



The Complete Turnaround of a Boutique Bank: A Practical Guide to Leading a Complex Transformation

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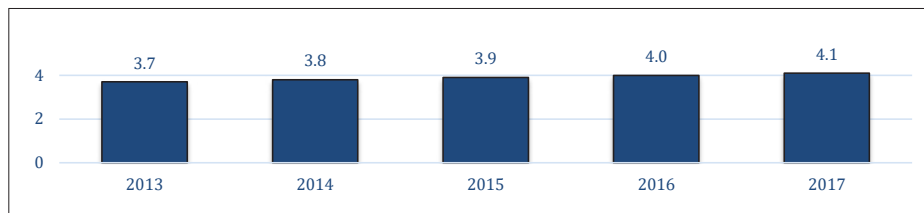
In a remarkable five-year journey, Bank Leumi USA completed a major transformation with a range of dramatic effects. Through a close examination of the Leumi case, Karen Ayas illustrates an approach designed to increase the odds of success in transformation and offers practical guidance to those embarking on similar journeys.

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A majority of transformation efforts fail, yet a few have outstanding results.¹ Bank Leumi USA (Leumi), with Avner Mendelson at the helm, provided a great illustration of how to successfully transform a business.

The Ripples Group was a partner on this remarkable journey from 2013 to 2017, working with Mendelson and his team to guide the bank through a major transformation and attract new investors to accelerate its growth. The financial results have been stellar: the return on equity (ROE) increased from 2.5 percent to over 10 percent, the net income quadrupled, and total revenue increased by 60 percent. The bank also became more internally efficient and its employees more engaged. For example, there was a year over year increase in median employee satisfaction ratings despite significant turnover (see exhibit 1).

Exhibit 1 – Overall employee satisfaction scores 2013-2017



Leading a Complex Business Transformation: The Challenge

There is a vast body of research and information on organizational change and transformation.² Yet turning these insights into practice is still a challenge for CEOs looking to transform their organizations. Put another way, there may be lots of good recipes and even cookbooks, but it's not just about picking a winning recipe, you still have to do the cooking! And so many things can go wrong: You don't have all the ingredients, they don't mix well, you've stirred for too long... or not long enough, the temperature is not quite

right, or you just get distracted and skip a step.

Consider some of the common issues that arise with recipes for change. Virtually every "cookbook" starts with organization diagnostics, which should give you a sense of your current reality. But how deep should you dive? How much time can you devote to diagnostics before you have to act? Next, the recipe calls for "a vision" but how do you protect your team from "vision fatigue" when they're facing tough operational challenges?

Through the transformation of Leumi, we found answers to these conundrums and an approach that can guide leaders through complex business transformations.

And there's more! When the task at hand is a complex transformation calling for change on multiple fronts, how should you structure it? How many parallel initiatives can you run? How do you reconcile growing the business with transforming it? And knowing that this will be a multi-year undertaking, how do you keep everyone engaged and committed?

Through the transformation of Leumi, we found answers to some of these conundrums and an approach that can guide leaders through complex business transformations.

While the nature of business and its leaders makes every case unique, calling for a customized recipe, there are some common mistakes you can avoid and some ingredients that will increase your odds of success.

The Case of Leumi

Avner Mendelson was appointed CEO of Leumi in September 2013, with a clear mandate to wake up the sleepy organization and rebuild it. The bank had had many CEOs over the preceding thirty years and most of them had been at the ends of their careers. Most had not tried to move the needle, and those who did had failed in their attempts.

"It was like a raft floating with no particular destination or ambition" is how Mendelson described the organization he found. He also quickly noticed the upside: this organization had survived multiple crises which had caused other banks to fail. Resilience was evidently part of its DNA.

Most CEOs are under immense pressure to deliver immediate results. Although impatient by nature, Mendelson took the opportunity to observe and fully understand the business before jumping into action. He was careful to challenge all assumptions, inquiring deeply and observing first-hand, and to invite others to help him along.

