

PSOJ PRESIDENT'S FORUM
July 22, 2014

SALUTATIONS/ACKNOWLEDGEMENTS

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Good morning and welcome,

It is a pleasure to host this month's President's Forum. These forums are important for the sharing of new ideas and best practices, for fostering collaboration and building and maintaining strong relationships within the private sector. As a result NCB continues to support the PSOJ in this worthwhile endeavor.

This morning I will discuss ***Transformation as an Enabler of Growth.***

We are all aware that Jamaica is undergoing its own transformation as part of our economic programme. To date we have been meeting our targets and it is important that we continue to perform under the programme to lay the foundation for sustainable growth. A few weeks ago, Mrs. Christine Lagarde commented on how unique, remarkable and useful our Economic Programme Oversight Committee or EPOC is and I agree. I am also of the view that the partnership that EPOC symbolizes is crucial to the transformation of our country. All stakeholders – public and private sector and ordinary citizens must play a role. As the Jamaican economy begins to transform at the macroeconomic level, it is important that it is accompanied by a similar if not greater evolution at the microeconomic or firm level.

Today, within the context of the tight Jamaican economic programme, the pervasive question is “where is the growth?” I don’t think anyone will argue that sustainable growth is critical to long term economic viability of the country. Similarly none of us can argue with the data that shows that for decades Jamaica has experienced relatively low growth or at times no growth. In spite of this, there have been segments of the economy that have experienced significant growth during this period. Based on my experiences, it is my strong belief that the growth we seek can be unlocked with the transformation of our mindsets and the way we do business. It was Albert Einstein who once said *“The definition of insanity is doing the same thing over and over again and expecting different results”*.

The burning platform for growth through transformation goes beyond our economic programme. It is further fueled by the fast changing global environment in which we operate. This is an environment where technology and digitization have lowered barriers to entry, changed the competitive landscape and raised our customers’ expectations and expanded their options. It is in the interest of every firm, every corporation to make the adjustments required to survive or thrive in this new norm. Jack Welch often said it this way “If the rate of change on the outside is greater than the change on the inside, the end is near”.

I will illustrate my belief regarding the ability to unlock growth by transforming mindsets and behaviours using my own experiences and a few quotes. By transformation, I mean doing things differently. I mean significant and meaningful change; change that makes persons doubtful, uncomfortable and even resistant.

When I spoke about transformation, note that I said that both mindsets and behaviours would need to transform. It was Budha who said “ The mind is everything, what you think you become.” Often times, it is the failure to transform one’s mindset that leads to the failure and not the actual transformation initiative in itself. To illustrate the point I will highlight a few examples of individuals that could not conceptualize growth in a particular area that later experienced tremendous growth. It demonstrates the importance of one’s mindset in the transformation process.

- In 1943, Thomas Watson, President of IBM said - ***“I think there is a world market for maybe five computers.”***
- In 1946, Darryl Zanuck, executive at 20th Century Fox said - ***“Television won't be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night.”***
- In 1968, a Business week article said – ***“With over 50 foreign cars already on sale here, the Japanese auto industry isn't likely to carve out a big slice of the U.S. market.”***
- In 1977, Ken Olsen founder of Digital Equipment Corporation said - ***“There is no reason anyone would want a computer in their home.”***

It may be our natural disposition to doubt the growth possibilities given our challenging circumstances. However, there will always be challenges, even if you are not operating in a developing market. But my view on challenges is to look at it much in the same way we do algebra – given x solve for y . They represent an opportunity to demonstrate how skillful and capable we are as leaders. As Abigail Adams writing to Sir Thomas Jefferson in 1790 said, “These are the hard times in which a genius would wish to live. Great necessities call forth great leaders.”

In every recession, you find companies that are able to grow, notwithstanding the environment. In the 2007/2008 U.S. recession, companies such as Apple, Starbucks and Wal-Mart were able to grow in spite of the deep recession. You can also find growth in low growth scenarios. Digicel is an example of this. Digicel received its telecommunications license in 2000. In that year, Jamaica’s real GDP growth was 0.2%. (Source: CIA Factbook). Many may have thought entering Jamaica, was a ludicrous strategy for the telecommunications company, but they saw opportunity. By building out an extensive network and introducing the pre-paid pricing model and affordable handsets, Digicel was able to acquire over 100,000 subscribers in 100 days after their April 2001 launch. This surpassed their own projections as they originally aimed to achieve 100,000 subscribers over the course of a year. This set the stage for the transformation of the telecommunications landscape in Jamaica and tremendous business growth for Digicel. At one point, Jamaica was Digicel’s most profitable market.

Today Jamaica's mobile penetration is over 100%, one of the highest penetration rates in the world, across developing and developed markets. We have also seen their main competitor Lime engage in its own transformation and consequently make progress in a very competitive business.

Once you transform your mindset, then you also need to transform your behaviour. You must do something different to see different results.

