

JOSSEY-BASS

LEADING FOR GROWTH

How Umpqua Bank Got
Cool and Created a Culture
of Greatness

Ray Davis with Alan Shrader



John Wiley & Sons, Inc.

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To Bobbi, ilytmotu, Ray

Introduction

There Is No Door Number Three

When I hear a business leader say, “We want to stay right where we are—we don’t need to change,” I’ll sell my stock in that company right away. Companies can never stay the same. Leading for growth is not optional.

The simple fact is, you get better or you get worse. You cannot stay the same. There is no Door Number Three. Here’s why. Suppose I row you out into a lake and tell you to jump in. I tell you to tread water. Then I tell you I’ll be back in three days. When I come back, are you still treading water? No, either you swam back to shore, improving your situation, or you were stupid enough to drown. I guarantee you, you won’t have stayed the same, treading water.

It’s the same with business. Businesses that want to stay the same are trying to tread water indefinitely. And it doesn’t work. Too many outside pressures and internal issues are going to create change, like it or not. I don’t care if you’re selling tires, insurance, consulting services, or furniture. Your company is going to change for better or worse. As a leader, you have to decide, “Are we going to get better (Door Number One) or get worse (Door Number Two)?”

Not much of a choice, is it?

Leading for growth isn’t necessarily about getting bigger just to be bigger. It’s about getting better, stronger, more agile, more customer focused, and becoming a relentless

competitor. And companies that do that do get bigger—but it's a result, not an objective.

I'll admit, sometimes growing your business requires little more than a steady hand at the helm—companies in all sectors prospered in the boom years of the 1990s, for example. But what do you do when the tide isn't rising, when it may even be going out?

The boom years are long gone, yet a few companies continue to thrive, gaining market share day after day, month after month, year after year. Some of these companies are in brand-new growth industries, such as eBay and Google. But others are in industries that could hardly be classified as new or growing: retailing, manufacturing, and the like. Southwest Airlines is one such company. Another is the company I lead, which may be unknown to you if you don't live in the Pacific Northwest. It's called Umpqua Bank—and it has grown relentlessly over the past twelve years, going from \$140 million in assets in 1994 to more than \$7 billion today.

When I took the helm in 1994 as CEO of South Umpqua State Bank, as it was then known, it was a closely held company that employed sixty people in a rural, economically depressed region of Oregon. An hour and a half plane ride down the coast was Silicon Valley, just beginning the tremendous boom that would create millionaires by the score before petering out in the first year of the new century. They had computer chips and biotech and venture capitalists crawling all over the place. We had none of that. We had the timber industry and the Spotted Owl. Talk about a lack of synergy! And yet we grew our company.

Today Umpqua Holdings is a publicly traded company that employs eighteen hundred people throughout Oregon, Washington, and northern California—and has been featured

in numerous financial industry publications as well as *Fast Company*, *BusinessWeek*, and on CNBC. The writers of these articles sometimes call us “quirky” or “cool”; almost all comment on our unique culture and how it has propelled our growth. They describe how one small company broke away from the pack of its more traditional rivals to create growing value for shareholders, customers, and employees.

Leading for Growth offers real-life lessons from my experiences in leading Umpqua on a journey of transformation that took it on a path of consistent growth year after year. This book is not intended to tell Umpqua’s story. The strategies and methods I used had little to do with our particular financial services industry and everything to do with understanding how to motivate people, create a competitive advantage, ensure flawless execution, and meet the other challenges every business leader faces. I also bring in lessons that I have learned from companies I admire, such as Ritz-Carlton and Nordstrom for customer service and Nike and Apple Computer for marketing and design. This book offers practical, straightforward advice for all businesses on understanding the competitive landscape they face and on building and leading a great culture that generates relentless growth.

Do you have employees? Do you have customers? Do you want to lead the first group in ways that create more and more of the second? This book is for you.

What This Book Offers

With this book, I set out to offer a fresh look at how leaders can steer their companies to long-term success. Companies with consistent growth records understand their markets very well, execute their strategies precisely, consistently manage change, stay agile, and develop the discipline to maintain course.

This book will show you how to

- Discover what business you are really in and create your competitive advantage.
- Build an organization with committed and enthusiastic employees.
- Connect marketing strategy and execution on the ground.
- Create learning opportunities for all managers and staff.
- Fight “the rubber band syndrome” that often pulls people back into old routines.
- Rise above the day-to-day battlefield to achieve a strategic perspective on your company and where it is going.
- Stay agile by keeping the board informed and strategically aligned.
- Manage mergers and acquisitions in ways that support rather than dilute the culture.

Throughout, I emphasize what you can and should do personally in your leadership role. For example, I explain why you have to understand the real nature of change (it’s not a process but a journey) and describe how you can protect yourself from conventional wisdom, which can

endanger leadership (don't worry about being called unreasonable, for example).