The bank's financial performance had gone from bad to worse in the past three years. Its operational and IT infrastructure were totally inadequate. Over the years, it had evolved a warm, fuzzy family culture. "We take care of each other here and everyone always gets a 5 out of 5 on performance" explained one of the senior managers. Mendelson could see that this high tolerance for mediocrity, albeit in the guise of family culture would be a major barrier to building the high

performing culture needed to turn the business around.

Mendelson began by articulating a bold vision for transformation, developing a clearly defined roadmap and creating a leadership forum charged with its execution. He then focused on sustaining momentum and driving accountability for change (see Table 1, p80).

Articulating a Bold Vision

Mendelson quickly developed a clear understanding of his new business. The road ahead was clear to him, and he knew how to begin, so why waste time on formulating a vision?

A two-hour session with the management team devoted to envisioning the future, with everyone articulating their hopes, made him realize that vision can be contagious. Only after many revisions and iterations was the team able to articulate the vision in a crisp and compelling way: “Become the best boutique relationship bank.” In concrete terms, the team had to achieve a 10 percent ROE within five years by building a bank that distinguished itself through outstanding service. This was a bold aspiration for a stagnant business with only a 2.5 percent ROE.

A vision, no matter how bold and compelling, is only effective when everyone involved understands and shares it.

A vision, no matter how bold and compelling, is only effective when everyone involved understands and shares it. Clearly a wake-up call was needed.³ So how do you create a shared vision and a sense of urgency in an organization that has been floating happily along with its congenial culture for

the past thirty years and is spread across New York, Florida, Illinois, and California?

The company’s first ever town hall was held in New York and conveyed clearly that things were going to be different under the new CEO. The bank’s employees greeted the meeting invitation with a mix of criticism and anticipation, and with many questions.

At the event Mendelson used irrefutable facts to explain the need for change and presented his bold vision with direct authenticity. He had planted the seeds; many employees went home inspired by the idea of helping to create a better future.

Next, the vision had to be transformed into the collective ambition of all the organization’s key leaders. Yet even the most persuasive communicator cannot convince everyone. Any change will have its believers, its skeptics, and its cynics. You must make use of the believers, who embrace the vision, to build the necessary momentum and help to spread enthusiasm and ambition. You must attend to the skeptics who can help you stay on a feasible course. Finally, you must

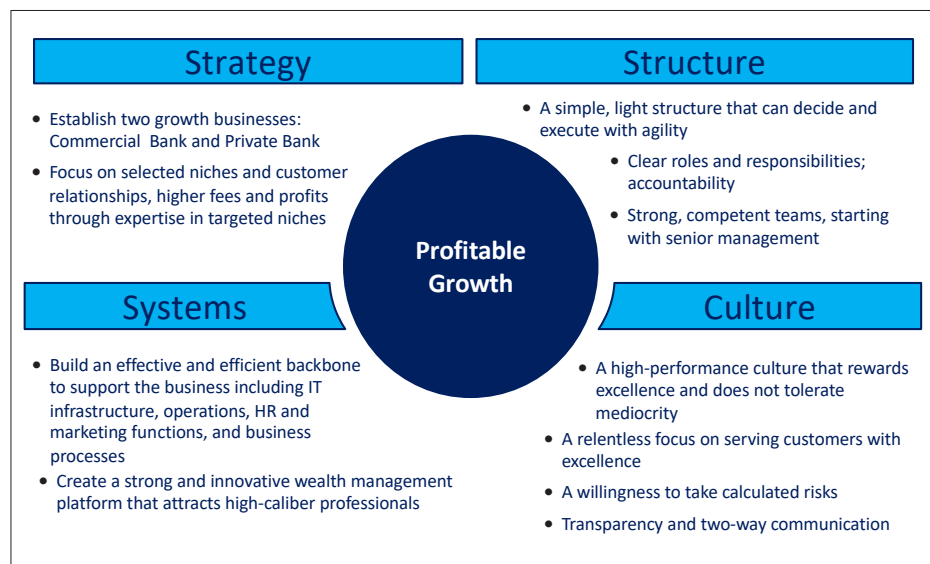
ensure that other team members disregard the cynics even though they often have the loudest voices and substantial influence.

