

Problems of Bank Organization¹

Their Solution Through the Practical Application
of the Principles of Management

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I. Introduction

A DISCUSSION of the problems involved in modern bank organization logically calls for the presentation of certain introductory considerations which have to do with the broad general background. It would, however, transcend the practical limits which should be set for this discussion if extended reference were to be made to the historic aspects of banking or if it were attempted to outline the forces which have been at play in the past few decades moulding the highly effective and necessary instrument known to the present day business world as the modern bank. Reference to the evolution of the banking institution in recent years will therefore be confined to such statements as are deemed necessary to an understanding and appreciation of what is to be presented in these pages, and emphasis will be placed upon the important features of a well-rounded banking service as they have developed in the course of time.

In presenting considerations along these lines to a body of engineers, it may be well at this point to state that the attempt will be made to observe throughout the general viewpoint of management engineering; such interpretations thereof as are made represent the author's experience in introducing principles of industrial organization and management into the banking field.

However simple it may be to distinguish between organization and management in theory, in attempting to translate theory into practice management and organization go hand in hand. Without management to motivate it, organization is a dead thing; without organization, management is scarce-

ly worthy the name. Therefore, in preparing this paper from a practical viewpoint, it has seemed fitting to envisage organization in its broadest aspects as both the tool and the work of management; the work in that it tends to become a completed structure designed to carry an ever changing load, and the tool, in that through it management animates that structure.

Viewing organization in the former sense, the banker is the supreme co-ordinator who faces the formidable task of effectively integrating the elements which go to make up the multiple services known as the modern bank, and in the latter sense he is the leader who guides and motivates the efforts of those concerned in rendering those services, to the end that the complex mechanism which he has created may function smoothly and at reasonable cost.

At the beginning of this century there was probably not a bank in the United States the staff of which numbered in excess of five hundred persons. In point of fact, only the very largest banking institutions in the country even approached this figure in size of personnel. The overwhelming number of financial institutions had probably less than one hundred employees, a condition which possibly still holds true today, but which is to some extent overshadowed by the fact that there are scores of banks in existence at this time whose staffs number between one hundred and five hundred employees and a number of banking institutions in the larger cities whose personnel exceeds the maximum stated. Probably a dozen or more banks in the United States at the present time employ over one thousand clerks.

Why have banking institutions increased in size to such an extent and what are some of the organization problems which have developed as concomitants of this unparalleled growth in the history of financial activities?

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With respect to the United States, the view may be expressed that since the beginning of this century there has taken place an expansion of commercial and financial activities which not even the most sanguine and optimistic student of the field would have dared to predict. In the years immediately preceding the outbreak of the World War, several of the largest financial institutions had already definitely and purposefully established themselves in foreign countries and, with the expansion of trade and other relations between the United States and the world at large, a financial structure had been brought into being which, from the point of view of size, magnitude of operations and diversity of interests, could well challenge favorable comparison with the banking equipment of any other country in the world.

In 1914, shortly after the outbreak of the War, the Federal Reserve System came into being, and the enormous growth experienced by this semi-governmental organization, with its all-pervading influence over the financial affairs of the country, has had much to do with bringing into focus the problems of bank organization which it is the object of this paper to discuss.

Today it may be safely asserted that banks as a whole have reached a point in their development where the extent, diversity and intricacy of the work carried on by them require that special consideration be given to problems of organization, for only through the effective solution thereof will the banks be enabled to meet the peculiar requirements with which they are faced in the accomplishment of the daily operations of the business.

It is, of course, apparent that individual banks differ greatly in the character and extent of their organization problems, and that, correspondingly, the point of attack must be varied if proper solutions to these problems are to be arrived at. On the other hand, it should be recognized that, with the growth of banking institutions, and, in fact, of business in general, there has been built up a great body of principles which, scientifically constructed and thoroughly integrated, may be described as the art of management. Sufficient experience with this new force has been developed in the past two decades to justify the statement that management principles admit of universal application and may be worked out as effectively in the banking field as in any other department of human

endeavor. Consequently, even though the organization problems of banks may vary, either in degree or in kind, their solution may be discovered by the application of tried principles and methods with the assurance that economical and effective results may ultimately be achieved.

In approaching a discussion of the subject of bank organization, it should therefore be recognized that the logical point of departure in attempting a solution of a given problem in this field is the practical application of the principles of management.

II. Banking Functions

It has been said that a bank is primarily an institution in which the funds of the public are safeguarded and stored and that it affords quarters for an organization by means of which the financial interests of the community are served. In fulfilling this function, the bank plays a vital part in the business and industrial development of the country, since activities in these fields cannot be developed without the co-operation of the financial organization which forms their support.

From the layman's point of view this definition of a bank is doubtless satisfactory, but the banker would go further in describing the work and purposes of the institution over which he presides. He would doubtless segregate its manifold activities into their separate elements and, while having well in mind the broader significance of the bank from the standpoint of economics, he would probably describe its functions somewhat in the following fashion:

1. To receive, account for and disburse cash;
2. To make loans;
3. To invest monies;
4. To receive and collect items;
5. To transfer funds;
6. To underwrite and market bonds and securities;
7. To buy and sell foreign exchange;
8. To act as trustee, administer estates, etc.;
9. To receive, invest and disburse funds deposited as savings;
10. To operate a safety deposit business either as a department or a separate company.

Whether a given banking institution be large or small, its activities may be broadly segregated into the elements stated above. These are briefly des-

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