IBM is a company that had its fair share of performance challenges at one stage and had to reinvent itself. Today IBM is no longer a PC manufacturer and seller. It has transformed itself into a business and technology services company. Without that transition, it would be having the performance struggles we see Dell experiencing. Apple is another example of a company that reinvented itself. We know of the modern day Apple but before it transitioned to what we know today, it was a company with declining performance and relevance, focusing primarily on computers before it transformed the market place for mobile computing devices and portable entertainment. In 2003, when Apple introduced the iPod, its market capitalization was approximately US \$1 billion. That grew to over US \$150 billion by late 2007 and today Apple's market cap is in excess of US \$500 billion dollars.

Compare Apple's experience to today's PC manufacturers faced with increased competitive pressures. The commoditization of the product has led to shrinking margins and profitability. Apple transformed and avoided that fate and experienced tremendous growth during the process.

At this stage you may be thinking, sounds simple, but easier said than done. NCB has been on a transformation journey since 2011 and so it is definitely easier said than done. We recognized that we had a model that had not changed sufficiently in decades even while the financial services landscape was changing dramatically globally.

When we realized that in the near term companies like Google could become our competition, we knew we had to make changes. Our journey continues, but I will share a few of the key lessons that stand out to me so far. We have been using a five step approach to transformation based on a framework developed by McKinsey and Company. The five steps are 1) Aspire 2) Assess 3) Architect 4) Act and 5) Advance.

Step 1 is to Aspire – this answers the question **“Where do we want to go?” What do we want to achieve?** This is about the big dream and the audacious goal. Our Chairman Michael Lee Chin recently shared a quote about aspirations. It says:

Aspiration is the main fuel for progress. An aspiration transforms a set of ordinary people into extraordinary achievers. It provides the physical and mental energy for people to convert plausible impossibilities into convincing possibilities.

At NCB, this audacious goal was to become one of the top five financial services institutions in the English and Spanish speaking Caribbean. Of course, when we set this aspiration, most thought it was impossible. Our operations were primarily in Jamaica. How could we achieve this? Another aspiration we set was to triple our

sales productivity. We heard all about the economy and what our IT systems could not do as reasons why we would not achieve this goal.

However we changed our sales methodology and framework completely, and were able to triple sales productivity in less than 6 months. This played the primary role in offsetting losses related to the Jamaica Debt Exchange and this resulted in NCB becoming the number one bank in terms of profitability for the first time in its history.

In terms of our regional aspirations, we are successfully tracking to achieving this goal. This plausible impossibility has quickly become a real possibility.

One of the lessons learned in the aspiration setting process is that you really need to be bold and avoid the tendency to be incremental. If you don't hear any complaints or comments about how crazy the targets are, or persons saying "it can't be done", when you set those goals or objectives, you are likely not being aggressive or transformative enough in your objectives.

The great Nelson Mandela once said "I learned that courage was not the absence of fear, but the triumph over it. The brave man is not he who does not feel afraid, but he who conquers that fear".

We must move past our fears, resistors and detractors, if at the end of the day our aspiration is for the greater good. **Smooth seas don't make for skillful sailors** – so as the tide becomes rough – don't abandon the ship.

STEP 2 is to Assess – This answers the question *“How ready are we for the journey? How far are we from the goal?”* This is about evaluating where you are today versus your aspiration. The very nature of a transformation aspiration implies that you will need to make significant changes in how you operate as an organization. In order to make these organizational changes, individual behaviours and mindsets will also need to shift so these need to be assessed as well. The assessment requires honesty regarding your strengths, but even more honesty regarding your weaknesses and gaps.

In conducting our assessment for our sales transformation, we learned a number of lessons:

- 1) It is important that when we benchmark our performance, we are looking beyond our local borders. When we set the aspiration of tripling sales productivity, we did so because we looked at regional benchmarks. We knew that if other institutions with similar macro and internal challenges could achieve these targets, then so could we. We also went for the productivity levels of the top tier institutions in the region versus aiming for average. We also look outside the region and outside our industry when we think about how we can grow. Insularity in the environment we now live in can easily limit our perspective and consequently our accomplishments.
- 2) It is important to validate “intuition” with analytics. Many of the persons we thought were “top sales performers” based on their performance appraisals really were not when we looked more deeply at the data. Areas where we were told lacked opportunity, revealed otherwise when we looked more deeply

at the analysis. We have become a much more data driven organization at NCB because anecdotes and intuition often lead to poor decisions. Anecdotes can often be reflective of a minority of instances versus the majority. Today we have more data on our customers and suppliers and employees than ever before. Big Data is not going to go away and that's because it drives powerful results. If we look at the impact on Amazon's customer experience, the election of President Barack Obama and even the recent German World Cup win, these have come about as a result of aggregating and analyzing data to drive decisions and strategies.

- 3) The third lesson on Assessing is that leaders need to take the time to look in the mirror too. Role modeling is a critical part of change language. You must walk the walk and talk the talk. Any transformation failure is a collective failure – including that of the CEO and senior managers and not just of the staff.

