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Banknorth: Designing IT Governance for a Growth-Oriented Business Environment

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Title: **Banknorth: Designing IT Governance for a Growth-Oriented Business Environment**

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Abstract: This case describes the challenges of implementation of IT Governance in a regional New England bank experiencing explosive and very profitable growth through mergers and acquisitions. Led by the CIO the new IT governance framework and implementation go well beyond the IT department to include: business processes, culture and strategies. Six months after implementation the CIO assess the effectiveness of the new IT governance framework and thinks about fine tuning.

Keywords: IT governance, governance framework

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Banknorth

Designing IT Governance for a Growth-Oriented Business Environment

John Petrey, Executive Vice President and CIO of Banknorth for the last two years, was having a rough day. Flying on a corporate plane, after visiting the headquarters of a small local bank in Connecticut that Banknorth was considering as an acquisition target, a cold winter wind made the small plane tremble. "I heard this job was a widow-maker, but I didn't expect it would end like this," he thought.

John previously worked for a major banking outsourcer for over 12 years and was recruited as corporate CIO for the bank after his predecessor unexpectedly passed away of a heart attack one year into the job. His activities since he joined had been devoted mainly to integrating acquisitions, improving service levels and raising the maturity level of the centralized IT resources which had been partly dispersed in the past. And he had been extremely successful—all of Banknorth's recent acquisitions were integrated on Banknorth's IT infrastructure and standards through John's design of a 'rip-and-replace' strategy that allowed them to effect acquisition integrations quickly and reliably and still achieve the aggressive financial targets.

After landing and his nerves had settled, John thought "If I am gone tomorrow, what is going to happen to the work I have done? Where would Banknorth be heading? Do we have the right IT governance framework in place?"

Banknorth's Background

Banknorth Group, Inc., is a $26 billion banking and financial services company, and one of the 35 largest commercial banking companies in the United States. Banknorth was *Forbes* "best managed" bank for 2004. Headquartered in Portland, Maine, with banking divisions in six New England states, Banknorth provides a full range of services, including commercial and consumer banking, mortgage insurance, investment planning and investment management. The company now manages over $26 billion dollars in assets, with 360 branch offices, 400 ATMs and 7,000 employees working across the following divisions:

- *Banknorth NA* operates in government banking, mortgage banking, private banking, asset-based lending and merchant services.
- *Banknorth Insurance Group, Inc.* operates one of the nation's 40 largest insurance agency networks.
- *Banknorth Investment Management Group* provides wealth management services.
- *Banknorth Investment Planning Group, Inc.* provides investment planning services.
- *Banknorth Leasing* is an equipment leasing company.

Over the past decade, Banknorth has grown by a factor of ten, from a small community bank to the

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largest bank headquartered in New England. Even during the economic downturn of 2002 and 2003, Banknorth added over 300,000 new accounts, increased total deposits by 10% and increased Internet banking membership by 122%.

Banknorth's success has been widely recognized with different awards and rankings, including the *Forbes* Super 500 list of "America's Top Companies," and being ranked in the top 30 largest companies by market cap in the S&P MidCap 400 and the top 30 largest commercial banking companies. *Fortune* ranked Banknorth as the second in the *Fortune* 1000 among banks in total return to shareholders (a 37% annual rate from 1991 to 2001). See Appendix 4 for summary financials.

In November of 2003 Banknorth announced that the company was moving to the New York Stock Exchange where its common stock is now traded under the symbol BNK.

In their annual report Banknorth explained their core strategy:

> *"Acquisition expertise. Our consistently strong financial performance through the years has enabled us to grow through acquisitions and by expanding our core businesses. We have developed a proven proficiency in acquiring, integrating and rapidly realizing efficiencies as we grow our franchise. ...A major part of our acquisition success is our ability to identify community banks and financial services companies with similar customer-focused corporate cultures, then enhance the services they offer by bringing new and improved products to these markets."*

Banknorth 2002 Annual Report

Having achieved the number one market share in Maine, New Hampshire and Vermont, the company continues its growth in southern New England. In the past two years, for example, four acquisitions in Massachusetts expanded their holdings here by 48 branches and $3.9 billion in assets.

As Banknorth has grown, the company has worked hard to preserve a single company culture: one which prizes teamwork, agility and local decision making. Despite its increasing size, senior management continues to emphasize community-based banking, as their chairman reflects:

> *"Unlike larger banks, we offer our customers a more personalized banking experience. As we move into more populous markets, we continue to find great demand for a community bank that cares about its customers and is focused on small to mid-sized businesses yet offers the services of a broadly diversified financial services company.*
>
> *...Whether it's keeping lending decisions as local as possible, keeping local customer contact employees in place, or finding new ways to make the customer experience more personalized, we never forget what it means to be a local bank even as we introduce new efficiencies and services."*
>
> *—William J. Ryan, Chairman,*
> *President and Chief Executive Officer*

To facilitate the local image Banknorth doesn't operate under a single brand, but leverages local brand names they have acquired. For example, in Maine, they are known as Peoples Heritage Bank, the largest deposit share in the state. In New Hampshire, they are known as The Bank of New Hampshire.

Banknorth—Evolution from a small local bank to a regional powerhouse

Founded in Vermont in 1824, Banknorth took its current shape when it was acquired by Peoples Heritage Financial Corp. of Maine, keeping the highly recognizable name for the new formed entity. Peoples Heritage started as a thrift in Portland, which grew to become a significant player in Maine, managing $2 billion in assets. Since its inception, the corporate philosophy has remained the same: "We simply work hard to deliver on our commitments to be the most successful community bank we can."[1]

Banknorth grew with the objective of understanding its customer better than any one else. As a local bank for individuals and small businesses, operations were allowed to grow and adapt based on local needs, rather than corporate designs imposed from a strong central authority. Banknorth's business units were focused on their local customers, thus developing their own processes and infrastructures. "Getting things done" was the mantra. Implementing this philosophy, Banknorth's budgeting process

[1] 2003 Annual Report—"Letter to Shareholders," Page 3.

relied heavily on each business unit not only for input but also for decisions.

