British banks and their Aesop's fables: organizational memories of the governance and management of financial crisis

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Introduction

Do companies remember past crises, mistakes and failures? If they do, how do they do it? In the book, *Reimaging Business History,* Scranton and Fridenson argue that organizations remember events and lessons through a concept they describe as 'active learning memory'. This is distinctly different from what we would think of as knowledge-based economies, or to use the linguistics of Chandlerian scholarship, learned or taught competencies.[1] An organization invests in its active learning memory, they suggest, when it actively repeats or retells the account of business failure. This process of remembering teaches lessons about managerial conduct to encourage the organization to heed warnings from the past when making decisions in the future.[2] These stories closely resemble the role of stories in the children's book, Aesop's fables, where a tale is told in such a way that the characters provide moral guidance to remind listeners about the value of good behaviour. Scranton and Fridenson develop ideas of/concepts of 'learning memory', as they believe that business failure is more common than success. They also argue that mistakes form an important educational experience.[3] This paper follows such an approach. It focuses upon organizational memory by examining the way in which British banks learned about failure through stories about financial crises.

In a comparative framework, nineteenth century British banking is well noted for its stability. Even so, Britain experienced a number of manifest financial crisis and periods of manias, panics and crashes (1825, 1836, 1847, 1857, 1866, 1878, and 1890).[4] The absence of

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[1] Importantly, this concept is not based on external factors, such as education or numeracy, but on internal factors and principally, the firm's willingness to pass down lessons to the next generation. See Chandler, *Scale and Scope*.

[2] For more see Scranton and Fridenson, *Reimagining Business History*, p. 112.

[3] Ibid., p. 211–17.

[4] In the later editions of his book, Kindleberger conceded that he had not defined exactly what a financial crisis was, instead grouping these events together. Schwartz, on the other hand, distinguished between real and pseudo crises, with a pseudo crises being linked to mistaken investments as opposed to an event where the whole banking

a lender of last resort increased the likelihood of contagion and made individual bank failure important in initiating or spreading fear.[5] The failure of one bank could lead to the failure of another and the collapse of an entire system. Given the context of the nineteenth century, it follows that we should define financial crisis in a broad fashion, although this does not preclude one crisis, mania or panic from being more severe than another.[6] Lessons learned from one bank failure (or, indeed, a near miss) could be viewed by those at the time as equal to lessons offered by a manifest financial crisis.

To study the way British banks invested in their active learning memory, we focus on the visual cues used to remember stories about managerial behaviour and the narrative surrounding images of individual bankers, in particular, general managers of joint stock banks. By doing so, we follow those who have considered objects and rituals in the history of organizations. Objects such as ornaments, portraits, statues and even architecture or museums, exist as an expression of a collective memory, a sign of the organization's past.[7] They act to store a memory or memories and consequently they are able to perpetuate the person, the time, the event and/or the period encapsulated by the object.

Objects and artefacts are able to store such memories across an organization and its members. 'Monuments, statues, and related shared symbols of the past are', Suddaby, Foster, and Quinn Trank argue, 'uniquely effective in creating a sense of commonality in a given social group'.[8] Artefacts are successful at creating collective memories because they serve as a 'talking point' or a 'show and tell' in the process of explaining an event or act that has occurred in the past.[9] By using historical objects, organizations can embed a memory or memories with its members, which are communicated or triggered easily through visual representations. Therefore, the object can be used to create a narrative about the purpose of a firm, which can then be retold and perpetuated. Albert and Whetten assert that historical

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system is under threat. Kindleberger, *Manias, Panics, and Crashes*, p. x, 2–3; Schwartz, 'Real and Pseudo Financial Crises'.

[5] Bordo, 'The Lender of Last Resort: Alternative Views and Historical Experience', p. 18–29.

[6] See, for instance, Turner's comments about the similarity in the severity of the 1825 and 2008 crisis. Turner, *Banking in Crisis*, chap. 4.

[7] Decker, 'Solid Intentions', p. 514–42. See also Barnes and Newton, 'Constructing Corporate Identity before the Corporation', p. 678–720; Barnes and Newton, 'Visualizing Organizational Identity', p. 24–53; Barnes and Newton, 'War Memorials in Organizational Memory', p. 309–33.