Creating the Change Leadership Forum

Mendelson now had to find a way to engage the bank’s key leaders and mobilize a critical mass of believers to pave the way. After much debate the top team created the Change Leadership Forum (CLF) whose members were chosen not solely by their titles or positions. Although many of the senior leaders argued that, in the existing culture, managers who weren’t chosen would be discouraged, Mendelson nonetheless instructed them to hand-pick only the best and most influential leaders for the forum. The CLF would be responsible for:

- stepping up to lead the change and build the future,
 - working together to bridge functional and geographical gaps, and
 - keeping everyone informed and engaged in the transformation.
- The CLF was empowered to act, but it still needed a clear roadmap.

Exhibit 2 – High level transformation roadmap



The Transformation Roadmap

When Mendelson joined, the bank's Project Management Office (PMO) had been charged with leading a change initiative called "Running for 10," comprising over thirty improvement projects laid out by the prior CEO. While the PMO had composed meticulous plans, it had gained little traction in the past year. Although there was an immense amount of "Running for 10" branding on hand, including a logo on paper cups, notebooks, mouse pads, and more, it served largely as a constant reminder of the initiative's failure. Many employees weren't even sure what the 10 stood for: 10 for excellence, 10 percent ROE...? And for the few projects that had been completed, most didn't know what the results were. The situation was a perfect illustration of a failed recipe for change. Mendelson's team had to do better.

The roadmap for translating the bold vision into action had to include comprehensive and cohesive changes in strategy, structure, systems, and culture (see exhibit 2). The team could then expand this roadmap into a detailed master plan for transformation, including milestones for each domain.

Strategic focus: By every benchmark, internal and external, Leumi was very poorly rated. Where, then, would growth come from? The roadmap had to include clarifying the targeted value proposition for each of its businesses, the commercial bank and the private bank, and for the niches which would allow them to capture the full value of their relationships. The team had to build an effective model for boutique service while determining how best to expand the bank's product and service offerings.

Structural changes: The bank's existing structure did not include clear lines of accountability or alignment across its customer-fac-

ing functions. The quality of the customer experience was diminished by a blurring of roles and responsibilities. Hilla Eran-Zick, deputy CEO, launched a major initiative to enact a new coverage model that separated business development from credit and administrative functions. She restructured the teams so they would support managers who worked directly with clients, enabling them to make faster decisions and thus creating a highly responsive service model.

Support systems: When Kate Etinger joined as head of HR in early 2014, the bank essentially did not have an HR department. Etinger quickly moved to upgrade recruitment to attract talent and improve the team, modifying compensation plans to keep them.

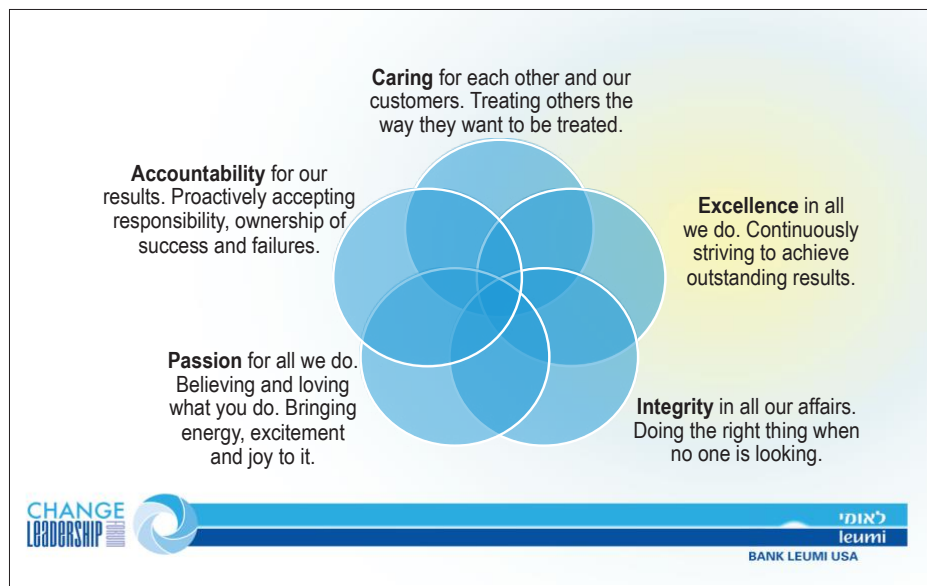
The new management team also had to modernize the bank's stale IT infrastructure to put it on a profitable growth path. Over the preceding decade, several attempts to build an IT system adequate to the bank's needs had stalled. In December 2013, Mendelson decided to invest \$35M in transforming the core banking system. This massive

undertaking created a simpler IT infrastructure with better data integrity and automated processes which improved customer experience across the board. Every employee participated in the two-year process of implementing this massive change.

