

FROM:
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George J. Kelly, Director
12 East 36 St., New York 16, N. Y.

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MANAGEMENT'S MAIN RESPONSIBILITY

Address of M. Monroe Kimbrel, Vice President of The American Bankers Association, before the Annual Convention of the Alabama Bankers Association, Admiral Semmes Hotel, Mobile, Thursday Morning, May 3, 1962. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Georgia.

Our traditions and instincts tell us spring is the time for communing with nature. My schedule of visits to state bankers' association meetings would indicate it is also the time when bankers commune with one another.

This is good--and I believe necessary--for banking. Through your annual conventions you share ideas and experiences with representatives of Alabama's entire banking family. The result is not only better understanding of banking's goals but also a better understanding of the tools and techniques and services with which to pursue these goals.

In my travels as vice president of the A.B.A., I have had many opportunities to talk to bankers in various sections of the country. I have been impressed with the keen awareness they have of the magnitude and complexity of the problems confronting banking in this dynamic decade of the Sixties.

All of you know what these problems are--the squeeze of rising interest costs and operating expenses, the mounting avalanche of paper work threatening to bury the commercial banking system, the intensified competition from nonbank financial institutions, the fundamental changes in monetary policy and their effects on our deposit structures, and the disproportionately heavy tax burden which commercial banks bear as compared with mutual savings institutions.

Banks are affected in varying degrees by all of these problems. What may be a major problem in one bank may be a secondary problem in another. However,

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there is one major problem all banks must solve if commercial banking is to prosper in the years ahead: the problem of people.

No bank is insulated from this problem, and unless we take positive steps toward a solution today, the problem may overwhelm us tomorrow.

The prime responsibility of any bank management is to provide the bank's stockholders and the community it serves with a sound and profitable banking operation. This is, of course, important in day-to-day operations, but the basic objective must be long-range. To maintain the operation over a long period of time, management has another major responsibility--providing for its own succession.

And the only way we can be sure that our banks will have successful management in the future is to plan for it and work toward it now. This is what I would like to consider with you during the next few moments--what can we do now to solve the people problem of the Sixties?

First, let's take a look at the dimensions of the problem itself. A proper starting point would be the personnel structure of commercial banking. If we were to draw a diagram showing the age distribution of banking personnel, it would look something like an hourglass--that is, there would be bulges on either end connected by a much thinner intermediate bar.

In other words, most of the 650,000 or so people in banking today are either on the upper side of the middle-age group or have not yet reached middle age. There is a big shortage of personnel in the middle-age group--those between 35 and 50.

It doesn't take much doing to figure out how the unbalanced picture came about. During the Thirties and, in fact, until after World War II, banks did very little hiring. During the Thirties they didn't need new employees. During

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the war they couldn't find them. Before going on, I might add that this is also true of many industries other than banking.

During the Twenties when banks were hiring, the average age of a new bank employee was a little less than 20 years. This means that most of those employed between 1920 and 1930 today are between 52 and 62 years of age. This is one of the bulges in the hourglass.

We all have first-hand familiarity with the virtual explosion that took place in the banking population in the Forties and Fifties. In the decade of the Fifties, the bank population rose from about 300,000 to over 600,000. This accounted for the bulge on the other end of the personnel hourglass as hundreds of thousands of young people entered banking after the war.

Now let's see if we can relate this to the personnel problems coming our way in the 1960's. The 20-year-olds hired in 1920 are 62 years old today. This means they'll begin retiring in 1965. And, of course, those hired in 1921 will be reaching retirement age in 1966, and so on. In other words, beginning in 1965 there is going to be a massive move into retirement of banking's management personnel.

Where will their replacements come from? Well, it's obvious that normal progression up the ranks won't supply enough--remember the gap we mentioned earlier?

But, someone may ask, isn't the United States in the middle of a postwar population explosion? Won't there be more people in the 35-to-50 bracket available in the middle Sixties? Why not hire some from the outside?

Well, let's examine a little more closely this postwar population explosion everyone is talking about. In 1958, the Census Bureau issued some population projections that extended to 1970. The Bureau estimated that our population would be 210-million by 1970.

Last month the Census Bureau revised this estimate--upward. Now it looks as though we'll have some 214-million people by the time the Sixties have

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ended. Incidentally, that's almost a 19 per cent rise over the population of 1960. Statisticians in the audience will recall that the 1950's showed the same percentage gain.

This population boom is going to mean more millions of Americans will be wanting bank services as the Sixties progress. As our economy moves ahead, and assuming we can compete successfully in the new environment of free-trade worldwide competition, our income levels should continue to mount. Millions of low income families will be moving up to the middle-income level. There will hardly be a family in America by 1970 that won't have at least one checking account, a savings account, a mortgage perhaps, and a consumer credit account.

This boom in bank services--if we remain competitive--will necessitate rapid growth in banking. And the biggest growth area will be at the managerial level. Automation will assume many of the clerical chores in banks during the next decade, but there isn't a machine in the world that can prepare a training program for new employees, or administer a salary program, or serve on the mayor's community development program, or learn the needs of the bank's customers.