[8] Suddaby, Foster, and Quinn Trank, 'ReMembering', p. 300.

[9] Ames, 'Material Culture as NonVerbal Communication', p. 619–41; Rafaeli and Pratt, 'Tailored Meanings', p. 32–55.

narratives support the process of forming of organizational identity.[10] Likewise, Schultz and Hernes argue that the process of forming organizational identity uses the past to make sense of an organization in both the present and the future.[11] The process itself 'requires ongoing management of perceptions of identity in the past, present, and future', according to Suddaby, Foster and Quinn Trank.[12] They use the term 'organizational re-membering' for the process of managing organizational identify through memory, and describe it as a 'remarkably flexible managerial resource' that can be used to manage change or respond to threats.[13] Indeed, they argue that history is not objective, but rather may be re-told and re-membered to create an identity for present and future use by an organization as an advantage and to meet their strategic goals.

This chapter examines the use of objects and artefacts in forming organizational identity and their use in creating memories and narratives that are seen to be advantageous to current and future organizations. What do artefacts tell us about the way banks remembered their past and lessons of past crisis? What stories are told through them about the person and the bank's past performance, failure and financial crisis? What morals or lessons about governance can be found in them? We draw upon the printed and archival literature to reveal the nature of the exchanges that were had over these objects and about these characters. We examine two key individuals and how they were remembered, in particular their role in steering their respective organizations through crisis. The second section considers the lessons offered by one such professional manager, Daniel Robertson of National Provincial Bank of England (later becoming National Westminster). The third section considers George Rae of North and South Wales Bank (acquired by Midland Bank in 1908).

Daniel Robertson

National Provincial Bank of England was one of the new wave of joint stock banks. It was founded in 1833 and successfully spread its operations through the opening of branches across England and Wales, ensuring that it became the joint stock bank with the widest geographical coverage in England.[14] Daniel Robertson (1805–1864) was the first General

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[10] Albert and Whetten, 'Organizational Identity', p. 263–95.

[11] Schultz and Hernes, 'A Temporal Perspective on Organizational Identity', p. 4, 6.

[12] Suddaby, Foster, and Quinn Trank, 'ReMembering', p. 298.

[13] Ibid., p. 302–3.

[14] Withers, *National Provincial Bank*, p. 53. Barnes and Newton, 'How Far Does the Apple Fall from the Tree?', p. 447–73.

Manager of the bank. Born in Scotland, Robertson started his career in Scottish joint stock banking before becoming General Manager of National Provincial from its formation. He retired from the role of General Manager in 1863 following the sudden passing of his immediate family from individual health complaints. The bereavements had a detrimental impact on Robertson's health and eagerness to continue in his post and he died the following year.[15] On his retirement, the bank offered Robertson a less demanding role as an honorary director, which afforded him more personal time but also ensured that he maintained strong links with those he knew at the bank. He continued to assist the bank in this capacity until his death, an indication of the esteem in which he was held by the bank and its directors.[16] This also ensured that he could continue to pass on his expertise, if required, and continue his legacy.

Creating a narrative was important for the National Provincial as an organization. The bank began to build a chronicle for its members of staff in the 1860s when it began to build its new head office on Bishopsgate, a project completed in 1865. Robertson died in 1864 as the building works were still underway and following his death, the directors of the bank ordered that Baron Marochetti should produce a commemorative marble bust of Robertson (see Figure 1) to be placed in the new building.[17] Marochetti was renowned in elite London social circles for his work. Only a few years earlier in 1861, Queen Victoria chose Marochetti to erect a private monument to Prince Albert and herself in Windsor Great Park.[18] While Robertson's bust remains one of Marochetti's lesser-known works, it was, nevertheless important to the people in the organization who commissioned it. The bust was not the bank's first tribute to Robertson in his thirty-two years of service. The officers, directors and shareholders had given Robertson a handsome testimonial silver plate, to the value of six hundred guineas in 1844.[19] His wife was also presented with a portrait (see Figure 2) at this event and kept a set of copies of the portrait. It is no longer on display. The engraving remains in RBS's archives, although the bank does not own the original portrait.[20] These items were memory banks;

[15] Robertson died the year after he retired. *Bankers' Magazine*, 1863, p. 240–1.