Cultural change: And of course, realizing the vision of a topflight boutique relationship bank called for a fundamental change in the company's culture. Mendelson particularly wanted to inspire relentless focus on excellent customer service, willingness to take calculated risks, a refusal to accept mediocrity, and an eagerness to collaborate across functions. None of the bank's previous leaders had paid deliberate attention to shaping its culture. Mendelson had already insured that all changes in strategy, structure, and systems would have a positive effect on culture, now he turned to more direct methods of driving cultural change.

Starting in early December of 2013, Mendelson convened a series of meetings with the top team to create an initial definition of the

Exhibit 3 – Leumi Core Values



bank's core values (see exhibit 3). He knew that unless these ideas were embraced by all the bank's leaders and embedded in their daily actions, they would be no more than "lip service values" and would not actually affect culture.

The employees needed to know how this time would be different and to believe that they were up to the challenge of their new CEO's bold vision, apparent confidence, and steady conviction.

Dealing with Cynicism

With the team and the roadmap in place, the next challenge was to eradicate the cynicism that had arisen with the "Running for 10" program and to generate enthusiasm in its place. The employees needed to know how this time would be different and to believe that they were up to the challenge of their new CEO's bold vision, apparent confidence, and steady conviction. It took a combination of elements to gradually turn the tide and change the conversation:

1) The leadership team was careful to frame the larger context for change simply and communicate it widely. As a result, most of the bank's leaders understood and could articulate the "**change story**" - here is what we are aiming for (our vision) and here is how we will go about it (the roadmap).

If each of them engaged six others in the transformation, the whole organization would effectively be involved.

2) The **Change Leadership Forum (CLF)** was composed of highly influential leaders representing all functions and locations. They were charged with leading the transformation. If each of them engaged six others in the transformation, the whole organization would effectively be involved.

3) While totally realizing the vision was a hazy five years out, the transformation roadmap was framed as a series of **change cycles** with clear beginning and end points. The first cycle aimed simply to "build a better bank" with profitable growth by the end of 2016. This goal was further broken down into two phases: building the basic infrastructure by end of 2014 and using it to drive growth. The CLF limited the number of initiatives in each phase so that the team could execute them in a timely manner.

4) Each change initiative had **clear owners** who were highly visible to the rest of the organization. The owners of each initiative were charged with reporting their progress frequently to the organization as a whole. Early reports of quick wins lent the transformation much needed credibility and increased its momentum.

Launching Change: The Bridge to The Future

On March 24, 2014, in a dimly lit room in New York City, Mendelson welcomed the seventy members of the Change Leadership Forum to an off-site event themed "Bridge to the Future." He urged them to lead the transformation actively, saying "This is a privilege and a responsibility."

He had asked them to read Kotter and Rathgeber's leadership fable *Our Iceberg is Melting*⁴ and to consider how it applied to them. At the meeting, members of the top team led small group discussions to establish the language of transformation and build a clear sense

of urgency. Over the course of the two-day event the leaders defined the qualities that differentiated Leumi and formed a collective sense of what success would look like and how to achieve it.

On the second day CLF leaders also explored what the core values laid out by the top team meant to them and what they would look like in action. As change leaders, they committed to communicating and handing down these values to their teams and to validating them with their daily behavior.

This event also provided a first opportunity for leaders from different functions and divisions to meet each other and build a powerful team. They worked together for two solid hours to literally build a huge bridge across the room. As, one by one, they crossed the bridge that they had built, they left the meeting with a clear vision, a roadmap for transformation, and, most importantly, a collective mission to transform the bank and "create success together."

