

TRY A FOCUSED APPROACH TO GROWTH

*Set your strategy, focus on action,
and stay the course*

Faced with economic headwinds, many firms are struggling to grow their businesses profitably. Many business leaders continue to seek growth by extending their existing product lines and brands. After all, growth is supposed to be about “more”—more products, more categories, more brands, and more markets.

But this is exactly the opposite of what business leaders should do to drive increased revenues and profits, says management journal *strategy+business.com* (S&B), from international consulting firm Booz & Company. A typical “growth through more” strategy diffuses efforts and complicates operations. Instead, S&B recommends a simplified “growth through focus” approach, regardless of the economic environment.

Growth through focus requires the leadership team to follow a systematic approach that spans everything from strategy and vision to execution and measurement.

While growth initiatives frequently receive money and leadership attention, they often result in lots of activity and a large number of projects that don’t always correlate with outcomes. Quantity does not mean quality. To improve the quality of growth, leaders need to cut back on marginal products, brands, and markets so they have a better chance of winning in their chosen areas of focus.

Growth through focus also takes a different view on planning and leadership. Many companies tend to make long-term strategic plans, but they often have a short attention span in execution. CEOs and business leaders get seduced by doing something new and different well before the strategy has had time to

play out.

S&B recommends the reverse: Plan quickly and then stay the course for as long as five years. Resist the temptation to change strategies too often.

Seven steps to growth

Together, these seven steps represent a powerful formula for driving profitable growth:

1. Discovery: Identify what works. The first step in the growth journey is to discover what’s working well and where your organization is already winning. These pockets of excellence help identify areas for growth, resulting in a set of “success themes.”

An effective way to uncover what works is to conduct a series of workshops with internal personnel. The discovery process should be inclusive and democratic, and it must involve key stakeholders, particularly those who have the influence to get employees behind them. It’s also important to listen to people who push back.

2. Strategy: Focus through lenses. Themes revealed in the discovery process need to be clustered and prioritized to define the focused bets your credit union should make. Narrowing the focus is essential to concentrate resources on areas where you have the best chances of winning.

Strategic focus requires *lenses* through which you can look at your business lines. Lenses can be categories that you perform well in, products that are performing well, and platforms (for example, “wellness” in health care or “trust” in financial services) that can serve to unify your product lines.

Each lens may produce several possible opportunities. These opportunities should be prioritized according to their expected impact and the effort required. The next step should result in a brief preliminary plan that lists priorities for each lens. Key stakeholders should then review the plan.



Contrasting Approaches: Conventional vs. Growth Through Focus

Views on:	Approach:	
	Conventional	Growth through focus
Core belief	Growth is about doing more—more arrows and more targets	Growth is about doing less—fewer, but stronger, arrows
Growth drivers	Extension [products, brands] and expansion [markets, segments]	Focus [brands, categories, markets] and simplification [vision, process, people]
Complexity	Complexity is inevitable	Complexity is the enemy
Planning	Plan longer; act shorter	Plan shorter; act longer
Time frame	Several years; emphasis on blockbuster successes	Immediate; emphasis on quick wins
Leadership	Leaders as visionaries who know the answers	Leaders as facilitators who inspire people to discover the answers
Resources	Conserve resources: the budget as constraint	Unconstrained resources: imagination as constraint
Organizing	Organize growth teams within the boundaries of business units and hierarchy	Form networked teams and communities that cut across organizational boundaries and hierarchy
Process	Focus on analysis [the “what”]; emphasize words and numbers; have structured meeting agendas	Focus on action [the “now what?”]; emphasize pictures and slogans; have unstructured meetings

Source: strategy+business.com

3. Vision: Find a simple hook. Once the focus areas have been defined, the findings need to be summarized in a simple, compelling vision. The vision serves as a rallying cry for the organization to align its efforts behind a clearly understood goal. To get everyone behind the strategy, it’s vital to communicate the strategy across all levels and functions in your credit union.

S&B recommends creating a “hook”—a symbol, phrase, or acronym that’s kept consistent over time and that depicts the “from-to” journey. Once you choose your vision, it needs to be launched with a bang through an event designed to inspire your team.

4. People: Unleash their potential. The next step is to find the right people and place them in functions from research to marketing and sales. Selecting those people requires a rigorous process of matching skills with the needs of the business.

