



## Case Study - Building New Leadership

Westerra Credit Union got its start in the boardrooms of DPS Credit Union (\$565 million) and Safeway Rocky Mountain Federal Credit Union (\$145 million) in 2005 when directors agreed that a merger would be an effective strategy to “achieve size and scale that could enhance the value proposition for the members,” as CEO Alan Peppers puts it.


What got that agreement on basic strategy out of the boardroom and into action was relationships—between the CEOs and board chairs of three credit unions—Peppers notes. Westerra, based in Denver with \$923 million assets and 70,000 members, is the product of two major mergers, first of DPS and Safeway Rocky Mountain in October 2005 and then with the \$180 million Gateway Credit Union a year later. The credit union’s new name was introduced in April 2006.

As the chief executive of the larger credit union with the surviving charter, Peppers was named CEO of the continuing organization, and Safeway Rocky Mountain CEO Darrick Weeks became chief development officer (his current title is chief administrative officer). Gateway Credit Union was without a chief executive when the second merger occurred.

“An integral part of the arrangement was the opportunity for Darrick to be part of a larger organization, which would prepare him for a CEO role within three years,” Peppers explains. “Darrick’s new role and responsibilities in the new organization were clearly defined and in writing.”

The executive team for the new credit union includes Peppers, Weeks, and the four chief officers formerly with DPS. Among the team’s first major initiatives were to complete a cultural assessment and create a formal leadership development program to make the most of the new credit union’s larger talent pool of prospective managers and executives and expanded pool of candidates to be considered in succession planning.

“To bring departments together, we first asked all employees to complete a cultural assessment survey. This helped us identify how work was getting done,” Peppers explains. “Then, we defined what our culture would be in the new organization.” The leadership development program began with a talent assessment based on a skills inventory of all employees and 360-degree assessments of supervisors and managers, including feedback from peers, direct reports, and their supervisors. Employees put together their own leadership development plans initially and receive feedback annually to help guide ongoing development. Performance evaluations were expanded to include accountability for demonstrating leadership skills.



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A leadership development program should instill a culture of continuous learning and provide a conduit to convey the perceptions that others have of one's work so developing managers and executives can become more effective leaders, Peppers says.

None of the three credit unions that merged into Westerra had a formalized succession plan, so filling that gap became a post-merger priority. A year after Gateway Credit Union joined Westerra, the credit union began outlining skills, competencies, and potential candidates, defining those who are ready for leadership and how best to develop up-and-coming leaders. The board played a key role in identifying the core competencies of the CEO position. "Now for future mergers, we can sit down and discuss the 12 core competencies that are absolutely essential for someone to be an effective leader in our organization," Peppers notes.

At the center of the succession plan is a CEO profile for use in assessing both internal and external candidates. Executives with an interest in being considered as a CEO successor are encouraged to create a development plan based on the necessary competencies. The board and CEO assess the skills, background, education, and performance ratings of those prospective candidates and rank them in terms of readiness to be a CEO: ready now, ready in one to three years, or in development. "Given all the complexities of a merger and managing those changes day-to-day, if you asked me to identify the one program that has given us a competitive edge for being successful, it's leadership development," Peppers says. A primary goal of the program is to develop leaders who can "win the hearts and minds of employees to carry out the vision of our corporation, which is helping members achieve financial success. Having leaders who understand and demonstrate that vision puts you in a advantageous competitive position."

Peppers shares the story of a manager who'd been with the credit union for 10 years before accepting a position with another firm. The employee told Peppers, "I went in with fewer credentials than other people being considered, but what I learned in leadership development helped me land the job."

Leadership development becomes more important as a credit union grows and becomes more complex because there are more needs and opportunities for managers and executives throughout the organization. A credit union with 205 employees and seven branches needs more management expertise in human resources and operations than an organization less than half that size.

Executives who thrive in merging credit unions are those who are flexible, open to change, and willing to undergo continuous learning, Peppers says. "Some people embrace that, and some people don't. Sometimes, that degree of change can be overwhelming, and sometimes people have a harder time making the transition to a bigger organization."

From the outset, Westerra pledged that no layoffs would result from the mergers and that benefits and salaries would be maintained. Inevitably, some managers depart during a merger. As Peppers notes, "some view a merger as a threat rather than an opportunity and opt to leave," and merging credit unions should also be aware of other



organizations shopping for talent in the wake of a merger.

To retain talented executives, he recommends emphasizing the new opportunities that become available as the result of a merger and being “very candid, honest and timely about what employees can expect.”

To some extent, employees at all levels need to be comfortable working in an organization in a state of flux for some time after the merger occurs. At Westerra, the move toward a merger began in 2005, and the organizational realignment should be completed by yearend 2008. “It took longer than we thought it would take,” Peppers says. “We’re still learning.”


“Our mantra throughout our mergers has been that we want to be a high-powered member-owned organization, No. 1 in the eyes of our employees and our members,” he adds. “This is what has led us to become Westerra Credit Union.”

Westerra has captured what it learned in its two successful mergers by developing a comprehensive step-by-step merger kit available in what Peppers describes as an “electronic encyclopedia” in conjunction with Nice Enterprises ([www.mergerkit.com](http://www.mergerkit.com)). At all levels, “communication will either help you or kill the deal,” Nice agrees. “The people relationship piece is the most dynamic, frustrating, exciting, politically dynamic part.

Communication happens from the outside in—the staff has to be fully engaged and involved before the word goes out to members.”

Another analogy Nice uses in describing mergers is “a maze with 450 doors and lots of dead ends. You have to chart a course and open the doors in the right order to get through the maze, and the leadership, management, and staff alignment needs to come together systematically to make it happen.” As important as operational and administrative details are to navigating that maze, so is maintaining the right emotional tone. Staff looks to management for emotional cues that the merger is in the best interests of members and themselves; management looks to the senior executives; and those executives look to the CEOs. Mergers of choice are, by necessity, driven from the top down and based on promises. At every level of the organization, people are watching to see if those promises are carried out.

Because credit unions are cooperative organizations, members must approve mergers, and they take their cues from frontline staff about whether the proposal is a good idea. No matter how logical, compelling, and well presented is management’s case for the merger, “the final decision will likely come down to how call center representatives and tellers respond in their heart and head,” Nice argues. “The business case and the benefit to membership have to be in place, but for a clear minority of staff, a big part of their support will be based on ‘How does this affect me personally?’ That’s just the nature of how people are. What’s in it for me? We all listen to the same station, WIIFM.” Nice offers some parting advice for the CEO leading the executive team of a continuing credit union: “Brainstorm what might go wrong in the early days following an internal merger announcement and have some contingency plans in place if a senior executive is not supportive of the merger, if new colleagues aren’t getting along, or if other crises



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arise. Think back to how you motivated senior leaders through challenging times before the merger and keep those strategies close at hand.”