This book will offer plain talk and useful advice based on Umpqua's actual experience. I have written it for all business leaders who want to grow their companies. I hope it will be especially attractive to those looking for something beyond the conventional wisdom—who are ready to look at leadership in a new way.

Overview of Contents

The first part of the book, "Prerequisites for Relentless Growth," explains the elements I believe you have to put in place before you can hope to grow your company. As a leader, it is your job to (1) cut through conventional wisdom and understand what business you are really in, (2) develop your own discipline and instill discipline in your company, (3) generate the positive passion that comes from a clear vision of your future, (4) create an atmosphere that propels people to embrace change, and (5) ensure that strategy and execution mesh on the ground. I devote a chapter to meeting each of these challenges.

Many factors go into taking a company on a path of sustained and relentless growth. It takes innovative product development, savvy marketing, strong execution, and much, much more. Many of these responsibilities can be delegated—but some cannot. Part Two, "Roles of a Leader," describes the essentials that a leader cannot delegate, the critical aspects of leading and managing that have to start at the top if they are to start anywhere. These critical roles include supporting your people, holding them accountable, empowering them, helping them gain perspective, and explaining the big picture to them. Moreover, all of these roles require you to be yourself as a leader.

There is no rocket science in Part Three, “Master the Basics,” just commonsense nuts and bolts—but too often these basics get short shrift in books on leadership. You cannot transform your company if you aren’t very good at getting the small stuff right. In this section of the book, I explain why you’ve got to sweat the small details—and offer advice on getting the right people on your bus, working with your board so that it helps propel growth rather than block it, and putting systems in place to measure intangibles such as quality service.

I’ve read a number of books on leadership and none of them had much to say about marketing. I don’t think you can be very successful in leading your company on a path of growth if you don’t pay a lot of attention to the market you serve. As HP cofounder Dave Packard used to say, “Marketing is far too important to be left to the Marketing Department.” In Part Four, “Marketing, Marketing, Marketing,” I look at the key roles of the leader in ensuring that the company understands the realities of the marketplace, where revolutions often occur. I also talk about branding, customer relations, and the critical importance of design in today’s marketplace. When design is used effectively, it brings every aspect of your business into alignment so that everything reinforces and supports everything else.

A Note on Motivational Moments

One of the things that I talk about in this book is the importance of having fun at work. At Umpqua we start every day with a motivational moment—a brief group activity (five minutes or less) that

promotes fun and teamwork and often teaches key lessons or provokes fresh ways to look at our business. Every department or team in the company is free to choose what to do for its motivational moments. I have included an actual motivational moment at the end of every chapter that relates to the topic of the chapter. I hope you find them *fun* and interesting and that they provoke new ways for you to think about how you can lead for growth.

The final section of the book is perhaps the most important to your long-term success in growing your company. The biggest danger of relentless growth is that growth itself can undermine the qualities that made you grow in the first place. You can fight this tendency by maintaining a strong culture. In Part Five, “Leading Your Culture,” I examine why culture is so important and explain how leaders can keep their culture on track, even as growth threatens to stretch core cultural values out of shape. Keeping your balance, holding on to your identity, and being very careful with mergers and acquisitions are critical to maintaining a strong culture. The Conclusion details critical leadership lessons on growth.

Come Along for the Ride

I hope the insights and lessons I offer will be useful to you as you take our experience and creatively apply it to help your business break away from the pack—and create a higher level of excitement for you as you explore new ways to lead for growth. Perhaps, like me, you will feel your heart beat just a little bit faster with anticipation at discovering an

idea that can make a real difference in strengthening your business.

You can't grow your business without making it better, changing it in ways large and small. If you want a book that tells you how to keep your business healthy while leaving it unchanged, this isn't the book for you. If you want a book that offers guidance on doing what it takes to grow your business day after day, year after year, and have fun doing it, then I hope you'll come along for the ride. Remember, there is no Door Number Three.

Part One

Prerequisites for Relentless Growth

Many ingredients are needed to take a company on a path of sustained and relentless growth. It takes talented people, strong marketing, precise execution, the right metrics, and much, much more. I'll give you my take on these growth ingredients later on in this book. My view is that all these factors don't matter a whole lot without strong, effective leadership. So that's what I am going to focus on first.

Leading for Growth Starts with You

If you are leading a company large or small, or a profit center in a larger company, you need to realize that it all starts with you. It doesn't all depend on you. (Only an egomaniac would think the company's success all depends on him or her.) But make no mistake, as a leader, it all starts with you. That's why I call this section of the book *prerequisites* for relentless growth.

If you don't have what it takes, if you don't focus on the right things in the right way, then I don't care what great business plan you have or how big your line of credit is, you are probably going to stumble somewhere along the way.

