# Strategic Recommendation for Evertec, Inc.

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# STRATEGIC RECOMMENDATION FOR EVERTEC, INC.

By

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**ABSTRACT**

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Faculty Mentor: Suzanne Tilleman

Our research seeks to improve the operational effectiveness of Latin American transaction processing firm Evertec, headquartered in San Juan, Puerto Rico. The unstable economic status of Puerto Rico—as the site of headquarters and as the source of approximately 7% of Evertec's total revenue—is of external concern, though there are promising technological trends occurring in much of Latin America. The risk of entry by potential competitors in industry appears high, but all other risks as outlined by Michael Porter's Five Forces are low, indicating an attractive market. Internally, Evertec exhibits several core competencies, including innovation, end-to-end (comprehensive) service, community service/social responsibility, and reach of databases. Though operating in a national economic crisis, Evertec's revenue has consistently increased, and the company plans to continue expanding further into Latin America in the coming years despite evident employee dissatisfaction. With all factors considered, our research suggests Evertec pause further international expansion to develop internally, promoting internal hiring, cultural awareness, and thorough onboarding/continued learning opportunities for employees on all levels. The recommendation will cost approximately $7.3 million/year for a projected five-year implementation period, but net income is expected to decrease only slightly in the short-run before re-stabilizing and ultimately increasing in the future.

**PREFACE**

Research for the following paper was conducted among three students, including myself. University of Montana students Claire Dalman and Tomasz Sołtyka contributed information, financial ratios, and critical interpretations that ultimately led to a group-devised strategic recommendation. As proof of individual work, my specific individual contributions to this project include, but are not limited to: PESTEL analysis and explanation, core competencies analysis and related graphics, implementation plan (including Balanced Scorecard examination and use of Hofstede frameworks) and related graphics. All visual aids included in this paper were also created by me, unless otherwise specified.

External Analysis for Transaction Processing Industry

We began our research by analyzing the business environment external to Evertec, Inc. Evertec's revenue composition by geographic area is based in Latin America and the Caribbean, but the geographic scope of our research focuses primarily on Puerto Rico as the location of corporate headquarters and source of a significant percentage of Evertec's revenue (to be explained in following section looking at internal analysis). A major trend apparent in the environment is the increasing popularity of digital and mobile technology in developing countries across Latin America, as well the increasing number of individuals with financial accounts. According to Brookings (2015), the number of adults in Latin America and the Caribbean with formal financial accounts rose 12 percent from 2011 to 2014, signifying a shift in Latin American financial holdings and inclusion. Though not currently within Evertec's operating scope, Brazil boasted the largest mobile market in Latin America and the fifth largest smartphone market, in terms of subscribers, in the world in 2014 (West, 2015).

According to the CIA World Factbook (2015), Commonwealth of Puerto Rico was ceded to the United States in 1898 as a result of the Spanish-American War, so the country currently stands as a US territory. As such, Puerto Ricans were granted US citizenship in 1917, but still do not retain all the benefits of US citizenship as occupants of an independent democracy. This internal democratic self-government, established in 1952, mimics the United States government and economy, exhibiting three balanced governmental branches and exchanging USD as the national currency. Though the chief of state is the US President, Puerto Ricans choose state electors to vote on their head of government, who serves a 4-year term and is eligible for a second if voting permits. The current Governor of Puerto Rico is Ricardo Rosselló, who resides and works in the capital and most populous city, San Juan (CIA, 2015).

As part of our research, we next conduced a PESTEL analysis, which examined the political, economic, social, technological, environmental, and legal climates of an industry. Governor Ricardo Rosselló took office January 2, 2017, after a close election. The most prominent political issue in most Puerto Rican elections is whether to be fully ceded by the United States as a state, rather than a territory. Rosselló's New Progressive Party (PNP) is regarded as a pro-statehood party, advocating for Puerto Rico's union with the United States as the 51st state. According to the Washington Post (2012), the political move increases representation in the US government, offering two Senate seats and five House seats for Puerto

Rico in US Congress. Though granted US passports and eligible to serve in the US military, Puerto Ricans cannot currently vote in presidential elections and only have one non-voting delegate in Congress (Khazan, 2012).

