. Goodine’s engagement report showed that these negative sentiments were felt at both former United branches and former Libro Financial branches. The tone from the top was crucial to culture, and a demoralized or disengaged team leader could easily lower team morale. Branches run by engaged leaders had an average engagement score of 80 per cent, while those run by disengaged leaders had an average score of 50 per cent. Engagement was found to be a strong predictor of whether employees would remain at the organization, promote its brand, and perform at their best.

No layoffs had resulted from the merger itself, as promised. Goodine had difficulty imagining a situation where terminating a group of employees would not be seen as a violation of that promise. Despite the allure of a quick-fix solution, Goodine wondered if replacing low-performing and disengaged employees would ultimately lead to an entirely new set of problems. Or, perhaps now was the best time to make sweeping changes for the well-being of the company in the long run.

Flattening

Modern management traced its history to the post-war era when veterans returning to the workforce brought with them hierarchical command-and-control structures from the military and used them to run complex businesses efficiently. Over time, these hierarchies had been replaced with more flexible models, moving towards a flat organization with no layers. This organizational flatness was believed to create more robust lines of communication and raise morale by reducing the distance between workers and management. One radical interpretation of this was holacracy, a proprietary management system that eliminated a permanent hierarchical structure in favour of temporary roles and ad-hoc teams.

Despite the more traditional organizational structure at Libro Financial, the company enjoyed a deep sense of equality and common purpose in the workplace. The knowledge that customers’ interests never had to be compromised for shareholders’ interests added meaning and pride to the work at Libro Financial, and at credit unions in general. However, it could not be denied that nearly doubling the size of the company with the combination had disrupted the informal network of easy communication that had previously kept the organization humming. Could eliminating layers of management help bring the two legacy teams closer and facilitate better cultural integration? Or, would permanent dismissals without replacement be viewed as an even deeper betrayal of the promise not to lay off employees post-merger?

Training

Goodine also had to consider that old habits could be hard to break, even for the most enthusiastic employees, and that education and training were needed to change ingrained behaviours. Even newly-hired Libro staff who were not part of the merger often took time to get acquainted with the organization’s philosophies. Settling down to a rhythm after the exceptionally busy year of the merger had freed up resources to further train employees. Re-training would be a gradual process with ongoing support that could help avoid the discomfort of layoffs. Goodine wondered if these efforts would be sufficient for increasing employee engagement and addressing the post-merger culture shock that many were feeling.

Lean

Lean was a management method that systematically analyzed each stage of a procedure or process and removed steps that did not provide value to the customer. The approach was based on the Toyota Production System—a set of management practices that enabled Toyota to manufacture cars at a lower cost and better quality than competitors.[[6]](#footnote-6) The process of combining the two credit unions had revealed many opportunities for reducing redundancies and gaining efficiencies by adopting the best practices from both organizations. For example, employees from Libro Financial and United would be encouraged to evaluate the other’s business processes and eliminate procedures that were found to be cumbersome or redundant. Management expected that some recommendations to change certain practices could be a mere reaction to the unfamiliar but were confident that genuine insights could lead to material improvements. Lean would also provide an opportunity for the newly-formed company to work on a project that belonged to neither legacy entity, and Goodine wondered if this could be the catalyst needed to create a feeling of shared purpose between the two teams. As a bonus, the project would likely lead to improved profitability, which would be a welcome outcome for everyone.

DECISION TIME

Goodine had majored in psychology for her undergraduate degree at Western University in Canada. This interest in how people and organizations interacted inspired her to also pursue an MBA. Goodine believed that the quality and motivations of a workforce could make or break an organization, and at Libro she had been fortunate so far to see the positive side of this conviction. The combination with United looked perfect on paper, but now Goodine wondered if the benefits could be overshadowed by the complex task of merging the two cultures. With the wrong approach, Goodine ran the risk of damaging brands and businesses that had taken decades to build. With the right one, Canada’s newest credit union would have a real opportunity to go from better to best.

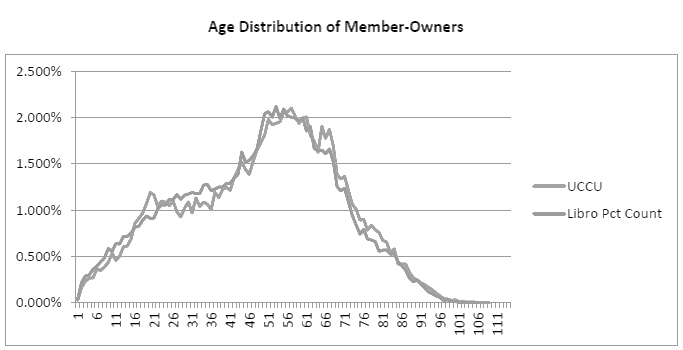
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**EXHIBIT 1: Vision, Mission, Values Comparison TABLE**

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| --- | --- | --- |
|  | **Libro Financial Group** | **United Communities Credit Union** |
| **Vision** | We will be southwestern Ontario’s preferred source for quality financial service. | We strive to deliver remarkable service and share financial success. |
| **Mission** | We contribute to the well-being of people, enterprises, and communities. We deliver personal straightforward service and advice so owners are confident of reaching their goals. We build relationships by engaging individuals, teams, and strategic partners. | We enrich members’ lives through the achievement of their financial success and the betterment of communities. |
| **Values** | * Ownership: democratic and respectful * Proactivity: anticipating and taking action to improve * Mutual success: partnering for achievement * Accountability: committed, trusted, reliable, and fair | * Transparency * Advocacy * Collaboration * Creativity * Initiative * Sharing |

Source: Company documents.

**EXHIBIT 2: libro financial and united members’ demographic comparison**



Note: UCCU = United Communities Credit Union

Source: Company documents.

1. All currency amounts are in CA$ unless otherwise specified. [↑](#footnote-ref-1)
2. A syndicated loan was one jointly financed by a group of lenders, limiting the risk to each while still allowing them to pursue an attractive rate of return. [↑](#footnote-ref-2)
3. Engagement questionnaires strove to estimate the percentage of employees who felt “engaged” or “very engaged” with the brand, while participation tracked how many of those surveyed had actually completed the survey. [↑](#footnote-ref-3)
4. A defined benefits pension plan guaranteed a specific dollar amount to be received by the pensioner, whereas a defined contribution plan guaranteed only a specific amount to be paid into the pensioner’s plan. [↑](#footnote-ref-4)
5. A basis point was one-hundredth of a percentage point; an increase in a metric from 3.00 per cent to 3.15 per cent represented an increase of 15 basis points, 0.15 percentage points, or 5.00 per cent. [↑](#footnote-ref-5)
6. “What is Lean?,” Lean Enterprise Institute, accessed July 27, 2017, <https://www.lean.org/WhatsLean/>. [↑](#footnote-ref-6)