Give new leaders the freedom to operate within the strategic framework. Challenge leaders to act as entrepreneurs within companies that have traditionally been perceived as process-driven and bureaucratic.

To liberate the newly appointed from routine constraints, S&B recommends “giving people huge

targets and empowering them with virtually unlimited resources.” The targets should represent a quantum leap from historical results.

5. Execution: Clarify and delegate. Execution is the most important—and most difficult—step in the journey, involving two key elements. First, everyone needs to be clear about who will do what, to avoid ambiguity about roles and responsibilities. Second, decision making needs to be moved down through the ranks so that the people responsible for results have the operating freedom they need.

Most organizations have a mistaken belief that the leadership team has superior knowledge on every subject. This conditions managers to believe that success lies in pleasing the leadership team rather than in winning in the market.

To accelerate execution, S&B recommends a strong bias for action. Leaders should demand a dramatic reduction in internal documents and meetings. Instead, emphasize results, and look to the future rather than the past.

6. Organization: Build collaboration. Growth initiatives rarely fit within isolated organizational silos. They need to be managed by creating communities and networks across the company—formal

as well as informal. S&B suggests “category teams” of executives drawn from different functions to manage products, innovation, and supply chains. Each team follows the approach that works best for its category, determining what needs to be done by whom.

Matching skills with priorities and creating networks to get the best mix of ideas, within a clearly defined strategy, has a powerful effect in leveraging scale and expertise.

7. Metrics: Manage numbers, tell stories. As the execution phase gets under way, it’s important to keep score. Scorecards should be objective, and they should be kept simple. Overly complex metrics take attention away from the measures that really matter and can confuse priorities.

Along with a focus on numbers, storytelling is a powerful tool for promoting a culture of winning. S&B suggests a conscious effort to write up and disseminate success stories. At every internal meeting, leaders should ask successful people to share their stories with colleagues. Success stories become part of the culture, and successful people become heroes in the eyes of their peers and managers.

Finally, staying positive is vital to the success of growth through focus. It’s easy to slip into a negative spiral that can destroy morale and derail the transformation. While leaders need to face facts and make difficult decisions, they also need to keep a positive tone and promote a can-do attitude. ♦

OPERATIONS

MEMBER SERVICE BOOSTS PERFORMANCE

High-performing companies focus on consumer needs

Great customer service is so frequently discussed that its value should go without saying, right? Truth is, the degree of time and energy that companies invest in this area often separates the high performers from the also-rans.

Nearly 80% of respondents from high-performing companies think about how to help improve customer experience on a regular basis, compared to 69% of low-performing companies, according to a customer-focused survey conducted by the Institute for Corporate Productivity and reported in *Training & Development* magazine.

The gap widens when respondents were asked about their organization’s customer-focused strategies. Eighty-six percent of high-performing companies say they keep promises to their customers, whereas only 64% of low-performing companies do the same.

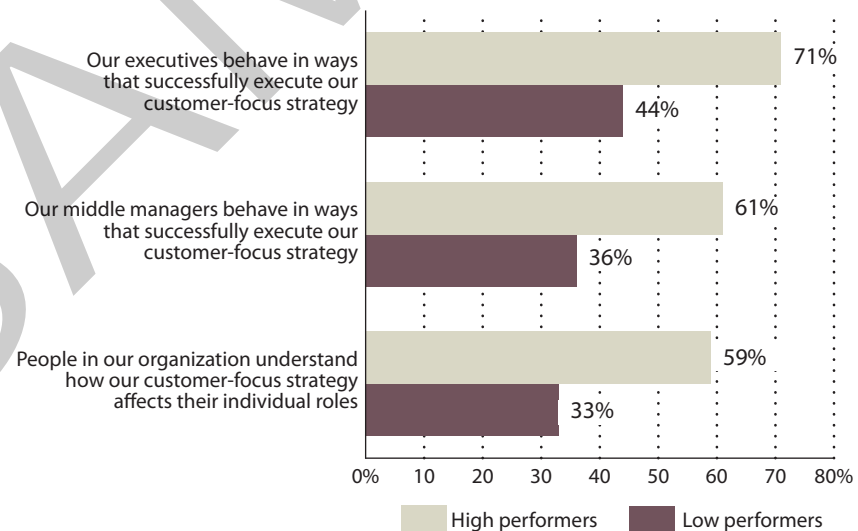
“What surprised me the most was the size of the gaps between high- and low-performing companies,” says Carol Morrison, senior research analyst for the Institute.

