

BUSINESS REVIEW  
Vol. 65, No. 1  
March, 2018

# How Bankers Became Managers – and is that a good thing?

Matthias Kipping

## Abstract

This article argues that there are systemic reasons for the role of banks in recent financial crises and for the fraudulent behaviour of bank employees. It links them to efforts to turn traditional and conservative banking institutions into modern and more aggressive businesses. The article shows in some detail how critiques of the banking sector and its human resources practices arose in the 1950s, leading since the late 1960s to a fundamental transformation of large banks in a growing number of countries, starting with the US and the UK. It also highlights the major role played by the consulting firm McKinsey & Company in (a) familiarizing bankers with management terminology and thinking drawn from industrial firms such as General Motors, (b) copying the latter's decentralized organizational structure as well as their incentive and control systems into the banking sector, and (c) prompting the banks to hire more MBA graduates. While these changes gave bank employees supposedly more autonomy and accountability, the profitability goals set from the top ultimately drove them into ever more risky behaviour. However, as the many subsequent crises and scandals have shown, selling a loan is not at all like selling a car.

**Keywords:** Lehman Shock, managerialization, multidivisional structure (M-form), incentives, self-perception, McKinsey & Company

## Introduction: Banks, bankers and crises

Banks have always been “special” – for a number of reasons (Benston 2004). Among these reasons, their fundamental role for economic growth and modernization, as part of the broader financial system, has been and continues to be of particular importance (e.g. Sylla 2002). This role also explains the significant attention that authorities of different kinds – including religions and governments – have always paid to banks and finance more generally (Homer and Sylla 2005; Cassis et al. 2016). At no times is the fundamental role of banks in the economy more apparent than during the recurrent financial and banking crises (e.g. Reinhart and Rogoff 2009; Cassis 2011). The latest crisis occurred in 2007–2008, with some of its effects enduring today. It has been called “Lehman shock” in Japan and is known elsewhere as the “Global Financial Crisis (GFC)” or, given its negative repercussions on the economies of many countries, as the “Great Recession” – in reference to the devastating “Great Depression” of the 1930s (see, for a comparison of the two, Temin 2010).

While the effects of this latest major crisis were indeed widespread, touching most countries and most sectors of economic activity, banks did play a crucial role at its origin. An indication for this can be found in the reasons that prompted the Japanese to refer to the crisis as “Lehman shock”. Lehman Brothers was the fourth largest investment bank in the United States before succumbing to the crisis in September 2008. Bear Stearns, another investment bank and securities broker, became insolvent already in March 2008 but was acquired by JP Morgan Chase before going bankrupt. The deeper origins of the crisis and these collapses can be traced to regional banking in the United States, where people were enticed to purchase homes that they were unable to afford by offering them promotional mortgage rates below the so-called “prime” rate. These sub-prime mortgages were then bundled and, with the complicity of the rating agencies, sold to investors as highly-rated securities by investment banks such as Bear Stearns and Lehman Brothers. When rates went up after the promotional period ended, many of these homeowners defaulted, rendering the related securities largely worthless and, more importantly, choking trust within the financial system, which came to a screeching halt (Gorton and Metrick 2012). As a result, banks with a high exposure to these – now largely worthless – asset-backed securities, like Lehman Brothers and Bear Stearns, collapsed, while others considered “too large to fail” due to their systemic role (see above), were rescued by governments in many countries, though fore-

most in the US and the UK, at enormous expense to the taxpayer (Langley 2015).

Like in previous crises, much of the blame for these developments and the banking failures was laid at the doorsteps of regulators or, rather, those governments that had decided to deregulate the banking sector since the 1980s (e.g. Financial Crisis Inquiry Commission 2011; Slovik 2012), with technological changes seen as a facilitating factor. And the consequential reaction was an attempt to re-regulate, for instance with the Dodd-Frank Act in the United States – now being slowly hollowed out and dismantled – or the so-called Basel III rules, which are requiring banks to increase their reserves to be able to better withstand future shocks (<https://www.bis.org/bcbs/basel3.htm>). In the search for those responsible, the broader public also pinpointed “Wall Street” and “bankers”, whose reputation sank to new lows after the 2008 crisis (Owens 2012). This should not be surprising given that fraudulent or at least reckless behaviour had already caused bank failures in the past: Among the more recent cases are Nick Leeson, who brought down the venerable British Barings bank in 1995 or Jérôme Kerviel and Bruno Iksil, the “London Whale”, who caused multibillion dollar losses to, respectively, Société Générale in 2008 and JP Morgan in 2012. However, the only conviction of a banking executive, Rebecca Mairone, as part of a case against Bank of America, was overturned in 2016 (Corkery 2016a). Mairone, who has since used her maiden name Steele, had been responsible for a lending program tellingly referred to as “High Speed Swim Lane” or “hustle” at Countrywide Bank, which was acquired by Bank of America in 2008, after it ran into financial trouble because of these practices. Nevertheless, several banks, including Bank of America, paid huge fines to settle lawsuits related to the financial crisis – though without admitting any guilt.

The question asked in this article is whether insufficient or lax regulation and the reckless or fraudulent behaviour of some individuals have been the only culprits when it comes to banks and bankers harming the interests of their customers, their own organization and – in extreme cases – the economy as a whole. As a recent case shows, tighter regulation has clearly not prevented this kind of behaviour, though the increasing scrutiny has at least managed to uncover it. Thus, since 2011 at Wells Fargo, the third largest US bank by assets, employees had signed up close to two million customers for additional, fee generating services without their consent, including credit cards, new accounts and online banking, even creating fake email accounts for the latter. According to one report, “[r]egulators said the bank’s employees had been motivated to open the unauthorized accounts by compensa-

tion policies that rewarded them for opening new accounts; many current and former Wells employees told regulators they had felt extreme pressure to open as many accounts as possible” (Corkery 2016b).

