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POSITIVE MANAGEMENT IN A COMPETITIVE WORLD

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POSITIVE MANAGEMENT IN A COMPETITIVE WORLD

One of the attractive features in attending a banking convention such as this one is the chance to meet and exchange ideas with bankers whose day by day operations of their shops make possible the success of the system of smaller, locally-owned banks which flourish today in the United States---and which never has successfully taken root elsewhere.

We all know that the banking system in the United States has contributed heavily to the economic health of the nation, and to the preservation of the diversity of approach in various sections, combined with national unity of goals and philosophy. Today I want to examine one particular aspect of the banking world, the aspect which all of you represent---management.

My topic is "Positive Management in a Competitive World," and I think that the two adjectives in that title cover the theme I want to discuss. We do live in a highly competitive world, and it is getting more competitive every day. The only way the banking community can continue to contribute to this nation's development is by a positive approach to management, an approach which is vital, which cares for the job to be done, and which seeks affirmative goals.

My training as a banker was on the officer's platform of a small country bank. Like any such bank, it was involved in practically all the activities of its community, and lived as the community did. Like all of you my bank knows good days when my community does, and poorer ones when economy of the community suffers a setback.

All of us here know what it means to make, or turn down, a loan; what it means to handle an investment portfoloio; what it means when examiners are in the bank; what it means to handle the large amounts of paperwork required by the banking business, by common sense, and by various levels of government.

We all know how important a well run bank is to the community. We all know, as well, the tremendous competitive pressures which confront every bank in conducting its routine business. Perhaps it will be helpful, therefore, if we stop for a few minutes and examine this newly competitive atmosphere and the positive approach which can help all of us do the job, not only for our bank but also for our community.

I don't imagine that I need review for you the growth of credit unions, of savings and loan associations, of PCA's, of Governmental lending agencies, of small loan companies and finance companies and other financial intermediaries. They are all there now, and none of these competitors seem likely to go out of business. For the most part they serve the needs of the public in specialized ways, and have a legitimate part in the financial world.

But the bank, big or small, which competes with them on a positive basis with a clear idea of its goals and reasons for existence will find itself far stronger than it was before it faced competition.

Bank management cannot expect to be protected from this competitive environment. Some bankers may seek a status favoring them over competition, but I suspect that Congress would not look with favor on such an approach.

Banking, after all, does have some protection, in the sense that it is a limited entry industry, with, we hope, careful state and Federal controls over chartering of new institutions, and therefore over competitive factors within the industry itself.

This "sheltered" status imposes a good deal of responsibility on all of us who manage banks or who are connected with banking in a supervisory capacity. It heightens the necessity not only of doing the job which is ours but of doing it as well and with as positive an approach as is possible.

Today it is not enough that a banker be honest. Integrity of action will not fulfill the assignments which every banker tries to fill. None of you would be here today if you thought that all it took to run a bank was the passive acceptance of funds and the honest caretaking of those funds. The day of the banker who maintains a 90 percent liquid position, paying one percent on thrift funds, is past. (As you all know such men have existed in the industry)

We all know that there are three basic tasks which every bank manager must fulfill. As bankers, we must protect the funds of depositors entrusted to us, we must fill the credit needs of our communities and, more importantly, perhaps, fill the financial leadership needs of the community, and we must attempt to earn, with safety, a return for the shareholders who own the bank we manage.

One basic function, as bankers and as supervisory agency people, is to assure the safety of the deposit funds placed in banks by the public. Banks occupy a position which is unique in the business world. They operate in large part with funds which are not investments, and not loans, but funds placed in the bank for safekeeping. Essentially, they operate with deposits, and the public's concern is with the safety and ready availability on their demand of savings deposit funds.

The depositor becomes a creditor of the bank, and his funds represent an immediate obligation of the bank. The depositor is not looking for an investment appreciation, and in demand deposit relationships does not even look for a return in interest. Indeed, in the latter, banks charge him service charges for the work involved in keeping the funds in the bank.