The study defined high-performing organizations on the basis of their performance during a span of five years. The specific factors measured were revenue growth, market share, profitability, and customer satisfaction.

Another big consideration when it comes to great customer service is having a philosophy that’s preached and practiced from the top down, starting with leadership. Morrison notes that:

Focus on the Customer

(High-performance vs. low-performance organizations)



Source: Institute for Corporate Productivity

- **Forty-two** percent of high-performing companies have an internal communication plan in place to ensure that customer insights are understood by everyone in the organization, compared to just 17% of low-performing companies.

- **Fifty-six** percent of high performers reinforce customer awareness and respect throughout all levels of the organization versus 33% of low performers.

“High performers communicate with customers regularly—they ask about their needs and about the quality of service they’ve received,” says Morrison. “Internally, they share customer satisfaction data companywide and they work to make sure that employees understand their customers’ insights.”

High-performing companies have had to embrace organizational change along with advancements in technology, notes Morrison. “Companies are exploit-

ing new pathways that have become available to them to maintain contact with their customers, to sample customer opinions, and to extend offers and incentives,” she adds. Among their practices:

- **Human resource** departments train employees to be responsive to customers, and they reward and recognize these behaviors.

- **Twenty percent** of high-performing companies use social media to communicate with customers, versus 12% of low-performing companies.

- **About 60%** of high performers also survey their end users annually to assess the quality of their products and services versus 33% of low performers.

“These are the metrics that a company can use to assess its efforts in focusing on customers,” says Morrison. The data can also be used as benchmarks to compare various companies, she adds. ♦

■ LENDING ■

BORROWERS STRUGGLE DESPITE ASSISTANCE

Mortgage relief programs have a mixed record

Mortgage rates may have hit an all-time low, but clearly that’s not enough to stimulate lending activity. With the expiration of home buyers’ tax credits, home sales tumbled in the past two months.

And while the recently passed financial regulatory reform bill contains numerous consumer-protection standards, it also includes several lending-related provisions designed to blunt the effects of the mortgage crisis. The Dodd-Frank Wall Street Reform and Consumer Protection Act (financialservices.house.gov) provides for:

- **Mortgage relief:** Allocates \$1 billion for bridge loans to qualified unemployed homeowners with reasonable prospects for re-employment to help cover mortgage payments.

- **Neighborhood stabilization:** Provides \$1 billion to states and localities to combat effects of the foreclosure crisis by rehabilitating and reusing abandoned and foreclosed properties.

- **Legal assistance:** Authorizes grants to provide legal assistance to low- and moderate-income homeowners and tenants related to home foreclosure prevention.

The mortgage relief provision seeks to address an issue that has stymied foreclosure-prevention efforts for more than a year: An increasing number of borrowers can’t make their loan payments because they’ve lost their jobs. With little or no income, these borrowers struggle to make even the reduced payments offered under Making Home Affordable, the federal government’s foreclosure-prevention program.

The loan assistance provision is modeled after a Pennsylvania program that offers unemployed workers low-interest loans to pay their mortgages. Borrowers are eligible for loans of up to \$60,000 that can be repaid with payments as low as \$25 a month.

By one estimate, the measure could help 500,000 families who’ve lost their jobs remain in their homes.

Homeowners drop out

Meanwhile, the Making Home Affordable initiative continues to struggle, reports *The Washington Post*. Government data released in mid-June show fewer homeowners are enrolling in the program and more are losing their federal mortgage aid.

Lenders enrolled homeowners into the federal program at a slower pace in recent months after officials tightened the qualification process. Since the program’s launch last year, about 340,000 homeowners have received a permanent loan modification that lowers their mortgage payment for five years.

But a growing number of borrowers are failing to move from the program's initial stage into a permanent loan modification. Lenders say many homeowners are failing to make the reduced loan payments and others have not been able to prove they qualify for mortgage assistance.