Banknorth's strategy is not highly innovative banking. Instead Banknorth is a 'fast follower,' rather than inventor of financial products. Customers, not Banknorth, should decide what customers want, and Banknorth would listen to the market and adapt to innovations in banking.

When William Ryan was named CEO in July 1989, he was faced with the challenge of fixing a shaky $2 billion (in assets) thrift in Portland, Maine. After four critical years spent turning around its operations, Ryan foresaw the consolidation trend in banking and decided that Banknorth had only two alternatives: acquire or be acquired.

With this in mind, Ryan and his team spent the last ten years acquiring and integrating two dozen local banks in New England. To make acquisitions friendlier and mergers easier, Ryan likes to "ride the circuit with other CEOs" regardless of whether he is looking for a new deal at the moment. "Bank CEOs don't like to sell their banks to people they don't know," Ryan says. Sometimes when a banker hits a rough patch or wants to exit the business, "people will remember what we were talking about and they'll give me a call."

Such courtesies, a reputation as a straight shooter and a history of solid execution have made Banknorth the acquirer of choice for community banks in the region. "You don't find ill will in the wake of Banknorth mergers," says Anthony Davis, an analyst with Ryan Beck. Banknorth's more than $26 billion in assets makes it the biggest New England-headquartered bank before Fleet's purchase by Bank of America.

One reason Banknorth has been able to achieve steady 10%-plus earnings growth is its focus on the region's small businesses. The average commercial loan is $750,000, and its biggest outstanding loan—$50 million—is one-seventh of its statutory limit. The strategy produced a charge-off rate of 0.29% during a rough 2002 in a slow-growth region.

The need for governance to balance tensions

Efficiency in integration and increasing return on assets is critical for this growth strategy to succeed. During the last four fiscal years, Banknorth senior executives managed the critical efficiency ratio[2] which has improved to 53.1% in 2003, down from 54.1% in 2002, 55.3% in 2001, and over 60% in 2000.

Since efficiency was reaching diminishing returns through integration only, Banknorth's management team faced new challenges. Promises of economies of scale and cost reductions from these acquisitions created strong pressures from corporate towards synergistic behavior. Tension between synergy and autonomy was evident throughout Banknorth's executive team.

Ed Schreiber, Banknorth's EVP for Risk Management, described how these conflicting directions were clashing, and how he was using IT as a way to improve process consistency and efficiency among different lending business units. Risk management information is critical for a bank and should be integrated, standard and available to key executives so the best decisions regarding bank's exposure can be made. This is not the case in Banknorth today. To achieve this, he is sponsoring a new front end application for the senior business administration group as a key resource to standardize processes. Since Schreiber will own it, he is transferring some of this pressure to the IT group. "I am going to put our CIO, John Petrey, under a service level agreement just like any 3rd party vendor."

Wendy Suehrstedt, EVP for Retail Delivery is the "biggest IT customer in Banknorth." She is responsible for all branch operations, including ATMs and call centers, of the bank. Wendy reflected, "We need less tension. Clearly synergy must take precedence." However, when asked about the processes being implemented to increase standardization, Wendy was highly critical: "We are going backwards. Most of my time is now devoted to running around for signatures."

Joe Hanson a veteran of 25 years in Banknorth and EVP of Banking Operations was also concerned, "Too much process is making everything slow. Banknorth is known as a fast company and processes takes time." Hanson remembered the times when Banknorth was focused on 'getting things done' and

[2] Efficiency Ratio (a.k.a. Overhead Efficiency Ratio) is the percentage of revenue that a bank dedicates to all non-interest expenses. The ratio is calculated as non-interest expense divided into revenue. Source: Banknorth's 2003 Annual Report, "Financial Results," page 5.

how the new processes, especially within IT were slowing things down. “Before all of these changes, when I had a problem with an application, all I had to do was call the vendor, and they would come and fix it. Now, I have to fill out forms and get (central) IT (department) to work on it.”

Office of the CIO at Banknorth

John Petrey is the fifth CIO at Banknorth in the last ten years. The lack of continuity in the CIO role led to a lack of investment in IT including the number and skills of IT resources and IT infrastructure. Given the dramatic growth of Banknorth, the lack of continuity in IT leadership and lack of investment in IT resulted in an IT capability maturity level and IT service delivery level that was notably below what it should have been to support a bank the size of Banknorth. These factors created an environment where some of the business units, not getting what they needed from the IT group, created their own “islands of IT” to address their business needs. Petrey couldn’t have started under more challenging circumstances. If that weren’t enough of a challenge, his second week on the job was marked by the terrorist attacks of September 11, 2001 with all the resulting challenges to the entire financial services industry.

Petrey had a mandate from the CEO to execute well on acquisitions, improve the IT relationship with the business lines and improve service levels. There was a mixture of IT decisions and operations between the business units and the IT group. “Larger business units had the most political power and used that position to consume nearly all the IT resources, to the exclusion of smaller business units” mentioned Petrey. During the next two years, Banknorth expanded significantly, from an $18 billion bank with a presence only in northern New England, to an over $26 billion bank, an expanded presence in Massachusetts and Connecticut and 26 independent business lines.

His first year involved the integration of new acquisitions, building better relationships with the business lines and improving the capability maturity level of the IT staff and quality of IT services. He reported directly to Peter Verrill, the Chief Operating Officer and number two person in Banknorth. “My first year in Banknorth was about high level issues,” reflected Petrey. “Improving IT governance was important from day one.”

Petrey achieved three successes during his first year at Banknorth: First, he devised a successful IT integration method for all acquired banks, achieving application and infrastructure integration on-time and on-budget and developing it as a core competency of the IT group. In addition, he solved several service and solution delivery problems through improved operational processes and infastructure, bringing more than two-thirds of all applications in Banknorth to 99.95% or better availability. Finally, after improving IT’s relationship with the business units and demonstrating the improved capabilities of the IT group, some of the business lines agreed to let their islands of IT be assimilated into the IT group.

