



CASE STUDY

A Service Culture: A Case Study of the First
Federal Savings Bank of Rochester, Indiana

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by Tom Vogel, Gary Wilkinson, and Ron Zargarian

Introduction

This case study is part of an ongoing research program by the DeVoe School of Business at Indiana Wesleyan University. The purpose of this research is to describe and analyze businesses that exhibit a culture of service to employees, their community, and other stakeholders. The aim is to distill the leadership and organizational characteristics that demonstrate how a business can operate “virtuously” while also being financially successful and exhibiting leadership in the marketplace. The First Federal Savings Bank, with the main office located in Rochester, Indiana, serves banking and mortgage customers in north central Indiana and provides mortgage services in other regions of the state. The leadership of the bank has built a culture of service to customers, employees, shareholders, and communities all while providing an excellent financial return for investors.

This case study demonstrates how the power of a strong corporate culture facilitates successful financial and operating performance. There has been some academic research on the effects of corporate culture and business performance. Two studies are particularly relevant to this study. Heskett (as cited by Silverthorne, 2011) asserts that “effective culture can account for up to half of the differentiation in performance between organizations in the same business” (p. 1). Specific to the effect of integrity, Guison, Sapienza, and Zingales (2013) found that “integrity is positively correlated with financial performance” (p. 3).

This case study research was based on qualitative data gathering through interviews with Richard Belcher, Founder and Chief Executive Officer; Evan Gottschalk, President and Chief Operating Officer; Amanda Morris-Feldman, Chief Financial Officer; Lawrence Faulstich, President of the Plymouth Division; and Ted Denton, Mayor of Rochester, Indiana. The interviews were conducted by Professors Tom Vogel, Ron Zargarian, and Gary Wilkinson, and completed in the spring/summer of 2018.

History of the First Federal Saving Bank

On January 3, 1966, Richard (Dick) Belcher, Founder and CEO of First Federal Savings Bank (FFSB), opened its doors in the back room of a grocery store in Rochester, Indiana. Even though he had no significant experience in banking, he was encouraged by a friend to serve the Rochester area by founding a bank. Dick believed that “friendly banking” could be performed similarly to how one relates to a friend or neighbor. Dick mentioned there was a “pent-up demand” and a “real void” in the community for banking services (R. Belcher, personal communication, May 23, 2018). Over the years, the bank developed a positive relationship with the realtors in the area, which enabled the bank to grow and expand into surrounding communities through established branches. The

growth and expansion of FFSB gave them the opportunity to take their culture of “doing business right” into other geographic regions. Today, the bank has over \$400 million in assets and serves Northern Indiana with six branches. Their mortgage servicing business allows FFSB to extend their service model into other areas of the state of Indiana, where they are now considered one of the state’s largest mortgage lenders (“Our story,” n.d.).

The privately-held firm’s mission statement captures the essence of the bank’s emphasis on serving all customers well. It reads: “First Federal’s mission is to serve our customers with the newest, competitively-priced products delivered to them with state-of-the-art technology; to provide to all First Federal Family members a favorable working environment with reasonable compensation and benefits; and to treat all customers and First Federal members in the manner that all would like to be treated” (“Our story, n.d.,” para. 2). Dick Belcher has a simple way of phrasing the bank’s emphasis on customer service. He says, “We don’t want to be the biggest bank, just the best” (“Our story,” n.d., para. 3).

Over the course of its history, the operating principles of the bank have been framed by its founder, Dick Belcher. Dick’s formative years were spent being raised by Christian parents. His wife, Suzanne, had a similar upbringing. They both were taught The Golden Rule early in their lives, and that principle has guided First Federal through the years. Despite the firm’s orientation toward its customers and associates, times were not always prosperous for the bank in its early years. It was indeed a risky business decision for Dick—a recent Purdue graduate with a degree in agricultural economics—to enter the increasingly complex world of banking with little experience in the field, coupled with raising two small children at the time.

