

cribed below so that their bearing on the problem of organization may be understood.

The average layman confines his dealings with banking institutions quite largely to participation in the first function listed, namely, the receipt, accountability for and disbursement of cash, including checks. He is usually entirely familiar with the operation involved in depositing his checks and currency with the receiving teller, in withdrawing either part or all of his deposit from the paying teller, either by check on his account to the order of himself or others with whom he has business dealings or by presentation in person to the paying teller of a counter check signed by him. Finally, he is interested in the monthly statement of the condition of his account which is mailed to him by the bank on the first of each month and which is of assistance to him in the ascertainment of his financial status.

We may go a step further and say that most persons who have dealings with banks have at one time or another availed themselves of the facilities of the bank for making loans. As borrowers of the bank's loanable funds, they have come in contact with the officer whose responsibility it is to judge of the wisdom of extending the bank's credit to the borrower. Doubtless at times they have been brought somewhat abruptly and perhaps even brutally into conflict with the broad general considerations of policy which the bank, in justice to itself, its other depositors and the community, must observe in the matter of granting or withholding credit. The problem of passing on credit is so important a part of the loan function that in practically all but the smallest banks it is treated as an independent function. The work is performed by credit specialists who devote all of their time and energy to the gathering of credit information, analysis of financial statements, etc. It is upon their judgment that loan officers approve or disapprove applications for loans.

Less familiar, on the whole, is the average business man with the third of the functions listed above, namely, the investment of monies. After the bank has accepted the funds of its depositors entrusted to its care and has met the requirements for extending credit, it faces an investment problem in placing its available capital and other funds in such a manner that, while serving the purposes of the community and remaining, generally speaking,

in liquid form, they will produce a return to the bank in the shape of interest earned. Such earnings must be counted upon to help defray current operating expenses, to remunerate the capital invested by the owners of the bank and to insure the maintenance of a surplus fund so as to protect still further the safety of the institution.

In another sense, the investment of monies implies that the patrons of the bank, having confidence in the financial ability of the management, consult the latter with respect to the safe investment of their own surplus funds, and this activity brings the public into contact with other officials' whose duty it is to keep themselves informed and to apply sound judgment to the determination of what constitutes safe and productive investments.

The fourth function, that of collection of items, relates to the thousand and one daily transactions into which the bank enters in behalf of its depositors who entrust to it checks, drafts, notes and other forms of negotiable instruments for transmission to all parts of the country and to foreign lands. These must be presented for payment to the makers of the instruments, collection of the funds must be undertaken, and they must ultimately be credited to the accounts of the bank's depositors. It is in this field that we find perhaps the highest exemplification of the opportunity for service which the modern bank enjoys and a demonstration of the effective manner in which the entire financial fabric of the country is knitted together so as to make it as one in its service to the business world.

Closely related to the work of collecting items is the function involved in the transfer of funds. The development of this function has been materially accelerated in the past decade, not alone through the relationships built up as between banks themselves all over the country, but also through the establishment of the Federal Reserve System with its daily settlement of balances through the medium of the Gold Settlement Fund in Washington. It is a far cry from the disorganized conditions of fifty years ago, and the unwillingness or refusal of banks in one part of the country to accept at par funds transferred from other parts of the country, to the present highly effective and practically instantaneous method of transfer of funds between widely separated points by offsetting debits and credits and making the actual shipment of currency or gold practically unnecessary. The average busi-

ness man has become so accustomed to accepting in a matter of fact way the existence of facilities for transfer of funds afforded by modern banking organizations, that he quite fails to realize and appreciate the long road over which the banks of the country have had to travel in order to make such a service an accomplished fact.

In the underwriting and marketing of bonds and securities, the sixth of the functions listed, only those business men who deal with financial affairs of larger importance have been able to acquire an understanding and appreciation of the services which the modern bank offers. The mobilization of the surplus funds of the community and their attraction to favorable opportunities for investment afforded by the securities offered by commercial, industrial and financial institutions, has had perhaps the greatest influence of any single factor in the upbuilding of the business structure of this country, with its consequent effect upon the elevation of the standard of living and the promotion of the well being of the American people. While other countries, owing to a much longer history of development with respect to industrial and commercial enterprise, have accomplished remarkable results in the organization of their available resources, no country in the history of the world has made faster progress than has this one in recent decades. It is due primarily to the development of the banking organization of the country and the part it has played in promoting business enterprise that the United States has assumed a position of financial leadership in the world today.

The purchase and sale of foreign exchange, the seventh function listed above, has only in the last twenty or thirty years reached the level of great importance which it now occupies. Its intimate connection with the development of international trade relations is obvious, for, unless banks had organized and established effectively the mechanism for the handling of foreign exchange which they now possess, it is safe to say that the world wide business operations which the genius of the American business man has brought into being in recent years could not have been undertaken and the exploitation of foreign markets would have been frustrated.

The eighth function, that is, trusteeship, the administration of estates, etc., has brought into active play the opportunity of the modern bank, by over-

coming practically all of its limitations as an artificial entity, to serve the community in numerous fiduciary relationships and to provide a service along this line which, freed from the defects inherent to natural persons, is characterized by uniform standards, practically unlimited longevity and persistence of application of sound principles, including scrupulous observance and care of the manifold and complex interests entrusted to it.

The savings function, the ninth listed, was formerly confined practically altogether to institutions established to meet that particular need. In recent years, however, this function has been added to the activities of most of the larger as well as many of the smaller banks of the country. This function is separate and distinct from all the others and not in any sense an essential part of the work of a commercial bank.

The tenth and last function referred to, namely, the operation of a safety deposit department, is one which most banks find it necessary and profitable to exercise. However, this function, which involves the use of vaults, is usually segregated from the other activities and performed by a separately incorporated company.

This, in brief, is a picture of the functions which the modern banking institution is called upon to perform. The problem which faces each bank is to translate this abstract picture into concrete reality, to mesh all the gears and actuate the different parts of the machine, to have a well founded realization of the conditions of competition and of changing economic circumstances under which its work must be carried on, and to realize, above all, that the dominant factor in the progress of any business institution is the extent to which sound principles of management are successfully applied.

### III. Planning the Structure

#### A. Classification and Functionalization of Activities

It is sound procedure in all organization work, first to recognize clearly the functions which an institution is called upon to perform and then to devise, on the basis thereof, a simple, elastic and expanding organization framework or structure with the following characteristics:

- a. Subdivision of the work to the point where it will be brought within the compass of performance by people of average ability;