

The New Normal

Destiny is not a matter of chance; it is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved.

—William Jennings Bryan

The effects of the global financial crisis continue to affect our economy: growth and unemployment rates haven't yet stabilized, and change is constant and faster than ever before. We're in the new normal—a time when there *is* no normal. Now more than ever before, leaders must be looking over the horizon to the next revolution—before it overtakes their businesses and their customers along with it.

Since my book *Leading for Growth* was published in 2007, the world has been through an economic tsunami that has wrought incredible damage. Although Umpqua Bank, a regional community bank headquartered in Portland, Oregon, has done well in these uncertain times, other companies—and the citizens of many countries—haven't been so lucky. The economic recovery that followed the 2007–2009 recession has been particularly weak due to many factors, including a stubbornly high unemployment rate, the impact of European fiscal disasters, and the

ineffectiveness of Congress to address the major issues facing the United States, to name just a few. The impact of the recession, coupled with a slow and uncertain recovery, has left many families and businesses bruised and battered, resulting in an American public that for good reason is worried about the future.

We're stuck in a kind of economic no-man's-land where anything can and just might happen. Is a double-dip recession waiting for us a few months down the road? Maybe. It's not out of the question. A boom driven by a sudden surge in consumer demand? Sure. It's a possibility if consumer confidence begins to rise. Even the things that we have long taken for granted—fully stocked grocery stores, lights that work when you flip the switch, and water that flows from the tap when you turn it on—may soon be at risk according to experts who point out that the infrastructure of post-World War II America is wearing out.¹

Of course, this new normal isn't all negative. Out of this economic trial by fire, we're seeing great creativity and innovation in technology and business, which is resulting in remarkable new products and services that are produced more efficiently than ever before. Entrepreneurs are starting up new businesses at a high rate. According to the Kauffman Foundation in Kansas City, Missouri, more than 500,000 new business owners were minted in the United States each month in 2013.²

Nevertheless, the uncertainty of the times we're in—and can expect to be in for many years into the future—creates anxiety and fear, and this anxiety and fear drive the decisions that we make. Let's face it: When we are scared, confused, and worried about our prospects, we all have a tendency to do nothing and hope the storm passes over us without too much damage, or we overreact impulsively—sometimes exacerbating the bad situation we are already experiencing.

We business leaders are no different from the people we lead. We often feel compelled to take action in difficult or uncertain times. Sometimes we do this to make a difference when we see a clear path to our goals, and sometimes we do this just to let people know that we're awake at the wheel. Business leaders are human, and we often find ourselves in situations where our fellow associates are looking for and expecting us to remain calm and deliberate—and we overreact. In the heat of the battle, it's natural for leaders to overreact to the conditions in which they find themselves instead of staying calm and acting only when necessary. The old saying "It's better to do something than to do nothing" isn't always the best advice to follow. In fact, in many cases, doing something for the sake of appearing busy—or what has been described as "firing for effect"—can get you and your company into even deeper trouble than if you had instead done nothing.

I have to wonder whether Netflix's decision in 2011 to split its business into two—creating one company, Qwikster, that would handle its legacy DVD rental business and another company, retaining the original Netflix name, that would be responsible for the online video streaming business—was an overreaction to fast-changing and uncertain market conditions. The net result for Netflix's loyal customers was twofold. First, the price they would pay for their Netflix subscriptions would double overnight, from a minimum of \$7.99 a month to \$15.98 a month. In addition, those same customers would also have to deal with two companies to get the same services they were getting from the original Netflix. This led to a virtual riot among Netflix customers that aggressively built momentum through newly popular social media channels, with 16 percent reporting soon after the decision went public that they would cancel their subscriptions.