Current Situation

The current President and Chief Operating Officer of First Federal is Evan Gottschalk. Evan has a rather extensive background in community banking and lending. During an interview with Evan, he articulated the mission to build a “family culture” for employees of the firm. He mentioned this concept is a driving force at FFSB and is, indeed, woven into the very fabric of the firm’s culture. Evan further mentioned how the bank has little turnover and that new associates “follow the lead” (E. Gottschalk, personal communication, May 23, 2018) regarding the familial culture being established by Dick, Evan, and other leaders of the firm. In the same interview, Dick articulated the notion that time is spent getting to know the prospective associates and their background prior to their hire, as the leadership team wants to make sure they will fit into the culture of the firm (R. Belcher, personal communication, May 23, 2018). Evan reiterated the leadership’s desire to “get to know not only the employees but their families as well” (E. Gottschalk, personal communication, May 23, 2018). One manner in which the firm supports employees’ families is to provide generous employee wages and benefits in addition to special gifts such as the issuance of a \$100 gift to every employee’s son or daughter graduating from high school, and financial assistance for families buying home computers.

Evan Gottschalk mentioned that FFSB's associates tend to view their roles as more than mere "jobs" (E. Gottschalk, personal communication, May 23, 2018). He indicated that most associates have a "real passion" for what they do and for whom they work. This passion for the firm tends to result in hiring many family members of current FFSB associates which reinforces the "family first" ethos that permeates the entire culture of the firm.

Dick Belcher continually shares about the firm's role in serving their local communities. Service has been central to the firm's culture and will continue to be so in the future...perhaps with additional communities to serve. One thing is quite clear in regard to the bank's commitment to the communities they serve—it is genuine and not merely words. In a telephone interview with Theodore J. Denton, mayor of Rochester, he had this to say about FSSB: "When we have a project that needs financing, even though we could go to one of the larger banks, we go to First Federal" (personal communication, May 24, 2018). It is safe to say that FSSB is not merely "a business entity" in their communities; they are in many respects the financial heart and soul of their communities and, indeed, leaders of their communities. One other substantial attribute of their community commitment is generous giving: FSSB has been the major contributor to the United Way of Fulton County for nine straight years.

Dick has a definite view that community banks, by nature, can serve their customers more effectively than the mega-banks. He mentioned that breeches of trust, like the recent "fake account" scandal at Wells Fargo, destroy the relationship between a bank and its customers. He noted that FFSB has hired people from this same bank, and he knows why people prefer working for FFSB as opposed to a mega-bank: they desire to work for a bank that supports its local communities where decisions are made by local community members (R. Belcher, personal communication, May 23, 2018). He believes that the consolidation of regional banks, including those being swallowed up by the larger money-center banks, is at least partially due to the increasing level of regulation in the industry. In many respects, smaller banks, according to Dick, do not have the wherewithal to monitor and comply with all of the regulatory reporting and scrutiny. He noted that all of the compliance costs must be recovered, which may cut into the desired returns of the smaller banks. Larger banks can absorb the higher compliance costs; smaller banks often lack the expertise and resources to adequately address the compliance issues. On this same subject, he indicated that even with recent changes in the Dodd-Frank legislation, operations would not be changing much and regulatory compliance costs will continue to be an issue. Both he and Evan shared that FFSB will continue to move ahead with their growth plans and opportunities irrespective of higher levels of regulatory burden and the hidden costs or opportunity costs associated with such.

It is often the notion that smaller regional banks find it difficult to compete with the larger money-center banks when it comes to salaries and benefits for employees. In fact, that was the general preconception of IWU's research team. However, the two FFSB leaders made it very clear that their bank is quite competitive with the larger banks when it comes to remuneration. The bank has bonuses, profit-sharing, and a very attractive Health Saving Account (HSA) benefit that rival the larger banks. Furthermore, the two

leaders specified that dedication to the firm is generously rewarded. Thus, the quite low turnover at FFSB comes as no surprise because it is the anticipated result of leadership intentionally providing employees with a generous total rewards package and the intangible, non-financial benefit of a family-first environment.

One sign of FFSB's commitment to its customers are the steps it took during the doldrums of the housing industry in the depths of the Great Recession (2008–2009) to ensure customers could stay in their homes despite the massive job and income losses of that period. Prices of homes were declining, and mortgages were “underwater.” Very high delinquency levels were generally prevalent, especially in the lower end of the housing market. Yet, FFSB, in Dick Belcher's words, “ate the losses” (personal communication, May 23, 2018) during that difficult period. Evan Gottschalk revealed that the bank spent a lot of time (and, therefore, money) working with individual homeowners to help keep them in their homes and stabilize the local housing markets.