The 35-to-50 age bracket has a critical importance for all business enterprises because this is the pool from which most management and supervisory personnel are drawn. Let's see how this group fits into the population explosion picture.

The biggest gain in the Sixties will be in the 18-to-24 age bracket, which will expand by a whopping 51 per cent. Next is a 40 per cent growth in the 14-17 group. Children under 5--who, incidentally, make notoriously poor managers--will be 24 per cent more numerous. People over 65 will increase by about 20 per cent.

But the critical 35-to-44 bracket will become relatively smaller as the Sixties progress. By 1970, according to the Census Bureau, this group will comprise

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a proportion of the population that will be 5 per cent smaller than it is now. This means that as our need for managerial replacement becomes increasingly urgent from 1965 onward, there will be relatively fewer opportunities for banking to acquire new full-grown managerial talent from the outside--even if we could afford to compete with big commercial and industrial corporations in salary levels. And how many banks can?

Of course, there is another solution to the problem of management replacement which banks of all sizes--but especially smaller institutions--will feel pressing on them like a vise from now on. The small bank, even the middle-sized one, which today is being skillfully piloted by The Old Man (in quotes) to a very handsome dividend position each year is a familiar sight to most of us here. The Old Man in effect runs a one-man bank. His is the only hand on the controls, and it's a joy to see him get into Treasury bills and out of municipals with comfortable anticipation of changing money market pressures.

But suppose something happens to The Old Man--without warning. What happens to the bank? Who takes over the controls?

What often happens is a merger. Although undesirable, at times it is the only solution. Acting in the public interest, the regulatory authorities will expedite a rescue consolidation. Since the small or middle-sized bank seldom has the resources or know-how to acquire the stock or assets of a bank the same size, the merger often follows the pattern of that between a cat and a mouse.

The loudest complaints I've heard in recent years about the postwar merger trend have come from those bankers who have been the most dedicated proponents of the one-man bank. What they seem to forget is that a bank's community, stockholders, and employees are entitled to expect continuity in a bank's operations. After all, when a state legislature or federal authority grants a bank a charter, it is granted in perpetuity. The bank is supposed to keep going after The Old Man

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has gone. If a bank doesn't generate its own management succession, then the regulatory authorities have a duty to perpetuate its existence if possible.

It isn't necessary for me to quote voluminous statistics to show that the number of independent banks has been shrinking throughout the postwar period. All of you are well aware that while your home state during the 1950's enjoyed one of the most impressive economic growth rates in the nation, the number of unit banks in Alabama declined from 219 to 214.

I believe there always will be a place in our economy for the independent community bank. But this place is by no means guaranteed. Many community bankers today suffer from institutionalism--the conviction that last year's successful existence assures next year's. If we community bankers want to guarantee our own extinction, all we have to do today is fail to provide for competent management succession tomorrow.

What can we do about this problem?

We might try this four-part program: (1) Adopt a specific management succession plan; (2) Hire the best people we can possibly afford; (3) Make room for young people on the management escalator; (4) Take full advantage of technological and technical assistance.

The first step seems obvious, but perhaps it's most important of all. What it calls for is a written, detailed plan of succession which the chief executive officer of every bank should have at his fingertips. I'm sure many of the chief executive officers in this audience have such a plan in their confidential files back home.

Ideally, this plan functions like an escalator. The top man of the bank works closely with the man directly behind him, delegating responsibilities continuously as the next-in-line demonstrates his ability to handle them. Then,

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as the chief executive officer moves up to retirement, the No. 1 man behind him moves smoothly into his seat, with No. 2 moving up to the No. 1 position and No. 3 moving into the No. 2 spot.

This is ideal management succession--the kind recommended by most graduate business schools, and the kind that time and trial and error have proved to be most efficient in a free enterprise economy. The closer your management succession plan approaches this ideal, the more fully have you--as chief executive officer--fulfilled your responsibilities to your community, stockholders, and employees.

For those of you who are chief executive officers running one-man shops, with no specific plans for succession, a management blueprint should get top priority when you get home.

Try this scheme: first, make a list of the decisions and functions you handle as chief executive officer of your bank. Now make a list of your associates, indicating their shortcomings and their strong points. Cut down the list by eliminating those not qualified at this time to share some of your decisions and functions. Next, select the top three who best qualify. Finally, assign Numbers 1, 2, and 3 ranking to these three.

When you've done this you've only started. The painful part of the program will be the conscious sharing of management decisions and functions with your successors. But this process of delegation is the very heart of management. The man who does everything important himself may be an excellent banker, but he is a poor manager. In Seattle last year, Bob Hilkert, first vice president of the Philadelphia Federal Reserve Bank, gave the American Institute of Banking Convention this definition of sound management: "Management is the accomplishment of results through other people--the best possible results," Bob said. "Poor delegation leads to poor performance."