The move could also stimulate the Puerto Rican economy, which—according to the New York Times—is characterized by a decade-long recession and $70 billion deficit (Timiraos, 2016). Gaining statehood grants the island nation access to $20 billion/year in federal funds as a federal-supported state, which would help to improve the current 11 percent unemployment rate in Puerto Rico. Statehood would also force the Puerto Rican government to adjust tax laws, requiring residents to pay federal income taxes and companies operating in Puerto Rico to pay corporate taxes. Sealing these two loopholes in Puerto Rican policy would bolster the economy and increase the opportunity for national spending (Khazan, 2012). The current economic climate of Puerto Rico could use the tax to accommodate government overspending, as well as to reduce the mass amounts of debt the country has acquired over the years. The recession is causing utility costs to rise dramatically, experiencing an 8 percent increase in electricity rates in 2016 and considerably affecting the average resident quality of life, according to CNN Money (2016).

Despite remaining a US territory, however, former US President Barack Obama signed the PROMESA bill last year to assist with the worsening economic downturn in Puerto Rico. The country defaulted on July 1, 2016, on its general obligation bonds—bonds considered top priority for repayment in the Puerto Rican Constitution—for the first time, resulting in unsatisfied investors looking to capitalize on what they believed was a safe investment. Though PROMESA did not provide any direct financial help, the bill prevented investors from suing the Puerto Rican government immediately, as well as established a fiscal Oversight Board to construct a suitable economic recovery plan (Long, 2016). Ultimately, the economic environment in Puerto Rico is dismal, but can tentatively rely on its territorial relationship with the United States as an economic safety net.

Aspects of Puerto Rico’s social environment are also affected by its poor economic state. According to the Wall Street Journal (2016), the national population has suffered a 9 percent decrease in the past decade. Because the number of well-paying jobs are steadily decreasing as the recession worsens, Puerto Rican residents are using their US citizenship to seek more suitable employment opportunities in the United States, majorly in Florida and Texas. As younger employees migrate, many older Puerto Rican workers are forced to continue working past retirement to supplement insufficient retirement pensions, resulting in an aging Puerto Rican workforce. According to the Seattle Times (2017), the recent migration of younger employees to the United States only aggravated the economic crisis in Puerto Rico and overwhelmed social welfare programs to the point of considerable deficit and a population growing in age (Coto, 2017). In addition, there is tension among Puerto Ricans regarding the United States, despite the US's role of parent country and financial safety net. The New York Times (2017) identified Puerto Rican nationalist Oscar López Rivera—whose 70-year sentence was commuted by former US President Barack Obama during his final days in office—and the accompanying reaction to his release as representative of many Puerto Rican's desire for emancipation (Gonzalez, 2017). Ultimately, an aging population and lingering animosity regarding the country's relationship to the United States are prominent social factors in Puerto Rico.

Analysis of the technological environment reveals several trends within the global industry, including demand for improvements in transaction security and expansion into mobile payment processing. Mobile applications, such as Venmo, are becoming an increasingly popular method of payment and are just the latest technology in the widespread movement toward e-commerce channels. "Mobile wallet platforms," according to J.B. Maverick at Investopedia (2016), are further advancing the industry by replacing physical magnetic cards with applications, like Apple or Samsung Pay, on mobile phones (Maverick, 2016). Despite the economic downturn, residents of Puerto Rico and most Latin American countries consistently have access to the Internet and mobile devices, making them subject to the technological trends seen in more developed countries (West, 2015).

Environmental factors affecting the payment processing industry are limited, though majorly positive in terms of environmental impact. For example, technological trends in the industry indicate a shift toward digital services, rather than paper transactions, which would reduce the amount of paper necessary to complete financial transactions and ultimately discourage the use of paper products.

Finally, the legal environment of the industry, specifically within Puerto Rico, is subject to many of the laws enforced in the United States. For example, Puerto Rico operates under the Dodd-Frank Financial Regulatory Reform Bill, which places stricter regulations—like greater reserve requirements or limited number of investments—on financial institutions to protect investors. Puerto Rico is also subject to US minimum wage laws, which hinders its ability to compete with other Latin American countries with lesser workplace regulations (CIA, 2015). Despite operating under most United States laws, however, there are loopholes in the Puerto Rican Constitution that promote business: Puerto Rico does not require local companies to pay corporate taxes. Residents of Puerto Rico also do not have to pay individual income taxes (Khazan, 2012).