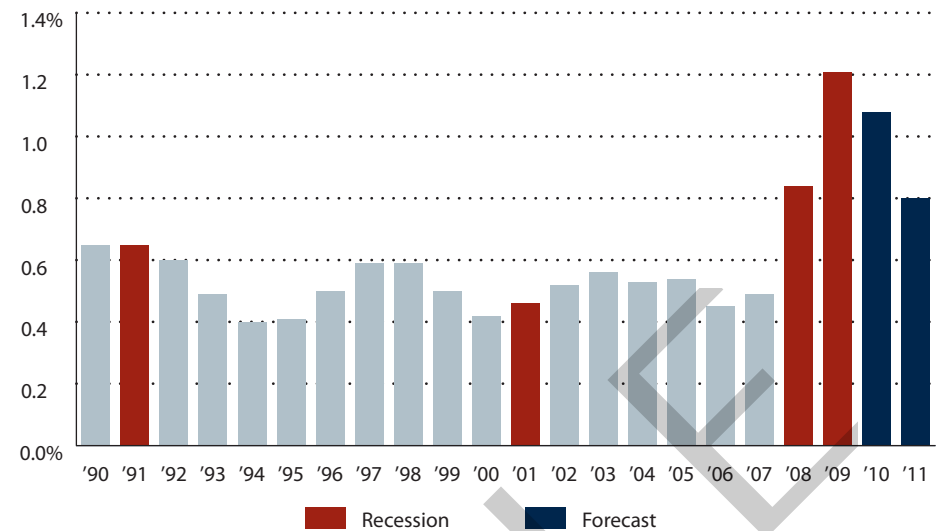
The number of borrowers dropped from the program—about 436,000—eclipses those who have been helped, according to U.S. Treasury Department data. More than 100,000 borrowers lost their mortgage aid in May.

About half of those dropped from the federal program received another type of loan modification from their lenders, according to the Treasury data. But housing counselors have complained that those alternative loan modifications are typically not as generous as what the government program offers and often come with hefty up-front fees.

"Obviously it's good to know these people haven't gone through foreclosure yet," Julia Gordon, senior policy

counsel at the Center for Responsible Lending, tells *The Post*. But there's no guarantee that lenders are offering modifications that will be sustainable for homeowners, she adds. ♦

CU Net Charge-Off Rates*



* Loans charged off net of recoveries as a percent of average loans

Source: CUNA's economics and statistics department

COST-CUTTING BENEFITS QUICKLY FADE

Manage expenses aggressively or they'll creep back in

There's measured optimism that an economic recovery is taking hold, but the cost-cutting so prevalent during the recent recession likely will remain a strategic priority for some time. Faced with pressure on earnings and the costs of corporate stabilization, credit union executives know this well.

But any successes companies had at cutting costs during the downturn threaten to erode with time, according to *The McKinsey Quarterly*. Many executives expect some portion of the costs cut during the recent recession to return within 12 to 18 months. Research shows that only 10% of cost reduction programs typically show sustained results three years later.

Why is it so difficult to make cost cuts stick? In most cases, it's because reduction programs don't address the true drivers of costs or are simply too dif-

ficult to maintain over time. Instead, managers often:

- **Lack insight** into their own operations to set useful cost-reduction targets. In the midst of a crisis, they look for easily available benchmarks, such as what similar companies have accomplished, rather than taking the time to conduct a bottom-up examination of which costs can—and should—be cut.
- **Try to meet** targets with draconian measures that are unrealistic over the long term, such as across-the-board cuts that don't differentiate between actions that either add or destroy value.
- **Use inaccurate** or incomplete data to track costs, thus missing important opportunities and confounding efforts to ensure accountability.

While there's no single silver bullet to ensure that cost-management programs will stick, organizations can enhance their chances by improving accountability, focusing on how they cut costs, drawing an explicit connection to strategy, and treating cost reductions as an ongoing exercise.

Assign accountability

Support from top executives is necessary for cost-management efforts to succeed. CEOs and Chief Financial Officers (CFO), in particular, can help mediate the political nature of such exercises and provide critical energy and motivation. But the involvement of top managers isn't by itself sufficient, especially in a period of growth when they naturally turn their attention to other initiatives.

Instead, most cost innovation happens at lower levels, in these practical ways:

- **Line managers** can help to break costs out by area to find specific groups responsible for costs and to identify any pockets of expense mismanagement.
- **Midmanagers** need detailed knowledge and authority to decide whether specific expenses are necessary.
- **People responsible** for informed cuts should be held accountable through appropriate incentives, such as performance evaluations, that consider costs as well as business performance.

STRATEGY MUST LEAD COST-CUTTING EFFORTS, WITH GOALS BEYOND MEETING A BOTTOM-LINE TARGET

Focus on *how* to cut

Cost-reduction programs often lose effectiveness over time because top management kicks off the effort with broad cost-reduction targets, asking "how much do we want to save?" Management may leave decisions on how to meet those targets to individual line managers, but in too many cases managing to a number has resulted in flawed decisions.