[16] Ibid., p. 240–1.

[17] *The Economist*, 27 May 1865, p. 59.

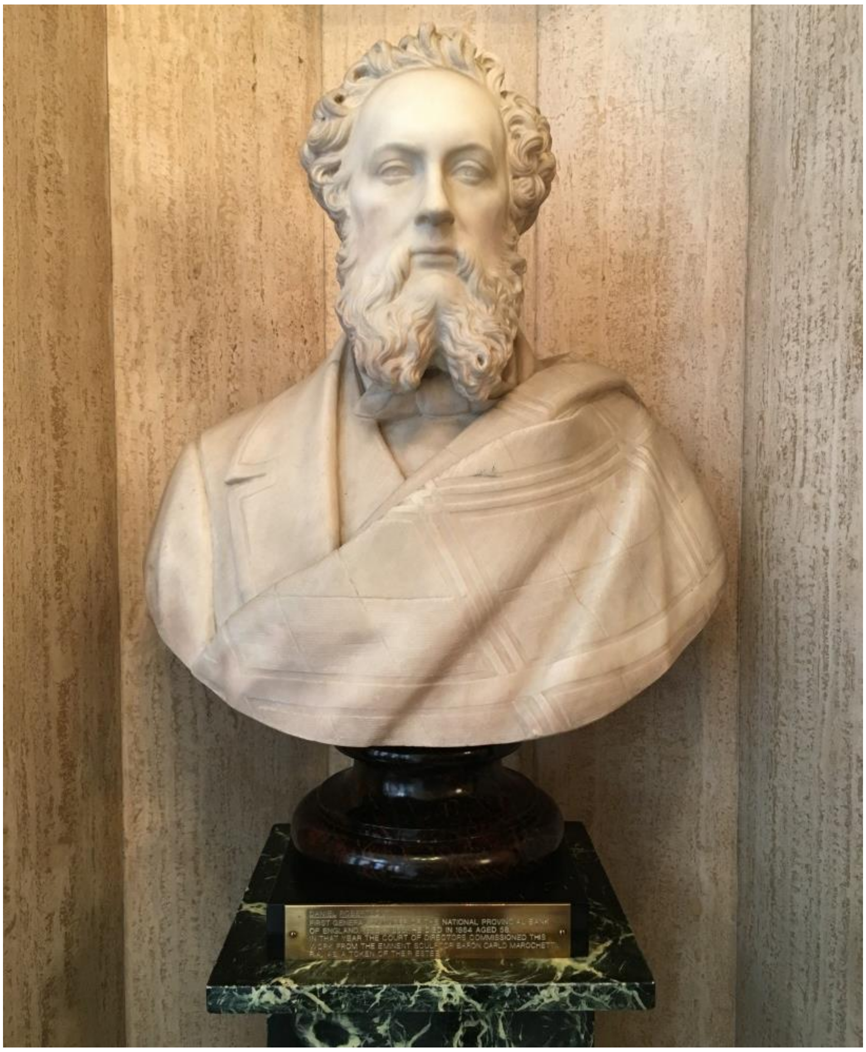
[18] "Oxford DNB Article: Marochetti, (Pietro) Carlo Giovanni Battista", http://www.oxforddnb.com/view/article/18085?docPos=1 (accessed 11 Jan. 2017).

[19] The value of this commodity would be about 500 pounds in 2019.

[20] At the time of commission, the bank also kept a set of copies. *The Bankers' Magazine*, 1846, p. 401.

designed to preserve an idea or thought, as well as recognising the personal achievements of Robertson.

Bust, Robertson, General Manager, National Provincial Bank, 1833-1863



Source: Author’s own

Portrait, Robertson, General Manager, National Provincial Bank, 1833-1863

Source: RBS Group Archives, National Provincial, NAT/1313. c.1840. H Robinson (from a painting by J. Partridge).