The economic volatility of Puerto Rico serves as a risk for investors and local corporations, despite lesser taxation laws and several other legal benefits. To understand the attractiveness of the payment processing industry beyond Evertec's geographic location, we used Michael Porter's framework outlining the five competitive forces that define a professional field. The first of the five forces is the risk of entry by potential competitors, which we determined to be high in the case of Evertec. The payment processing industry is an emerging marketplace with growing demand and potential for high returns—the attractiveness of the industry is obvious to new entrants. Additionally, well-established, diversified banks and financial institutions are prone to expand services into the payment processing field, and can do so assuming less risk than companies exclusively operating within the industry.

The next of the five forces, the bargaining power of suppliers, is low. Suppliers are difficult to define in the payment processing industry—especially in the case of Evertec, a company comfortably dominating the regional market. In an industry reliant on Internet, we identified Internet providers—such as AT&T in Puerto Rico—as the suppliers in our market. Because financial transactions between clients and their respective customers are necessary to sustain sales of Evertec's products—like the payment software downloaded on point-of-sale terminals, for example—people as customers of the firms Evertec is servicing also act as suppliers. Ultimately, we found the bargaining power of suppliers to be low because there are quite a few Internet providers in Puerto Rico, as well as an entire population of customers looking to use digital payment methods, which leaves room for price negotiations among competitors.

We decided the bargaining power of buyers was also low. Evertec typically contracts their transaction software and services to buyers for periods of one to five years, which limits the amount of flexibility the buyer has to alternate between suppliers. Additionally, Evertec is the leading payment processing firm in Latin America and experiences few competitors in most of the countries of operation—this leaves buyers with few other options. Threat of substitutes, or the availability of products and services that could stand in place of the ones offered by Evertec, is also low. Digital payment processing is becoming increasingly popular, and it's generally unsafe to carry large amounts of cash in-pocket in many Latin American countries. Though cash would be the most obvious substitute to digital transactions, businesses also have the option to substitute Evertec's services with in-house solutions. In-house technology systems, however, are more difficult and expensive to develop, making them less attractive to companies.

The last threat to consider is the intensity of rivalry by established firms. Though Evertec is committed to abiding by US antitrust provisions—as expressed in their Code of Ethics (2015)—the company has been accused by the media of behaving as a monopoly (Evertec, 2015, p. 15). Dennis Costa at Caribbean Business (2016) cites the "dangers of an Evertec monopoly," as evidenced by a 2-hour system failure in early 2016 that caused commercial activity in Puerto Rico to come a "near-complete halt" (Costa, 2016). Evertec offers a full suite of services with few competitors along their value system in their countries of operation, so we determined the intensity of rivalry by established firms to be low. Competition would primarily be found in the United States where the payment processing field is more saturated and would consist of telecommunications companies like Arris Group or Square. Ultimately, with all five forces considered, Evertec seems to be operating in an attractive industry, boasting an extremely advantageous position in the regional payment processing markets.

Internal Analysis for Evertec, Inc.

Evertec, Inc. is a transaction processing firm led by CEO Morgan M. Schuessler and headquartered in San Juan, Puerto Rico. Evertec was formed on April 1, 2004, as a subsidiary of Popular, Inc., a diversified financial holding company. As the largest financial institution in the Caribbean, parent company Popular, Inc. created Evertec to manage institutional business and payment processing. According to the corporate website, Evertec operates in 18 Latin American countries: Puerto Rico, Mexico, Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Colombia, Dominican Republic, Haiti, Curaçao, Aruba, Virgin Islands, Grand Cayman Islands, and the Bahamas. Evertec is the leading card issuer, processor, and operator of ATM/debit network in the Caribbean (Evertec, 2017, p. 2-4). Evertec also maintains a presence in the United States, though it cannot compete directly with the established American companies in the same industry because it operates exclusively in underdeveloped nations.