With those achievements as a foundation, Petrey presented a proposed IT Governance framework as the cornerstone to improve IT operations in Banknorth. Petrey got the buy-in of William Ryan. “Ryan made clear this was high in his agenda by letting all his direct reports know he had bought into the idea” said Verrill.

Designing IT Governance at Banknorth

Petrey decided the new IT governance framework should encourage the following desirable behaviors and wondered about the details:

1. **Increasing synergy:** Banknorth is moving towards stronger leveraging of the IT investment across the company, within an environment of over 20 years of autonomy. How to manage the inherent tensions? How to optimize additional investments in IT by leveraging and optimizing the existing IT investment and still meet the needs of the business lines?
2. **Business strategy:** Of the three value disciplines, Operational Excellence, Customer Intimacy and Product Innovation,[3] Banknorth is seeking competence on all three and excellence on customer intimacy. How can Banknorth achieve the best governance arrangement to support Banknorth’s business strategy?
3. **Banknorth’s culture:** Banknorth has a congenial and open culture, where human interaction and informality is used to communicate important issues. Technology is seen as an enabler, rather than a creator of

[3] See *The Discipline of Market Leaders* by Michael Treacy and Fred Wiersema, Addison Wesley, 1995.

strategy. With most senior executives having tenure of over 12 years in the bank, how should IT Governance be aligned with this culture, while encouraging some new behaviors? How should it be communicated?

Table 1: Banknorth's IT Governance Mechanisms

IT Principles		Infrastructure Strategies		IT Architecture		Business Application Needs		Investment & Prioritization	
High level statements about how IT is used in the enterprise		***The foundation of IT capability shared throughout the firm as reliable services, and centrally coordinated (e.g., network, help desk, shared data)***		***Organizing logic for data, applications, and infrastructure captured in a set of policies, relation-ships and technical choices to achieve desired business needs***		***The business needs for purchased or internally developed IT applications***		***How much and where to invest in IT***	
Input Rights	**Decision Rights**	**Input Rights**	**Decision Rights**	**Input Rights**	**Decision Rights**	**Input Rights**	**Decision Rights**	**Input Rights**	**Decision Rights**
Combined Business Line Advisory Committee (BLAC)	Enterprise Technology Executive Steering Committee	Combined BLAC and Enterprise Architecture and Standards Committee	Enterprise Technology Executive Steering Committee	Combined BLAC and Enterprise Architecture and Standards Committee	Technology Senior Leadership Team	Applicable BLAC Chair(s) and RST Manager	Applicable BLAC Chair(s) and CIO	Combined BLAC	Projects: Enterprise Project Committee (EPC) All other: Enterprise Technology Executive Steering Committee

After analyzing these issues, John Petrey and his executive team decided on the following mechanisms for the different decision domains[4] as shown in Table 1.These committees were comprised of the following executives:

Enterprise Technology Executive Steering Committee (meets quarterly):

- **Chairman:** Peter Verrill, COO
- **Membership:** COO, Chief Banking Officer, Retail Delivery, Lending, Insurance and Investments, Legal Affairs, CFO, Banking Operations, Risk Management, CIO
- **Charter:** Approve and monitor the technology principles, strategy, plan(s), and investments of the information technology function within the company for consistency with the company's strategy, goals and objectives.

[4] For more information on IT governance see Peter Weill and Jeanne Ross, *IT Governance: How Top Performers Manage IT Decision Rights for Superior Results*, Harvard Business School Press, 2004.

Enterprise Projects Committee (EPC) (meets monthly):

- **Chairman:** Peter Verrill, COO
- **Membership:** COO, CFO, Chief Banking Officer, Retail Delivery, Lending, Insurance and Investments, Legal Affairs, Banking Operations, Risk Management, CIO
- **Charter:**
  - Review and approve major projects involving significant technology investments and prioritize the portfolio of projects to maximize return on investment and minimize risk.
  - Review technology portfolio for strategic alignment with business goals and objectives.
  - Review new project requests with respect to availability of resources and the proposed time frame and adjusts project priorities if necessary.

Combined Business Line Advisory Committee (Combined BLAC) (meets monthly):

- **Chairman:** John Petrey, CIO
- **Membership:** Chairperson for each Business Line Advisory Committee (BLAC) and CIO.
- **Charter:**
    - Review and provide feedback on Technology Operational Performance.
    - Review and evaluate project opportunities and status.
    - Obtain consensus on project prioritization and portfolio management recommendations.
    - Review and make recommendations for new project opportunities that meet the Enterprise Projects Committee (EPC) criteria.
    - Review and provide feedback on Technology Business and Strategic Plan.
    - Cross Business Line information sharing on projects, planned and underway.
    - Dialogue regarding Emerging Technologies, Process Improvements, etc.

IT Governance performance and future challenges

After six months of implementation, John Petrey invited a team of students from the MIT Sloan School of Management to assess the performance of Banknorth's IT governance. The team performed a three month project, collecting data using the MIT CISR survey in Appendix 1 from ten senior executives at Banknorth. The results, including the following insights, were presented to Petrey.

The Banknorth governance design received high grades. A score of 82.5 (out of a maximum of 100—see Appendix 2) in IT governance indicates above average performance, not only within its industry, but also more broadly (see Appendix 3).

However, some red flags were also raised. First of all, the most significant factor in predicting governance performance within MIT CISR's studies of IT governance is the percentage of senior executives who can accurately describe their IT governance. Banknorth executives had significant variance on their responses regarding the percentage of their colleagues who could describe IT governance (from 20% to 75%).

In interviews, those executives who had given the IT governance higher scores also talked positively about the importance of synergies across business units. Some executives who gave lower IT governance effectiveness grades made comments including "new bureaucracy," "too much process, very little results" and "the level of overhead has increased significantly." When these executives were asked how this could be improved, most of them suggested two factors. Firstly, IT governance should be a top-down commitment, with ownership and metrics, and continuous reinforcement. The failure of previous governance initiatives created a feeling of uneasiness and skepticism which needs to be overcome. Secondly, several executives mentioned that the lack of exception management had created situations where emergencies were being treated as "normal course of business," developing frustration and uneasiness with the process.