The result? The price of shares of Netflix stock sunk 57 percent in just two months, and the plan was scuttled by company founder Reed Hastings before it went into effect. Said Hastings at the time, “There is a difference between moving quickly—which Netflix has done very well for years—and moving too fast, which is what we did in this case.”³

The dilemma we often find ourselves in during uncertain times is made more complicated by the simple fact that it’s almost impossible to remain the same. It has long been said that there are only two things we can count on in life: taxes and death. We need to add one more certainty to that short list: change. But unlike the other two, change can be exciting, positive, and rewarding.

It’s interesting to watch how people react to the simple expression “We are going to make changes,” or “If we are going to improve, we need to change,” or any of the many other ways of saying the same thing. I’m sure there are many psychologists and physiologists who would point out that we are genetically programmed at an early age to fear and worry about change. Indeed, according to experts in organization change, more than 70 percent of all organization change efforts fail, and failed change is the number 1 reason that business leaders get fired.⁴ Much of the blame for these failures can be traced to the resistance to change that seems to be genetically wired into many of us. I often wonder why this is so when change can be so inspiring. If you don’t believe change can be beautiful, just watch your children grow.

In business, change is a constant, and its velocity is getting faster and faster. According to Harvard Business School professor John Kotter, “Rate of change in the world today is going up. It’s going up fast, and it’s affecting organizations in a

huge way. And what's particularly important is that it's not just going up. It's increasingly going up not just in a linear slant, but almost exponentially.”⁵

Just when you think you have something figured out, new technologies or systems are created to change things. Again. The simple fact is you can't stay the same. Although it's challenging for organizations to embrace change, staying the same is even costlier and more difficult. Even better, of course, is to get out in front of coming changes in your business environment and to anticipate and respond to them before they arrive.

Suppose you're driving on the freeway at fifty-five miles per hour. How difficult is it to keep that speed constant versus slowing down or speeding up? (For the troublemakers reading this, yes, that assumes you can't use cruise control.) The point here is simple: you *will* change, and it's up to you how you are going to make the transition. You can adapt to change because you “have to” or because and when you “want to.” The choice is up to you. Pick one.

Change comes in all sizes and levels of importance, can affect budgets, and usually shows up, or at least so it seems, at the most inopportune times. This we can count on. What's important is how we respond and react to change.

We can embrace change knowing we have no other choice, or we can overreact or panic, causing havoc within our companies. If we choose to be proactive about change, we must actively “hunt” for it and try to prevent it from making surprise visits. This is productive, positive, and powerful. The decision to freeze up or overreact to difficult situations or changes that are forced on us is counterproductive, morale killing, and the start of death spirals in many companies. These two polar opposite reactions to challenges and crises in the business environment

are counterdirectional, and different leaders often act in sometimes completely different ways in response to the same events. While some are ready to anticipate change and “lead the revolution” when it arrives, others see change coming, panic, and stick their heads in the sand.

Which kind of leader are you? Which kind of leader do you want to be? If you’re not the kind of leader you want to be, how will you change to meet this challenge, and when will you do it?

A WORLD IN FLUX

By definition, a *revolution* is a complete and radical change in something, and a *panic* is a sudden, overwhelming fear that produces hysterical behavior. A revolution is change put into practice, while panic is an irrational and emotional reaction to that change. Panic can quickly spread throughout an organization, causing widespread fear and concerns if it isn’t quickly addressed and defeated. As you can well imagine, panic is rarely (if ever) a good thing for any company. In virtually every case I’ve seen over the years, panic creates hysterical, unproductive behavior among a company’s people that leads to bad decisions and lousy results. And we are not in business to provide lousy results—to our customers, our associates, or our shareholders.

Revolutions occur all the time in the world around us. While the word *revolution* most often makes us think of countries engaged in political upheavals, revolutions also impact the world of business and the consumers of their products and services. I think it’s reasonable to believe that the radical changes we experience in all types of industries can rise to meet the definition of a revolution. Consider the introduction of the first cell phone, the first personal

computer, the first heart transplant, the first satellite placed in orbit around the earth, and any number of other product advances that have radically changed our lives for the better. These events were profound when they occurred, but it's what they created that is so critical.