Mobilizing for Growth

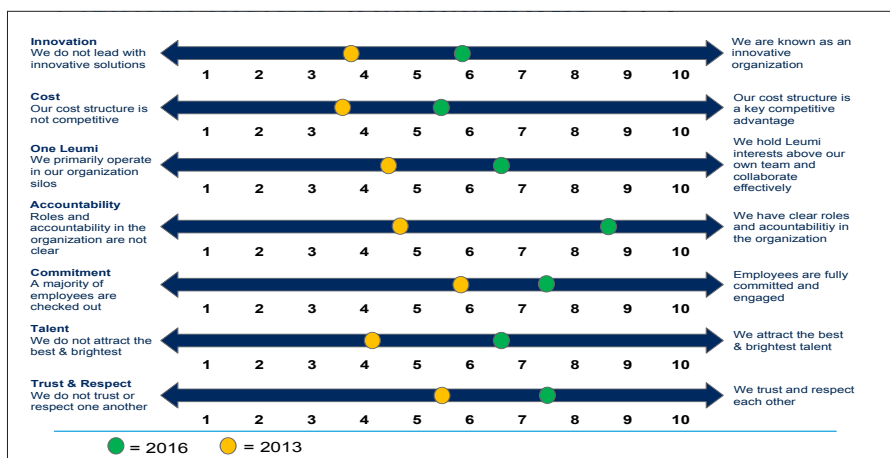
By January of 2015, an employee survey revealed that 77 percent of the bank already felt that its culture was changing. "A lot has been done, the bank has transformed itself 180 percent from where it was only a year ago," commented one of the CLF leaders. The employees felt great pride in their accomplishments but recognized that they could still improve and expressed a collective ambition to do so.

In February 2015, the CLF once again gathered off site. The event began with a video of the previous year's bridge to the future and of the commitments these leaders had made to one another. "Last year we set out on our journey to build a better bank. We are in the midst of a major transformation, and we need to take the time to reflect on progress, prioritize the

Exhibit 4 – Organization Assessment 2016 vs. 2013



ORGANIZATION ASSESSMENT 1/2



ORGANIZATION ASSESSMENT 2/2

work ahead, and re-engage” said Mendelson in his opening remarks. “This year is about mobilizing for growth and execution. I see you all as carriers of the DNA of the new culture.”

For two days the CLF team celebrated their progress, shared stories about changes in the bank’s culture, and aligned their 2015 priorities. They discussed how to further improve collaboration throughout the bank. Having considered the business from all angles, they reflected on how they could win against competition and produced insights that would help them to accelerate the change.

Results of the First Cycle of Change

The bank completed its initial turnaround much sooner than expected. Within two years, it achieved strong double-digit growth in net income (33 percent CAGR), and solid increases in loan and deposit balances without increased expenses. The team completed all the initiatives listed in the first cycle of the transformation plan. By the end of 2015, the organization showed marked improvement over 2013 across the board (see exhibit 4). It had established client value propositions, made significant strides in tech financing, ventured into film publishing and other new sectors,

and expanded its product and service platforms. Leumi was awarded a BBB+ rating in August 2015, earning a place in the top 50 of all S&P rated banks. “This is a reflection of the bank’s strength and stability and a recognition of the solid foundation built in the first two years of transformation” Mendelson remarked.