This case not only shows the persistence of such behaviour, it also points to its possible origins, since it seems quite similar to what motivated bank employees to sell sub-prime mortgages – though in this case it did not lead to a global financial and economic crisis, only to a 185 million US dollar fine for Wells Fargo and the resignation of its CEO. Given its sheer scale, this behaviour is clearly not driven by personal financial pressures, which were found, in a recent exploratory study, to motivate occasional fraudulent acts at lower levels of the banking hierarchy (Hollow 2014). That same study also suggests that at more senior levels “personal financial considerations tend to come second to those of the organisation as a whole” (p. 174). The question therefore becomes what is driving banks and their executives to create these kinds of pressures on their employees. Or, put differently, is there a systemic reason for these practices, which regulation seems unable to eradicate ?

A possible answer can be found in a study examining the origins of the Swedish banking crisis in the early 1990s. Thus, while also pointing to deregulation as a root cause, Engwall (1994) went further than other observers (e.g. Englund 1999), highlighting what has been called mimetic behaviour (DiMaggio and Powell 1983) by bankers, in this case “a general idea that the banks, which were seen as old, traditional and conservative institutions, should modernize themselves by adopting the mode of behaviour shown by large industrial companies” (Engwall 1994: 234). This, he suggested, was in particular “the message preached by successful industrial leaders, consultants (such as the Boston Consulting Group and McKinsey) and in the strategy literature” and included, more specifically, attempts to improve the ratio between revenues and costs by growing the former through aggressive sales and marketing efforts. Engwall (1994) compared this change to the bankers, who had been playing bridge all their life, now trying their hand at poker – though with only a rudimentary knowledge of the rules. Excited to play the new game, they kept raising the stakes and taking ever more risks – ultimately causing the crisis. The necessary government bailout – where the same consultants that had originally suggested the behavioural changes to the banks were now asked to help restructure them – is estimated to have cost the Swedish taxpayers around two per cent of GDP (Englund 1999).

While Engwall’s (1994) explanation seems compelling, he provides only limited evi-

dence, especially when it comes to the ways in which apparent role models, consultants, and the business media fomented the changes in the behaviour of the Swedish bankers. What the present article attempts to show, based on earlier work with various co-authors (esp. Kipping and Westerhuis 2012; 2014; Engwall, Kipping and Üsdiken 2016) is, first of all, that the changes leading to the Swedish and other banking crises are related to the “managerialization” of the banking sector. Secondly, the article will also show that banks and bankers in other countries espoused these changes almost two decades prior to their Swedish counterparts. And last not least, the article will confirm that consultants, and in particular McKinsey & Company, played a crucial role in this process – further dissecting this role through an in-depth case study. The remainder of this paper will first contextualize the banking specific developments by summarizing the expansion of the notion and practice of “management” since the late 19<sup>th</sup> century. Next, the paper will demonstrate how consultants played a paramount role in introducing this notion and the related practices into the banking sector by changing not only the beliefs and self-perceptions of bankers but also by introducing the corresponding organizational structures and incentive systems. The final section will discuss the long-term consequences of these changes and how they might be addressed going forward.

### **Context: The managerialization of everything during the 20<sup>th</sup> century**

The origin of the word “management”, if one is to believe its etymology in a number of reputable dictionaries can be found in the Latin word “manus” or hand and in the Italian term “maneggiare”, which refers to the handling of horses. Early uses of the word referring to organizations and those directing them can be found in the 18<sup>th</sup> century – with the organization actually being the church. Examples include a sermon highlighting “the duty of a Christian church to manage their affairs with charity” and a critical treatise offering “a pleasant account of the humours, management and principles of the great Pontif [i.e. pope] Machiavel” (see, for details and references, Engwall et al. 2016: 1–2). The first bestselling book with “management” in its title was published in London in 1861 by Isabella Beeton: *Beeton’s Book of Household Management* sold two million copies in less than ten years and is still in print. But it was essentially a cook book, even if also providing some suggestions for how to handle household staff (Russell 2010).

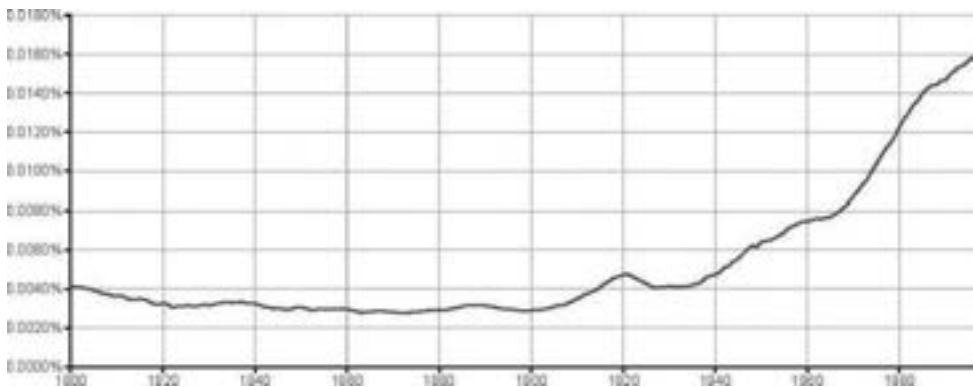
Until at least the early 20<sup>th</sup> century, activities closer to what we would call management today were usually referred to as “commerce” or “business”. Thus, the first programs teaching skills for those working in the growing number of business undertakings since the early 19<sup>th</sup> century were called commerce degrees and the increasing number of institutions offering such degrees in many European countries as well as Japan were generally named “schools of commerce”. The Paris-based *École Spéciale de Commerce et d’Industrie* founded in 1819 – predecessor of today’s *École Supérieure de Commerce de Paris* (ESCP) – is widely seen as the first of its kind. Similar schools in North America also used the commerce label until the foundation of the Graduate School of Business Administration at Harvard University in 1908 introduced a new and lasting terminology as well as a novel degree, the Master of Business Administration (MBA). The business school term and the MBA degree have since been gradually espoused around the world, especially after World War II, with Meiji’s Graduate School of Business Administration established in 1953 being among the Japanese pioneers (Engwall et al. 2016: Chs. 4 and 7). The first journals dedicated to management as a topic were started in 1922 and also had business in their title: the *Harvard Business Review* and the *Journal of Business*, the latter published by the University of Chicago Press in conjunction with Cambridge University Press, Maruzen in Tokyo and the Commercial Press in Shanghai (ibid., p. 139; the journal folded in 2006).