The results may include delaying critical investments, shifting costs from one accounting category to another, or cutting costs in a way that undermines revenue generation. A more enduring approach includes:

- **Changing** the way people *think* about costs. Setting new policies and procedures is only the first step.
- **Setting** the tone among senior managers. Starting at the top, executives who demonstrate cost-cutting behavior become the model for other employees.
- **Avoiding** mixed messages. Backpedaling on frugal behavior when the economy picks up again would send the reverse message. Managers should model only cost cuts they intend to stick with.

Link cost management and strategy

Strategy must lead cost-cutting efforts, with goals beyond merely meeting a bottom-line target.

But many companies don't explicitly link cost-reduction initiatives to broader strategic plans. As a result, reduction targets are set so each business unit does "its fair share," which starves high-performing units of the resources needed for valuable growth investments while generating only meager improvements in poorly performing areas.

Managers create value through cost-cutting by:

- **Understanding** the best ways to allocate operating expenses. Mapping costs against business units and markets will reveal both opportunities for cost reductions and areas in which the business should increase its investments to take advantage of growth opportunities.
- **Delivering** a consistent message on how cost reductions would make a company stronger—a message reducing short-term resistance and even inspiring support for the effort.
- **Realizing** that once these initiatives become standard operating practices, cost reductions will become a more enduring part of long-term strategy.

Manage ongoing costs

Most companies treat cost management as a one-off exercise driven by the need to manage short-term targets—and driven by constant pressure from the CEO or CFO. But hasty cost-cutting activity typically goes into reverse once the pressure is removed and rarely results in sustainable changes in cost structure.

The reason? One-off exercises don't require internal capability building. A better approach is to:

- **Use** the initial cost-reduction program as an opportunity to build a competency in cost *management* rather than in mere cost reduction. Cost-management programs are two- to three-year initiatives rather than immediate efforts with one-year horizons.
- **Include** plans for dealing with evolving business conditions such as activity-level changes or competitive drivers, or both.

To follow *McKinsey's* advice, credit unions that hope to reduce or contain costs in a sustainable manner must improve their processes and capabilities. Creating a link between long-term strategy and areas where costs occur should be a centerpiece of successful cost-management. ♦

ADVERSITY CREATES BETTER BUDGETS

CFOs are taking budgeting to a new level

The past two years have turned budgeting inside out at most companies. Spending levels had to be continuously revised, and the ability to project was almost nonexistent. Companies tried to improvise but, according to *CFO.com*, many concluded it was time to rethink the whole thing.

Now, with the recovery under way, many finance executives say the changes to their budgeting and planning processes—made in desperation—are here to stay.

A flexible approach

In 2008, the management team at shipping giant UPS decided to abandon its budget. They adopted a more flexible approach, urging every function and business unit across the company to adjust their costs to declining revenues. Rather than tying people to outdated budget numbers, “we sent a very broad message that the goal was to make sure that as revenues shrank, costs were also reduced,” says CFO Kurt Kuehn.

Managers committed to the dramatic change without much hesitation, despite challenges in thinking through what spending could be cut or delayed. Eventually, “the fact that everybody was in it together made it less painful when we did have to make cuts,” says Kuehn.

Now, Kuehn hopes to preserve this new mind-set. “We’re going to continue to constrain expenses wherever possible,” he says. Kuehn plans to watch for opportunities to invest in the business during the recovery, but, he adds, “we have to make sure these are conscious decisions, rather than everybody going back to a given annual budget increase.”

Rolling forecasts

In addition to taking a more flexible view of what type of budget now suits their companies, many CFOs are stepping up the frequency of budget revisions and forecasts.

“The idea of completing a budget cycle and then putting it to rest and monitoring

to that set budget has become fairly passé, based on what we learned in 2009,” says Janice DiPietro, national managing partner at executive services firm Tatum. “The world is just changing too fast, and the process needs to be more frequent.”

That’s a welcome theme with Steve Player, founder of consultancy The Player Group and program director of the Beyond Budgeting Roundtable (*bbrt.org*). He has long encouraged companies to abandon their budgets, so in a sense 2009 was, as he says, “a watershed year,” with many firms modifying their budget processes.

