The future development of financial institutions

Text of an address by the Governor to the Bank of England and University of Bradford Conference Dinner at the Mansion House on 6th June 1972

The involvement of the Bank of England in a conference of this sort represents a breaking of new ground and we are very happy to be doing this in association with Bradford University. I hope that, so far as the Bank are concerned, it may be seen as a sign, if not of grace, at least of our readiness to accept new roles in the rapidly changing world in which we live. The aim of the conference is to promote thought about the future and how best we may prepare ourselves to meet it. It seems right to me that the Bank should lend their support to such an enterprise, and be particularly concerned about its application to City institutions.

When I was invited to address you tonight I was told that I could choose any subject I liked provided it was about the future development of City institutions. This is a big subject and I do not think that it would be appropriate or timely for me to attempt tonight to deal with it in any comprehensive way.

We all know that there have been many changes and developments in City institutions over the past twenty-five years despite the recurrent difficulties and declining role of sterling, and despite the official restrictions which have from time to time been necessary. In the main the financial institutions have not been daunted by these unpropitious circumstances. Ingenuity and innovation have not been checked – indeed in some directions they may at times have gone too far.

Now it seems we are at a watershed. After the turmoil of recent years thought is at last being turned to the possibility of a radical reform of the international monetary system which, if successful, should provide a more stable background for the development of trade and financial services in the world at large. In the United Kingdom the banking community has already entered an era of greater freedom and keener competition and it now seems pretty certain that in seven months' time we shall be members of the Common Market, which may be expected to bring new problems and opportunities for many of our financial institutions.

I am not going to try to impart to you tonight my own private daydream of what changes these various influences are likely to bring about in the City. I am quite sure that the financial institutions will not simply stand still. Many may change their shape radically. The desire for harmonisation within the enlarged European Community may well present problems. The influence of the City of London will undoubtedly be great but influence will not be all one way. In so far as the Bank can guide the changes that must come they will, as always, be concerned to help the institutions, and the banking organisations in particular, to strengthen their ability to serve the nation as well as contribute to the fruitful development of the Community.

Industry has displayed a mounting interest in predicting the possible range of changes which may take place in the environment in which businesses will be conducted and hence the measures which firms may need to take in order to survive and prosper. As the speakers at this conference testify, financial institutions may well be wise to follow suit.

Whether modern techniques of corporate planning would have helped the City to manipulate more skilfully the changes of the last twenty-five years it is hard to estimate. One is tempted to question whether in 1950 anyone could have foreseen a vast euro-dollar market as a consequence of contingencies comprised in a corporate plan. But, if I understand correctly, the essence of corporate plans is not to make precise predictions or prescribe fixed courses of action or policy. They proceed rather by formulating sets of assumptions which help management to frame their strategy for the future and to gauge its likely consequences. It would assuredly be rash if the City, faced with changes such as speakers have depicted today, were to reject any such aid to prudent and far-sighted decision. The changes which speakers have foreseen spring largely from the greater competitive pressures which now face all financial institutions. As I have indicated, these competitive pressures flow partly from the freedom associated with the new system of credit control, partly from our prospective entry into the Common Market and partly from the ever-increasing number of competing institutions. These pressures will be more intense than any experienced in the past twenty-five years. They will lead inevitably to greater pressure on profitability, already squeezed from below by rising costs.

I want to say something tonight about two ways in which institutions may be expected to respond to these pressures.

The first concerns the structure of the institutions themselves. It seems to me that two divergent tendencies are likely to make themselves evident. On the one hand, there will be a movement to bring many diverse activities together within a single organisation, while on the other, in some instances, the urge to specialise will become more acute. The former will tend to blur the traditional lines of demarcation between one type of business and another. It is not possible for all business to be equally profitable simultaneously and a movement in this direction will increase the extent to which the less profitable business is carried by the more profitable. This will enhance the general stability of the system and help to reduce overall costs.

The urge to specialise will, I guess, come mainly from the pioneers. The prosperity of the City has been nurtured by men seeking out new ways of mobilising savings and deploying them profitably. The City can never afford to relinquish this traditional entrepreneurial expertise. It is, of course, displayed by organisations of all shapes and sizes, but the smaller, lightly-built enterprise frequently has the advantage of greater speed and dexterity. These are admirable virtues but they have their dangers. Brilliant innovation can be very impressive but in the City the basic requirement is to inspire and retain confidence and trust. This frequently takes a long time and makes young men in a hurry impatient, but there is no alternative and very few acceptable short cuts. Those who are far-sighted and careful in their strategic planning are more likely to reach their goal, and do so more quickly.