It may seem an odd reminder, but it is true that the first banking of any sort which the world knew was the placing of moneys and valuables in temples for safekeeping by the priests, some 3500 years ago. We are not priests, and we do not run temples— but the same degree of trustworthiness is expected of us.

We in the banking world should always remember this distinction and this necessary task, especially when we feel impatient over competitors who are investment media and perhaps are tempted to borrow some of their tools. This is legitimate for investment industries which are expected to take such risks, but not for banks.

This is the primary reason, I suspect, why banks are so carefully regulated, and why banks operate in an environment which is carefully restricted as to entry.

These are not new ideas. They have been stated by many good bankers in the past, because they have been tested and proven to be an effective guideline for banking thought. These basic ideas of banking do, of course, make strong demands upon a bank's management.

This is where the positive approach to management comes in. The restricted status of the industry carries with it some important responsibilities. We bankers know that others will not enter the field in competition with us unless it can be shown that needs exist and that existing institutions will not be hurt. We know that banks will not be chartered or authorized in the same way that drug stores, or a thousand other commercial establishments may be permitted to enter business For these reasons we should make sure that we fill the needs of our community in all the areas where a bank is needed If we don't do the job, it may not get done

The banker should do everything in his power, consistent with maintaining the necessary safety, to fill the credit needs of his community, and, of at least equal importance, to give his community the financial and economic leadership it needs.

Theodore Roosevelt once said "public office is a public trust." It does not seem inappropriate to say that the act of being a banker is also a "public trust." Maintaining a good environment in the bank's community requires that the bank, itself a quasi public institution, take a position of leadership. Most of you here, I am sure, serve as directors of firms, and as leaders in the civic, charitable, and developmental activities of your areas. Nothing can be more deadening to a community than a banker who does not care; nothing more positive than a banker who does.

I do not think that this aspect of the life of a banker can be emphasized too highly. The role chosen by the banker presents responsibilities as the source of the economic strengths of his community. These responsibilities force upon him an acceptance that he becomes the financial core of his community.

There is another area of bank responsibility which bothers some bankers, the area of political involvement. Some bankers stay out of politics entirely, fearful of offending some customers. But isn't it better to assist a community to get the most it can for its tax dollars; to assist the community in planning development programs which are feasible; to help the community prepare and live with public budgets which are realistic and possible? Isn't it better to strengthen both the bank and the community in a free interchange of ideas, and to eliminate the possibility, always quite strong, that misunderstandings of financial and economic facts of life will harm the community and the bank?

On credit needs themselves, some bankers perhaps should examine conservative postures of lending which actually are inhibiting not only the bank but the community. Some fine villages and towns are suffering from loss of business and a gradual erosion of the population. Bankers are not always the guilty parties, of course - but perhaps a bank which was willing to look for ways to help the community and to put the community's collective funds (as represented in deposits) to work might help the community to flourish. There may be specialized and good reasons for some banks to have loan ratios as low as 25-30 percent, but does such a bank really help the community in which it exists? Or is it instead seeking a small safe return on the community's deposit dollars without any regard for the fact that it may be a positive drag on the community's development, through a locking-up of credit and capital? Credit and capital can only build up a community where they are put to work. This too is a banker's responsibility.

There is a third major goal which the positive banker keeps in mind. The stockholder who puts up the funds which starts the bank, the men and women who own the nation's banks, deserve and seek a fair return on the investment they make. Being a business which has restricted rights of entry, and which is carefully regulated, banking is perhaps not as profitable as other business, especially as far as capital appreciation goes. But the banker should try to return a decent, sound profit, to his shareholders. I sometimes think that they are the forgotten people of the banking business (if not of all business).

Some time ago one of the nation's largest banks sent its president and vice president out on the road to do some business, and in the course of their travels they held meetings with some stockholders of the bank. They felt that a chance to meet their stockholders would not only emphasize the stockholder's proper position as owners of the bank, but would prove of assistance to bank management in a positive projection of new business and new friends for the institution. The result of the meetings suggested they were right.