As an organization, Evertec is separated into three distinct operations: payment processing, merchant acquiring, and business processing management. The payment processing segment, which accounted for 29% of revenue in 3Q16, involves issuing and offering payment services to developing nations, including transaction software, kiosks, and other technological solutions (Evertec, 2017, p. 8). For the sake of simplicity, our research focuses on only the payment processing segment. Though the business solutions segment accounts for the most revenue, it is also the most diverse in nature and product offering, making it more difficult to analyze with accuracy. Another notable attribute of Evertec's financial structure is its reliance on the Puerto Rican government as a customer; the government of Puerto Rico was Evertec's second largest customer in 2016, representing approximately 7% of total revenues (Evertec, 2016, p. 25). Much of Evertec's business is servicing other businesses (B2B), providing them with the software and hardware necessary to complete card transactions.

Evertec's website also cites an explicit corporate mission statement: "We aspire to be the most innovative and reliable technology provider for the benefit of our customers, communities, and shareholders." Their vision, as indicated by their website, is stated as, "Technology that speaks your language," which we interpreted as a commitment to cultural sensitivity throughout a continuous process of global expansion. Finally, Evertec has a list of values that include customer satisfaction, accountability, integrity, proactivity, sense of community, innovation, and passion (Evertec, n.d.-a). Based on the values and mission expressed by the company, as well as their corporate behavior, we identified Evertec as a focused differentiator in the industry. A company operating under the focused differentiation generic strategy generally creates customer loyalty by targeting a narrow segment; in the case of Evertec, the company maintains moderate pricing because it dominates the local market. Evertec chooses countries of operation purposefully, finding underdeveloped nations in Latin America with weak or no industry competitors and few substitutes. Additionally, Evertec differentiates itself within these geographic niche markets through several capacities: the strength of Evertec's Ahora Toda Hora (ATH) Network, as well as its ability to cross-sell products to existing regional customers. While Evertec offers competitive pricing for its products and services, its technology and dedication to innovation suggest they follow a more differentiated strategy, rather than a focused cost leadership strategy. Within the last five years, Evertec has spent over $145 million on technology investments to "continue to build the capacity and functionality of [their] platform" (Evertec, 2016, p. 10).

Evertec employs a team of over 1,650 engineers, programmers, and other professionals across 7 countries in Latin America. Though they maintain a presence in 19 countries total, sales offices are only located in seven (Evertec, 2017a, p. 5). Other internal resources include $100.0 million in revolving credit facility and, as of the end of 2015, $28.7 million in cash. Principal capital expenditures are reserved for hardware and computer software, which Evertec develops internally. As indicated by their 2016 10-K Report, Evertec funds investments with cash flow from operations and, if necessary, borrowings under their revolving credit facility.

Evertec's products and database capabilities also differentiate their business. Evertec owns and operates its own ATM and PIN debit card network, known as the ATH Network, which "enables operations between merchants and card issuers." Businesses using electronic payment services—allowing for debit and credit cards to be taken as payment, rather than just cash—must engage an asynchronous transfer mode (ATM) network before communicating with affiliated financial institutions to access requested funds. Evertec's ATH Network offers unique technological features and procedures and, by selling this software and associated hardware terminals, allows Evertec to profit from each individual transaction passed through the ATH Network (Evertec, n.d.-b). After passing through the ATH Network, electronic transactions are processed by Evertec's unique Automated Clearing House (ACH) Network, which facilitates communications between the company and the financial institutions. Evertec processes over 2 billion transactions a year, collecting massive amounts of data that sets the size of their networks apart from other smaller regional competitors (Evertec, 2017a, p. 4). Additionally, the ATH Network benefits from partnerships with other network affiliates, including American Express, Discover, MasterCard, and Visa.

