

The Informed Banker: Thinking Like A Strategist
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TRANSCRIPT

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Shanta: Good day and good afternoon. Welcome to Harland Clarke's, The Informed Banker webcast, Thinking Like a Strategist. This webcast is being recorded and a replay will be provided to you within a few days. If you have any questions, please use the question box located in the control panel. Your questions are private and are only seen by consumers. I will now turn over the call to Christine Ahlgren of Harland Clarke. Christine, you have the call.

Christine Ahlgren: Thanks Shanta. Welcome to everyone who's joining us today for this month's installment of The Informed Banker. This is a series designed to cut through the noise and bring you sustained timely information on topics that are critical to community financial institution. Today's session, Think Like a Strategist presented by Chris Howard of Callahan & Associates will cover, the strategy is a process more than a plan, and that doing it requires a mindset that can frame today's initiatives as one step on a longer path. Today's dialogue will help credit union leaders do just that, and also help put that path in the context of members, communities, and competitors.

Chris Howard is a senior vice president at Callahan & Associates, where he combines more than a decade of financial services experience with more than 20 years as a strategist, executive coach, and management consultant. A quick note before I pass to Chris, we've reserved the last five minutes for questions from the audience, so please enter any questions you may have in the chat box within your webinar panel. We will answer as many questions as we can at the end of this broadcast. Chris, we're thrilled to have you with us today, the floor is yours.

Chris Howard: Well, thank you very much, Christine. It's a pleasure to be here. Maybe we can advance the slide there, one or two. I really want to start with a basic idea from Master business strategist of couple of generations ago, Peter Drucker, and culture eats strategy for breakfast. Strategy matters, strategy is particularly important, I think in an environment like ours today when both community banking is but particularly credit unions are under fire from megabanks, and from non-banks when economies of scale have made this very much commodity business.

Being able to look forward and over the horizon is critical, but it doesn't fix a broken credit union, it doesn't fix the fundamentals. The best strategy in the world can't take care of issues with proper training, proper motivation, good engagement of members,

good connections to communities, good sound traditional business. None of that can be overcome by a good strategy, so strategy matters. We're going to talk about how to make strategy effective and what we really mean by that word because it's very much a buzzword, but I don't want to oversell it. I want to be clear about what its limits are before we get too far down that road.

The other thing that I'd like to start with and I like this quote because it's cold and harsh, is that strategy is a word is really overused. I sometimes joke about you seeing articles in the industry press about, four thank you note strategies that work. That's not what we're talking about here. Strategy doesn't come in plural in the world that we're going to be discussing. It doesn't fix broken things. It doesn't come in plural. If we can advance, we'll talk about what it does do.

Strategy, the way we're going to discuss it is singular, it is long-term, it is high level. It needs to be comprehensive in scope, covering all elements of the credit union. We're not talking about ways to reach operational development or performance goals. In that sense, this is very different than the kind of strategy that many of us were taught in business school or as we came up in business. The idea that you build a plan based on goals, and you have objectives to measure your progress toward those goals, then you have strategies to pursue those objectives, and then you have tactics to make those strategies work.

I think that that's a misuse of the term. There's nothing wrong with that approach to things, there is nothing wrong with that form of organization, that is a terrific planning and execution tool. Those are really initiatives, sometimes strategic initiatives. Those are areas where you're putting your focus, your resources, your time, your effort, toward execution. They're near-term. They are departmental or specific, or market-oriented. They are not long-term, they're not high level. I want to make that differentiation, is not a right or a wrong, but there's very much a different.

This is the high-level singular strategy, every organization can have only one. That one is not about what to do, it's about how to think, it's about the direction that the organization is taking and you don't create or recreate that one single strategy once a year. Strategic Planning is not just a weekend in the fall as a colleague of mine likes to say. It's an ongoing process. Planning, business planning, annual business planning, business planning in three-year cycles, that's really important and that's the kind of thing that needs to happen this time of year, every year.

We like to get our clients to think in terms of long-term strategy in the spring because we're not talking about 2020 when we say strategy, we're really talking about 2030. We're not talking about the investments that we're going to make in the next 12 to 36 months, we're talking about the way we want those investments to play out for our

memberships, for the communities they live in, over the next 10 to 15 years. We do think the best time to work on that is when the business plan is up and running, and being executed effectively.

Let's take a pause there, and move forward, and let me ask Christine, you please to interrupt if I say something that raises a question in your mind or you think leaves anything to confusion. Because when you work with buzzwords like strategy, virtually every other book on the shelf these days has its own definition. That can lead to a lot of confusion and a lot of disagreement where that's not constructive, so I want to avoid that here. One tool to use to avoid that is a good definition. Now, John Gaddis here is a historian and a political theorist, not a business person, not a banker, not a credit union person. He's spent decades studying strategy and has a book out called on strategy, and I like his definition. It's really simple and actionable.