Business revolutions of this magnitude are still happening today with no slowdown in sight. Reading glasses of various strengths are produced in China at a cost of less than fifty cents a pair. This advance has the potential to affect the lives of more than 100 million people around the globe who have trouble reading close up. European utility companies are exploring the replacement of coal with briquettes made from sustainable timber by-products, including sawdust and tree bark. Considering that 6 billion tons of coal are burned worldwide each year, rapidly depleting the world's supplies of this key fossil fuel resource, a revolutionary advance of this magnitude could have a huge and lasting impact on our ability to power the future.⁶

Revolutions, however, do not have to be big to be important; they don't require a radical transformation of the world as we know it to have a big impact. Sometimes it's the small revolutions that can make big differences in how we live and conduct business.

The introduction of FedEx is a great example. This small start-up company founded by Frederick Smith in 1971 created a revolution in package delivery. Before FedEx took off, getting documents to a distant destination overnight was a difficult and cost-prohibitive proposition. FedEx (which once marketed itself as "a freight service company with 550-mile-per-hour delivery trucks") completely changed the paradigm, making overnight delivery of envelopes and packages a routine, reliable, and relatively inexpensive event.⁷ While the company today is one of the

world's largest and most successful businesses (ranked number seventy in the Fortune 500, the company has annual revenues of more than \$42 billion and operates a fleet of almost seven hundred aircraft and more than fifty thousand delivery vehicles and trailers), it started out with just a handful of airplanes Smith acquired when he purchased a used aircraft company in Little Rock, Arkansas, in 1971.⁸ A small revolution in the transportation industry gave birth to something much bigger.

Revolutions can be opportunities to be taken advantage of, or they can be disruptions that cripple our ability to carry on with our existing business paradigm. They can be positive and inspiring if we find them before they find us, or they can be devastating and destructive if they find us first.

I see revolutions and opportunities as synonymous. A revolution or opportunity discovered early can be awe inspiring, while a revolution or opportunity that passes you by—only to return and snap you hard on the side of the head—can be troubling, to say the least. You should always be looking for revolutions, but it's important to remember that sometimes they're not as obvious as you expect them to be, and they don't usually announce their arrival. Revolutions may remain under the radar and take time to gather momentum before they take hold. But whether you notice them or not, they're there.

When I talk about revolutions with executives from other banks, I tell them that they should be very worried that the revolution doesn't find them first. The history of business is paved with the wreckage of companies that were run over by revolutions they didn't see coming: Eastman Kodak (photographic film and film cameras, overtaken by digital photography), Bethlehem Steel (steel, pushed aside by less-expensive and better-quality foreign steel imports), and Blockbuster

(video rental, made obsolete by Netflix and other online DVD rental and then video-streaming companies).

We've similarly experienced a revolution in banking over the past decade or so. A lot of people in the United States don't physically go to their bank branches anymore. Instead, they do the vast majority of their banking—from paying bills, to checking balances and transferring funds, and even depositing checks using the camera in a smart phone—at home. And those few things they can't do at home, like making cash deposits and withdrawals, they can now accomplish at an ATM at their bank or in a mall or grocery store or gas station. (There's even an ATM in Las Vegas's Golden Nugget Hotel & Casino that dispenses .9999 pure gold instead of cash.⁹) Today there's very little reason for you to actually go to a bank for anything.

That's a revolution, and for those of us in the banking industry, it's a complete and total game changer. But it's also been a long time coming.

With this revolution came huge challenges for our industry. I can tell you that the best opportunities for bankers to create and build relationships with prospective and existing customers is not through a web page where people can quickly shop for the best rates and then sign off.

Banking is a relationship business, meaning we're only as good as our people are. Therefore, the answer to where we're best able to build relationships with prospective and existing customers is in a bank, when they're face-to-face with a real person. That's where personal relationships are built, not through a computer and an online banking website.