Management as a term first became more widely used due to the notion of “scientific management”. Derived from the title of a book published by Frederick Winslow Taylor in 1911, *The Principles of Scientific Management*, the term covered a wide range of systems to measure and improve labour productivity that were developed, promoted and applied by Taylor himself, his acolytes as well as his many imitators and competitors, most of whom worked as independent consultants rather than within specific organizations. While scientific management might have ultimately contributed to a deskilling of labour (Braverman 1974), Taylor and many other proponents of scientific management saw their systems as a way to reconcile the conflicts between owners-managers and workers through the use of scientific methods. Some also envisioned it as a blueprint for better organized and more just societies – unintentionally helping to give rise to technocratic and totalitarian regimes (Maier 1970). Scientific management became a global phenomenon during the first decades of the 20<sup>th</sup> century, but the translation of the term generally reflects its focus on the shop floor, with the French *organisation scientifique du travail* or “scientific organization of work” a telling exam-

ple. Equally tellingly, the increasing number of consultants selling these systems were generally known, even in English, as “efficiency engineers” – confirming the embeddedness of early management within engineering (e.g. Shenhav 1999).

A turning point in terms of the terminology came during and after World War II and is exemplified by the different English titles for the translations of the 1916 treatise by the French mining executive Henri Fayol, *Administration industrielle et générale* – today considered one of the early classics on how to manage. Pitman of London published both translations but while remaining true to the French original in 1930 with *Industrial and General Administration*, the 1949 version was renamed *General and Industrial Management* (see Engwall et al. 2016: 292), reflecting the growing notion that management was a “general” skill applicable to different sectors, including, since the 1980s, to the public sector in the form of “new public management” (e.g. Hood 1991). In between these two translations, the belief in the importance of management had received a major boost with the success of the United States in World War II and was spread globally by public and private US actors in its aftermath (e.g. Kipping and Bjarnar 1998; Kudo, Kipping and Schröter 2004). The following graph broadly reflects this expansion of the term “management” with a more modest increase since the early 20<sup>th</sup> century and an acceleration from the 1940s onwards.

Figure 1: Share of the word “M/management” in Google Books, 1800–2000



The emergence and expansion of the practice of management and of identifiable roles for managers both in organizations and in society saw a similar trajectory. Some scholars have sought parallels for today’s practices in ancient times, while others have drawn attention to large-scale shipbuilding or manufacturing establishments or to the global trading

companies of the pre-industrial period as predecessors for today's big businesses. But most would concur that it was the so-called first industrial revolution originating in the UK in the late 18<sup>th</sup> century and, even more so, the second industrial revolution, spreading first in the US about a century later, that led to the establishment of clearly identifiable and ever more diversified management positions. In textile mills with thousands of workers, then steel mills and later automobile plants, employing tens or even hundreds of thousands, owners increasingly had to rely on salaried managers to introduce, supervise and enforce standardized policies and procedures, covering ever wider ranges of activities, from procurement to production and sales. Managers became even more central after the ownership of these large firms started to disperse (Berle and Means 1932), though they were also present in family-owned businesses. And they transferred patterns of behaviour and values from corporations into society at large (Zunz 1990).

Managerial ranks saw their most significant expansion with the introduction of what has since been called the multidivisional or M-form: decentralized organizations consisting of several geographically or product-based divisions and a corporate center making strategic decisions – and monitoring them using planning processes combined with detailed budgetary and financial controls. These organizations were meant to deal with the “administrative overload” caused by increasing diversification, competition, and complexity – partially by adding large swathes of middle managers in both line and staff functions (Chandler 1962; see also Drucker 1946). Originally developed during the interwar period – largely independently – by four US-based companies, DuPont, General Motors, Standard Oil of New Jersey and Sears Roebuck, the M-form spread quickly, first in the United States and then, after World War II, also in Europe (for an overview, see Whittington and Mayer 2000; Kipping and Westerhuis 2012). And it was often introduced with the assistance of a new generation of management consultants, who had emerged during the interwar period under the label “management engineers” but offered services pertaining to organization and, since the 1960s, strategy rather than the shop floor. Among the most prominent of these was McKinsey & Company, which had originally been established in Chicago in 1926 by accounting professor James O. McKinsey, but was gradually refashioned after his untimely death in 1937 by partners in the New York office with an increasing focus on top-level advice (McDonald 2013).

In the UK alone, where we have some data, McKinsey was involved in 22 of the 32



cases, where the 100 largest industrial companies had used consultants for their decentralization during the 1960s (Channon 1973; see also Kipping 1999). And McKinsey also spearheaded the managerialization of the largest banks in many countries, as the following section will discuss in some detail.

### **Banks as latecomers: How they eventually became managerialized**

Thus, managerialization spread rapidly to industrial organizations throughout the interwar period and even more so during and after WWII. Banks, however, remained different in terms of their recruitment and training as well as their overall organization and the ways they made decisions. This is well documented by two empirical studies of human relations in banking from the 1950s, both published in the recently established *Administrative Science Quarterly* (Argyris 1958; McMurry 1958; see also Argyris 1954). The first was a case study of a single, anonymous bank conducted by Chris Argyris, who became one of the pioneers of research into organization development and the “learning organization”. At the time, he was based at Yale University’s Labor and Management Center and later, in 1971, moved to the Harvard Business School. The second study drew on interviews with about 900 employees in both investment and commercial banks, 600 of whom were also administered tests regarding their mental abilities, preferences and values. Its author, Robert N. McMurry, was a trained psychologist and a partner in a small management consulting firm, McMurry, Hamstra and Company.