Additionally, the bank took the unusual step of counseling their customers to assist them with their total financial picture. The steps to educate and counsel homeowners not only helped their customers to remain in their homes, it actually gave them a sense of hope when dealing with the financial crisis affecting both themselves and the country. Dick indicated that knowledge of their customers and their individual financial condition really helped the clients survive the Great Recession with their homes and lives intact.

Both of the leaders, Dick Belcher and Evan Gottschalk, believe there will always be a place for community banks and lenders because they can be more responsive to the local needs of the populace, and much more so than the larger money-center banks. Evan noted that the one-to-one relationship with its customers enables them to uniquely keep up with their individual financial needs (personal communication, May 23, 2018). FFSB offers all of the services of the larger banks, but does so through service that allows them to tailor products specific to the needs of their Northern Indiana customers. FFSB provides a level of customer service that the larger banks simply cannot achieve.

“...there will always be a place for community banks and lenders because they can be more responsive to the local needs of the populace, and much more so than the larger money-center banks” ~ Dick Belcher and Evan Gottschalk

First Federal Savings Bank is closely aligned to its customers while also remaining focused on employee associates. Dick mentioned that in the days of paper paychecks, he would personally carry the paycheck to every employee (personal communication, May 23, 2018). This not only accomplished the task of paycheck distribution, it also gave him an opportunity to regularly chat with them. As a result, he could maintain a sense of connection with each employee and their concerns; he could also get to know every one of his associates and their families. This is highly reminiscent of what Thomas Peters (year) referred to as “management by walking around” in his classic leadership book, *In Search of Excellence*, first published in 1982. Dick's connection with the employee

associates is still carried out today, though not for reasons of distributing a paycheck. He attempts to talk to his family of associates and co-workers as frequently as possible, not just about the bank's issues, but also engaging with them to learn more about the employees and their families. One item he supports for families is assisting in the purchase of a computer in the employees' homes because he recognizes the educational value and professional enhancement of access to software tools and information.

Evan Gottschalk provided some unique insight into the operation of the bank's loan committee. He shared that if an initial loan application is not approved, it is re-evaluated by the loan committee to uncover what he described as "the human story" (E. Gottschalk, personal communication, May 23, 2018). He clearly indicated in our team's interview with him that "they absolutely want to make the loan!" (E. Gottschalk, personal communication, May 23, 2018). The loan committee and other bank associates will work with a potential borrower to revise the conditions of the loan or pay off some debt. This may enable a customer to achieve the loan and open new doors in their lives. FFSB has even gone to the extent of offering Dave Ramsey's *Financial Peace* course in local classrooms to improve the financial condition of its customers. The IWU case study team views this as an unprecedented step in reassuring customers that the bank is behind them and will go to great lengths to improve their financial health. The two leaders both endorsed the greater need for financial education in our schools and other educational outlets to help all citizens improve their financial success.

Dick and Evan further discussed their notion that problems are merely disguised opportunities. In effect, their bank views themselves as financial problem-solvers for their clients and communities. In many respects, customers' financial problems are the fuel for continuing to develop new products and services that enhance the bank's growth and the financial well-being of their customers. Both the bank and the customers can transform problems into opportunities, helping the institution as well as their client base. In many respects, this is the classic example of translating customers' problems into growth-inducing solutions by the bank. This is precisely how a smaller regional bank can build competitive advantage over its larger rivals: by serving its customers with problem-solving financial services, and demonstrating that superior customer service of the community bank can trump the economies of scale of a larger money-center bank.

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The IWU case study team also interviewed FFSB's Chief Financial Officer (CFO), Amanda Morris-Feldman. Before joining the bank, Amanda was the lead external auditor of the bank. In her capacity, she oversees the financial and compliance aspect of the business. She shared that FFSB was always a welcoming bank for auditors, and they were treated quite well by the bank. In her own words, Amanda says she has always viewed FFSB as a "special organization" (A Morris-Feldman, personal communication, May 23, 2018).