Strategy is really it's about aligning dreams, unlimited aspirations with necessarily limited resources. You're looking across time, you're looking across the entire scope of the organization and what it does, but you're looking to figure out how to execute with what you have. You're looking to make decisions that you can make about things that you can control. Now, if you can advance one more, strategy at its simplest functional basis is about getting across that decade, as I said, it's not about 2020, it's about 2030. It's about taking your organization from where you are to where you want to be, but it's about doing it in a way that is possible.

It should be inspirational. It should be challenging. It should be a stretch, but it needs to be possible. It needs to recognize the resources that you have available. It needs to recognize the things in your environment that you can control. Strategy, at its essence, if you can advance here too, is really about making choices. It's about choosing what not to do. You can move the slide forward, you'll see that Michael Porter, a Harvard Business School says exactly that. The essence of strategy is choosing what not to do because you cannot be all things to all people.

You would have to make decisions. You have to decide where to focus. You have to look at your performance. You have to assess the options that you have and the decisions that are actionable. Making choices like that, from the standpoint of strategy, those choices come in three flavors. Advance again, please. The first question strategy should answer is where to compete? Or if you prefer, what are you going to do? The second question is how are you going to do it? The third question is why? At Callahan & Associates, we believe that third question is actually the most important one. Why? If you can't answer that, it's not clear to us that anybody cares very much about the other two.

Simon Sinek, and you can advance here, has a great YouTube video called focusing on why or starting with why. He has a planning methodology called the Golden Circle. It's not my favorite methodology, but it is absolutely my favorite perspective. Everything starts with why. As Sinek puts it, people don't buy what you do, and people don't buy how you do it. People buy why you do it. Now, that's not true of everyone, but it's true of the majority of people most of the time. Gallup research over decades shows that two-thirds of human decision making is emotional, not rational. That's the essence of behavioral science. Emotion is about why. It's not about what or how.

There's another way of looking at this if you can advance. Rebecca Henderson is another Harvard Business School professor. She offers the most popular course at Harvard Business School these days, it's called Reinventing Capitalism. Her argument is that high-performance organizations, they're not incrementally better than other companies. They're fundamentally different. The single biggest fundamental difference in a high performing organization in Professor Henderson's perspective is that they understand why. They are driven by purpose. Purpose is at the core of their strategy and it's the core of their difference.

Advance for me, please. We work with Professor Henderson at Callahan & Associates. She has a course on Harvard Business School online called Sustainable Business Strategy that we deliver for credit unions. We've had a chance to talk with her and look at this question with her fairly carefully. That line, that quote is actually something that she said to me. Purpose is what matters in her perspective of business. It motivates. It drives productivity. It improves quality. It gets employees excited and excited about working with your members. It attracts member interest. It engages. It creates loyalty.

She argues that understanding your purpose is fundamentally disruptive because it empowers you to innovate up and down throughout the organization. That's a meaningful competitive difference. That allows a strategy that is aspirational like all strategy to become more and more accessible as you execute over the years. The last thing I want to point out as we talk about the importance of strategy and what makes strategy effective is Professor Henderson's research into the role of purpose as a strategic difference-maker.

Purpose-driven organizations perform better. Now, this is a little bit counterintuitive. After all, it makes sense that you do well what you focus on. If you focus on making a profit, you're going to do really well at making a profit. If you focus on your purpose in making a profit and making life better for your community, how are you going to perform? Well, as intuitive as that question may be, the evidence is overwhelming. Again, going back decades, organizations that focus on purpose over profit make more profit and they make a difference, and they engage their employees, and they serve their members. Strategy is really about understanding who you are, why you are, and

how you leverage that clarity to drive the business forward, not over the next year, but over the next decade or more.

Now, at this point people might ask, "So what?" After all, if we don't get through the next year, if we don't deliver for members, do we really care about 2030? That's a fair question. I want to show you how strategy plays out in reality when you take businesses that pay attention to it versus those that don't. If you going to advance the slide, that is the research that was done by Harvard Business School students about 10 years ago. It was published in HPR. It was a survey of auditors trying to get their sense of where major risk exists in business today.

Their identification of key sources of risk were operating risk and financial reporting risk. Strategic risk was almost a footnote. But the same students then did what they called a forensic analysis of businesses or business units that had failed to understand where the roots of failure were. In other words, what risk was so great that it put the entire future of the enterprise at risk and cost the business its existence? If you advance, you'll see the reality. It's not operating risk, although that was the second most important part. It's certainly not financial reporting risk or legal and compliance. It was strategic risk.

