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RESEARCH ARTICLE

STRATEGIES OF EFFECTIVE U.S. BANK LEADERS USED TO IDENTIFY EFFICIENCY CHANGES DURING A FINANCIAL CRISIS

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ABSTRACT

Background: The main objective of this paper is to explore strategies of effective U.S. banks leaders used to identify efficiency changes during a financial crisis. **Methods :**Data consisted of semi structured interviews. All interpretations of the data were subjected to member checking to ensure trustworthiness of interpretations. **Results:** Based on the methodological triangulation of the data collected, 3 of the main themes that emerged were excellent management skills and strong decision making, staff education and reduction, and expenditure reduction. **Conclusion:** The implications for positive social change include the potential to avoid bank failures in the future, resulting in a stronger and more robust economy, thus sparing taxpayers the burden of bailing out failing banks.

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INTRODUCTION

The economic crisis started in 2007 when the real estate housing market began to weaken (Trussel & Johnson, 2012). The main cause of the real estate crack in the United States and eventually worldwide was risky home mortgages and subprime mortgages containing balloon interest payments in addition to predatory lending (Trussel & Johnson, 2012). The crisis grew tremendously when the housing market collapsed soon after the rapid growth in the housing market and home prices (Huang & Tang, 2012). The crash in the real estate market caused a major increase in the number of home mortgage defaults, particularly for subprime mortgages (Jaggia, Roche, & Thosar, 2014). This initiated a decrease in the price of securities affiliated to the U.S. real estate market, in turn hurting financial institutions in the United States and worldwide (Pontell, Black, & Geis, 2014). Efficient banks have a better chance of success than inefficient banks because of better organizational structure and communication, overall less risky mortgages, and greater assets, which all result to greater liquidity and solvency (Said, 2013). Decreasing the efficiency of banks will increase the possibility of failures in the financial system (Tamer & Yousef, 2013).

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To advance the efficiency of banks and avoid future oversights, bank leaders must comprehend the factors that destructively affected banking efficiency during the financial crisis between 2007 and 2009 (De Jongh, De Jongh, Jongh, & Gary, 2013). Three years after the start of the 2007 financial crisis, the gross domestic product of the United States did not grow (Pascu, 2014). Rather than the V-shaped recovery process that typicallyhappens after a postwar recession, the recovery of the 2007-2009 recession wasgradual because of the recession's effect on countries such as China, the European Union, and Latin America (Stock, 2014).

MATERIALS AND METHODS

The techniques that used to gather information were similar to the techniques of Azimian, Negarandeh, and Fakhr-Movahedi (2014), which are semistructured, detailed, one-to-one interviews. Turner (2010) suggested that researchers follow the interview protocol technique to complete each interview. Turner recommended that researchers start each interview by introducing themselves and reviewing the consent form. Turner's recommendations were followed during the interviews by recording every interview using a digital recorder. The same interview questions for each participant were applied and were asked each one at a time. Each interview lasted approximately 60 minutes. The information was uploaded from the interviews to the software program NVivo 10 to analyze the data, while keeping the identity of the participants confidential following the recommendations of Lochridge, Wolff, Oliva, and O'Sullivan (2013). Member checking is an essential method that researchers use when they ask one or more of the respondents to check the accuracy, validity, credibility, and the applicability of the study (Welch et al., 2014).Moreover, researchers can build a foundation of trust with the participants and ensure data quality (Kim et al., 2015). Therefore, member checking was applied once the interviews were complete.

- The interview participants had a chance to member check the explanation of the answers provided during the interviews.
- Afterward, each interpretation of the participants' responses was shared. Interview participants had the opportunity to review, change, or modify my script for their approval.
- Revising the script ensured open and honest responses from the participants' experiences (Reilly, 2013).

RESULTS

During 2007-2009, bank underwriters issued nonrisky home loans while conserving home prices, which benefited the economic efficiency, solvency, and growth. Consequently, to improve the overall management strategies, leaders of adopted an extensive home loan approval process using advanced automated underwriting while training and educating the banking staff regarding the financial crisis, which led to improved long-term success and greater customer retention. Consequently, the marginal cost of homes in the books of these banks exceeded home prices and led to the housing bubble, which then led to the 2007-2009 economic crisis (Renaud, 2012).

DISCUSSION

Excellent management skills and strong decisionmaking: During the 2007-2009 financial crisis, bank leaders changed the home loan approval process significantly by making the issuing of loans more stringent and based on logic as well as the customer's creditworthiness. In banking, the theory of economic efficiency relates to everyday bank operations, home loan processing, customer service, and bank productivity, all of which influence the overall ability of the bank to meet its short- and long-term goals, known as solvency (Chan-Lau, 2012). Liu and Chen (2012) proposed the two new variables of nonperforming loans and income loans. Leaders overcame the financial crisis by using excellent management skills along with wise decision-making.

Staff education and reduction: Training and educating the banking staff regarding the financial crisis improved long-term customer relationships and resulted in greater customer retention. Consumers prefer comfort and transaction ease when dealing with a financial institution (Quresh et al., 2012). The simplification of the employee structure made the reduction in the number of branches possible. Staff education and reduction aligns with Pawar and Nayak's (2013) findings that regardless of the size of the bank or the number of staff, banks that enhanced their efficiency in technology improved their performance regarding deposits, income, and expenditure.

Expenditure reduction: An essential factor in overcoming the financial crisis was the implementation of expenditure reduction. The interaction between asset and liability structures determines bank solvency; bank managers or bank regulators can change these structures and interactions (Gatzert & Wesker, 2012). Consequently, greater bank efficiency leads to greater bank solvency and, as a result, greater net profit, success, and overall growth (Said, 2013).

CONCLUSION

The cause of so many bank failures during the 2007-2009 financial crisis was mainly the failures in the home lending process, predatory lending practices, and unethical behavior (Trussel & Johnson, 2012). Bank leaders sought to maximize profits for the financial institutions (Trussel & Johnson, 2012). Bank leaders discussed effective strategies for surviving a financial crisis, focusing on the implementation of appropriate technology and ethically based banking practices. Bank leaders who provided excellent management strategies, educated staff, and reduced expenditure made the banking sector operate more efficiently. Bank leaders who implement these successful strategies will help banks attain the financial solvency to avoid a possible future financial crisis.

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