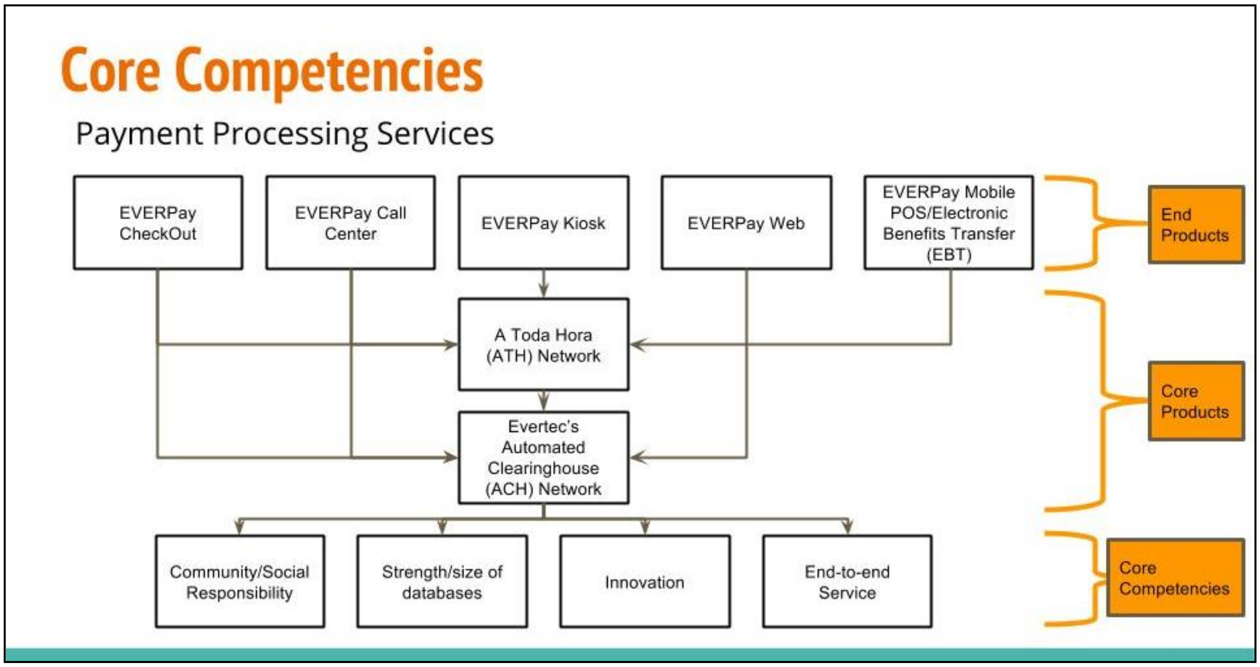


*Figure 1.* Evertec's Core Competency Tree

Evertec's network capabilities, and substantial access to data, serve as a single theme that connects various corporate activities. More precisely, the reach of Evertec's databases act as one of their core competencies. Networks and databases that accommodate many transactions support Evertec's rapid expansion throughout Latin America; Evertec has targeted seven additional countries to expand into, majorly in South America, in the future (Evertec, 2017). In accordance with plans to further expand internationally, we determined that the second core competency is innovation. Innovation is explicitly stated as one of Evertec's self-proclaimed values, as indicated by their website, and has consumed a large portion of the firm's investment funding. Evertec has developed a wide variety of products that interact with the company's innovative ATH Network. For example, EverPay CheckOut is the web application that permits credit and debit card purchases, and EverPay Kiosk is the configurable user interface device that allows customers to manage funds remotely—Evertec's own automated teller machine (Evertec, n.d.-c). Evertec also collaborated with government agencies to create the Electronic Benefit Transfer (EBT) system, which negates the use of printed checks by automating redemption of public assistance benefits and other government payments (Evertec, n.d.-d). Ultimately, Evertec strives to introduce and support modern technologies and transaction methods in Latin American countries.

We identified community/social responsibility as another core competency for Evertec. By introducing new electronic solutions, Evertec is also improving the safety, efficiency, and accuracy of payment processing in their countries of operation—making the lives of citizens better through their basic business processes. Additionally, Evertec encourages employee participation in community service and supports charities representing a variety of causes, including health services, family aid, animal welfare, and environmental protection. In 2007, Evertec implemented the Orange Revolution program to educate, generate awareness, and motivate behavioral changes in their employees' treatment of the environment. They run another in-house program called EverPets, which educates employees on the "importance of vaccinations, the role sterilization plays in preventing animal abandonment, and how adoption helps to control the animal population" (Evertec, n.d.-e). In addition, Evertec hosts fundraisers and attempts to strengthen the corporate culture through community service and engagement.