Companies that don't survive are the ones that don't take the time to figure out why they exist and to figure out how they are going to execute on that mission over the next decade or more. It was choices have to be made. You can advance here too, please. Another line from Michael Porter. I like Mike's quotes because they're illustrative. Strategies about making choices. It can't be all things to all people. When you don't have a strategy to guide you, then it's very easy to spin around in circles, looking for that next opportunity without understanding why to pursue it or not, worried about that next threat without understanding whether it really puts your credit union at risk.

Christine: Chris, I think that's a really important set of principles that you shared. I think back to a few moments ago when you talked about sustainable business strategy being both something that motivates and drives productivity and quality, but also attracts consumer interests and loyalty. I know from experience that some people might find those two statements to be mutually exclusive. If you could speak to that that would be fantastic.

Chris: I know what you mean. The fact is that human beings think and feel emotionally and they get engaged about purpose. They get engaged about things that capture their imagination. We were all taught that the way to win in business is to have the best value proposition. In commodity business particularly in a in a business like banking it's about having low rates. It's about having a high rates on savings products, low rates on loans.

It's about having low fees. It's about offering a better deal. Those things matter they do but they don't matter as much to human beings as you think they do. We are not as rational as we like to believe we are. That's what the research shows. Once you can accept that and it's hard, but once you can accept that the rest of it begins to fall into place. How do you motivate the people you lead? How do you motivate people in your place of worship? How do you motivate the people who work for you in your credit union? How do you motivate the folks in your neighborhood to go clean up a neighborhood park?

You talk about what the world's going to be like when they're successful. You talk about what a difference they can make by all coming together. Those are true things but they're not rational, they're emotional. Does that answer the question Christine?

Christine: It does and it begets another question, you did talk about some ways to impact emotion but that feels like a very uncontrollable variable. Is there a real methodology that can actually have impact in that space?

Chris: Well, Gallup would tell you that there are a number of them. Frankly, I think with most marketing companies. They're complicated. They're not my area of expertise but I can tell you where you start. You start by understanding why you exist. Take a look at Simon Sinek on YouTube and watch his speech. It's only about 15 minutes, but he talks about Apple and what sets Apple apart from other producers of smartphones other producers of computers.

Whatever it is, whether he explains it well or not, I'll tell you this, the iPhone has about 15% of the smartphone market internationally but Apple has about 85% of smart phone profit internationally. What separates Apple is not the value proposition because iPhones are a lot more expensive than most of their competitors. It's emotion, it's the emotional connection. I can't tell you why it works, I can just tell you that whether you are an emotional person or a rational person, you have to look at those results and see that it does work.

Christine: Yes. Thank you for that.

Chris: We're credit unions. We're mission driven organizations by intuition. We're mission driven organizations by charter. We ought to be mission driven organizations by strategy too. If you use strategy that way, we can advance the slide one more we're almost at the end of the hour but also at the end of the deck. Strategy can play a couple of key roles if you understand it this way. It sets a point on the horizon over the horizon to work toward so you don't, as I said, spin around looking for opportunities. You're chasing the opportunity you understand that aligns.

It becomes a good test for when you have to make an investment when you have to make a critical decision. Is this move us toward realizing our strategy or not? If it does, it's probably a good thing to do. If it doesn't, you probably need to reassess. That's what strategy's about, it's not magic. It's just a tool but it's really effective when it is grounded in purpose or mission. We'll move to the last slide here because ultimately, you could argue this as philosophy and so, we'll finish with the great philosophers of the 1960s.

This is the essence of strategy. This is that academic definition. You can't always get what you want but if you understand what you want and if you understand the resources you've got, and you look over the horizon in use those things as tools, then you can probably get where you're trying to go.

Christine: Thank you Chris. We've got a couple minutes, I can squeeze in one question from the audience. We're asked, what is the most important thing you would recommend a credit union do as a follow-up to today's conversation?

Chris: Make sure you understand your purpose. Make sure that you understand why you exist, why your employees should care about coming to work, why your members should care about doing business with you. I like to say if a member comes in and asks an MSR, "Why is this credit union relevant?" and there isn't a quick clear, simple compelling answer, then the credit union isn't relevant. If you don't understand your own relevance, no one else will. Start with that, everything else follows.

Christine: Thank you Chris. I think that's a great note to end on given we are just at the top of the hour. As a follow up to today's program, folks, you can expect an email from Harland Clarke with links to a recording of today's presentation as well as a two-minute survey soliciting feedback on the program and any ideas you may have for future topics. Of course, you're welcome to share that recording with any of your colleagues who may have missed today's session.

Chris, thank you again for sharing with us today. I'd really like to extend a very sincere thank you to the many financial services professionals who made time in their schedules to be with us today. I hope to see you all again at future informed banker sessions. That concludes today's session, thank you.

Chris: Thank you Christine.

Christine: Thank you, Chris.

[00:28:07] [END OF AUDIO]