Conclusion

Once again aboard the corporate plane on his way to a meeting on IT due diligence for another new acquisition, Petrey thought about the Management Board meeting at the end of the month where he would present his first IT Governance report. During this meeting it was very likely that he would have to face questions about bureaucracy and increased overhead. As he gathered his thoughts about how to present these results, he visualized his IT Governance design: Was it the right one for Banknorth? Centralizing always has a cost in terms of flexibility and speed, but was this system encouraging the right level of tradeoff? Was it truly aligned with Banknorth's business objectives? Were those complaints about overhead valid? Was the implementation process the right one? What should he do to improve it?

While fastening his seatbelt he looked through the small window of the plane and saw a flag being waved by the furious winter winds of New England. Then he remembered where his IT Governance efforts work had begun. Would the IT Governance he'd designed continue to work if this new round of due diligence took two or three months?

APPENDIX 1

Banknorth:

Answers to a subset of the MIT CISR survey.

A. Respondents:

Five senior executives completed the survey including the CIO.

1. Please indicate the part of the enterprise for which you are responsible:

Enterprise	**Business Unit**	**Division**	**Other: ______**
3	2		

NOTE: Shaded areas represent answer by CIO

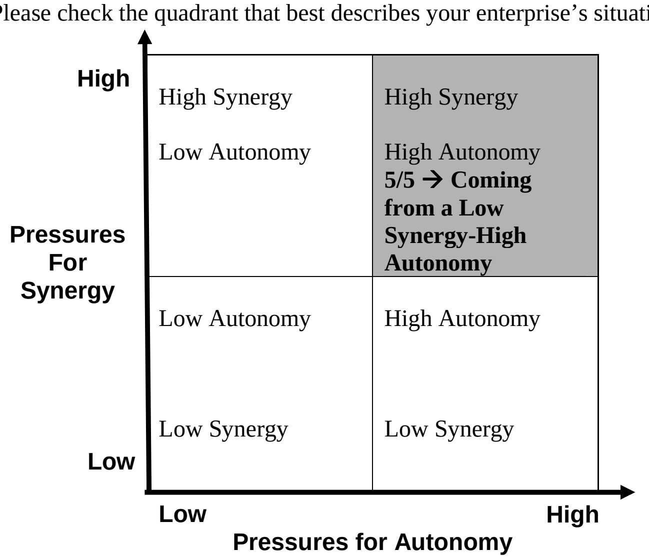
B. Enterprise Details

1. Number of independent business units: 10

2. Percentage of the enterprise's annual expense is spent on IT?

2003	**2004**
9.9%	10.7%

3. Please check the quadrant that best describes your enterprise's situation in 2002.



NOTE: Shaded areas represent answers by CIO

4. Number of IT Professionals in your enterprise

	2003	2004 (Forecast)
Full time IT Professionals (including contractors) in the entire enterprise:	326	340
IT professionals reporting directly or indirectly to the CIO Office	276	287

C. Elements of IT Governance in Your Business

1. Assess the relative importance of these value disciplines on the future strategy and operations of your business on a scale from 1 (Not Important) to 5 (Highly Important)?

Competency	CIO	Average of 4 Executives
Operational Excellence	4	3.6
Customer Intimacy	5	3.6
Product/Service Innovation	3	2.4

2. Businesses make decisions about five key IT areas we call decision domains: IT Investment, IT Principles, IT Infrastructure Strategies, IT Architecture and Standards, and Business Applications Needs. Different groups of executives have input and have the right to make the final decisions.

   Review each of the decision domains below on the left and then indicate the groups that have either **input (I)** or **decision-rights (D)** on these IT decisions in your business.

Decision Domain	Firm "C" Level Execs (CEO, COO, CFO, etc)		Business Unit Leaders		Business Process Owners & Key End Users		IT Execs	
	I	**D**	**I**	**D**	**I**	**D**	**I**	**D**
a. **IT Investments:** Approval of how much and where to invest in IT, or major IT-enabled business initiatives	2	**5**	**4**	3	**4**	1	**4**	**3**
b. **High Level Principles in use of IT:** Statements describing the role of IT in the business (e.g., supporting cost cuts or revenue growth)	3	**5**	**4**	2	3	1	**4**	3
c. **IT Infrastructure Strategies:** Strategies for shared IT capability (e.g., networks, shared data, common applications)	3	1	4	0	3	1	**3**	**4**

Decision Domain	Firm "C" Level Execs (CEO, COO, CFO, etc)		Business Unit Leaders		Business Process Owners & Key End Users		IT Execs	
	I	**D**	**I**	**D**	**I**	**D**	**I**	**D**
d. **IT Architecture and Standards:** An integrated set of technical choices to guide the organization in satisfying business needs	2	1	4	0	3	1	**2**	**4**
e. **Business Application Needs:** Decisions on business applications that should be acquired or built	2	**3**	2	**4**	**4**	2	**3**	**3**

NOTE: Shaded areas represent answers by CIO

3. Rate the importance of the following objectives for investing in information technology, or IT-enabled business initiatives, in your business, on a scale from **1 (Not Important)** to **5 (Most Important)**?

Objectives	**CIO**	**Average of 4 Executives**
Reduce costs	4.0	4.4
Improve product quality	3.0	4.0
Improve customer service	4.0	4.4
Improve flexibility	3.0	4.3
Reduce time to market	3.0	2.6
Provide information to management	4.0	4.0
Coordinate with suppliers	2.0	2.3
Support Internet initiatives	3.0	2.6
Support new ways of doing business	3.0	3.2
Employee self-sufficiency	2.0	2.6
Customer communication	3.0	4.0
Improved employee collaboration	2.0	2.4
Encourage sharing and re-use	2.0	2.8
Enable complete view of customer	4.0	4.4

4. Businesses often have a variety of IT governance mechanisms and these are listed below. For each mechanism indicate how effective you think it is in getting business value from IT in your business, on a scale from **1 (Ineffective)** to **5 (Highly Effective)**. If the mechanism is not used, please check the first column.