Most banks are too small for a major effort such as this - but then most banks' shareholders are few in number and reside fairly close to the bank. The bank should give the stockholders not only dividend checks, but it should provide for a personal involvement in all the bank's affairs. This can also prove to be good for the active stockholder can be a good source of business and of contacts.

All of these areas are the responsibility of bank management. All of these goals require positive management approaches, a blending of the objectives to form an institution which is a positive help to its community and a positive force for progress.

At the same time, these cannot be the goals, or duties, of the Federal agencies. The Federal agencies have an overriding duty to make sure, as far as careful examinations and regulations will permit, that management does not make bad mistakes or commit acts illegal or positively dangerous. This is in some degree a negative role - although the agencies take a positive approach in striving to encourage the best possible management operating under the best possible standards.

But the day by day operation of a sound bank, the day by day commitment to financial leadership within a community, are not things which the Federal agencies, or state agencies, can do for any banker. The bank manager must do them himself.

None of us want to see the supervisory authorities assume any of the duties or powers of the bank manager. Where bank managers may perhaps not be doing all they can or should, I should think it would be far more appropriate for the industry to help straighten out the situation. Indeed, such meetings as this one, are in large part designed to assist the bank manager in his constant striving for the most positive, productive approach to his job.

In a large sense there is no more satisfactory work than that of serving on the officers' platform of a bank. There is the camaraderie, the friendship which builds up over the years.There is the positive reward in seeking and making good loans, and watching the success of those loans send financial ripples out throughout the community. There is the pleasure of service to the community, and the interchange of ideas with fellow bankers.

The banker who likes his job, respects his duties, and cares for his region, looks for new ways to serve and to justify his position on that officers' platform. They exist; the positive manager in today's competitive environment needs to search them out and add them to the tools he uses to serve his customers, his community, and his stockholders.

There is, for example, the development of consumer instalment lending. This is a field which is constantly growing. New concepts are being tapped, and new services offered, every day. Not all are usable for every bank, but such credit has added tremendously to the prosperity of the country and seems to be here to stay.

The field of credit to small businesses has added a new dimension - the use of term loans to the small businessman, floor planning for the retailer, and other services which can be offered are all tools for the positive manager.

The development of the "full service" concept, and the twin concept of the bank as a "family financial center," are both exciting tools for developing the usefullness of the bank to the whole community. It is not surprising that those banks which have set up mechanisms whereby they can serve as financial advisers to the average family are reaping positive returns. Serve as financial adviser to your customers, and seek out the average family for such services, and you bind them to your bank with hoops of steel.

The use of agricultural representatives in the field, men who combine farming know-how with financial acumen, and the development of loans for the modern business-like farm, are causing somewhat of a revolution in the agricultural lending field. The bank which stays abreast of these new developments will find itself reaping positive benefits, and will find that such benefits will extend to the total community.

I think you will all agree as a simple rule of thumb that if the bank's community flourishes, so will the bank. The reverse is also true. The banker who wants to exert a leadership in his community, and develop his bank, can do so if he is willing to take a positive approach toward the three tasks of the banker.

First, he should be aware of the quasi-public aspects of his industry, of the position of trust he occupies, of the necessity for safeguarding the deposits of his community, which, after all, are the credit and capital pool of his community.

Second, he must be prepared to serve his community as a leader in all things financial. He must be willing to go beyond the normal routine of the bank to serve as adviser to his customers and as financial leader in his community. He should be active in civic endeavors, in charity, in political activity, and in the economic climate of his community.

Finally, he should not be afraid of the profit motive. The positive manager should understand and respect that motive. He should use the profit motive to positive advantage, for his bank and for his customers.

This is a competitive ere in which we live. Many financial industries are competing vigorously for business which in times past bankers thought belonged to them alone. But the management which is honest, aggressive, positive in its approach, and which does not depend on the supervisory authorities or upon government to shelter it, should continue to grow.

The answer to the bank managaer, I suspect, is simple: Only one bank can be the largest in the country, or in the state, or in the trade area - but every bank can try to be the best.