When the report from the National Provincial's annual general meeting in 1865 announced that the bust had been commissioned, it also gave some indication of where it would be placed. The sculpture was eventually sited in an alcove, which faced the front entrance of the building. The directors chose a 'prominent position… as a mark of respect'.[21] The open nature of this space ensured that bank customers and staff alike would pass the bust whenever they entered the building by the main front entrance. The presentation of the bust was a collective act of commemoration. The oration surrounding its unveiling expressed civic values that addressed the living rather than the dead; it assigned them a role in understanding and perpetuating Robertson's legacy. There were no written minutes of these ceremonies but the discussions and conversations which took place at the time of Robertson's death were written up in other forms. Those who listened to these exchanges and read the written versions had a duty to remember and convey this message to those who were not present, such as the next generation of bank staff. Those in attendance at this meeting were fellow bankers and

[21] *The Economist*, 27 May 1865, p. 59. His statue remains in the entrance hall. Visit by author 28 July 2016. Thanks to Melissa Goldberg of Gibson Hall for facilitating this visit.

employees – not Robertson's close or distant relatives. They were told that they should remember and emulate the Robertson's heroic deeds. Robertson's experience, advice and guidance were thought to remain pertinent.

During his career, Robertson had steered the bank through various financial crises, manias and panics. In the nineteenth century, these incidents were, for the most part, regionally focused. As National Provincial had the most geographically diverse branch network of all English banks,[22] it was affected by most of these events in some way, although not to the extent that its safety was truly threatened. The panic of 1836 began in the United States and spread to Great Britain through the cotton trading cities of Manchester and Liverpool.[23] At the time, most of the National Provincial's branches existed in the south of England and south west in particular; their presence in the northwest region was limited.[24] The bank also seemed immune to the problems in 1847. Rather than cutting back, at the annual general meeting that year, the bank reported that it was examining staff salaries to give 'additional remuneration'.[25] The financial distress of 1866 was felt mostly in London.[26] National Provincial had entered and begun lending in the capital city a year earlier but was not unduly affected by the crisis in 1866.[27] Although leading through difficult times, Robertson did not have to guide the bank through an existential crisis.

Unlike general managers in other financial organizations with a regional focus, Robertson did not spend the majority of his time in a flagship branch serving customers or making individual lending decisions. Rather, he was the person who was responsible for organizing and checking National Provincial's multi-regional network of branches. Robertson's role closely resembled what other banks in the second half of the nineteenth century would later term an 'inspector of the branches'. This role functioned as one of the key checks and balances for good governance of its branch networks. An inspector of the branches, or General Manager in National Provincial during this period, travelled around the branches in the bank's network to verify the bookkeeping records and accounting information

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[22] Barnes and Newton, 'How Far Does the Apple Fall from the Tree?', p. 453–6.

[23] Lepler, *The Many Panics of 1837*.

[24] Barnes and Newton, 'How Far Does the Apple Fall from the Tree?', p. 456.

[25] *The Bankers' Magazine*, 1847, p. 187. At the 1849 meeting, the bank maintained a positive outlook and opened two new branches. *Bankers' Magazine*, 1849, p. 404–5. Similar reports were given the previous year. *Bankers' Magazine*, 1849, p. 351.

[26] Patterson, 'On Our Home Monetary Drains, and the Crisis of 1866', p. 216–42.

[27] *Bankers' Magazine*, 1865, p. 852

in each unit. Robertson also ensured that branch managers were adhering to the bank's strict lending policies and admonished those who were not.[28] What stories or memories and lessons were stored in Robertson's memorials?

The first lesson was in building and maintaining a strong system of governance and organizational structure. To mark Robertson's death, at his place of birth in Crieff, Scotland, a story was told about Robertson's professional career and how he contributed to the bank's success. John Cunningham, minister of Crieff and historian of the Church of Scotland, told his congregation that Robertson first rose to prominence in Scottish banking due to 'his sagacity, and his resolute spirit', and that this 'at once gained the good opinion of his employers'.[29] When Robertson moved south to become General Manager of National Provincial, Cunningham said that he 'had strong native intelligence, thorough honesty. Christian principle, and an unflinching spirit, and with these he set himself to do his world's work, and he did it well'.[30] The bank owed much to Robertson for its growth and stability, according to Cunningham in his oration. At National Provincial, Robertson's 'mercantile genius' Cunningham said, 'first formed and fostered into greatness'.[31] This address was published in Edinburgh in 1864, although it is clear from Cunningham's words, he was in contact with those at the bank and has gathered information about Robertson's work from them.