The final core competency we identified was end-to-end, or all-inclusive, service. Evertec is separated into three distinct segments—payment processing, merchant acquiring, and business solutions—each supporting customer transactions in different ways. Because Evertec is introducing technologies into developing regions, it is important for the company to provide full service, ensuring entire transactions can be completed once they are started. Evertec considers itself a "leading end-to-end transaction processor in Latin America," and this title, as well as the identified core competency, support several of its self-proclaimed values—including customer satisfaction and proactivity (Evertec, 2017, p. 3). Additionally, offering comprehensive services allows Evertec to have full control over transactions processed through their ATH Network, all while gaining market share in other areas of the industry.

The indicated core competencies are used in following section to position our strategic recommendation, in the context of this research. Evertec's financial status, apart from the economic downturn experienced in Puerto Rico, should also be considered when devising a recommendation for improvement. To summarize, Evertec is experiencing growth in a recessionary period. Despite national lackluster GDP performance, Evertec has experienced 4 percent growth in revenue—and 5 percent in adjusted EBITDA—between the years 2011 and

2016. The company has made apparent strides to improve debt metrics and, accordingly, has experienced a steady decline in net debt over a period of 4 years. Evertec exhibits a debt-to-equity ratio of 6.19, which is significantly higher than that of the nearest competitors' 0.71 (Evertec, 2017, p. 9-10).

Strategic Recommendation for Evertec, Inc.

Despite evident success in industry, our research indicated two primary areas of concern in Evertec's operations. The first is Evertec's highly leveraged position against competitors in terms of debt, which makes the company vulnerable to adverse economic, industry, or competitive developments. This financial position is especially concerning as Evertec makes moves toward further international expansion because the company will need to accrue new debt to establish new facilities throughout Latin America—and a poor debt-to-equity ratio limits the company's ability to obtain additional debt or equity financing. The second area of concern we identified regarded Evertec's employee satisfaction. According to Glassdoor (2017), a site that facilitates honest company reviews, many Evertec employees feel there are limited growth opportunities within the company and are ultimately unsatisfied with the workplace experience. One review from a former accountant, who was with the company for over eight years, described the employees as "the least important resource" to the corporate headquarters. Others cited poor work-life balance, low salaries, long hours, and expressed discontent with the CEO (Glassdoor, 2017).

The two areas of concern in Evertec's operations led us to recommend the company improves internal processes before further international expansion. The goal of the internal development plan would be to manifest and implement a consistent, accepting company culture that reflects core competencies and in which employees feel valued and satisfied across all Evertec branches. Additionally, we would recommend Evertec pause further international expansion not only because of the company's concerning debt ratios, but also because expansion into other Latin American regions without proper cultural and professional training limits employees' growth opportunities within the company. We believe internal fragmentation will only intensify if the company continues to grow rapidly, and, based on their indicated values and core competencies, Evertec should adjust to ensure internal cohesion and employee satisfaction. As a reflection of the company's commitment to its employees, we also recommend Evertec modify its mission statement to read "stakeholders" rather than "shareholders," so employees are included as a prioritized public.

As part of our recommendation, we outlined several specific, measurable, assignable, realistic, and timely (SMART) objectives. The first is to work with appropriate stakeholders—presumably the Board of Directors, as well as regional managers from each country of operation—to design a new, standardized onboarding process that promotes hiring internally. Each country of operation exhibits different cultural behaviors and beliefs that may affect workplace cohesion and effectiveness if preventative training is not implemented. For example, there are distinct differences between Geert Hofstede's cultural analysis of Mexico—a country Evertec currently operates in—and his analysis of Argentina—a country Evertec plans to expand to. Though the countries are relatively close in geographic proximity, their respective cultural analyses illustrate differences in power distance, individualism, and masculinity (Hofstede, n.d.-a; Hofstede, n.d.-b). Evertec employees seeking growth opportunities are already limited by the cultural distance between countries of operation, and we believe it is important the new onboarding process requires preliminary cultural intelligence (CQ) testing to illustrate potential biases employees have before integration. The new onboarding process will also include specific information on each of the country of operation to familiarize employees with the related cultural discrepancies and further promote internal growth and mobility.