But wait a minute—we have a dilemma here. Bank customers are by choice using bank branches less often, yet that's where most of our new accounts are opened and relationships

built. Our industry is currently confronted with a difficult problem—one resulting from a revolution. The revolution we’re facing is the result of advancing technology and evolving customer preferences, changes that have been in the works for decades. If we aren’t able to adapt, we will suffer the consequences. The challenge is this: How do we evolve the function of bank branches in ways that make them relevant and enable us to continue to expand our businesses?

At Umpqua, we recognized years ago as consumer technology was just beginning to evolve that differentiating ourselves from the competition would be one of the biggest challenges we would face as a company. This challenge is the same one that every business today confronts. Every company in the world is trying to figure this out by asking, “Why should you shop with me?” In our case, banks offer pretty much the same interest rates for deposits and loans, and we all provide checking and savings accounts. In order to show that we offer better value than our competitors, we need to create opportunities for our associates to engage with our customers. The relationships developed through personal interaction are powerful, and they have tremendous value to our customers—so much so that they may be willing to ignore the fact that another bank down the street is paying a little more interest on its deposits this week or has a nicer lobby or parking lot.

Often the customers who shop for electronics on the Internet first go to their local mom-and-pop shop or even one of the larger big-box chains such as Best Buy, Costco, or Walmart to do research about their purchase. They’ll talk the ears off a sales associate to get detailed information about the item they want to buy and narrow down their choices to the best one or two products. And then they hurry home,

jump on their computer, and buy the item from Amazon.com. The customer has taken advantage of all the overhead their local stores are paying for and then made their final decision based on price—bypassing the very stores that are employing their family, friends, and neighbors and instead sending their money to some far-away destination. To add insult to injury, they may not be paying sales tax on the transaction either, shorting their state and local governments at the same time.

Unfortunately this could be the way of the world from now on. It is up to leaders to recognize this reality and respond accordingly. And the time to act is now. Any business that fails to create a value proposition that's specifically designed to capture the interest of potential customers and give them a compelling reason to consider something besides just price in the buying equation could be writing its own obituary.

That's the revolution occurring in business now, and we either respond to it or the revolution runs us over. At Umpqua we responded to this revolution as an opportunity, and in a way you might not expect.

CHANGE THE GAME

Instead of shutting down our existing locations and putting plans for new ones on ice, we decided years ago that bank branches would still be important; however, they're going to have to evolve—but we were going to have to *make* them important—and do it quickly and totally. That's where we started back in the late 1990s when we designed and built our very first bank store. We don't have bank branches at Umpqua; all of our branches have been redesigned as bank stores. They're inviting places where you can stop in for a while, browse the Internet on one of

our public computers, have a cup of our special Umpqua coffee, or grab a cookie. And while you're there, if you happen to want to do your banking, you can do that too.

We try to give people a reason to come into our stores for something other than a traditional banking transaction. On any given afternoon there might be a yoga class going on, or a bowling league playing on a Nintendo Wii console, or a book club, or an art show. Our stores have become community centers, play and social spaces, places where people want to go. This strategy and response to the revolution in banking has allowed us to continue to increase our business even during uncertain times. It's the revolution we've led in the banking industry and one in which we continue to do everything we can to stay out ahead of—to stay a step in front of our competitors, many of whom have tried to copy our innovations with limited degrees of success.

The old-style bank branch where you've got tellers on one side and desks with loan officers at the other—and a velvet rope telling people where they're supposed to stand—is over. It's a formula that's seriously outdated and an example of how other banks are letting the current revolution in the banking industry run over them.

Another revolution gaining a lot of momentum lately is in the health care industry. Eric Topol, a cardiologist at Scripps Health in San Diego, is leading a revolution in the emerging practice of wireless medicine. Using a \$199 AliveCor heart monitoring iPhone app, Dr. Topol can obtain the same diagnostic information about his patients—heart rhythm, blood pressure, body temperature, real-time heartbeat, and more—as he can using a far more expensive standard twelve-lead electrocardiograph machine. And using a small handheld ultrasound device, the GE Vscan, which has a retail price of just \$7,900,

Dr. Topol can easily and inexpensively image the inside of patients' hearts. This is less than one-fifth the price of a typical medical office ultrasound unit, which can cost \$45,000 or more. According to Dr. Topol, he's actually prescribing more cell phone apps to his patients than he is medicine. Talk about a revolution!