Mechanism	Not Used	CIO	Average of 4 Executives
Executive Committee (most senior management committee in the enterprise)		4	3.4
Capital approval committee		4	3.6
IT council comprising business & IT executives	1	4	3.5
IT leadership committee comprising IT executives		4	2.4
Formally tracking business value of IT	1	2	3.0
Architecture committee	4	2	–
Web-based portals and intranets for IT	2	2	3.0
Tracking of IT projects and resources consumed		3	3.2
Service Level Agreements	1	2	3.3
Chargeback arrangements	3	–	2.0
Process teams with IT members		3	3.2
Business / IT relationship managers		3	3.2

D. Performance of IT Governance

1. How important are the following outcomes of your IT governance, on a scale from **1 (Not Important)** to **5 (Very Important)**?

Governance Outcome	CIO	Average of 4 Executives
Cost effective use of IT	4.0	4.2
Effective use of IT for growth	5.0	4.2
Effective use of IT for asset utilization	3.0	3.0
Effective use of IT for business flexibility	4.0	3.2

2. What is the influence of IT governance in your business on the following measures of success, on a scale from **1 (Not Successful)** to **5 (Very Successful)**?

Success Measure	CIO	Average of 4 Executives
Cost effective use of IT	3.0	3.0
Effective use of IT for growth	5.0	4.4
Effective use of IT for asset utilization	3.0	4.2
Effective use of IT for business flexibility	3.0	3.4

3. What percentage of projects requiring IT investment initiated by business units passed through a centralized capital approval process? (CIO Answer)

2002	2003	2004 (F)
90%	90%	90%

4. Rate the involvement of the following senior leaders in enabling and supporting IT governance, on a scale from: **1 (No Involvement)** to **5 (High Involvement)**?

Leadership Position	CIO	Average of 4 Executives
CEO	4	1.6
COO	5	4.4
CFO	4	3.9
CIO	5	5.0
Business Unit Leadership	4	4.0

5. Approximately what percentage of new projects included one or more components outside the firm’s agreed IT standards

	2002	2003	2004(F)
a. Exceptions occurred through a formal process	0%	0%	0%
b. Occurred through no formal process (renegades)	10%	5%	3%

6. Approximately what percentage of the managers in leadership positions in your business could accurately describe your business’ IT governance?

CIO: 30%

7. Approximately what percentage of the managers in leadership positions in your business could accurately describe your business' IT governance?

Average of 4 Executives
Mean: 50%
Standard Deviation: 26%

8. Rate the following ways to communicate and explain IT governance to your colleagues in your business, on a scale from 1 (Ineffective) to 5 (Highly Effective)?

Ways to Communicate & Explain IT Governance	CIO	Average of 4 Executives
Informal meetings with colleagues	4	3.3
Formal committees (i.e., IT Councils, Executive Committees)	4	3.8
Documented processes (e.g., IT Investment Process Manual)	3	4.0
Office of CIO and/or office of IT governance	4	3.0
Senior management announcements	3	2.3
Portal / Intranet	2	1.0
Work with managers who don't follow the rules	3	2.3

APPENDIX 2
Evaluating IT Governance Performance

The governance performance measure was created based on questions D1 and D2 above. Question D1 assesses the importance of particular outcome and question D2 assesses second how well IT governance contributed to meeting that outcome. Since not all firms ranked the outcomes with the same importance, the answers to the first question were used to weight the answers to the second question. Therefore mathematically:

Governance performance=

$$\frac{\Sigma_{n=1\text{ to }4}(\text{importance of outcome}\{\text{i.e Question 1}\}*\text{influence of IT governance}\{\text{i.e., Question 2}\}\ )*100}{\Sigma_{n=1\text{ to }4}(5(\text{importance of outcome}))}$$

Given there were four objectives the maximum score is 100 and the minimum score is 20. The average score from 256 enterprises was 69 with the top one third of enterprises scoring over 74.

To define which results on the Influence vs. Outcome to use in order to calculate the score, there are three basic approaches:

1. Take both scores (Outcome and Influence) from the four Business Executives

$$Performance = \frac{(4.2*3.0)+(4.2*4.4)+(3.0*4.2)+(3.2*3.4)*100}{5*4.2+5*4.2+5*3.0+5*3.2} = \frac{5456}{73} = 74.7$$

2. Take both scores (Outcome and Influence) from CIO only

$$Performance = \frac{(4.0*3.0)+(5.0*5.0)+(3.0*3.0)+(4.0*3.0)*100}{5.0*4.0+5.0*5.0+5.0*3.0+5.0*4.0} = \frac{5800}{80} = 72.5$$

3. Since the corporate CIO should execute on IT Governance, and Business Execs evaluate the impact, mix scores of both IT and business executives by taking CIO’s results as numerator (CIO’s evaluation) and executive’s as denominator (Business evaluation):

$$Performance = \frac{(4.0*3.0)+(5.0*4.4)+(3.0*4.2)+(4.0*3.4)*100}{5*4.2+5*4.2+5*3.0+5*3.2} = \frac{6020}{73} = 82.5$$

APPENDIX 3
Benchmarks for IT Governance

The following figures include IT Governance parameters to compare Banknorth's design with that from MIT CISR's research of 256 firms:

Figure 1: IT Governance Archetypes

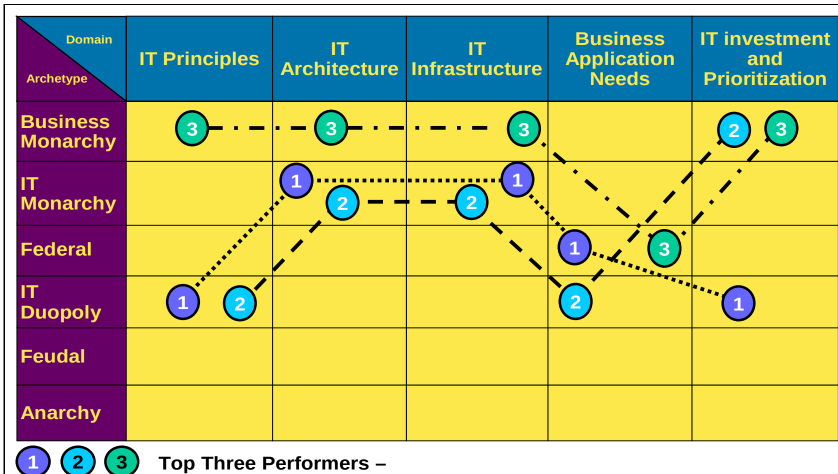
Decision rights or inputs to decisions for a particular IT domain are held by:

Archetype	Description	CxO Level Execs	Corporate IT and/or BU IT	BU Leaders or Key Process Owners
Business Monarchy	A group of, or individual, business executives (i.e., CxOs). Includes committees comprised of senior business executives (may include CIO). Excludes IT executives acting independently.	✓		
IT Monarchy	Individuals or groups of IT executives		✓	
Federal	Shared by C level executives and the business groups (i.e., CxOs and BU leaders) — may also include IT executives. Equivalent of the center and states working together.	✓	✓	✓
		✓		✓
IT Duopoly	IT executives and one other group (e.g., CxOs or BU leaders)	✓	✓	
			✓	✓
Feudal	Business unit leaders, key process owners or their delegates			✓
Anarchy	Each individual user			

More — Centralized — Less

Note: Some governance styles inspired by Tom Davenport, *Information Ecology*. Oxford University Press, 1997.

Figure 2: Top Three Performance Patterns for IT Governance.



Top Three Performers –
Governance performance is the effectiveness of governance assessed by the CIO to deliver four IT objectives weighted by importance: cost effective use of IT & effective use of IT for asset utilization, revenue growth & business flexibility. Governance performance has statistically significant positive relationship with several measures of financial performance (i.e., ROE, market cap growth).

Source: P. Weill, *How Top Performers Govern IT*, MIT Sloan CISR Research Briefing, Vol. III, No. 3A, October 2003.

Figure 3 Governance Performance

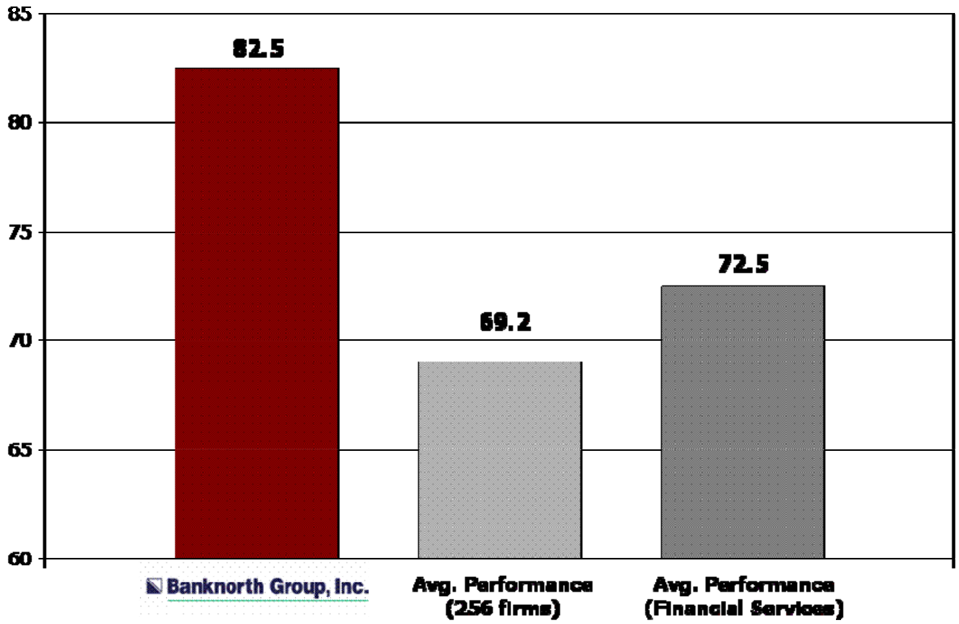
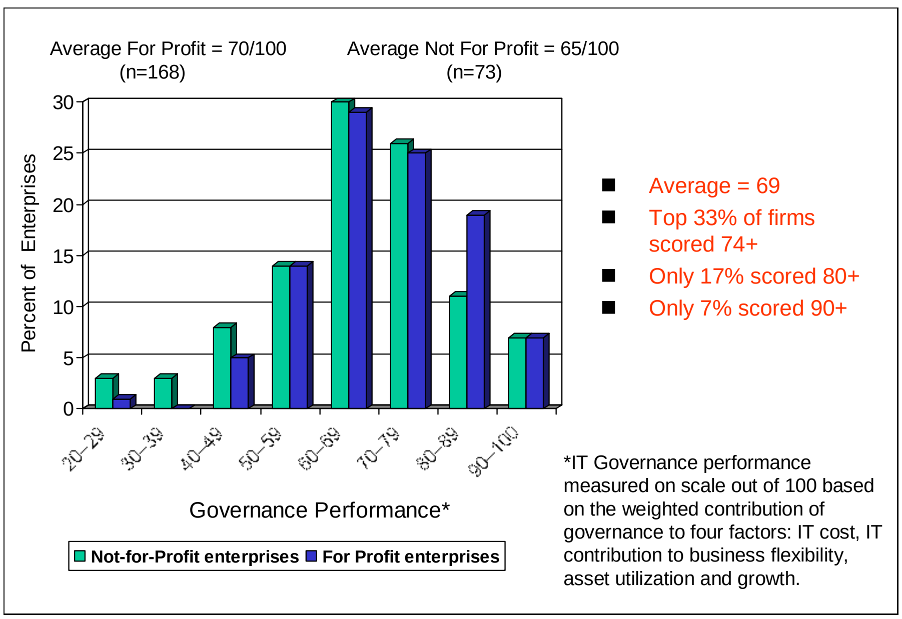