In the introduction to his article, McMurry makes the underlying questions of his and, by extension, Argyris’ research very plain: “the nature of banking as a business; the bank’s special place in its community; and, as a result, the type of person who is attracted to banking as a career”. He also contrasts banks with “most commercial enterprises which function in a competitive environment”, whereas “a bank is an institution characterized by dignity and conservatism”. Here, he suggests that banks have “some of the qualities of a juridical or governing body” (McMurry 1958: 88), while, a bit later in the article, he even speaks of a “cathedrallike milieu” (p. 90), where “[e]xcept at the very top levels of management no decision making or risk taking of consequence is required of anyone” (p. 89). What does this mean for the people hired by these institutions, which is the main focus of both studies? According to McMurry, they are those “with a passive-dependent-submissive type

of personality configuration” (p. 90), while the few “aggressive young people” entering the bank “by chance”, would quickly leave again (p. 94). Incidentally, a company history of the First National City Bank in New York, the future Citibank, which became one of the first to introduce an M-form (see below), noted that, before, “training had been on the job, a slow, cumulative process” and that an attempt in the mid-1950s to bring in MBA graduates from the Harvard Business School had proved “futile” (Cleveland and Huertas 1985: 284–285).

Both studies come to similar conclusions, namely that these past practices, including the recruitment of “employees of the ‘right type’”, were no longer adequate for the banks given a changing environment, marked by “increasing competition both among themselves and with outside agencies”. The consequences for McMurry (1958: 106) are very obvious: “Banking must become more dynamic and aggressive. It can no longer survive on its dignity as an ‘institution.’ This change requires strong chief executive officers, supported by a staff which is more creative and dynamic than those revealed in our research.” While probably intent on drumming up business for his own consulting firm, McMurry turned out to be a prophet ahead of his time and it was only about a decade later that banks were finally pushed down this path towards managerialization. And it was a different consulting firm, McKinsey & Company, that did most of the pushing – though with very similar arguments.

As noted above, McKinsey was part of a new type of consulting firms that emerged in the interwar period, focusing on management of the whole organization, not just the shop floor. Under the leadership of Marvin Bower, who held graduate degrees from Harvard in both law and business and was the firm’s managing director between 1950 and 1967 and its *eminence grise* until his retirement in 1992 and beyond, McKinsey started to hire MBAs and to internally mimic leading law firms and to externally focus on advice to top managers (McKenna 2006; McDonald 2013). As a result, it became heavily involved in divisionalizing and managerializing many industrial firms first in the US and then, with much success, in Western Europe – a fact already noted by Chandler (1962) and explored in some more detail in subsequent research (see, among others, Kipping 1999; McKenna 2006). Its foray into the banking sector has found much less attention though it was equally if not more extensive as the following, still largely preliminary table shows, which is based on the extant literature and ongoing research.

*Table 1: Projects introducing the M-form in banking in chronological order*

Period	Bank	Country	Consultant	Source
1967–1969	First National City	USA	McKinsey	Cleveland & Huertas 1985; Zweig 1995
1967–1972	National Westminster	UK	McKinsey	Channon 1977; own research
1968–1978	AMRO	NL	McKinsey	Arnoldus 2000; Arnoldus & Dankers 2005; Kipping & Westerhuis 2012
1969–1972 1974–1975	Barclays	UK	McKinsey	Channon 1977; Ackrill & Hannah 2001
1969–1972	Dresdner Bank	D	McKinsey	Own research
1970–1973	Crédit Lyonnais	France	McKinsey; CEGOS	Own research
1971–1973	Lloyds	UK	McKinsey*	Channon 1977
1971–1973	Midland	UK	McKinsey	Channon 1977; Holmes & Green 1986
1971	Nationwide	UK	McKinsey	Cassell 1984
1972	ABN	NL	Arthur D Little	Arnoldus 2000; Arnoldus & Dankers 2005; Kipping & Westerhuis 2012
1972	Rabobank	NL	Berenschot	Arnoldus & Dankers 2005
1972	Banco de Bilbao	Spain	Urwick Intl	Own research
1979	Sumitomo Bank	Japan	McKinsey	Anon. 1999; McDonald 2013
1980s	Multiple banks	Sweden	McKinsey et al.	Engwall 1994
1980s	Multiple banks	Italy	McKinsey	Own research

*Notes:* \*Consultant not named; likely to be McKinsey, based on mimetic effects.

McKinsey's interest in spreading the M-form to the banking sector seems to have originated in 1967 and was driven initially by its New York-based partner E. Everett Smith. We know little about his previous activities, except for a book that he co-edited, with the Dean of Columbia's Graduate School of Business between 1954 and 1969, Courtney C. Brown, based on an event at the school (Brown and Smith 1957). Maybe it is no coincidence that the school also sponsored a commercial bank management program in November 1959. Smith's first known public statements regarding bank management are from 1967, when he gave a speech before the American Bankers Association, which was subsequently published in modified forms in the *McKinsey Quarterly* under the title "Bank Management: The Unmet

Challenge” (Smith 1967) and in *The Banker*, a magazine published monthly in London and read by bankers around the world. Another speech in 1968, this time to the 43rd National Conference of the National Association for Bank Audit was again published in the *McKinsey Quarterly* under the title “Tomorrow’s Banker: Professional or Businessman?” (Smith 1968). The consulting firm also wrote a much more detailed report for the Trustees of the Banking Research Fund at the Association of Reserve City Bankers entitled “Developing Future Bank Management”. While that report is dated April 1968, the underlying work was conducted earlier and might have underpinned many of the ideas in Smith’s speeches and publications.

Whatever the exact timeline, the ideas and suggestions contained in these publications and the report provide the rationale and form a kind of “blueprint” for the subsequent changes in bank organizations carried out by McKinsey (see, for more details, Kipping and Westerhuis 2014). This is also apparent from the fact that copies of some or all of these documents can be found in many of the bank archives, indicative of how McKinsey used them to shape perceptions and discussions with their clients. What Smith and McKinsey convey is a line of argument remarkably similar to the one put forward by McMurry (1958) a decade earlier, highlighting namely broad changes in the banking sector that were leading to more competition, the insufficiency of extant structures and staff to address these challenges and the resulting need to transform the organization of the banks, their incentive systems and, importantly, the “type” of people they recruit. What was added though, and might have been crucial to the success of their overall push, as compared to the failure of McMurry’s efforts, was a comparison with industry as the model to emulate – something Engwall (1994) also pointed out in his examination of the Swedish case.