What are the leadership prerequisites that you need to master? I think they boil down to five key essentials:

- You have to cut through conventional wisdom and figure out what business you are really in.

- You must develop the self-discipline to stay true to your plan in the face of conventional wisdom and other obstacles.
- You need to generate the positive passion that comes from a clear vision of your future.
- You must make it clear to your people that you are personally involved in leading them through the changes ahead.
- You have to develop the ability to find out what's going on behind your back to ensure your strategies' being implemented effectively on the ground.

These five key responsibilities belong to you as a leader. They cannot be delegated. That is why I say it all starts with you.

Chapter 1

What Business Are You *Really* In?

Industry publications write about Umpqua a lot. And they usually say nice things, remarking on our strong growth, our return to shareholders, our reputation for being cool and quirky, and our unique organizational culture. But these articles almost always insert a comment that irks me. No matter how positive the article is, it almost always says something like, “Umpqua Bank calls its branches ‘stores,’” as if the word *store* is a gimmick. They humor us by putting *store* in quotation marks, as if real grown-up bankers wouldn’t be so silly as to call their branches that. But it’s not a gimmick. It’s part of who we are and how we see our business. They don’t understand that it’s a huge, even dinosaur-sized, part of the reason they are writing about us in the first place! It’s part of our unique culture that they extol.

Why do we call our facilities *stores* rather than *branches*? Because we understand what business we are really in. We’re in the retail service business, which to us means we sell banking products and services to the public in our stores. In this chapter, I explain exactly what I mean by that and why it is so important for you to understand what business you are really in.

Business Not as Usual

It is too easy to look at your company and say, “we’re in the banking business.” (Or in the tire business or the computer business.) You will never break free of the hold of conventional wisdom with that kind of thinking. And if you can’t break free of conventional wisdom, you’ll never break out of the pack—you’ll never create a competitive edge that separates you from your competitors.

To illustrate how a lack of understanding of what business you are really in can do to you, just consider Steve Jobs and Apple Computer.

Back in the early 1980s Jobs thought that his company was in the computer business, specifically the computer hardware business, and that it could prosper by selling better computers than its competitors. And for a while, that worked. Then IBM entered the picture, along with its then-partner Microsoft. In 1984, Apple tried to jump ahead by introducing the first point-and-click operating system with its revolutionary new line of Macintosh computers—a great leap forward that was much easier to use than Microsoft’s cumbersome DOS system. But unfortunately, Jobs never realized that the business was changing and that he was now competing in the software business. He and his successor John Sculley kept the Mac operating system proprietary and used it only as a way to sell Apple’s hardware.

Apple thought it was competing against IBM, Compaq, and the other PC clones when it was really competing against Microsoft. When Microsoft copied the look and feel of the Macintosh system with Windows—and sold it to every corner—Apple’s goose was cooked. Of course, Apple faced many hurdles—who knows what might have happened if Jobs hadn’t been forced from the company? But it’s my firm opinion that if Jobs had understood early on that he was

really in the software business, we probably wouldn't know Bill Gates as the world's richest man.

So understanding what business you are really in is absolutely critical to success.

"Okay," you might say, "that's an extreme example from the early days of a revolutionary new industry that was growing exponentially and whose landscape was changing daily. I'm in a mature industry that's growing slowly, even in good years. How does that apply to me?"

Well, it applies to you in spades! And Umpqua is living proof. After all, banking is a mature business if there ever was one—banks have been around for hundreds of years! Walk around any city, any small town, and you'll see a dozen banks in a few blocks. And don't talk to me about growth! When we started to reinvent Umpqua Bank in 1994, our market was in the midst of profound economic slump. The economy in our region was rooted in the timber industry—and just happened to be the home of the Spotted Owl and a strong environmental movement. Talk about total lack of synergy. The economy was at a standstill, our market wasn't growing, and yet we found a way to make Umpqua grow, moving from third in market share to first in just three years in our home market. How did we do it? For starters, we had to kill conventional wisdom in the company. We had to stop our people from thinking like bankers and get them to think like people in the business we were really in: retail service.

Most businesses are run on conventional wisdom, and they struggle to get by. Every quarter it's the same story. Are we meeting our numbers? Are sales up? You cannot grow your business by feeding it conventional wisdom. And you cannot grow your business if all you are doing is worrying about your numbers—because then you are not honing a strategy to seize the future. As the new leader at Umpqua, my first job priority in reinventing the company

was to kill the conventional wisdom that had guided the company for forty years. The bank's board had hired me to take this small company and make it grow. Together we decided to seize the future.

But let me go back to the beginning.

You cannot grow your business if all you are doing is worrying about your numbers.