Robertson's major achievement, according to Cunningham and those at the bank, was changing the bank's organizational structure. National Provincial had first been formed upon a federal constitutional arrangement, known as the local shareholder system, which meant that each branch operated autonomously as an independent unit. The local shareholders bore the responsibility for the losses and profits of the branch while being under the umbrella of the National Provincial. Robertson, Cunningham wrote, was strongly against this system of governance; he eventually persuaded the bank to adopt the 'Scotch system of a parent bank with branches throughout the country'.[32] The Scottish banking system had withstood the crisis

[28] Unlike other banks in this period, National Provincial codified its lending policy. See Royal Bank of Scotland Group Archives: NAT/1175, Instruction Book for local directors and staff of branches of National Provincial Bank of England c.1840.

[29] Cunningham, *Sunshine and Shade*, p. 7.

[30] Rae was of the opposite opinion and he argued that religion should be kept out of business. As Jeremy shows, the banking community was divided on the importance of religious thinking. Jeremy, 'Introduction', p. 24–5.

[31] Cunningham, *Sunshine and Shade*, p. 9.

[32] Cunningham, *Sunshine and Shade*, p. 8. For more on this internal debate among the directors and Robertson, see Cassis and Cottrell, *Private Banking in Europe*, p. 148.

of 1825/6 while the English had not; those imitating the Scottish model could - and did - point to this to reassure anxious of depositors, note holders, and shareholders. For example, Marrochetti's bust portrayed Robertson with a traditional Scottish plaid wrapped across his shoulders in the manner of a roman toga.

As National Provincial was an early example of a branching bank, its management learned the lessons of controlling and extending operations in advance of other, less geographically ambitious joint stock banks. Most other English and Welsh banks developed systems to deal with a large branch network much later in their evolution, most commonly in the late nineteenth century. From the 1880s, as English and Welsh banks amalgamated, these organizations became increasingly centralised.[33] By 1918, British retail banks were structured with a London Head Office and a large national branch network. This required considerable change in the bureaucratic structure of banks as new systems of organization and control, such as sound accounting practices and the centralisation of decision-making, were introduced and implemented.[34] National Provincial, through Robertson's leadership, had already completed this process.

Given its unusually large, early formation of a branch network, National Provincial had developed strong governance structures and managerial techniques well before the 1880s. According to Sayers, the Chairman of Lloyds Bank recognised the need to open branches to attract new deposits and expand business in the 1860s, pointing to the experience of National Provincial 'successfully running a long chain of branches'.[35] In contrast, when Lloyds attempted to reform its administrative systems to better manage its growing branch network in the 1880s, from the 'Managing Director down to junior clerks no one had the slightest idea how to work the new ledgers on the progressive system or how to start or carry on proper entries in the new suit (sic) of books ordered'.[36] The new bookkeeping system was established at Lloyds within a year but 'the adjustment of managerial functions and relations with the branches evolved much more slowly'.[37]

In contrast, Robertson had been successfully managing National Provincial's branch network from its inception in the 1830s and onward. National Provincial had 13 branches in

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[33] Capie and Rodrik-Bali, 'Concentration in British Banking 1870–1920', p. 280–92.

[34] Collins and Baker, *Commercial Banks and Industrial Finance in England and Wales*, p. 158–9.

[35] Sayers, *Lloyds Bank in the History of English Banking*, p. 237.

[36] Ibid., p. 237.

[37] Ibid., p. 238.