Such a comparison had become possible – and easy – following the publication of the memoirs of long-time General Motors President, Chairman and CEO Alfred P. Sloan in 1964, where he quite extensively described the organizational changes made during the interwar period – analysed more systematically first by Drucker (1946) and then by Chandler (1962), with the latter apparently also having a hand in the writing of *My Years with General Motors* (McDonald and Seligman 2003). In his various speeches, Smith made repeated mentions of Sloan and, more importantly, drew explicit parallels between the situation facing industrial firms in the interwar years and banks at the time focusing notably on the growing scale, complexity, and diversification of banking activities:

But now that they have moved from a profession to a business, the circumstances have changed. Bankers have left the quiet backwaters of the traditional money banking business and are well out in the stream of the business conglomerate. The currents are strong and often tricky. If the boat is allowed to drift, control will be lost. The complexities and competitive forces that caused industrialists to address themselves to management principles and practices back in the 1920s are looming up before the managers of today's banking conglomerates. (Smith 1968: 55)

One should note the use of imagery related to rivers run wild and the not quite so subtle threat of control loss, with the creation of “fear”, according to Ernst and Kieser (2002), being a fairly standard mechanism used by consultants to get managers to hire them – even making them “addicted” to their services. But the parallels with industry not only served as a way to highlight the threat, it also offered the way out, which Smith (1967: 37–38) highlights by contrasting the two – with the positive attributes reserved for industry. It should be remembered that his speech to the American Bankers Association, from which the following quote is taken, is likely to have reached a wide audience, since it was published, as noted, both in the *McKinsey Quarterly* and *The Banker*:

As a logical consequence of knowing its profit economics and putting that knowledge to work in profit planning and budgeting, the typical corporation is characterized by a much greater emphasis on objective, quantifiable appraisal of management performance and on personal accountability for results. Banks, by and large, tend toward subjective performance appraisal based on trait evaluation. As a result, they blunt the potential impact of positive and negative incentives, and end up with a markedly less competitive and aggressive atmosphere than we find in the well-managed industrial organization.

The logic presented here can only lead to one rather obvious conclusion, i.e. that banks had to espouse some of the same management principles and tools that had apparently helped industrial firms like GM address similar challenges during the interwar period. However, according to Smith (1968: 49), in banking “the range of managerial skills required is very considerable, even by industrial standards” and included “service design, marketing strategy, facilities location, fee levels, manpower planning and development, budgetary con-

trol, and computer system capability. Moreover, so Smith continued, an effective structure must be provided to lead, control, and coordinate these activities”, which sounded much like what Fayol had said about the task of a manager (see above). But while Smith (1968: 50) highlighted the existence of a “common core of organizational principles and management techniques shared by leading companies in the most diverse kinds of industrial enterprise”, he believed that it would “take some fairly drastic philosophical and policy changes to effectively apply business management principles and organization structure to the job of running a banking conglomerate” (Smith 1968: 53). He also stressed that these changes could not rely on extant personal given the absence of “true managers” but required “a whole new level of management devoted to the full-time job of directing and administrating its increasingly conglomerate undertaking” (p. 52).

Smith and McKinsey were given the opportunity to put all these suggestions into practice since mid-1967, when the consulting firm started a project at the First National City Bank, predecessor of today’s Citibank, in the US and the Westminster Bank in the UK, which merged with National Provincial to create National Westminster or NatWest the following year. Unsurprisingly, in both cases, they stressed the need for a more decentralized, M-form-type organization combined with a more managerial approach. Thus, at Citibank, their preliminary report asked two, ultimately rhetorical questions, clearly pointing in that direction: “1. Is Citibank organized soundly – and for optimum profits – against the separate markets it serves? 2. Is Citibank organized to provide sufficient top-management direction to its evolution as a financial conglomerate?” (quoted by Cleveland and Huertas 1985: 279). As the bank’s history highlights, introducing a new organizational structure was only part of the solution; “to make it run First National City needed managers, many of them” and, since these managers no longer received the “slow, cumulative” on the job training, while having increased responsibilities, an incentive and control system was put in place to direct their behaviour towards increasing profits (pp. 284–287). At Westminster Bank, McKinsey was originally brought in to help increase profitability. However, following the merger that created NatWest, the consultants managed to focus attention on a supposed need to change the organizational structure. They created domestic, international and related financial services divisions, with the former subdivided further into regions and areas, all of which required additional managers. McKinsey wrote the job descriptions, participated in their selection as well as their training and, like at Citibank, also developed the necessary incentive

and control systems (Channon 1977: 56–58; own research).

The case that has been studied most extensively is the Dutch AMRO bank (Arnoldus 2000; Arnoldus and Dankers 2005; Kipping and Westerhuis 2012; 2014). Here, McKinsey was hired in 1968 to work on the structure of an organization that resulted from the merger of the Amsterdamsche and Rotterdamsche Banks in 1964 but continued to have two headquarters and two Chairmen. AMRO is a particularly interesting case, because the notion of an all-powerful Chief Executive and, more generally, of “management” was less commonplace in the Netherlands, where organizations relied even more so than elsewhere on collective decision-making – though both Chairmen were familiar with the US model and at least one of them had also looked at the re-organization of the Anglo-Dutch oil company Shell, which was McKinsey’s first client in Europe (Kipping 1999). Moreover, McKinsey worked at AMRO for over ten years developing an exclusive relationship – with the bank even prohibiting McKinsey from taking on other clients in the Dutch banking sector during this period (Arnoldus 2000).

