

## XIX. Periodicals—Current Discussions and Cases

*Annals of the American Academy of Political and Social Science*, Philadelphia.

*Bulletin of The Taylor Society*, New York.

*Factory*, The A. W. Shaw Co., Chicago.

*Harvard Business Review*, The A. W. Shaw Co., Chicago.

*Industrial Management*, The Engineering Magazine Co., New York.

*Industrial Psychology*, Hamilton, N. Y.

*The Journal of the National Institute of Industrial Psychology*, London.

*Journal of Personnel Research*, Personnel Research Federation, New York.

*Management Review*, The American Management Association, New York.

*Manufacturing Industries*, The Ronald Press Co., New York.

*N. A. C. A. Bulletin*, The National Association of Cost Accountants, New York.

*Printers Ink*, New York.

*Sales Management*, Chicago.

*S. I. E. Bulletin*, Society of Industrial Engineers, Chicago.

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*Industrial Arts Index*. H. W. Wilson Co., New York, Published eight times a year and cumulatively.

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The Banker's Interest in Good Management<sup>1</sup>By Rumsey W. Scott<sup>2</sup>

IN 1919 and 1920 a number of the larger banks realized the necessity, on account of the strained industrial situation existing at that time, of establishing a closer contact with borrowers, not only to become better acquainted with their customers, but to secure, first-hand, more accurate knowledge as to their credit rating and also to determine as far as possible, the future outlook both for the industry and for the particular corporation whose record was under review. Several of the larger New York banks created what have been called Industrial Departments for the establishment of this contact with their customers. In 1920 I became connected with one of the well-known national banks in New York, as the head of its Industrial Department, and later as Vice-President. In every instance contact with the borrower showed the importance of management, and further, that successful management was largely determined by leadership. Most of the successful enterprises owed their early success to the energy, sound policies, far-sightedness, and good judgment of the founder, or his competent successors.

One of the essentials of successful leadership was reflected in the training of men to assume positions of responsibility in the event that the leader had to give up active management, thus assuring that a trained and competent successor was available to carry out the policies and to continue the work that had built up the business.

A very important factor in management is, in my opinion, keeping the organization in proper balance—equally strong in finance, sales, production and personnel. While a competent management is reflected in profit and loss statements, it is a factor that is not shown on a balance sheet, and yet it is one of the most, if not the most important asset of the business.

For several years following the World War there was a great revival in business, and while timely warnings were given by the Federal Reserve Banks and leading bankers, few men realized in the early part of 1920 that they were facing one of the greatest industrial up-sets that has taken place in this country. Had it not been for the Federal Reserve banking

<sup>1</sup>Remarks at a meeting of the Taylor Society, New York, December 4, 1925.

<sup>2</sup>President American Cable Company, New York.

system and for the strength of our banks there would no doubt have resulted the most severe panic this country ever faced.

Taking advantage of the warnings, many of the more conservative and far-sighted executives immediately began to get their houses in order, to liquidate excessive inventories and to reduce expenses. Some immediately began to effect economies of production which carried them successfully through 1921, 1922 and 1923—the years of rehabilitation.

Many others had made excessive commitments, had top-heavy inventories and when they were forced to liquidate, cancellations were started which upset business so that many firms suffered losses which they were unable to bear. At the time in question I was in contact with organizations in many lines, investigating their position in the industry, their financial status and management. There were some which showed excellent current ratios, probably as high as three or four to one, but when a close investigation was made, it was found that there was a shortage of working capital due to slow collections, and with excessive high-priced inventories they had to liquidate at great loss. In some instances this depleted their working capital to such an extent that they could not carry on. Many were forced into the hands of bankers or creditors' committees and some into receivership. After careful review by the bankers, those who were engaged in a stable industry, had good earnings up to the time of their getting into difficulties and who, investigation showed, had sound management, were able to secure additional working capital. This saved many industrials. The chief asset of those companies was management.

It was my misfortune to sit by the bedside of many who passed out at that time and I would say that the majority of them failed through their expansion, their lack of sound policy and competent management. There was never a time when management so greatly needed the loyal support of the personnel as at the time of rehabilitation. Going through the severe trials of reconstruction brought about a closer relationship than ever before existed between the principal executives, the key-men of the management and the personnel throughout the organization.

In May, 1920, it was my privilege to read a paper at a meeting of the Chamber of Commerce of the United States, at Atlantic City, on increasing production; mainly by means of improved methods and the more extensive use of labor conserving machinery.

At that time there was a shortage of from four to four and one-half million workers in this country. It was a question as to how this shortage was to be made up. Everything had been going along so merrily that few realized the impending danger. When the upset came, it was not so much a matter of making up a labor shortage as of finding methods of reducing labor costs and of continuing business at a volume that could keep the labor on hand employed, and above all, if possible, of maintaining existing wage scales.

The rapid introduction of modern and more efficient machinery and improved methods has resulted in tremendous economies, and is, I believe, one of the principal factors in our quick rehabilitation. The increased use of power and machinery, and the elimination of waste has been so great as to enable us to continue the high scale of wages. There probably has never been a time when the margin between living cost and wage return has been as favorable as it is today. This has increased the purchasing power of a large proportion of our population.

While we may look back upon the several years of rehabilitation as having been disastrous to many, I should like to hazard the forecast that ten years from now we shall look back upon that time with sorrow for many, but with the realization that out of the ashes of destruction we have built a better and more enduring structure and that the loss has been more than made good.

In my contact with executives, I find that they are getting away from the old notion of taking things for granted, of determining their policies by "hunches" and by past experience. They are now analyzing accurately and in many cases scientifically, in order to determine their position in every department. They are looking forward and planning intelligently.

My contact with many of the successful men in industry convinced me that it was the far-sighted executive who achieved outstanding success: the one who was able to take stock of his own house, and of the industry in which he was engaged, and above all things to look ahead, to plan and strengthen the organization and secure the enthusiastic cooperation and support of his entire personnel.

A balance sheet may show the present financial position of an industrial. Profit and loss statements running back a few years will show what they have accomplished. What the bankers are interested in is the capacity of the borrower. How are they plan-