1835 and 143 branches by 1877. [38] As a result, the bank had an advanced and successful system of control and accounting measures for their branches and their managers in the network. Robertson, as General Manager, provided a clear set of guidelines and rules to the branch managers below him.[39] This required successful delegation – branch managers had to adopt some autonomy since minor decisions could not be passed continuously to Robertson at the central head office. But careful hiring of managers, a clear code of conduct, in particular with regard to lending practice, and regular monitoring could ensure the successful operation of this system. Branches were visited regularly by the General Manager to ensure that they were complying with bank policy, to have their books checked and to ensure that the stability of the organization was being maintained. This was a task that was not outsourced to external auditors, such as accountants. [40]

The second lesson that Robertson embodied was caution and the fear of fraud or a downturn in the economy. According to his *eulogy*, published in *Banker's Magazine*, '[a] leading feature in Mr Robertson's administration of the bank was 'the application of a rule which based all advances of importance on security'. This policy protected 'the man of capital from the speculations of the man of straw' and ensured the bank's long-term safety in times when prices suddenly dropped and investments turned bad.[41] How did Robertson establish the value of security and creditworthiness of individuals? An anecdote reported in *Bankers' Magazine* showed that Robertson was exceptionally through and determined in screening applicants, for:

> In the early days of the establishment, and therefore many years ago, a gentleman of plausible pretensions and high professional position waited upon him in London, to negotiate a loan of a very large amount. The surety proposed was reported so undoubted that the transaction was ultimately agreed to and a bond for the sum ordered to be prepared. Some suspicions, however, had fastened themselves on the young manager's mind, and when the gentleman called and proposed to take the security with him for signature, Mr. Robertson insisted that one of the bank's officers should accompany him and witness the execution of the document by the surety, who resided, we ought to have

[38] Barnes and Newton, 'How Far Does the Apple Fall from the Tree?'. Collins, *Money and Banking in the UK*, p. 116.

[39] Unlike other banks in this period, National Provincial codified its lending policy. See NAT/1175, Instruction Book for local directors and staff of branches of National Provincial Bank of England c.1840.

[40] Sayers, *Lloyds Bank in the History of English Banking*, p. 239.

[41] *Bankers' Magazine*, 1863, p. 238.

> observed, at some distance in the provinces. The applicant took high ground… [while] Mr. Robertson continued firm, however, and the gentleman, after asking time for further consideration eventually withdrew his request for the loan. Within a few months after he was arrested on a charge of forgery![42]

Banker's Magazine was published from 1843 and circulated among those in the banking profession and the City of London. Robertson was known to this group as a dependable colleague and employee who had saved the bank – its shareholders, depositors, note holders and staff members – from making considerable and costly mistakes over the years, such as lending to unsuitable customers as outlined above. The lesson of shrewd and firm bank management was one that senior bankers wished to remember, re-tell and teach so that this behaviour could be repeated. With these stories about Robertson, the sculpture and artefacts reminded onlookers of what he had achieved, and Robertson became part of the organization's folklore.

Robertson, and the lessons offered from his near mistakes and of brilliant but cautious lending policy took, centre stage when the firm started to operate from their new headquarters called Gibson Hall in 1860s.[43] Robertson was the only member of staff to be singled out to be immortalised in such a grand and extravagant way and embedded into the organization's active learning memory. It is important to note that he had been with the bank since its inception but that he was not a director or chairman. Rather, he was specifically chosen to be recognised and remembered as the individual who ran the bank, its widespread branch network and as having ensured its stability and survival. When Robertson died, he was still tied to the bank and would have been a memorable face to this cohort of employees, customers and stakeholders. It is impossible to tell how often this story was repeated as a matter of routine thereafter or to measure its exact impact. The lessons offered by Robertson's narrative were determination and caution; neither concept is easily quantifiable. There is no trace of ritualised activities around the bust in the literacy or epigraphic sources. An article in *The Economist* provided an image of the bust and described Robertson as being the person 'who bore the brunt of the first years of storm and pressure, and who remained until 1863'.[44] There were, however, clear mentions and discussions of the bust in the banking literature,[45]

[42] *Bankers' Magazine*, 1863, p. 239–40.

[43] Barnes and Newton, 'Symbolism in Bank Marketing and Architecture', p. 213,

[44] *Economist* 10 Mar. 1866.