Figure 4: Governance Performance Varies Widely



APPENDIX 4
Banknorth's Selected Financial Results

Condensed Consolidated Balance Sheets

December 31,	2003	2002
(In Thousands)		
Assets		
Cash and due from banks	**$669,686**	$690,250
Federal funds sold and other short term investments	**4,645**	79,753
Securities	**7,247,232**	6,947,876
Loans held for sale	**41,696**	128,622
Loans and leases	**16,345,962**	14,056,008
Allowance for loan and lease losses	**(232,287)**	(208,273)
Other assets	**2,376,801**	1,724,705
Total assets	**$26,453,735**	$23,418,941
Liabilities and Shareholders' Equity		
Deposits		
Interest-bearing	**$14,324,160**	$12,690,402
Noninterest-bearing	**3,577,025**	2,974,199
Total deposits	**17,901,185**	15,664,601
Borrowings	**5,882,864**	5,432,581
Other Liabilities	**149,167**	258,274
Total liabilities	**23,933,216**	21,355,456
Shareholders' equity	**2,520,519**	2,063,485
Total liabilities and shareholders' equity	**$26,453,735**	$23,418,941

Source: Banknorth Group, Inc., 2003 Summary Annual Report (www.banknorth.com))

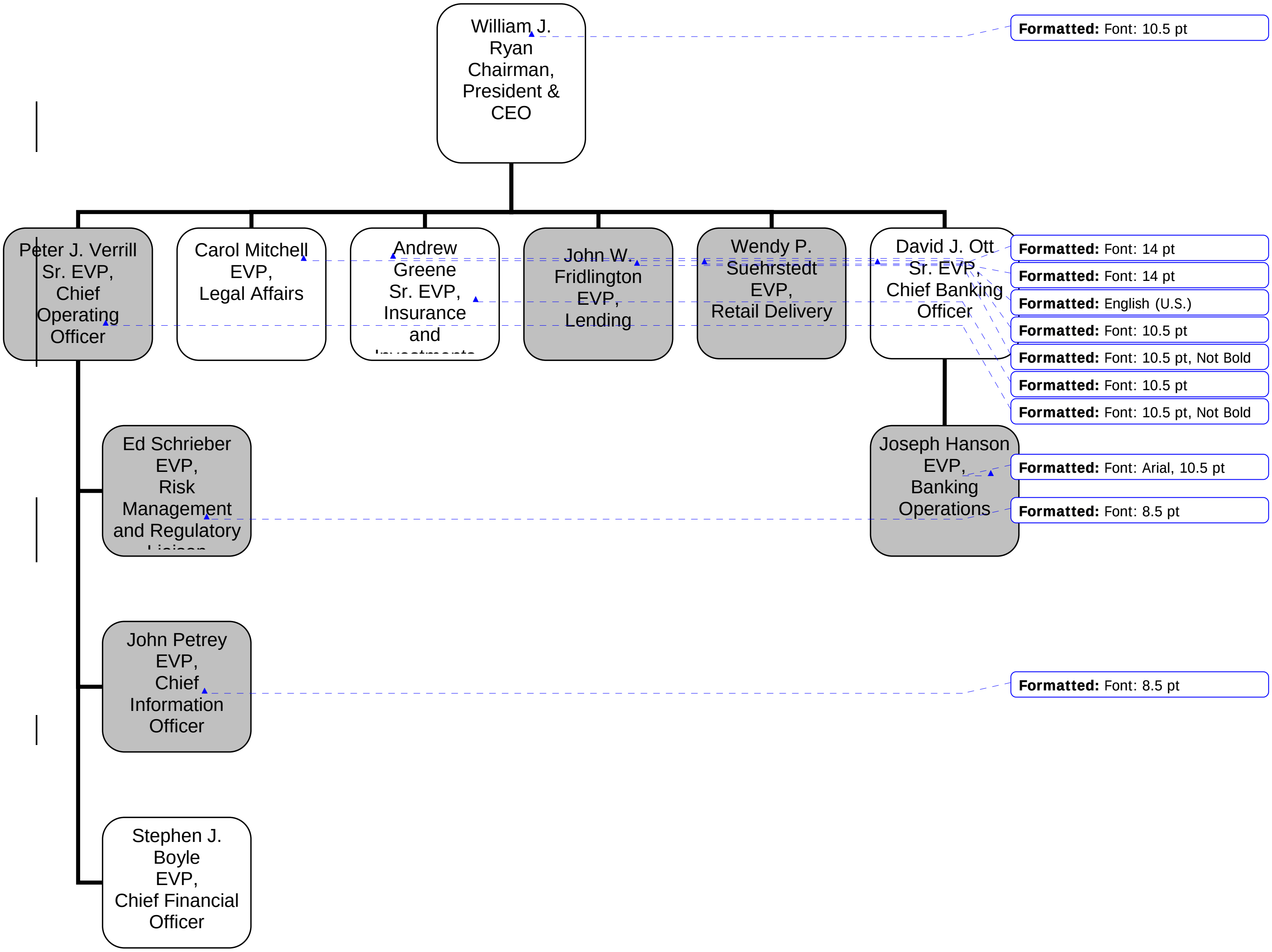
Condensed Consolidated Statements of Income