What this case shows in enlightening detail are the almost heroic efforts by McKinsey to make those “philosophical and policy changes” that Smith had referred to in his speeches and publications (see above). Thus, after initial interviews with the members of the bank’s top level, collegial decision-making body, the *Raad van Bestuur* or Board of Governors, the consultants noted in their own words, “a minor communications gap surrounding such complex words as policy formulation, accountability, strategic planning, management and so forth”. This “communications gap” was clearly all but minor, since the consultants decided to address it before proceeding with the re-organization and the introduction of the related management tools. To do so, they provided all the board members with a copy of the book *The Will to Manage* written by McKinsey’s managing director Marvin Bower in 1966, which, again in their own words, “is an easy, conversationally styled book to read and defines all the terms we generally employ” (for details, see Kipping and Westerhuis 2014: 387). And throughout the remainder of the project they made major efforts to propel “the development of a common management philosophy, serving as a guiding principle (in Dutch: *rode draad*, literally translated as red thread) for the whole business and aligning the daily activities of bank employees at all levels towards a common goal” (ibid.).

This philosophy evolved around the notion of individuals being autonomous in their decision-making and accountable for the results – though based on goals set by the organi-

zation. This was a major break with the traditional operating principles in the banking sector, described by, among others, McMurry (1958), where decisions were made collectively in various committees and individual risk-taking was discouraged. This fundamental change in self-perception and behaviour from being “bankers” to being “managers” – or using Engwall’s (1994) metaphor from playing bridge to playing poker – led to discussions in all the banks being divisionalized. In the case of a German bank, for instance, McKinsey was forced in to elaborate extensively on the alleged advantages of individual responsibility (*Eigenverantwortung*) over the hitherto applied collegiality principle (*Kollegialitätsprinzip*). But despite some misgivings and resistance, apparent for example in a letter addressed to the management board in the case of that bank, McKinsey’s vision – and language – ultimately prevailed in all instances studied so far (see also Cassell 1984). Support generally came from the upper echelons of the organization, namely the board, for which the consulting firm usually drafted internal communications explaining the new structures and incentive and control systems being put in place. The changes were also espoused by what the author of that German letter referred to as “careerists”, i.e. those being promoted to some of the newly created managerial positions such as division head or regional manager (ongoing research).

And while the organizational and systemic transformations in some cases forced the consultants to deal with complicated internal politics and to make – usually temporary – compromises with extant practices and sensibilities (see, e.g. Kipping and Westerhuis 2012 for the AMRO case), this new philosophy sooner or later became enshrined in the decentralized organizational structures, which established clear hierarchical lines of authority and reporting, while putting increasing responsibility into the hands of lower level managers, down to the branch managers and even individual sales people. At the same time, their activities were directed strategically from the top of the new banking organizations through planning, budgeting and incentive systems that generally focused on increasing profitability through higher sales, while maintaining or, ideally, reducing costs. These changes were also underpinned by the recruitment of different kinds of people. The “right types” with the “passive-dependent-submissive” personality, prevalent earlier and described extensively by Argyris and McMurry (see above), were replaced by MBA graduates, who had already been taught the language of management and the guiding principle of profit maximization (Ferraro, Pfeffer and Sutton 2005) – though this development took longer outside the US where graduate



business schools were yet to become the norm (see, e.g. for recruitment in the case of the British Barclays Bank, Hollow and Vik 2016).

### **Summary and discussion: Should bankers really be managers ?**

Thus, since the end of the 1960s, the changes that McMurry and others had suggested for the banking sector were being introduced in the United States and parts of Western Europe, reaching Japan and other Western European countries since the late 1970s. And, as shown, McKinsey played a major role in transforming the dignified and conservative banking “institutions” with their “cathedrallike milieu” into “modern” managerial businesses. Banks did follow the suggestions by McMurry, Smith and others and became “more dynamic and aggressive” if one is to believe contemporary observers. Thus, for the divisionalized banks in the UK Channon (1978: 86) noted that the “speed of reaction and degree of aggression certainly appeared to be greater”. And in the case of Citibank in the US, Cleveland and Huertas (1985: 287) also highlighted the benefits from the new organizational structure and policies in terms of business segments (and individuals) receiving more autonomy combined with greater accountability, ultimately leading to “a correspondingly greater marketing thrust” – though they also admitted that it was difficult, if not impossible to “recognize differences in credit risk among market segments”.

Assessing the same changes at Citibank a decade later, Zweig (1995: 246, 252–253, 609) came to a more negative conclusion regarding the replacement of “the old-time relationship banker” with what he called a “management cult” and a “fast-track meritocracy of Ivey League M.B.A.’s”. He admitted that the “newly decentralized organization gave rise to a level of entrepreneurship unprecedented in American banking”, but at the same time pointed out that “the freedom that it afforded proved too much for some managers to handle”, causing “bombshells” in, among others, computer leasing, real estate, tax planning and foreign exchange dealings. As seen above, Engwall (1994) also puts the blame for the Swedish banking crisis squarely into the court of those encouraging the bankers to play poker, i.e. be more aggressive.

So, on balance, were these changes positive or negative ? That question is impossible to answer with certainty, since there is no way to establish statistically valid causality between the transformation of the banking sector and subsequent crises. Though (eco-

nomic) logic suggests that such a connection exists, namely with respect to the industrial model used by the consultants as a template for transforming all these banks. As a result, banks in many respects became “normal” businesses: their organizational structures, their control and incentive systems, and, very importantly, the self-perception of those directing them at all levels as being “managers”. However, as we clearly know from the relevant literature, banks are not normal businesses. Selling cars like General Motors does, is not the same as selling loans. When people default on these loans, even the ones guaranteed by real estate, it has consequences not only for the bank providing the mortgages but also, because of securitization, for the financial sector as a whole and, given the systemic role of banking and finance, for the broader economy – as demonstrated by the effects of the Lehman shock on most countries around the world.