[45] See *The Bankers' Magazine*, 1891, p. 63

although these do not extend into the twentieth century. The bank attempted to demolish Gibson Hall and Robertson's bust in the 1960s when those working from the head office no longer saw value in the building and its symbolism.[46]

George Rae

The biography of George Rae closely resembled Robertson's with several differences - the most important being that Rae lived longer than Robertson and so had a longer career. Like Robertson, Rae was Scottish. He was born in Aberdeen in 1817 and first worked at the North of Scotland Bank from its foundation in 1836.[47] The bank rapidly built its branch network in northern Scotland and as a result Rae obtained first-hand experience of branch banking.[48] He moved south of the border and started his career at North and South Wales Bank in 1839 as an inspector of branches.[49] The Bank (known as the Wales Bank) was established in Liverpool in 1836 by merchants of that city but operated mainly in North Wales. By the time Rae joined in 1839, it had already opened 13 branches. It did not operate on the same scale as the National Provincial Bank of England, but the Wales Bank did have ambitions on a regional scale. Rae became manager of the bank's branch at Oswestry in 1842 and appointed General Manager in 1845 at the young age of 28.[50] In 1865, the year of Robertson's death, Rae was elected as the managing director of North and South Wales Bank.[51] This role was different to that of Robertson, who was General Manager. Crick and Wadsworth, in their corporate history of Midland Bank (the bank that acquired the Wales Bank), considered that from 1865 onwards Rae 'may be regarded, not only as the bank's executive head, but as the controller of its policy as well'.[52] In 1873 Rae became Chairman and served as Managing Director and Chairman until he retired in 1898. Even after his retirement he continued as an Advisory Director until his death in 1902. Rae's triumphs are well-noted by historians looking back at the Wales Bank in particular, but also in the evolution of the banking profession and the banking sector

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[46] Barnes, Newton and Scott, 'A "Quiet Victory"'.

[47] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 426–7.

[48] Green, 'George Rae', p. xvii.

[49] Anderson and Cottrell, 'Another Victorian Capital Market', p. 598–615.

[50] Green, 'George Rae', p. xviii.

[51] In 1865 the North and South Wales Bank had 20 branches and deposits of approximately £1.25 million, Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 427.

[52] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 426–7.

in general. Anderson wrote that '[f]ew clerks ever emulated… [Rae's] achievements'.[53] Indeed, he remains highly relevant to HSBC and its current understanding of its past.

Rae's portrait, as shown in Figure 3, was painted in 1884. It was commissioned by shareholders of the bank, with an estimated costs of £1,000, as 'a special record should be made of their high sense of Mr. Rae's great services to the Bank'.[54] It shows Rae seated in a chair, the ornate wooden back of which is partially showing. He is wearing spectacles and has a full, grey beard. This is clearly Rae in his more senior years. He wears a dark suit with a waistcoat and necktie. His position is relaxed, with his left hand draped casually over the ornate chair back and his right hand placed in his trouser pocket at the front of the picture. There is no overt decoration in the scene – the background is dark. Only the bottom edge of Rae's waistcoat looks to have any embellishment. The impression is of a modest figure of smart and professional appearance – a person to be trusted – and a man both confident and at ease with himself. The portrait was originally placed in the boardroom of the Wales Bank,[55] and currently sits inside the *George Rae Meeting Room* on the 6th floor of HSBC's head offices in Canary Wharf, London.[56] A 1902 obituary stated that: 'When the shareholders decided to have Mr Rae's portrait painted, the hope was expressed that long distant would be the day when the chairman's connections with the bank would cease'. [57] Rae inside the institution would maintain a living memory of him long after his death, which would be reinforced by the presence of his image. Yet it is unlikely that even they would have expected to connection to have lasted so long. What kinds of stories were stored in this artefact and memory bank?

[53] Anderson, *Victorian Clerks*, p. 23.

