

Success Story

First Volunteer Bank

Chattanooga, Tennessee

Assets: \$464 Million



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A 'Relentless Search for a Better Way' is Paying Off for First Volunteer Bank

"Kaizen" is a Japanese word meaning "a relentless search for a better way." It is what Chattanooga, TN-based First Volunteer Bank has named their process for change, and the positive impact is being seen from the boardroom to the bottom line.

"They told us it would take 12-18 months to see results. It's been 9 months since we finished the initial training, and we've already seen a positive \$3 million impact to our pre-engagement expense structure," said Robert Anderson, Chairman of the \$464 million bank. In the 1990s, First Volunteer consisted of six independent community banks in seven counties. Each had its own board of directors, management structure, and way of doing business. All that they shared was a common holding company.

The holding company wanted to bring in Internet banking, imaging technology, and other capabilities, but there had to be a single system shared by all the banks to make it cost-effective. By 2000, the six banks had merged into one entity with a common, newly purchased technology base.

Culturally, however, things hadn't really changed much. The bank was now managed geographically and the six bank presidents were now regional presidents presiding over their same turf as branches. Over time, each would tweak the bank's policies, procedures, and products for their branches so that they were effectively moving right back to where they had been before the merger.

Rather than finding economies of scale from the merger, their approach kept costs high— as much as 1 to 1.5 times the competitors' cost. It also was not the best way to serve their customers.

The Search Begins

In October 2002, Patti Steele, President of First Volunteer, had these problems on her mind when she attended Sheshunoff's Academy of Professional Banking.

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Using this opportunity to learn from her peers as well as the instructors, she discussed her bank's situation with some of the other attendees. One of them told her of his bank's experience with improving their business process, and how experts at Sheshunoff Consulting had helped them make it work.

"I went to lunch with a Sheshunoff Consulting + Technology (SCS) Engagement Manager and some SCS personnel and got to walk through their process," said Steele. "We had already paid another company to do an opportunity assessment for us, and we had not been at all satisfied with the results, so I was prepared to be skeptical. That other firm had given us nothing in writing and wouldn't share any information with us during the exit interview. I could tell just from what I learned at that lunch meeting that SCS had a different way of doing things."

Bob Stevenson, Managing Director for Sheshunoff Consulting + Technology, visited First Volunteer in December 2002 to further explain the assessment and implementation process, and shortly after that the bank decided to go ahead with an SCS Opportunities Assessment (OA). By January 2, 2003, the bank received a package of materials designed to help them gather the information SCS would need for the first stage of the OA process.

"Their assessment was very thorough," said Steele. "The materials they sent us were organized and helped us pull together the information they requested. Then they brought a whole team of people in for the on-site stage. It was very different from the other firm we had worked with."

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By the end of February, First Volunteer Bank had a detailed report identifying weak areas, highlighting areas where they could improve their processes to better serve their customers, and showing how making changes could impact the bottom line— and by how much. This gave the executive officers and the Board something to work with.

“We weren’t sure how we were going to arrive at the numbers they gave us, but they knew, and that was all we needed,” said Anderson.

A Team Effort

Before the next phase could begin, SCS made it clear that top management had to fully commit to making the recommended changes. That meant each of the 12 executive officers the bank had at that time had to sign on to following the plan that would emerge. Since SCS was able to show them what the pay off would be, they agreed. This top-down commitment was critical to the final success of the effort.

“I’ve talked with a number of CEOs and presidents at other banks who believe they’re committed to change,” said Anderson. “But when you get deeper, you find they’re really not. They’re still working off of what they did 25 years ago. Bankers are the most change adverse people in the world, and that was as true here as anywhere else. SCS was able to help us get over that in a non-threatening way.”

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*Patti Steel, President
First Volunteer Bank, Chattanooga, TN*

The Sheshunoff Consulting team started in March. They helped First Volunteer organize internal teams to focus on lending, retail, deposits, and administration. The make-up of the teams was critical, and SCS helped by knowing what questions to ask, and helping senior management with the decision process.

The teams needed to include staff members, not just management, and each team member had to agree to attend every meeting. In one case, someone

management thought very highly of, and who very much wanted to be a team member, was turned down because she already knew she would have to miss some of the meetings for family reasons. There were no exceptions. “When you have this type of resolve in the organization, the project success is geometrically impacted from a positive perspective,” said Stevenson.