STEP 3 is to Architect – This answers the question ***“What are the steps that will help us to achieve our aspiration?”*** This is developing the action plan. It is important to have a plan. It gets everyone on the team rowing in the same direction at the same time which leads to greater efficiency and effectiveness in execution. My only caution in the architecting phase is to avoid the phenomena of analysis paralysis. I paraphrase Robert Burn's poem *To A Mouse – “The best laid schemes of mice and men often go awry”*. This happens ladies and gentlemen because the environment is not static and so it is impossible to anticipate all of the various scenarios that may play out. It is important to plan but quickly get to action which is **Step 4**.

Act – This answers the question *“How do we manage the journey?”*

There is no value in aspiration without action. John F. Kennedy said “There are risks and costs to action but they are far less than the long range risks of **comfortable inaction.**”

We all know Kodak – which was so synonymous with photos that the phrase “a Kodak moment” was coined. Yet, the company filed for bankruptcy in 2011. This company saw the changes in the environment coming and made plans to evolve. They even invented the core technology in digital cameras but they just failed to act. They spent too much time planning and discussing what they were going to do. By the time they initiated their transformation, it was too late. Because they delayed acting, they ultimately became obsolete. So I emphasize this step because there is a cost to too much planning. We often hear the phrase justice delayed is justice denied. The same is true if we replace justice with value. Because of the time value of money, any delay in execution is value lost forever.

One of the lessons I have learned in terms of acting during our sales transformation that it is better to pilot the action plan and then refine as you go along than to plan indefinitely or do a massive untested rollout. We have had experiences in the past when we would go live all at once and would have to roll back entirely because there would be so many areas to fix. In all of our current initiatives we now test in a couple of branches, refine, retest and then roll out more broadly. This gets us to action but mitigates the risks of failure or insufficient planning.

The second part of acting for me is around courage. If you are embarking on something truly transformational, you will face resistance. In some cases you may face forms of retribution but the vision of the world you want to see should keep you motivated and focused. We must move past our fears, resistors and detractors, if at the end of the day our aspiration is for the greater good. Aristotle once said, *“There is only one way to avoid criticism: do nothing, say nothing, and be nothing.”* So be brave and courageous in your actions. Your legacy and accomplishments will redeem you.

The fifth and final step in the five step framework is Advance. **Advance** – answers the question **“How do we keep moving forward?”** Even as you move toward your bold aspiration, continuous improvement must be practiced on an ongoing basis even daily if necessary. You will learn new information. You will develop new capabilities. The environment will change and so those plans will need to constantly evolve. The one constant is change in our society today. Even when you have reached what you consider to be the highest heights of achievement or performance, you must continue to advance.

I highlight companies like Apple, Samsung and Amazon to make this point. These are three of the best companies in the world in terms of market capitalization, profitability, growth, brand strength, customer satisfaction and a number of other dimensions. Yet, they are constantly evolving and transforming as a result, they are constantly growing. Gandhi once said - *“Constant development is the law of life, and a man who always tries to maintain his dogmas in order to appear consistent drives himself into a false position.”* So it comes back ladies and gentlemen to Albert Einstein’s quote...

if we want different results, in this case growth, then we have to do something differently. We need to transform.

At NCB, our next transformation is what we are calling our “Bank of the Future” programme. In the first wave of this programme we have installed intelligent ABMs and Kiosks in our branches which allow our customers to conduct routine transactions. This allows the customer to avoid long waits in the teller lines, and the costs of conducting transactions on these channels is lower than the cost at the teller line and in many instances free. In addition, it still provides customers with the same safe and secure environment of the banking halls that they previously enjoyed with added convenience as they can conduct transactions after banking hours. Some of our locations are accessible 24 hours. So now our taxi drivers who are unable to conduct banking during the day because they have to maximize fares, can do these transactions at the end of the day when the demand slows down.

It is only one of many changes that we are embarking on but we have recognized the need to change and that the environment is changing rapidly. We have initiated those changes. They are uncomfortable and noticeably different and so we know that they are transformational.

We also look at our transformation as a journey and not a destination. Continuous improvement is now a way of life at NCB. The public may look at recent actions we have taken and wonder why we are doing these things given how profitable we are. It is important to note that historical financial performance is no predictor of future performance. Companies that have generated

billions in US dollars in profits – Lehman, Bear Stearns – have disappeared. Recall that three of the best performing companies in the world – Apple, Samsung, and Amazon – are still making continuous improvements to their products and services and business models and as a result they continue to grow.

CLOSING

In closing, I would like to re-emphasize how important it is for all segments of our society to play a role in Jamaica's transformation. Transformations in the public and private sectors will all roll up to an overall societal transformation that we all stand to benefit from. Instead of asking "Where is the growth", we must recognize that the growth is within each of us. It is time for us to stop asking and to start transforming our mindsets first and then our behaviours. It has been done, even within the most challenging circumstances, and it can be done again, we just have to do it. Let us each make a commitment today to transition the dialogue from where's the growth to identifying the growth and pursuing that growth through transformation of our businesses. As Daniel Burnham once said, *"Make no little plans. They have no magic to stir men's blood and probably themselves will not be realized. Make big plans; aim high in hope and work, remembering that a noble, logical diagram once recorded will never die, but long after we are gone will be a living thing, asserting itself with ever-growing insistency."* (Daniel Burnham)

Thank you.