## Balanced Scorecard

### Learning & Growth

| | |
|---|---|
| Strategy Map | Passionate, effective, and culturally-intelligent workforce who care about the community |
| Objectives | Attract, train, & retain quality employees, allowing for opportunities for growth within the company |
| Measures | Employee satisfaction, key staff retention, CQ testing |
| Targets | Constant increase in employee satisfaction (as indicated by biannual surveys) and 80% employee retention rate |

*Figure 2.* Evertec's "Learning & Growth" Perspective of the Balanced Scorecard

Our proposed onboarding process will also highlight modifications to the company's Balanced Scorecard, a standardized set of guidelines designed to ensure consistency throughout organizations. We focused on the "Learning & Growth" perspective of the Balanced Scorecard to indicate alterations to internal processes that demonstrate indirect value to the company in the long-run. The strategy map, or ideal strategic outcome, involves establishing a passionate (satisfied with their work), effective (capable of their work), and culturally-intelligent (understanding of company values/able to grow across countries of operation) workforce who care about their community. Continuing to encourage social responsibility will reinforce Evertec's core competencies, as well as promote a sense of purpose internally. Lastly, our proposed onboarding process will present cultural diversity as an inherent strength to better accommodate new cultures as further expansion ensues. The onboarding process should be ready to implement by January 2018, and we will measure its effectiveness based on employee satisfaction surveys and key staff retention.

Our second SMART objective is to develop an employee job-trading program for those recommended by local managers and looking to grow within the company. The job-trading program will involve six employees each quarter, after being recommended by their immediate superior, to switch positions with one another—in an organized rotation—for approximately two weeks to gain a better understanding of each other's jobs and culture. Chosen employees will preferably be from different countries, but in similar professional positions within the company to preserve branch effectiveness during the two-week period. The job-trading program is designed to encourage cultural sensitivity and understanding, as well as to promote further growth opportunities within the country.

Our next SMART objective is to plan an annual conference to be attended by all managers in October and held in San Juan, Puerto Rico. The purpose of this conference is to keep upper-level employees company-focused. This portion of our implementation plan will involve inviting approximately 100 managers to train together for a 3-day conference held in Evertec's headquartered city in hopes of establishing consistency in values across the entire company. An annual conference of this size in Puerto Rico will also stimulate the local economy, illustrating Evertec's commitment to community development and social responsibility.

The final SMART objective is to create a new full-time human resource (HR) officer position—reporting directly to the Senior Vice President of HR Marcelino Zayas—to manage onboarding training initiative and connect branches through advanced understanding of core competencies. The person in this position will be responsible for travelling to different branches and clarifying core competencies via the Balanced Scorecard, leading and organizing the October conference in San Juan, and aiding in the design and implementation of the new onboarding process. The HR officer will also be required to manage analysis of employee satisfaction surveys, to be distributed before our implementation plan and every half year after.

Because the company will pause expansion, the five-year financial projection for our recommendation shows a decrease in net debt. Expansions in previous years caused large amounts of debt to accumulate—as indicated by a lesser percentage debt paydown for that year—and our recommendation ultimately requires less capital than further expansion (Evertec, 2016). We expect our recommendation to evoke modest growth in revenue for the first 3 years after implementation, but accelerated growth as the recommendation begins to affect workplace competency and productivity. Additionally, we plan to add a "Training and Development" line item to the Income Statement at a cost of $7.3 million to represent the total cost of our recommendation. Administrative costs will increase to afford and distribute new training materials, set up training sessions, accommodate the job-trading program, and finance the salary of the new HR officer. Net income will be negatively affected as preliminary expenses accrue, but ultimately increase as our recommended changes improve workplace efficiency and effectiveness.