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So putting first things first, let's make sure we have a specific, detailed management succession program in our banks--one that names names and has both direction and pace.

The second point is this: Get the best people you can. If you are not willing to compete for some of the better young people available, you will find yourselves in a position of picking the best of a mediocre lot when it comes time to fill a more responsible position.

Next, let's consider for a moment how we can turn to our advantage the fact that young people are going to form a major part of our employee pools in the years ahead. I believe a keener recognition of the capacity of many of our young people to fill more responsible positions in our banks will be as heartening to us as to them.

Promotion by age rather than by accomplishment can drive young talent to more promising surroundings. If young people in a bank do not grow as fast as their capacity permits, inevitably they go elsewhere. The bank that makes full and productive use of a young man's or woman's intelligence and skills not only does the young person a favor, but it makes a significant investment in its most important earnings asset: its people.

The one thing we can be sure of with respect to any group of individuals is that they will grow at different rates. Once a young man has demonstrated his ability to handle the small jobs in banking, his assignments should be enlarged. This doesn't mean that young people should be spared the routines of banking. As everyone here knows, banking work includes routine operations; but there is no reason why a job in banking should be only routine.

Anyone, young or old, who will settle only for the job that provides a new challenge every morning and a new one every afternoon will spend the rest of

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his life looking for work. Bob Hilbert also said something on this score that bears repeating here.

Bob commented (quote): "It's a sign that one is growing up managerially when he learns not to be bored with old and familiar problems. We shall have, and we need, new problems; and we must learn how to meet them; but who among us does not have much to learn in trying to find better solutions to old problems?"

What we must offer young people, if we are interested in retaining them as potential managers, is a mixture--a mixture of growth opportunities and stabilizing experience. If we are sincerely interested in helping our young people to grow, then we will offer them training programs. This doesn't necessarily mean extensive programs such as those some big banks find useful, but every bank can and should have a plan that will help its young people move onward and upward.

Even the smallest of banks can use the oldest training program in the world: the understudy method. Working under a first-class man who will offer guidance is, according to most training experts, still the best way to familiarize a capable young man with the managerial functions. The understudy method is open to all banks; but it requires progressive, open-minded bankers to make it work well. I don't believe anyone has expressed more vividly than Mark Hopkins the way the understudy training program works. He said, "What I try to do is imagine I'm on one end of a log and the student is on the other."

Finally, we can do a lot about our management problems by taking full advantage of technological and technical developments.

We owe it to our staffs--as well as to our communities and stockholders--to make use of the technological advances that have given us machines that can do the work of men and women. Many big banks already have hired their data processing and computer experts; many of them have installed million-dollar systems.

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Smaller banks don't have that sort of capital to invest, but we can cooperate much more closely with each other in making use of common data processing systems and computer service centers. These will enable us not only to process the mountains of paper work looming up in the months and years ahead, but also it will help free many qualified and experienced people in our banks from routine banking chores that must get done. Many of these experienced men and women can fill the management gaps in our ranks which the next few years will bring.

The technical developments at our disposal are the advances in educational and management training techniques now being developed by our banking associations.

The American Bankers Association's Banking Education Committee has completed a series of meetings with state association secretaries and regional schools. The purpose: to upgrade the quality of the schools so that our institutions will help young bank people get the training to assist them in qualifying for the management escalator.

The A.B.A. Personnel Administration and Management Development Committee has been instrumental in having included at Rutgers University in New Jersey-- where graduate banking courses are offered--a permanent training program especially designed for training bank executives. The curriculum is aimed primarily at meeting the needs of smaller banks.

This committee also has held seminars in February and March at Denver and San Francisco. The meetings--perhaps some of you managed to attend similar seminars held earlier in the South--concentrated on the development of upper-level manpower in smaller and medium-sized banks. In all, 13 of these area meetings have been held by the Committee since 1960.

And last month, as the result of a joint effort by the Personnel Administration and Management Development Committee and the Country Bank Operations Committee of

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the A.B.A. a revised salary administration manual was made available. This manual encompasses four phases of management development as well as salary administration: (1) the nature / of duties performed by individual employees; (2) the relative value of that work; (3) how well the employee does his job; and (4) the total amount the bank can budget for salaries.

In closing, I'd like to call your attention to recent newspaper reports of the U. S. Comptroller of the Currency's statement that he intends to press for federal legislation for wider bank branching irrespective of more restrictive state laws. I don't agree with his views; but if he is successful, then state banking supervisors may have to broaden existing branching regulations in order to permit their locally chartered banks to compete effectively.

Of course if we want to provide high-powered ammunition to those who favor indiscriminate branching, then all we need do is ignore our management succession problems. But some of you may feel as I do that there will always be room--and, indeed, a real need--for smaller banks that are an integral part of a community. Those of us who want to preserve our independent community banks must strengthen our defenses against massive branching. Gentlemen, I contend the most important thing we can do is strengthen the management structure of our institutions.

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