What is also clear, but maybe less obvious to all but a few observers (e.g. Hollow 2014) is the crucial role played by those directing the transformed banking organizations. They set the strategy and provide the incentives driving the behaviour of others in that organization despite the latter’s supposed “autonomy” – see Countrywide’s “High Speed Swim Lane” program or Wells Fargo’s unauthorized account openings or extensions, mentioned above. While under the old systems these decisions tended to be made collectively, after the managerialization of these banks since the late 1960s, the buck now truly stops at the top – a fact that seems to have escaped prosecutors and the courts, given the absence of indictments, let alone convictions of bank CEOs after the 2008 global financial crisis.

In sum, with hindsight it might have been preferable had bankers not become managers as Smith and others had insisted they should. Realistically however, it will be difficult to turn back the clock, given how profoundly banks and bankers have been transformed in terms of organizational structures, incentive and control systems as well as self-perception. So, what can be done beyond the tightening of regulations, which has been the preferred and largely only policy response after the crisis? Here, it helps to look at business at large, where managerial goals have moved, as Sakamoto (2013: 7) has suggested, from a focus on market share and profitability to one on shareholder value and, more recently, on shared value. While the latter remains more of an aspiration rather than a reality, there are those pointing to the particular power and responsibility of the large asset owners for espousing a more long-term view (e.g. Barton and Wiseman 2014), while others stress the potentially positive role financial and capital markets could play in developing a more inclusive and sus-

tainable economy (e.g. Zadek 2016).

Banks are among the large asset owners and important actors in financial and capital markets. So, the question has to be why their boards and CEOs do not use the organizational structures and management tools they have been given since the 1960s to affect a positive outcome in terms of promoting a more inclusive, long-term oriented and sustainable economy rather than incentivizing their employees to open more accounts (even without their clients' consent) or sell more (dodgy) mortgages and bundle them for (unsuspecting) investors. For everybody's sake one can only hope that they come to this realization before the next financial and economic crisis.

## References

- Ackrill, M. and Hannah, L. (2001). *Barclays: The Business of Banking*, 1690–1996. Cambridge: Cambridge University Press.
- Anon. (1999). "The Sumitomo Bank, Limited History." In: *International Directory of Company Histories*. Vol. 26. London: St. James Press. [<http://www.fundinguniverse.com/company-histories/the-sumitomo-bank-limited-history/>; accessed 22 December 2017]
- Argyris, C. (1954). "Human Relations in a Bank." *Harvard Business Review* 32: 63–72.
- Argyris, C. (1958). "Some Problems in Conceptualizing Organizational Climate: A Case Study of a Bank." *Administrative Science Quarterly* 2(4): 501–520.
- Arnoldus, D. (2000). "The Role of Consultancies in the Transformation of the Dutch Banking Sector, 1950s to 1990s." *Entreprises et Histoire*, No. 25: 65–81.
- Arnoldus, D. and Dankers, J. (2005). "Management Consultancies in the Dutch Banking Sector, 1960s and 1970s." *Business History* 47(4): 553–568.
- Barton, D. and Wiseman, M. (2014). "Focusing Capital on the Long Term." *Harvard Business Review* 92(1/2): 44–51.
- Benston, G.J. (2004). "What's Special about Banks?" *The Financial Review* 39(1): 13–33.
- Berle, A.A. and Means, G.C. (1932). *The Modern Corporation and Private Property*. New York: Macmillan.
- Bower, M. (1966). *The Will to Manage: Corporate Success Through Programmed Management*. New York: McGraw-Hill.
- Braverman, H. (1974). *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century*. New York: Monthly Review Press.
- Brown, C.C. and Smith, E.E. (1957) (eds.). *The director looks at his job*. New York: Columbia University Press.
- Cassell, M. (1984). *Inside Nationwide: One Hundred Years of Co-operation*. London: Nationwide Building Society.
- Cassis, Y. (2011). *Crises and Opportunities: The Shaping of Modern Finance*. Oxford: Oxford University Press.
- Cassis, Y., Grossman, R.S. and Schenk, C.R. (2016) (eds.). *The Oxford Handbook of Banking and Financial History*. Oxford: Oxford University Press.
- Chandler, A.D., Jr (1962). *Strategy and Structure: Chapters in the history of the industrial enterprise*. Cambridge, MA: MIT Press.
- Channon, D.F. (1973). *The Strategy and Structure of British Enterprise*. London: Macmillan.
- Channon, D.F. (1977). *British Banking Strategy and the International Challenge*. London: Macmillan.
- Channon, D.F. (1978). *The Service Industry: Strategy, Structure and Financial Performance*. London: Macmillan.