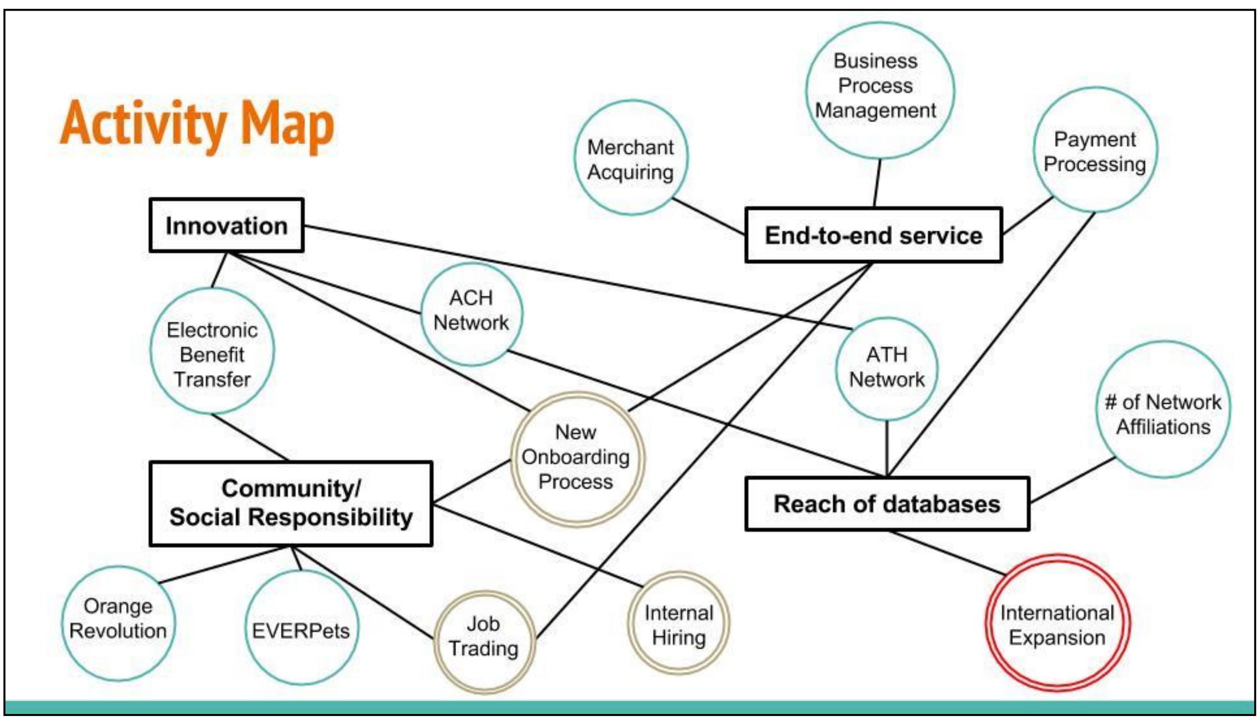

*Figure 3.* Evertec's Activity Map with Corresponding Core Competencies

Lastly, we assessed the risks associated with our recommendation and proposed possible contingency plans. The first and most prominent risk for Evertec is the uncertain economy in Puerto Rico, especially because the government represents 7% of total revenues. The challenging economic environment could affect our customer base as the Puerto Rican population decreases, depress general consumer spending, and delay government payments as one of Evertec's customers—thus worsening the economic situation by increasing the government's accounts receivable. In the event of an extended recession and potential island bankruptcy, we suggest Evertec focus organizational efforts on operations in the 17 other current countries, as well as consider Puerto Rico's relationship with the United States as a tentative safety net. Another risk we considered was the increased potential for competitors to dominate emerging markets. Evertec remains competitive because it expands rapidly into developing nations, securing the leading position early and maintaining it by offering a wide range of products. If Evertec pauses international expansion as our recommendation suggests, then the company could lose out on markets in Latin American countries they have yet to penetrate, limiting their external growth opportunities. We believe, however, the size and scope of Evertec's current operations gives Evertec the ability to acquire competitors in these emerging markets, if necessary to gain top positioning back. Lastly, Evertec's contracts with private clients typically last for a period of one to five years, so by focusing internally, Evertec runs the risk of failing to renew client contracts (Evertec, 2017, p. 8). Our recommendation, however, promotes a strong company culture and low employee turnover, which are both traits attractive to new clients.

Evertec's corporate structure is already organized by geographic segments, assigning each region a corporate manager and separating operations between seven locational branches. We believe our recommendation, as well as its existing corporate structure, celebrates Evertec's cultural diversity and core competencies. Our recommendation is realistic both in implementation and in funding, and we believe it will increase Evertec's profit margin by improving employee satisfaction and promoting a consistent company culture and values as the company expands.

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