Player urges CFOs to adopt a rolling forecast that focuses on high-level numbers rather than thousands of individual line items. “One of the problems with budgets is that people try to jam a lot of detail in there. When you’ve got too much to do, it’s best to take a step back and focus on the key drivers. By taking the forecast up a level, you have time to think about the important stuff.”

Player also advocates developing numerous scenarios. “If you can’t predict the future, how can you at least be ready for it?” he asks. “You can do that by understanding the different possible futures and constructing scenarios in a wide range.”

While most companies that engage in scenario planning construct three possible outcomes, Player

RETHINKING COMPENSATION

Because employee compensation is often tied to budget targets, the recession has forced finance chiefs and other senior managers to figure out how to adjust compensation targets, notes *CFO.com*.

As UPS moved away from its traditional annual budget, CFO Kurt Kuehn says, “flexible targets came into play. We were asking whether people were successful in adapting their operations to match current revenues,” rather than how they performed versus increasingly unrealistic budget targets.

When companies adopt a more flexible approach to planning, managers must determine how to provide meaningful incentive pay, says Steve Player of the Beyond Budgeting Roundtable. Player recommends measuring performance on metrics such as performance compared with peer companies, performance versus selected economic metrics, ability to hit cash-flow or return-on-investment targets for a given project or business unit, or performance versus colleagues.

suggests five to seven, including an upside “so good you couldn’t possibly spend all the money you’re making” and a downside “so bad that it threatens the company’s survival.”

Team effort

Engaging employees throughout the company in the budgeting process—and making sure they understand its importance—also are critical steps to creating a more relevant and useful plan, says DiPietro.

“You need a commitment from the most senior executives that this is a strategically important thing to do,” she says. “It needs to be more than a financial exercise. If the organization thinks that budgeting and planning is something the CFO makes us do, that’s not going to work.”

Practices now in play at major U.S. firms include:

- **Pushing** budgeting outside the confines of the

finance department in an effort to make the budget a tool to truly guide the business.

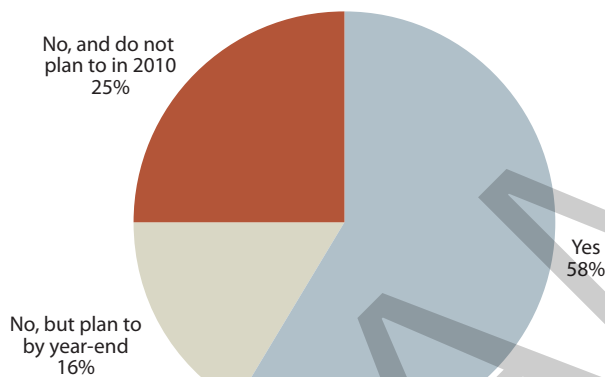
- **Setting** a tone at the top to establish the right expectations for people.
- **Digging** deep, as a team, to identify less-obvious opportunities for new or expanded business.
- **Casting** a wider net to include more data in the budgeting process. Post-recession, firms have realized that the tools they were using weren’t sufficient to understand how bad it could get.
- **Looking** outside the business for clues about the future. One tactic is to find out how customers continue to be impacted by the recession.

The old routines and ways of thinking about budgeting and annual planning will take time to fade. Nonetheless, many CFOs are energized by the adjustments they’ve made, and they’re eager to adapt their planning processes to the uncertain recovery. ♦

■ A CLOSER LOOK ■

PREPARING FOR CEO SUCCESSION

CU’s With CEO Succession Plan*



* Limited to CUs with \$1 million or more in assets and at least one full-time employee
 Source: 2010-2011 Complete CU Staff Salary Survey Report (escan.cuna.org, select “compensation” under research reports)

Nearly 60% of credit unions have a CEO succession plan in place, says CUNA’s 2010-2011 Complete Credit Union Staff Salary Survey Report. That’s well above the 45% of U.S. organizations having a formal succession plan, according to a recent survey by *astd.org*.

Between now and 2012, 6% of CEOs plan to retire and only 1% plan to leave their position for any other reason, according to CUNA’s survey.

When replacing the CEO, 44% of credit unions give internal applicants first preference, 46% post the job externally and internally, and 6% give external applicants first preference.

Check the September issue of *Credit Union Magazine* for in-depth coverage of CEO succession planning.

For more on compensation and succession plans, see the 2010-2011 Complete CU Staff Salary Survey Report at escan.cuna.org.



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