Year Ended December 31,	**2003**	2002	2001
(In Thousands, except per share data)			
Net interest income	**$840,831**	$796,517	$679,890
Provision for loan and lease losses	**42,301**	44,314	41,889
Net interest income after provision for loan and lease losses	**798,530**	752,203	638,001
Noninterest income:			
Deposit services	**97,323**	82,139	72,634
Insurance commissions	**45,714**	44,439	39,360
Merchant and electronic banking income, net	**41,778**	37,643	32,115
Trust and investment advisory services	**47,648**	44,025	42,346
Net security gains	**42,460**	7,282	1,329
Other noninterest income	**92,236**	58,980	52,721
	367,159	274,508	240,505
Noninterest expense:			
Compensation and employee benefits	**326,621**	311,385	261,317
Occupancy	**59,200**	52,422	45,921
Equipment	**47,459**	40,933	34,572
Data processing	**40,940**	40,702	38,670
Advertising and marketing	**22,000**	17,239	11,907
Amortization of goodwill and identifiable intangible assets	**8,946**	6,492	22,084
Merger and consolidation costs	**8,104**	14,691	7,614
Prepayment penalties on borrowings	**30,490**	–	5,995
Write-off of branch automation project	**–**	6,170	–
Other noninterest expense	**97,510**	89,358	87,237
	641,270	579,392	515,317
Income before income tax expense	**524,419**	447,319	363,189
Applicable income tax expense	**173,660**	148,681	124,104
Net income before extraordinary item and cumulative effect of change in accounting principle	**350,759**	298,638	239,085
Cumulative effect of change in accounting principle, net of tax	**–**	–	(290)
Net income	**$350,759**	$298,638	$238,795
Weighted average shares outstanding			
Basic	**160,914**	148,213	140,473
Diluted	**163,520**	149,829	141,802
Earnings per share			
Basic	**$2.18**	$2.01	$1.70
Diluted	**$2.15**	$1.99	$1.68

Source: Banknorth Group, Inc., 2003 Summary Annual Report (www.banknorth.com))

APPENDIX 5

Banknorth's Executive Team



Note: Shaded figures denote people interviewed for this case

Appendix 6 – More information on Banknorth and Banknorth's Business

Corporate Performance	
Revenue:	$1,533,747,000
Income From Total Operations:	$368,014,000
EPS from Total Operations:	2.23
Net Profit Margin:	24%

Key Financial Ratios	**Latest 12 Months**	**3-Year Average**	**5-Year Average**
Relative Valuations			
P/E Ratio	13.7	13.2	13.1
Price/Revenue	3.44	2.63	2.24
Price/Cash Flow	14.7	13.5	13.2
Price/Free Cash Flow	14.3	16	13.9
Price/Book Value	1.99	1.88	1.91
Price/Tangible Book	3.54	2.99	2.7
Book Value Per Share	15.39	13.69	11.76
Financial Strength			
Current Ratio	N/A	N/A	N/A
Quick Ratio	N/A	N/A	N/A
Debt/Equity	1.66	1.57	1.99
Total Debt to Equity	2.28	1.81	2.18
Total Capital	7,055,129,000	5,468,509,333	5,120,605,400
Debt/Total Capital	0.62	0.61	0.67
Interest Coverage from Continuing Operations	2.7	2	1.7
LT Debt as pct. of Invested Capital	62.4%	61.2%	66.6%
Profitability			
Pre-Tax Profit Margin	35%	29.3%	25.8%
Post-Tax Profit Margin	24%	19.5%	17.1%
Net Profit Margin	24%	19.5%	17.1%
EBIT Margin	56.2%	59.4%	61.5%
EBITDA Margin	56.5%	60.8%	63%
Gross Margin	N/A	N/A	N/A
Effective Tax Rate	33.1%	33.5%	33.5%
Effectiveness and Efficiency			
Total Return	11.8149%	65.6886%	70.025%
Return on Equity	13.9%	14%	14.3%
Return on Assets	1.4%	1.3%	1.2%

Key Financial Ratios	Latest 12 Months	3-Year Average	5-Year Average
Return on Invested Capital	5.2%	5.4%	4.8%
Revenue/Employee	228,917	237,434	266,333
Net Income/Employee	54,927	46,032	43,831
Asset Turnover	0.1	0.1	0.1
Receivables Turnover	N/A	N/A	N/A
Inventory Turnover	N/A	N/A	N/A
Inventory as pct. of Revenue	N/A	N/A	N/A
Cost of Goods Sold as pct. of Revenue	N/A	N/A	

2003 Sales

	$ Mil.	% Total
Interest		
Loans & leases	$ 880.20	56.42%
Securities	$ 312.80	20.05%
Noninterest		
Deposit services	$ 97.30	6.24%
Insurance brokerage commissions	$ 45.70	2.93%
Net securities gains	$ 42.40	2.72%
Merchant & electronic banking	$ 41.80	2.68%
Trust & investment management services	$ 32.00	2.05%
Other	$ 107.90	6.92%
Total	$ 1,560.10	100%

Major Subsidiaries:

Banknorth, NA
Bancnorth Investment Planning Group, Inc.
Bancnorth Investment and Insurance Agency, Inc.,
Banknorth Insurance Group, Inc.
Banknorth Insurance Agency, Inc.
Morse, Payson & Noyes Insurance
Banknorth Leasing Corp.
Northgroup Asset Management Company
Northgroup Preferred Capital Corp.
Northgroup Captive Insurance, Inc.
Northgroup Realty, Inc.

(Source for Appendix 6: Hoover's Inc.)

CISR Mission

CISR was founded in 1974 and has a strong track record of practice based research on the management of information technology. As we enter the twenty-first century, CISR's mission is to perform practical empirical research on how firms generate business value from IT. CISR disseminates this research via electronic research briefings, working papers, research workshops and executive education. Our research portfolio includes:

Managing the IT Resource

- What the CEO wants from IT
- The Future of the IT Organization
- IT Governance in Top Performing Firms
- Enterprise Architecture as Strategy
- IT Portfolio Investment Benchmarks & Links to Firm Performance
- Reducing IT-Related Risk

IT and Business Strategy

- Business Models and IT Investment and Capabilities
- IT-Enabling Business Innovation and Transformation
- How IT Can Enhance Business Agility

Managing Across Boundaries

- Effective Governance of Outsourcing
- Building Effective Relationships Between Business & IT Leaders
- Effective Distributed Collaboration
- Effective IT Engagement Inside and Outside the Firm

Since July 2000, CISR has been directed by Peter Weill, formerly of the Melbourne Business School. Drs. Jeanne Ross, George Westerman and Nils Fonstad are full time CISR researchers. CISR is co-located with the MIT Center for Digital Business and Center for Collective Intelligence to facilitate collaboration between faculty and researchers.

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