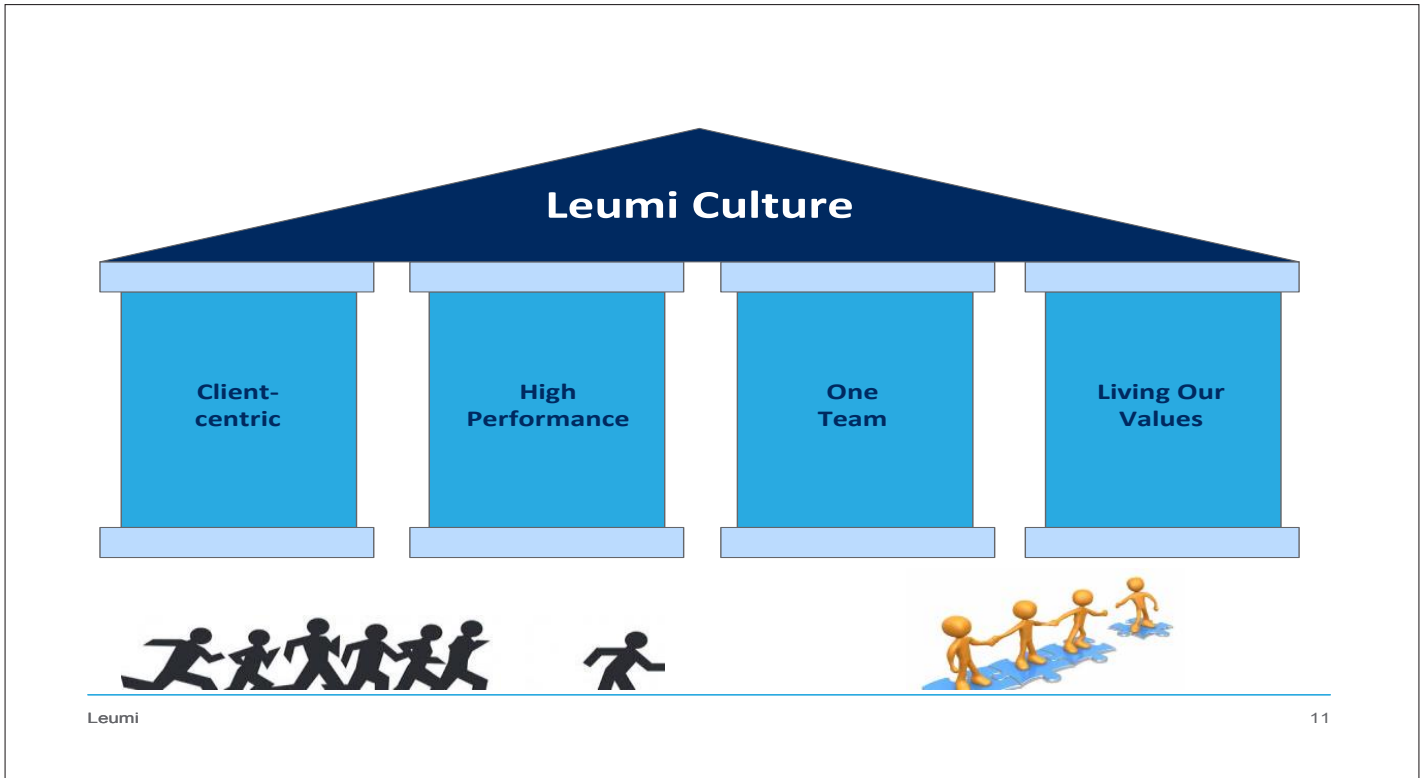
The Next Cycle of Change: From Good to Great

Still, this first two years’ success was just a start. Mendelson and his team had far more to do to become “the best boutique relationship bank.” The January 2016 employee survey showed unambiguously that accountability was still lacking in some areas and that mediocrity was still tolerated. The bank continued to lag behind the competition, and it had yet to deliver the desired customer experience. Indeed, customer satisfaction surveys were disappointing. In many ways, the challenge ahead was even tougher than what they’d already achieved. But now the bank was building momentum and had a formidable executive team who all shared the same ambition.

At the 2016 meeting of the CLF, leaders gathered to celebrate their progress to date, anchor successful changes, and commit to the “Journey to Greatness.” Everyone had read Jim Collins’ book *Good to Great*⁵ and prepared for the challenge of becoming the best boutique bank, not just a better bank. All members of the CLF (including those who were not in client-facing positions) had the opportunity to interact first-hand with a panel of diverse customers, listening to their ideas and coming to truly appreciate their needs. The team drafted plans to “delight the customer,” at the event, refined them with their teams, and put them into action within the month.