While Dr. Topol is considered a bit of a maverick in the medical community, he's on to something. There's a revolution going on in health care that's long overdue. This revolution is being led by advances in technology like those cited above and by risk takers like Dr. Topol—men and women who are leading this revolution and are changing business models and people's lives in the process.

The next revolution is coming. You can't change its course, and you can't stop it. So what's your decision? Are you going to lead it, or are you going to hide from it?

If you're nervous about an emerging revolution in your industry, try to remember that revolutions can provide a remarkable opportunity to advance your company and get well ahead of your competition. Instead of freezing up or overreacting, embrace the revolution and change your business to put you in a position to lead it. Consider what Starbucks has done for the coffee industry. I guarantee that you can make good coffee at home; you don't *need* to go to Starbucks. So why then do people flock to Starbucks? People love Starbucks because it's a good place to go. The coffee is good, perhaps even excellent. The employees make a point of trying to get to know regular customers—anticipating their orders the moment they walk through the door. There are comfortable chairs to lounge in and tables to do some work if you like, plus free Wi-Fi to connect to the Internet. You might see a neighbor or friend, or

you might meet someone new. And together these elements have transformed an industry.

When it comes to revolutions and panics, understand that you as a leader must respond proactively or at least constructively to the potential of a revolution. If you wait, your response could be too late. And if you do nothing, you risk the kind of disruptive panic that can have a negative impact on your people, customers, and other stakeholders for years to come.

BE AGILE—YOU CAN'T STAND STILL

In business, being *agile* can refer to a variety of things. One is the ability to avoid problems while you're in the middle of engaging in some major activity or initiative. Another is to engage fully in necessary preparations before a major disaster hits your organization. Or it could mean being quick to take advantage of opportunities as they arise.

There's a word I really despise, because it slows speed and prevents progress. That word is *bureaucracy*. Bureaucracy limits your agility, and any organization big or small can fall victim to it. In his groundbreaking book on social theory, *Capitalism, Socialism, and Democracy*, economist Joseph Schumpeter pointed out the danger of bureaucratic thinking to organizations:

The bureaucratic method of transacting business and the moral atmosphere it spreads doubtless often exert a depressing influence on the most active minds. Mainly, this is due to the difficulty, inherent in the bureaucratic machine, of reconciling individual initiative with the mechanics of its working. Often, the machine gives little scope for initiative and much scope for vicious attempts at

smothering it. From this a sense of frustration and of futility may result which in turn induces a habit of mind that revels in blighting criticism of the efforts of others.¹⁰

Bureaucracy is the enemy of change, and it is guaranteed to limit your organization's ability to adapt quickly to fast-changing conditions in your markets. Bureaucracy isn't the result of having ten thousand people working for you. Your organization can be bureaucratic with only ten employees, or even fewer. If your organization isn't agile, you could lose a tremendous opportunity to take advantage of something that would have been in your favor, but because you weren't quick enough or agile enough, you missed it. Situations like this are particularly sad because it's not that you didn't think about taking proactive action; your company was just unable to act because it couldn't move quickly enough.

You can't afford to stand still. Changes and revolutions are coming at you every day. Some people are smart enough to see them and others aren't, but they *will* arrive. And when they do, they will affect your organization whether or not you see them coming. Your business is changing all the time. If it's not technology, it's customer preferences. You have to be constantly on your toes, actively trying to take advantage of what's going on around you or at least being aware of it. As I've said before, it actually costs an organization more to try to stay the same than it does to get better or get worse.