But most of the rest of what I have to say concerns another aspect of planning, namely its importance in the battle to contain or reduce costs in response to the pressure of competition. Since the war the composition of the staff of financial institutions has greatly changed. Women now outnumber men, whereas before they were no more than a tolerated and restricted minority. At the same time mechanisation has yielded steady if unspectacular savings in staff.

Nevertheless the financial sector is still markedly labour intensive. For example, in the Bank of England labour costs account for some 70% of the total, and, I understand, that in some other large financial concerns the figure would be even higher.

Under the pressure of increased competition and rising labour costs a move towards greater capital intensity in the financial sector seems inevitable over the next decade. Computers, allied to modern management techniques such as clerical work measurement and methods study, are capable of making radical changes in work processes leading to substantial staff savings. If staff savings are to be made on a significant scale – and it is not inconceivable that the total clerical labour force of the financial sector could be cut by as much as a quarter to a third – they will cause distress and conflict unless the way is carefully prepared and unless we foresee accurately the balance between staff increases attributable to expansion and staff savings attributable to the adoption of new machines and methods.

Relations between management and staff in the City have been relatively trouble-free. Threats of redundancy, however, could beget feelings of insecurity against which these good relations would not automatically be proof. Indeed, the post-war changes in the relative prosperity of skilled industrial workers and higher clerical staff have already strengthened the move away from an informal paternalism towards protective systems in which staff associations and trade unions play a prominent part. Several times last winter I was confronted with a poster in which Mr. Clive Jenkins sought to convince me that my moment of tragedy was when I picked up a pen instead of a shovel. Though I remain sceptical of his case, I recognise the trend which this poster reflects. If substantially reduced staff requirements are not to lead to redundancy – and we must, for all these reasons, try and avoid it – manpower planning must be given a higher priority than I think is now generally the case. The turnover of junior clerical staff is high and appreciable staff reductions can be made relatively painlessly through natural wastage. But this requires careful planning of future needs and future recruitment targets; and planning on the scale for which we must be prepared probably needs to be focused on at least a ten-year horizon.

If we achieve substantial labour saving with full recognition of the human problems involved for our employees we shall have strengthened the City's foundations. But in doing so we shall, in company with other industries, have contributed to a potential national problem. If our labour saving, added to the savings of others in face of mounting costs, is not to intensify national unemployment on an unacceptable scale, we must be concerned to see that in our other activities we contribute as effectively as possible to fostering the more rapid growth of the economy as a whole.

May I turn for a moment to other manpower issues which may be important during the next ten years? The raising of the school-leaving age and the trend towards more and more higher education – notwithstanding the current difficulties young graduates are having in finding jobs – are already changing dramatically the composition of the labour force seeking to enter the financial sector, bringing in above the junior clerical level more young people who have had full-time education after leaving school. More and more young men and women when they enter the City tend to have higher expectations than many who went before them. They have stronger expectations of early responsibility, look for a more consultative style of management and have a keener desire for job satisfaction. If the financial sector is to recruit and retain the people of the quality needed to compete effectively, domestically, and internationally, more emphasis will need to be placed on management development. But management development is not an end in itself; it has to be accompanied by a careful review of the ways in which information is communicated, both up and down the line; of the extent to which responsibility can be devolved; of the spirit in which subordinates and superiors treat one another; of the system by which performance and potential are assessed. This may call for measures which disturb well grounded habits of thought and practice. But it is on such factors that the successful harnessing of human resources to the profitable development of this great financial centre will depend.

We, in the Bank of England, have been turning our minds to the solution of some of the problems I have outlined. We find ourselves increasingly constrained to focus on long-term issues, for example, to formulate contingencies which membership of the Common Market may bring with it and to anticipate developments likely to flow from the new approach to credit control.

We are also giving more systematic attention to planning our own domestic long-term developments. We recently completed a co-ordinated manpower plan estimating the demand for, and the supply of, staff up to a decade ahead. A plan of this sort is not a specific forecast, not a fixed blueprint, but an examination of the implications of various sets of assumptions about the future. Many of our personnel policies have already been significantly affected by the plan. The age structure of the Bank's staff, resulting from past recruitment patterns, is very uneven; and we have now a low level of normal retirements to be followed in a few years by an abnormally high one. This creates problems for staff morale and for management succession. The manpower plan has helped us to a partial solution through a special early pension offer to staff within ten years of normal retirement. The longer-term look has also significantly affected our recruitment targets for this year; a shorter horizon could well have meant higher targets and a greater risk of redundancy in the future. The plan is also helping us to reshape our staff salary structure.