CLF leaders also acknowledged that the company had not made

Exhibit 5 – Pillars of the Culture



sufficient progress on the culture front. Employees needed to refresh their culture and values and recommit to both. CLF members at the event discussed the pillars of the culture they wanted for Leumi (see exhibit 5):

To refresh Leumi’s values, the CLF discussed them at length, first in small teams and then all together, until they agreed on what those values meant and how they should be enacted in the daily life. After considerable debate and some heated discussion, everyone agreed upon a list of valued behaviors.

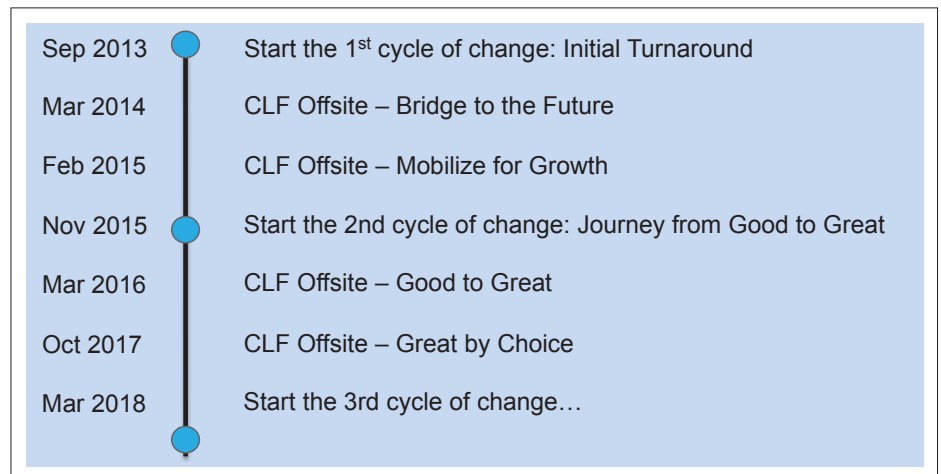
When they returned from the event, Etinger’s HR team launched a range of bank-wide initiatives to foster a high-performance culture. These included talent upgrades, performance management coaching, employee engagement events, value and performance-based reward and recognition, and investment in leadership development.

Marking Progress: Great by Choice

By the time they gathered in October 2017, the CLF leaders were ready to commit to the next leg of the journey, “Great by Choice.” Their focus turned to winning against competition, instilling “productive

paranoia” and “fanatic discipline” (both terms drawn from Collins and Hanson’s book *Great by Choice*⁶). They discussed how to build the culture that could use standardized practices, a lean mindset, and efficient processes to realize the ambition to create “the best boutique bank.” The book’s image

Exhibit 6 - Leumi Transformation Timeline



of a twenty-mile march proved a fitting analogy for their past progress and path forward. Having made steady progress over the past couple of years, they were prepared to continue to focus on the rigorous pursuit of long-term performance. As CFO Raja Dakkuri put it, this was

not just a nice story, but proven facts.

Sustaining the momentum

The CLF's yearly off-site meetings punctuated the bank's change (see exhibit 6 for the transformation timeline), marked progress, and built the enthusiasm necessary to keep it

going. They gave CLF members an opportunity to share their stories of success, celebrate their progress, reenergize, refocus, and recalibrate. Participants walked away from these events with new commitment and new plans of action, knowing that senior management would hold