Seizing the Future

When I was contacted about running Umpqua in 1994, it was a small community bank in rural Oregon with \$140 million in assets and six small branches. It was called South Umpqua State Bank, even though there wasn't a North Umpqua State Bank. The previous CEO had retired, and the board was looking for a change. The bank was at a crossroads. It was a solid bank and well respected in the small communities it served. But it wasn't really going anywhere, and by continuing to practice the purest definition of insanity (doing the same thing over and over again while expecting different results) the company was doomed to go nowhere and in fact its future would have been doubtful. The big banks smelled blood and were sniffing around, looking for prey—in our world, acquisitions.

When the board interviewed me for the CEO position, I told them that if they wanted things to stay the same, I wasn't their man. But if they wanted to employ a strategy that might have a good chance of creating shareholder value, then I might be a candidate. Fortunately for me the board realized that if they were serious about creating value

for the shareholders and improving the overall intrinsic value of the company, they would have to support dramatic changes in how it operated, marketed, hired people, and the like. In fact we had to reinvent the entire institution, and build it around the principles and practices of the business we were really in. The board bit the bullet and took a chance with me—an unproven character from Atlanta, Georgia.

Before coming to Umpqua I had run a bank management consulting firm and dealt with CEOs from all sizes of banks across the United States. I learned a lot in dealing with all these different bankers. In fact, it was like attending graduate school. I learned what *not* to do, from helping people fix some of the stupidest mistakes they could have made. I also picked up some pretty good ideas. But overall, I was amazed by the lack of creativity at the top levels and felt that I could take my ten years of consulting experience and put it to work in a small bank with a well-defined market and hopefully create something interesting.

Here's why.

What had struck me during my years of consulting and traveling around the country, going to all these different banks, was how similar they all were—and how bland. You know from your own experience that the typical bank is quiet, cold, and boring. It has ropes to keep people in line, empty desks, and stale coffee. You can see how bored the people in line are. Often the tellers aren't much more animated. Sure, you'll get a shy smile and a weak "thank you," but two minutes after you walk out, you'll have forgotten the whole experience. I could put you down in almost any bank in the country, and you'd know right away you were in a bank, but ninety-nine times out of a hundred you'd have no idea *what* bank. They are *all* the same. I started to think that if you created a bank environment that was distinctive, attractive, and inviting, with great customer

service, you might be able to give your bank an identity that people would respond to.

Think of your own business and industry. What do you and your competitors do that is boring, stale, or bland? Is there something that is numbingly similar across every company, including yours? If so, you have a great opportunity.

Think of your own business and industry. What do you and your competitors do that is boring, stale, or bland?

I also realized that we would not be successful in differentiating Umpqua with resources, people, computers, locations, saturation-marketing campaigns, you name it. We were a tiny outfit; the big guys had bigger guns—they had already won that battle. And I knew full well that bank products are for the most part commodities. Sure, different banks will have slightly different loan terms, savings rates, and check colors, but they are all similar. So I felt there was little to no opportunity to have Umpqua stand out with products. Even if we were capable of creating a new and exciting product, I knew it would be copied by a competitor down the street within a few days.

I got together with my management team and we started asking ourselves questions: Why would somebody want to bank with us? Here we were in a depressed market, competing against all the big national players as well as credit unions and other community banks. How were we going to stand out? How were we going to get people to drive by two or three of our competitors' branches to bank with Umpqua? We realized that we had no answers to these

questions as things currently stood. If we wanted to grow, we had to *create* answers to these questions.

If you sell tires, it's the same question, why would somebody want to buy tires from you? Why wouldn't they just go to the nearest tire store? Why would someone be inconvenienced and drive past two stores to get to your store? These questions were critical to our survival.

Think about your business. How do you stand out? Why should someone do business with you over another competitor with virtually the same products and services? How are you differentiating your department, division, or company so you stand out from the pack? How you answer these questions is critical to *your* survival.

I frequently tell people that the radical changes that we were going through began with a motion picture that played only in my head. It was always very specific in that it had a beginning and ultimately a happy ending that showed where we wanted to go—but the middle, which showed how we were going to get there, was always changing as the movie played out in my imagination. It depicted (to me at least) what it would be like to walk into a bank that people *did* want to hang out in, that was exciting, that was, just maybe, even a little bit cool. The movie that was playing in my mind was fuzzy around the edges at first, but one thing I saw clearly was the potential to significantly differentiate our company from our competitors and allow our customers and clients who entered an Umpqua store to know right away what bank they were in—Umpqua! Through this crazy little movie I had already started to think of Umpqua as not just another bank, but as something else entirely.

I kept playing that movie in my mind, over and over, people walking into a bank that was exciting and made them want to linger a while. Where do people hang out? Starbucks, of course. Lots of people also like to go to the