You can walk into a strong headwind as long as you want, but if it's blowing hard enough, you won't be able to make progress. It's going to hold you in place or push you backward. The effort required of you to continue to walk in a wind of that strength costs more money, effort, and time than it does if you were to

step to the side and let the wind pass by you. The amount of money, human resources, and productivity that is spent trying to stay the same is much greater than trying to get better or worse. On top of that, it's just plain harder to stay the same.

In *Leading for Growth*, I gave the example of treading water in the deep end of a swimming pool. The long and short of the story was that you can't tread water (which represents staying the same) forever. You can, however, immediately change your situation for the better by simply swimming over to the edge of the pool and getting out. Problem solved!

You've got to be agile. Agility can mean taking advantage of opportunities, but it can also mean deciding *not* to take advantage of something. The point is to be agile enough to have options and sufficient time to act, come up with the answer that best fits your company, and then act on it quickly and effectively.

RELENTLESS PROGRESS IS THE KEY

The old saying "That's the way we've always done it" has gone out the window. There is no conventional wisdom in the new normal; it just does not exist, especially with the speed of change and technology.

At Umpqua Bank, we're constantly trying to evolve our culture and our delivery system. Customer preferences change all the time, which I believe makes conventional wisdom the kiss of death. My own preference is for *unconventional* wisdom, which is why I seldom talk to bank consultants. I prefer to engage with people outside my industry. The unconventional ideas they bring me can give me an advantage over my competition because for the most part, bankers limit themselves to what I call "bank think." They're thinking about what banks

do. If you own a tire company, why are you interviewing with a tire consultant when they're going to tell you the same thing they told your competitor down the street?

I ask all my people to make progress every day. That's important both to their personal development and to the organization. And progress can come in many shapes and sizes and forms. It can be, "You know, Ray, I've thought about this big project we were going to start and I've delayed it for two weeks because of X, Y, and Z. It's been well thought out, and I think this is the way we should go." To me that's not a problem; that's progress. By thinking an issue through and weighing the risks associated with it, you've perhaps prevented a problem. I compliment people for that. But make no mistake—it's always important that you know what kind of progress you're making every day.

Once a year we conduct a strategic retreat with our board of directors to confirm the overall direction of the company for the next five years. I also meet with my management team to build consensus on our goals for the upcoming year, which must complement our five-year strategic plan. I believe one great way to measure what you have achieved or what you are going to achieve is to turn your time frame upside down. For example, after you've established your goals, play it back to your group as if the year was just completed. Assume it is December 31 (or whatever your year-end date is), and read back to your team all the goals you set during your discussions as if they were all completed within budget and on time during the year. How does that feel? Was it enough? Were we too aggressive? The answers will become very clear.

I also practice this with my board of directors. I play back the goals and give them an idea of where we will be by the end of the year. I draw a mental picture that if the economy and the

world behave and we stay in control of our destiny, then this is what we could look like a year from now. Usually we all feel pretty good about our aspirations for the upcoming year and are confident we will make relentless progress toward achieving them. That's another way to measure progress.

DEAL WITH IT

So, yes, the world is in flux, and revolutions and changes continue to come at us like fireworks exploding in the night sky. For some, these changes, coupled with the ever-increasing speed of evolving technology, are just too much to handle. For others, their companies are not built to sustain damage from economic storms that ultimately create the new normal environment we will be expected to thrive in. However, for those who are willing to embrace change, create a nimble workforce, and look to make progress every day in this new environment, the headwinds might get strong but they will manage to get through it.

“Just Do It” has been Nike’s trademarked tagline for more than twenty-five years. In this environment, *my* tagline is, “Just Deal with It.”

FOR REFLECTION

- How has the new normal affected your business? You personally?
- What do you do to try to make uncertain times more certain? Are these approaches working for you?
- Is fear of change prevalent in your organization? If so, what are you doing to mitigate it?

- What are you doing to identify coming revolutions in your industry? What are you doing to get ahead of these revolutions?
- In what ways is your industry changing? What are you doing to respond?