Amanda concludes that the foundation for the bank's success and its unique culture was laid over 50 years ago when Dick Belcher started the bank and cultivated the family-first culture at that time. It has been reinforced over the succeeding years. Dick's views of a bank, its customers, and its employee associates permeate the entire organization. Further, Amanda thinks FFSB employees perform better and are more dedicated because they fully grasp just how much the institution and its leadership highly value them and respect them as persons. Ultimately, she believes the bank is rewarded by the dedication and the loyalty of their people in the form of extraordinary financial results (A. Morris-Feldman, personal communication, May 23, 2018).

The case study team's interview with Amanda was much different than anticipated and far from the usual approach one would anticipate getting from a CFO. In many respects, the interview highlights the fact that FFSB is not purely a numbers-driven institution. The organization relies on solid data analysis, but the numbers are only part of the decision-making. First, the bank does some benchmarking against other similar financial institutions, although their unique blend of banking products and servicing of mortgages limits the usefulness of ratio comparisons. Amanda indicated that *loan efficiency* or similar measures of banking metrics are not their measures of success; instead, they quantify customer service.

Their decision-making process is quite informal, mostly driven by group discussion among various levels of executives. This enables them to make quick, multi-faceted decisions. Amanda explained that treatment of customers and employee associates is more important than the mere numbers; furthermore, she stated, "The bank leadership does not let the budget unduly restrict their actions" (A. Morris-Feldman, personal communication, May 23, 2018). Unfortunately, many firms manage to the budget, but this has not been the case with FFSB. They do budget and plan, but consciously avoid having budgets and plans that can restrict their decision-making. Amanda stated that some new employees who come from a budget-driven organization often have a difficult time adjusting to the less-budget-focused culture at FFSB (A. Morris-Feldman, personal communication, May 23, 2018).

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Amanda provided the case study team with some interesting insight about the nationwide decline in the number of small banks. She does not think it is inevitable that small regional banks will decline in the future; instead, she asserts the key to FFSB's continued success and long-term viability is their competitive advantage of being CUSTOMER-CENTRIC and COMMUNITY-CENTRIC by focusing on serving both exceptionally well. She indeed recognizes that operating and regulatory compliance costs can become overwhelming but is resolute that, in the end, serving customers and communities will

enable those adhering to this principle to continue to thrive. Amanda acknowledges that their key lender, who is also a compliance specialist, has been instrumental in FFBSB's successfully dealing with regulatory burden and the associated costs (A. Morris-Feldman, personal communication, May 23, 2018).

Avoiding the unnecessary budget-driven constraints also apply to longer-term planning. The leadership and the board do not have periodic strategic planning sessions. The process of setting the strategic direction for the bank is often associated with the question, "Can we afford not to 'do' this?" Whatever "this" is. Only two board members are significantly involved in guiding FFBSB (Dick Belcher, founder and CEO, and Evan Gottschalk, President and COO). However, according to Amanda, she and Evan regularly meet together to review the bank's performance and discuss any challenges and opportunities facing the bank (A. Morris-Feldman, personal communication, May 23, 2018).

During the interview with Amanda, it became apparent that she is not just a traditional bean-counter or someone who has a reputation for saying "no" all the time. She is a strategic partner advancing the mission of the bank. As reported by Bender-Samuel (2018), the role of the CFO is changing. Amanda's nuanced, non-traditional role was a bit eye-opening to the research team, but it is consistent with the evolving role of the CFO in corporate America.

Regarding technology, FFBSB has been able to keep up with the latest knowledge, skills, and resources through outsourcing rather than internally housing a fully-functioning IT department. By using third parties to offer online banking and other technological enhancement, the bank can more efficiently use their resources and keep their focus on what they do best: customer service. This is oftentimes the hurdle that smaller regional banks fail to overcome; they either lack the financial wherewithal or the strategic will to address technological needs.

In the interview with Amanda, the question of financial incentives was also raised. The loan originators' and branch managers' compensation is a combination of salary and commission. However, non-commissioned employees are aware that if the bank performs well, they will receive a bonus. That is why the hiring process is so critical, according to Amanda, who further shared that FFBSB strives to hire people who are aligned with the bank's mission—individuals who understand their contributions matter and who are aware they will be compensated accordingly (A. Morris-Feldman, personal communication, May 23, 2018).

The financial results of the bank demonstrate the efforts of the leadership and employees to maintain a profitable operation. At First Federal Savings Bank, earnings per share increased by about 38% in 2018. Revenues increased by 14%, and the bank's assets increased by 6.4% to \$397 million. Over the prior two years, 2016 to 2017, FFBSB increased its return on equity from 5.6% to 7.4%.