- Cleveland, H.B. and Huertas, T.F. (1985). *Citibank 1812–1970*. Cambridge, MA: Harvard University Press.
- Corkery, M. (2016a). “Penalty Against Bank of America Overturned in Mortgage Case.” *New York Times*, 23 May [https://www.nytimes.com/2016/05/24/business/dealbook/penalty-against-bank-of-america-overturned-in-mortgage-case.html; accessed 22 December 2017]
- Corkery, M. (2016b). “Wells Fargo Fined \$185 Million for Fraudulently Opening Accounts.” *New York Times*, 8 September [https://www.nytimes.com/2016/09/09/business/dealbook/wells-fargo-fined-for-years-of-harm-to-customers.html; accessed 22 December 2017]
- DiMaggio, P.J. and Powell, W.W. (1983). “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields.” *American Sociological Review* 48(2): 147–160.
- Drucker, P.F. (1946). *Concept of the Corporation*. London: John Day.
- Englund, P. (1999). “The Swedish banking crisis: roots and consequences.” *Oxford Review of Economic Policy* 15(3): 80–97.
- Engwall, L. (1994). “Bridge, poker and banking.” In: D.E. Fair and R. Raymond (eds.), *The competitiveness of financial institutions and centres in Europe*. Dordrecht: Kluwer Academic Publishers, pp. 227–239.
- Engwall, L., Kipping, M. and Üsdiken, B. (2016). *Defining Management: Business Schools, Consultants, Media*. New York: Routledge.
- Ernst, B. and Kieser, A. (2002). “In Search of Explanations for the Consulting Explosion.” In: K. Sahlin-Andersson and L. Engwall (eds.), *The Expansion of Management Knowledge: Carriers, Flows, and Sources*, Stanford, CA: Stanford University Press, pp. 47–73.
- Ferraro, F., Pfeffer, J. and Sutton, R.I. (2005). “Economics language and assumptions: How theories can become self-fulfilling.” *Academy of Management Review* 30(1): 8–24.
- Financial Crisis Inquiry Commission (2011). “The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States,” 25 January. Washington, D C: Government Printing Office.
- Gorton, G. and Metrick, A. (2012). “Securitized banking and the run on repo.” *Journal of Financial Economics* 104(3): 425–451.
- Hollow M. (2014). “Money, Morals and Motives: An Exploratory Study into Why Bank Managers and Employees Commit Fraud at Work.” *Journal of Financial Crime* 21(2): 174–190.
- Hollow, M. and Vik, P. (2016). “Another Step up the Ladder or Another Foot in the Grave? Re-evaluating the Role of Formal and Informal Training in the Career Development Process within Barclays Bank, 1945–80.” *Management & Organizational History* 11(4): 345–363.
- Holmes, A.R. and Green, E. (1986). *Midland. 150 Years of Banking Business*. London: BT Batsford Ltd.
- Homer, S. and Sylla, R. (2005). *A History of Interest Rates*. 4<sup>th</sup> ed. Hoboken, NJ: John Wiley & Sons.
- Hood, C.C. (1991). “A Public Management for Ail Seasons?” *Public Administration* 69(1): 3–19.
- Kipping, M. (1999). “American Management Consulting Companies in Western Europe, 1920 to 1990: Products, Reputation, and Relationships.” *Business History Review* 73(2): 190–220.
- Kipping, M. and Bjarnar, O. (1998) (eds.). *The Americanisation of European Business. The Marshall Plan and the Transfer of US Management Models*. London: Routledge.
- Kipping, M. and Westerhuis, G. (2012). “Strategy, Ideology and Structure: The political processes of introducing the M-form in two Dutch banks.” In: S.J. Kahl, B.S. Silverman and M.A. Cusumano (eds.), *History and Strategy*, Bingley: Emerald Group, pp. 187–237 (*Advances in Strategic Management* 29).
- Kipping, M. and Westerhuis, G. (2014). “The managerialization of banking: from blueprint to reality.” *Management & Organizational History* 9(4): 374–393.
- Kudo, A., Kipping, M. and Schröter, H. (2004) (eds.). *German and Japanese Business in the Boom Years: Transforming American management and technology models*. London: Routledge.
- Langley, P. (2015). *Liquidity Lost: The Governance of the Global Financial Crisis*. Oxford: Oxford University Press.
- Maier, C.S. (1970). “Between Taylorism and Technocracy: European Ideologies and the Vision of Industrial Productivity in the 1920’s.” *Journal of Contemporary History* 5(2): 27–61.

- McDonald, D. (2013). *The Firm: The story of McKinsey and its secret influence on American business*. New York: Simon & Schuster.
- McKenna, C.D. (2006). *The World's Newest Profession: Management consulting in the twentieth century*. New York: Cambridge University Press.
- McDonald, J. and Seligman, D. (2003). *A ghost's memoir: The making of Alfred P. Sloan's My Years with General Motors*. Boston, MA: MIT Press.
- McMurry, R.N. (1958). "Recruitment, Dependency, and Morale in the Banking Industry." *Administrative Science Quarterly* 3(1): 87–117.
- Owens, L.A. (2012). "The Polls—Trends: Confidence in Banks, Financial Institutions, and Wall Street, 1971–2011." *Public Opinion Quarterly* 76(1): 142–162.
- Reinhart, C.M. and Rogoff, K.S. (2009). *This Time Is Different: Eight Centuries of Financial Folly*. Princeton, NJ: Princeton University Press.
- Russell, P. (2010). "Mrs Beeton, the first domestic goddess," *Financial Times*, 3 December [www.ft.com/cms/s/2/be9d91a6-fcd8-11df-ae2d-00144feab49a.html#axzz3IHVRsWK3; accessed 9 September 2015].
- Sakamoto, T. (2013). "Japanese Corporate Management Style Today." *Meiji Business Review* 60(4): 3–20.
- Shenhav, Y. (1999). *Manufacturing Rationality: The Engineering Foundations of the Managerial Revolution*. Oxford: Oxford University Press.
- Sloan, A.P., Jr. (1964). *My Years with General Motors*. New York: Doubleday.
- Slovik, P. (2012). "Systemically Important Banks and Capital Regulation Challenges." OECD Economics Department Working Papers, No. 916, Paris: OECD Publishing [http://dx.doi.org/10.1787/5kg0ps8cq8q6-en; accessed 22 December 2017].
- Smith, E.E. (1967). "Bank Management: The Unmet Challenge." *McKinsey Quarterly* 3(4): 29–41 (also published in *The Banker*, July: 612–620).
- Smith, E.E. (1968). "Tomorrow's Banker: Professional or Businessman?" *McKinsey Quarterly* 4(4): 48–55.
- Sylla, R. (2002). "Financial Systems and Economic Modernization." *Journal of Economic History* 62(2): 279–292.
- Temin, P. (2010). "The Great Recession & the Great Depression." *Daedalus* 139(4): 115–124.
- Whittington, R. and Mayer, M. (2000). *The European Corporation: Strategy, Structure, and Social Science*. Oxford: Oxford University Press.
- Zadek, S. (2016). "Imagining a Sustainable Financial System." In: D. Barton, D. Horváth and M. Kipping (eds.), *Re-imagining Capitalism*. Oxford: Oxford University Press, pp. 193–206.
- Zunz, O. (1990). *Making America Corporate, 1870–1920*. Chicago, IL: The University of Chicago Press.
- Zweig, P.L. (1995). *Wriston: Walter Wriston, Citibank, and the Rise and Fall of American Financial Supremacy*. New York: Crown Publishers.