A coordinating person was also selected for each branch. This person was in charge of implementing the teams’ instructions at the branch. Just as important, this “change agent” had to carry the branch staff’s questions back to the team, so the team could respond and make sure the instructions were appropriate and well implemented.

The teams met every few weeks, and SCS facilitated each meeting. “Typically, when you work with consultants, they give you their recommendations and then they leave,” said Steele. “SCS was different. They stayed and held our hand through the process, and they’re still coming back to check on things.”

Communication was a key element in the process, and the bank supported it a number of ways. They held “town meetings” at every branch to help employees understand what was happening and why. “There was a lot of fear at first,” said Steele. By clearly and frequently letting everyone know what was happening and what to expect, and by helping employees see the upside of the changes, the fear factor was overcome and employees began to embrace the idea of being able to take better care of their customers.

The bank also supported the change with a site on the company’s intranet. Employees could keep on top of what was happening at other branches, and stay informed on the progress the bank was making.

Commitment to Change, Commitment to Grow

Communication was the first step in getting everyone in the bank, from the board room to the back room, to commit to supporting the plan. Next, every employee had to sign a “Service Level Agreement.” The bank also developed a “Customer Pledge” that each employee signed and placed on his or her desk. This promise to give superior service could be seen by customers, and served as a constant reminder that everything the bank (and the employee) did was about helping the customer. Both Anderson and Steele feel that this pledge played a large part in the success they are already seeing.

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The “Service Level Agreement” and the “Customer Pledge” encouraged employees at every level to improve their knowledge and their skills. Executive Management signed their own pledge to employees, committing to help them succeed by giving them the training they would need.

This helped the bank grow more expertise, making it possible to hit higher and higher benchmarks, and it continued to foster a team effort.

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“We’ve built expertise in areas we didn’t even have in place before we started this process with SCS,” said Anderson. “For example, we now have our own collections department, a call center to improve customer care, and a centralized loan underwriting department. This last was something we always said we wouldn’t do, that we wanted to keep loan decisions local. But SCS showed us how centralizing the right things would actually help us give our customers faster loan decisions, better pricing, and even faster paperwork. It also helped us make more high-quality loans and improve the overall health of our loan portfolio.”

A Different Focus

When First Volunteer first set out to improve productivity and earnings by merging their six individual banks, their focus was on making better use of technology and infrastructure. They were still thinking along these lines when they asked SCS for help, so SCS performed a Technology Assessment to help the bank determine what it needed.

SCS was able to show management that the technology they had in place was fine, but they were only using about 30% of its capabilities. “They told us we didn’t need to spend more, we just needed to make better use of what we had,” said Anderson. “We liked hearing that. We

needed to give our people more training to fill the gap, and that’s become an ongoing process.”

Technology turned out to be a very small piece of the overall picture, however. “We had a lot of operational processes that actually got in the way of taking care of our customers. Now we ask, ‘what’s the best way to do this for our customers?’” said Anderson. “If you just quit doing all the things that don’t take care of your customers, you’ll be where you need to be.”

“This engagement turned out very differently from what I was expecting,” said Steele. “I was expecting to focus on process improvement. Instead, we changed the focus of our entire bank to become a retail bank. In addition to changing many processes, we’re changing our culture.”

This shift is helping the bank become more focused on building relationships, and as a result, is changing the kind of customers they attract. They compete on service, not price, and as a result they are seeing their low-end customers drop off to be replaced by better, more profitable customers.

“We grew 5% while we were focused on implementing our changes,” said Anderson. “We weren’t even trying.”

“We paid a lot to make change happen, and we wanted to get a lot out of it, but it wasn’t as painless as I was expecting it to be. Top management had most of the pain, though, not the rank and file. Our problem was more about fixing the chiefs, not the Indians, and I think the SCS process helped. Now things are more manageable. It doesn’t take as much to expand in terms of expense, and we have a string on everything going on in our bank. Had we not improved our earnings at all, the SCS engagement would still have been worth every penny. Now our bank is the way it would be if you could dream it. We had no idea until SCS showed us,” said Anderson.

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