A Closer Look

The research team wanted to investigate how the corporate culture is being exhibited in one of the divisions. First Federal Savings Bank has five divisions. Larry Faulstich, President of the Plymouth Division, agreed to be interviewed. Larry has been an employee of FFBS for about 40 years, and it was clear that he viewed his primary leadership responsibility to be focused on maintaining and nurturing a culture of service. Within the city of Plymouth, FFBS supports and participates in virtually all aspects of the community. Besides the area around Plymouth, Indiana, Larry also leads the banking operations in the Mishawaka, Indiana area. Mishawaka is more urban and suburban, being close to the city of Elkhart. Interestingly, he mentioned the challenge of adapting their culture to a demographic that is more attuned to online banking and less personal contact with bank employees (L. Faulstich, personal communication, June 1, 2018). The focus on offering the newest products and services supported by the latest technology is particularly important for this market.

Macro-influences Affecting the Banking Industry

One factor shaping the banking industry is the number of community and regional banks continuing to decline due to acquisitions, mergers, or consolidations. This has significant implications for many communities. The mayor of Rochester, Ted Denton, reported that having a local bank with the service-oriented leadership of First Federal has been a vital component in the economic development of the city and county (T. Denton, personal communication, May 24, 2018). This trend of declining numbers of smaller community and regional banks may have significant implications for smaller cities and towns. Recently, Congress passed legislation, and the President signed the bill intending to reduce some regulations and costs for smaller banks (Tracy & Ackerman, 2018.)

Conclusions and Leadership Lessons

The DeVoe study team has determined that First Federal Savings Bank represents an ideal example of The Virtuous Business Model.¹ FFBS has been firmly grounded in virtue and customer service since its inception, largely due to the leadership of its founder, Dick Belcher. Clearly, First Federal Savings Bank's leaders exhibit virtuous leadership as paradoxically described by Hein and Wilkinson (2015):

The foundation of a virtuous corporation² is virtuous leadership. This leadership must establish the corporate values of ethical decision making and demonstrate a steadfast commitment to these values by their collective actions. Virtuous

¹ The Virtuous Business Model was first introduced in an article in the inaugural journal published by the DeVoe School of Business: *The DeVoe Report*, Spring 2017. The article written by Brooker and Boyce (2017) is titled "Virtuous Leaders & Organizations." The Virtuous Business Model is illustrated and described in the article. The journal may be accessed at https://www.indwes.edu/academics/caps/devoe-school-of-business/the-devoe-report/archive/the_devoe_report_spring17.pdf

² Virtuous firms are characterized by having high integrity; a striving for excellence in their provision of products and services to consumers, in addition to excellence in business leadership and management practices; a culture of open communication, cooperation and collaboration; and a system of measurement and accountability throughout the organization. (Hein & Wilkinson, 2015, p. 3)

leaders recognize that organizations are more than just financial in nature; organizations also have a social and spiritual component. Virtuous leaders are committed to the premise that organizations need to develop, not only financial capital, but social capital as well as spiritual capital. (pp. 5-6)

The research team asserts that an organization's culture matters; it is the "glue" that binds people together in a common cause. In this case, the cause was identified to be relational: customer service and family first. The study also indicates that customers create success for an organization, not merely processes or procedures. Ultimately, it is the customers who generate demand for a product or service—in this case, banking and financial services. Another item of importance uncovered by the team is that culture must be established at the top of the organization and then constantly and consistently reinforced to permeate the entire organization. FSSB's culture is deeply engrained in every aspect of the bank.

Despite their relatively small size compared to the money-center banks, FSSB has not skimped on technology. In fact, they have adopted the latest technology in all aspects of bank operations and have actually used technology as a means of creating a competitive advantage over their competitors. Finally, the relatively small size of the bank and streamlined decision processes, along with their orientation to excellent customer service, have enabled them to demonstrate a high level of flexibility in every aspect of their business. They can strike quickly at opportunities that surface and with much less bureaucracy than their larger rivals. The DeVoe research team concludes that First Financial Savings Bank is a unique organization that provides financial success for the shareholders while treating their customers, community members, and employees like one of the family.

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