

# Process Improvement Can Drive Shareholder Returns: Is Your Institution Ready for Process Improvement?

Article By:

Banks & Other Financial Institutions

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Many banks have been fighting for their lives since the financial crisis began in 2008—focusing on improving credit quality, finding capital and persuading the regulators to release enforcement actions. As the economy slowly improves and bank balance sheets stabilize, boards and CEOs will start to focus on growth opportunities and improving their banks' operating efficiency, all with the goal of driving shareholder returns. With challenging revenue prospects going forward and increasing compliance costs, banks need to reduce the cost of their operating models while improving customer service and sales. This requires a laser focus on process improvement.

Reviewing your organization's processes increases the likelihood that you can eliminate redundancy, reduce risk and expense, address regulatory requirements and take advantage of technology to better serve your banking customers. In this article, guest author [Kristin Kroeger of Fifth Star Consulting LLC](#), reviews the criteria for assessing whether or not your bank is ready for an effective process improvement program.

## Real Life Examples of Process Improvement Opportunities

1. A community bank with a focus on C&I (commercial and industrial) lending survived the financial crisis and remains well capitalized. As its focus returned to organic growth in a very crowded and competitive market, the bank undertook a review of its end-to-end commercial lending processes with a goal of reducing its delivery cost and increasing its market responsiveness. By increasing the use of technology through adoption of a workflow tool and electronic document storage, as well as a realignment of its client-facing support staff, the bank was able to remove costly rework and improve its credit risk management process while reducing response time to client requests.
2. A community bank that experienced a significant contraction in business during the financial crisis found itself with excess real estate and decentralized operations across multiple functions. By undertaking a process review of its deposit and retail operations, the bank determined it could consolidate certain functions, reduce headcount, eliminate a(non-target) leased location, and reduce operating risk within a better controlled environment.
3. A community bank with new executive leadership decided to centralize its operations functions that historically had been managed within each line of business. This transition required the bank to examine each process it owned, challenge the status quo, and address

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existing technology and control deficiencies. As a result of the process review, redundant positions and processes were eliminated and a new operating culture emerged, which was better focused on the customer with a lower overall cost to the bank.

## **Success Begins by Asking the Right Questions Early**

**Before embarking on a process improvement effort, ask yourself these questions:**

- Does the bank's executive management team fully support this effort?
- Does the bank have a culture that rewards performance?
- Does the bank understand how to effectively change management and, if so, does it have the capacity to make it happen?
- Does the bank have the people with the right skills aligned with the process improvement project?
- What value-based outcomes do we expect from the process improvement project?

## **Executive Management Engagement**

Process improvement, by definition, invites an organization to question why it does things a certain way. Management support is critical to the success of these initiatives. Bank leadership must champion the value of becoming process-focused and provide the necessary resources—both time and money—to enable the success of the program. Having the CEO repeatedly remind employees why the process improvement program is valuable to the bank, its customers and shareholders, and the employees' livelihood will motivate and drive employee commitment and performance.

To this end, bank management needs to focus on process improvement as a core initiative and tie it to the strategic vision, shared goals of the organization and compensation program. In doing so, you ensure that process improvement has the continuous focus of the management team and becomes part of the culture and fiber of the organization.

## **Culture of Success and Commitment To Managing Change**

From the lowest paid employee to the top levels of management, a passion for doing the right thing breeds success in a company. Banks will benefit from using their reward and recognition program to complement process improvement plans. Recognize employees who embrace the program early. Continue to build a following by repetitive recognition of early wins and contributions.

Additionally, one of the biggest obstacles to a successful process improvement initiative is resistance from those who may benefit the most. Organizations that are most successful at getting results from process improvement have change management as a core discipline. First, banks should embed a readiness approach into their project plan that addresses training and communication to impacted employees. Second, ensure that affected employees have the time and training they need to learn the new methods. They need to know that management supports time away from daily activities if it is dedicated to learning new skill sets. Finally, be aware that organizations can only absorb so much change at one time. Plan your initiative so that impacted employees have time to adjust prior to adding more change to their environment.

## **Cross-Functional Engagement**

One of the cornerstones of successful process improvement projects is to select what processes to

study and then define where they start and where they end. When one particular bank department is sponsoring the improvement initiative, it is easy to become internally focused. Rarely, however, does the same department own the start point, handoffs and end point. Truly transformational change comes from evaluating an organization's processes across functions. This requires interdepartmental involvement and a commitment to the same vision and goals through proper resourcing and support.

## **The Right People**

While all of the prerequisites for a successful process improvement initiative are important, having the right people resourcing your project is critical to its success. How do you select the right people? Think about your bank organization and the people within it, and ask yourself the following questions:

- Who is already improving processes on an informal, undirected basis?
- Who amongst our employees has the credibility and courage to question the status quo?
- Are there natural leaders in the organization who can establish rapport easily with other departments?
- Which employees understand our banking business and have the ability to capture processes and document them?

While your employees may be great at what they do, often they may not be good at documenting what they do and explaining why it is done that way. Flourishing process improvement programs select employees who have the respect of their own team, can establish rapport with other departments, have the trust and credibility with management to question and interrogate current processes, and can document them with the level of specificity required by the project team. Lack of properly qualified resources will quickly grind your program to a halt.

## **Patience and Avoiding Perfection**

Process improvement is a journey, and depending on the state of your organization it may take several iterations to achieve the smooth-running, well-oiled machine you are envisioning. If you are considering embarking on this journey, understand that it can be a multi-year voyage requiring patience and commitment to achieve the long-term vision that enables a series of early wins to grow into an engine of continuous improvement.

## **Evaluate, Review, Audit**

Regardless of your approach, any process improvement effort becomes dated and ineffective without a culture of continuous review. Banking organizations that truly embrace process improvement are evaluating their processes on a regular schedule, reviewing the processes with their business partners, and auditing how the employees perform their jobs against the documented processes.

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