TABLE 1: LEUMI TRANSFORMATION APPROACH AT A GLANCE

Steps of the transformation	Common pitfalls	Leumi method	Broader implications
Understand the current state of the business: <i>Where do we stand?</i>	Rushing to action, failing to recognize own bias	Taking the time to observe and inquire through many eyes, engaging with employees and customers early on	Need for rigorous assessment involving multiple stakeholders before jumping into action
Articulate vision & purpose: <i>What are we aiming for and why?</i>	Failing to communicate the why, not making the vision concrete or actionable	Turning the vision into a widely shared collective ambition, bold enough to be inspiring and using the believers to get going	Need to articulate bold but actionable vision to generate creative tension and make a compelling case to mobilize change
Develop transformation roadmap: <i>How will we get there?</i>	Treating transformation as a series of improvement projects without a larger context and purpose	Transformation roadmap including strategic, structural, operational, and cultural changes needed to realize the vision	Need for a holistic approach to transformation and a detailed plan for leading the change initiatives
Focus on culture and values: <i>How must we behave?</i>	Culture happens by default rather than by design, values remain merely plaques on the wall	Articulating the desired culture and engaging everyone in culture conversations, defining how these values guide daily actions	Need for line leaders to agree on core values and the desired behaviors that shape the culture and exemplify the values
Create a change leadership forum: <i>Who leads the change?</i>	Lack of commitment and sufficient engagement in the organization	Creating a community of leaders officially charged with leading the transformation, periodic offsite gatherings and focus on leadership development	Need for a visible committed group of change leaders across the company working together continuously to shape the culture and make progress toward the vision
Drive accountability for change: <i>How do we ensure success?</i>	Initiatives start strong but fade away or take a back seat as short-term crises and pressures arise	Relentless focus on change while driving business results Change initiatives are embedded into functional goals and bank scorecard	Need for transformation to be part of corporate and functional objectives with clear definition of success
Mark progress and celebrate success: <i>How do we sustain the momentum?</i>	Concerted effort leads to change but is not sustainable over time and the impact does not last	Consistency of change year after year, marking progress and celebrating accomplishments, pulse checks for engagement and continuous improvement	Need for keeping the change leadership forum alive and building leadership capacity and continued engagement throughout the organization

them accountable for delivering on those plans.

Cycles of Change Punctuated by Change Leadership Forum (CLF) Gatherings

By now, bank-wide initiatives had clear owners and were tracked quarterly in the bank's balance scorecard. Annual employee surveys, biannual collaboration surveys, and quarterly business reviews reinforced the discipline of continuous improvement. The top team steadily tracked the progress of plans and required course corrections as needed.

They also helped to sustain momentum by instituting hiring for cultural fit, value-driven performance management, and value-based rewards. By continuously reinforcing desired behaviors and telling stories that highlighted the bank's values in action, they inspired a virtuous cycle.

Sustaining the momentum for continuous improvement is a never-ending challenge.

With its top-notch leadership team, strong service and performance culture, good reputation and niche expertise, and sleek technology and operational structure, Leumi USA is now poised to go on to even greater successes. And the game is still not over. Sustaining the momentum for continuous improvement is a never-ending challenge. It is critical that the HR team continue to champion

change.⁷ As the organization grows and its leaders change, the team will need to pay deliberate attention to bringing new members on board and building the capacity for change leadership. It will need to continue to hold CLF members accountable for sustaining the culture that makes Leumi *the best* boutique relationship bank.

On Complex Business Transformations

The case of Leumi illustrates a proven approach to complex business transformations. Its power comes from the coherence of all its elements. The approach's comprehensive nature is best illustrated longitudinally. Drawing on both theory and practice, I designed the simplified framework of Table 1. The devil of transformative work is most certainly in the details and in the effectiveness of specific interventions. Because each business is unique, each team of leaders will need to emphasize, invest in, and attend to some elements more than others.

By marking progress along the roadmap regularly and taking time to celebrate successes, leaders infuse their organizations with the energy necessary to take on the next battle with renewed power and confidence.

One principle for complex transformations which is almost always useful, though, is dividing the transformation into change cycles with a clear beginning and end. By marking progress along the roadmap regularly and taking time to celebrate successes, leaders infuse their organizations with the energy necessary to take on the next battle with renewed power and confidence.

My hope is that this approach will provide you with powerful guidance for crafting the perfect recipe for your organization's transformation and so increase your odds of success when you get cooking. ■

Author Bios



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Endnotes

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2. See, for example, John P. Kotter, *Leading Change* (Boston: Harvard Business School Press, 1996); Noel M. Tichy, *Managing Strategic Change: Technical, Political and Cultural Dynamics* (New York: Wiley, 1983); W. Warner Burke, *Organization Change: Theory and Practice* (Thousand Oaks: Sage Publications, 2018).
3. See Philip Mirvis, Karen Ayas, and George Roth, *To the Desert and Back: The story of one of the most dramatic business transformations on record*, (San Francisco: Jossey Bass, 2003).
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5. Jim Collins, *Good to Great*, (New York: Harper Collins 2001).
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