Besides this we have established a management development programme, which provides for greater staff participation in career planning, encourages more delegation, and an expanded training programme designed to meet the needs identified by job evaluation and the manpower plan.

However, we are also concerned with training in a wider setting. We are familiar with the technical skills which the financial businesses of today demand: and at this conference we are gaining glimpses of the new and evolving skills which will be required in the businesses of tomorrow. Equally, we see before us the massive changes envisaged by speakers at the conference: and these changes in themselves must be nursed along with the aid of management skills whose systematic foundation has only recently been laid.

Three years ago the City was invited to accept an Industrial Training Board as an instrument of improved management. For a number of reasons the proposal did not find favour – rightly in my personal opinion. But such a reaction should not imply that we reject the obligation, as a business community, to see that our training needs are provided for in the right places at the right standard under the right policy. If the Bank can play an effective part in identifying these needs and in promoting collective support for appropriate solutions, I am anxious to see this happen.

The core of all training aimed at operational efficiency consists of knowledge and techniques passed on at the grass roots 'on the job' by members of one working generation to their successors. But this must be supplemented by a diversity of formal training facilities within and without the individual concern.

For many years the City has been well served by a variety of institutions admirably qualified to instruct. First, there are the professional bodies, such as the accountancy institutes, the Chartered Insurance Institute, the Institute of Bankers. Then we owe a debt to the technical colleges and colleges of commerce, some of which have now acquired the status of polytechnics. Within the precincts there is the City University, technologically orientated by origin and in no way under an obligation to serve the City's interests, but nevertheless a developing university whose future we would hope to see linked in many areas with the future of the City's institutions. What I would like to promote is the notion that, as corporate planning reveals the City's needs for training, there should emerge channels of communication and collaboration which would enable the educational and professional institutions to respond in ways which are both relevant and economical.

When I speak of training in the City I do not mean to be parochial and to exclude educational institutions outside the City. The joint sponsorship of this conference bears adequate witness to that. There is sometimes a temptation to put a low priority on management training, partly on grounds of cost, partly in order to wait and see more clearly the shape of things to come. The business schools, however, have an important contribution to make to the managers of financial institutions. In recent years their general management courses have been giving greater emphasis to finance and financial problems, but they remain primarily oriented towards manufacturing industry. It was our mutual recognition that the training needs of the financial sector were not being adequately provided for that brought the University of Bradford's Management Centre and the Bank together in sponsoring this conference. I very much welcome the initiative shown by the university in this matter. Their Management Centre, I know, has already begun to introduce courses specifically tailored to financial institutions. The City University, too, is expanding its post-experience courses and designing management courses specifically for the institutions which surround it. I hope other universities and business centres will follow this example. Although we tend to speak loosely of the City, the bulk of the labour force and of its managers are spread up and down the country in numerous branches.

Training, however, is only one of the activities in which we must look ahead. Our speakers today have been setting the problems of the future in a great variety of fields. Tomorrow others, people with practical experience in the management of change, will be describing the practical experience they have also gained in preparing strategic plans. I hope this will show that planning is not so much picking some winner in the meetings of the future as a means of moving more nimbly and more confidently through times which will still contain many uncertainties. Pasteur understood the place of planning in human affairs when he said that fortune favours the prepared mind. For, however sagaciously we examine the middle distance, we may still need a little luck to reinforce our plans. So may I wish you all both good planning and good fortune.

From what I have said you will gather that I am in favour of intelligent forward planning but let me end with a word of caution. In the Bank's house magazine, the *Old Lady*, last month there was a cartoon showing a Bank official talking to his Principal. He said "It's as we feared Sir What with Budget Planning Exercises, Work Measurement Installations, Staff Appraisal Courses and O & M Surveys, nobody in the Bank is actually doing any work." The message is clear – whatever we do we must not lose our sense of proportion.

This leaves me with one more pleasant duty. As I have said, the Bank have been most happy to join with the University of Bradford in this conference. I will not say that they come to the City as strangers but they do come as our guests and we are delighted that they should be so worthily represented both by their Pro-Chancellor, Mr. Thayre, who has so ably acted as our host tonight, and by their Chancellor, Mr. Harold Wilson, whom we are particularly honoured to have with us. May I now ask you gentlemen to rise and to drink to the toast of the University of Bradford.