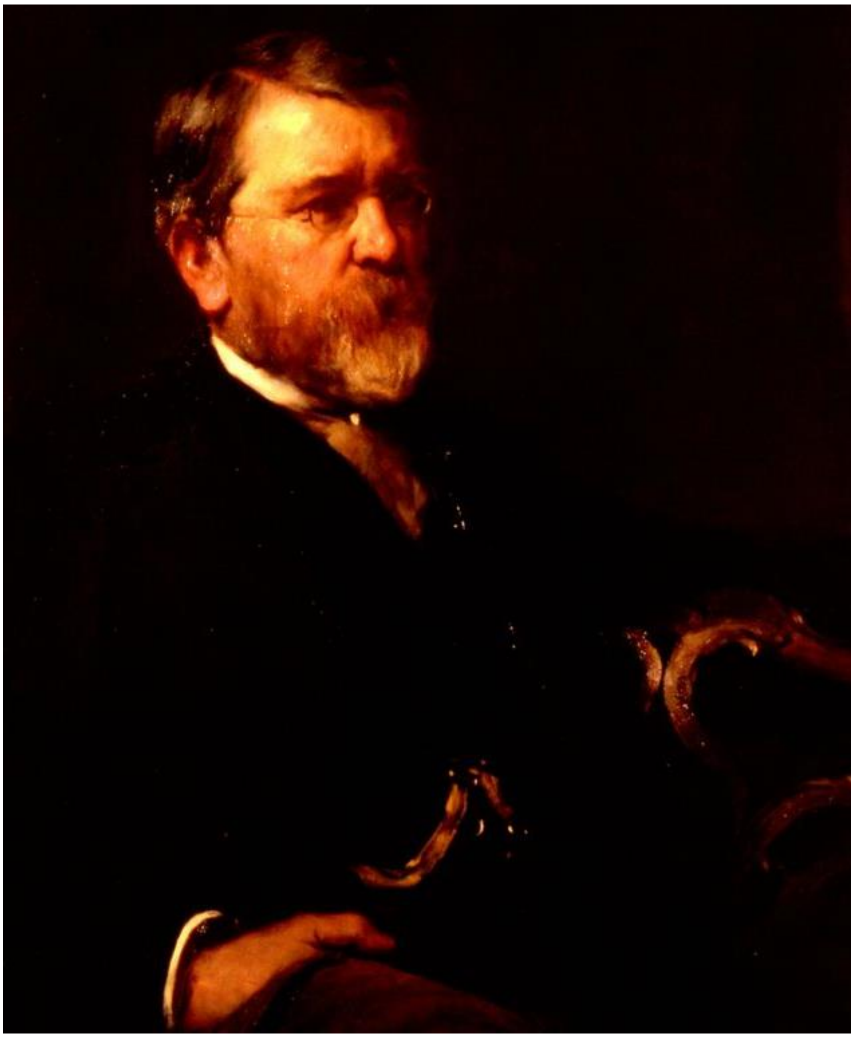
[54] HSBC Archives, UK M 0020: Board of Director Minute Book 1882–1886: 8 May 1883.

[55] HSBC Archives: UK 1782, 'In Memoriam: George Rae', p. 4.

[56] Visit to the sixth floor of Canada Tower took place in 2014. Thanks go to Sara Kinsey (former Archivist at HSBC) for arranging this. The portrait was moved from previous Midland and HSBC head offices at Poultry and Lower Thames Street.

[57] HSBC Archives: UK 1782, 'In Memoriam: George Rae', p. 5.

FIGURE 3: George Rae



Source: HSBC Archives, GARUK0266. Painted in 1883 by Frank Holt

Rae, more so than Robertson, is remembered best for the teachings and advice he left to future generations of bankers both inside and outside his own bank in a number of different ways. In 1874, he helped to establish the Association of English Country Bankers and was heavily involved in its rival organization, the Institute of Bankers. These organizations overlapped initially, with the latter taking responsibility for defining and providing a technical education for bank officials.[58] Rae went on to endow £1500 to the University College of North Wales to establish the subjects of banking and finance in the curriculum.[59] His 1885 book *The Country Banker: His Clients, Cares, and Work*, began as a series of letters to the

[58] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 427–8.

[59] Gardener, 'Jack Revell', p. 9.

Bankers' Magazine before being printed in book form as *The Internal Management of a Country Bank*. It quickly became an invaluable handbook for joint stock bank managers.

Of all Rae's the advice, he was noted for his lessons about risk, failure and how to avoid it during a period when banks were particularly vulnerable to shocks and crises. According to the history of Midland Bank by Crick and Wadsworth, George Rae was 'a man who built a bank, and a very fine one too; who played a large part in shaping the banking system in extremely difficult circumstances and under harsh restriction'.[60] An obituary described him:

> He was a banker among bankers, who contributed more than an individual share towards placing the banking business on a surer and more economic basis, and making it what it really is now, the very mainspring of all commercial transactions. [61]

In sum, he is seen as contributing four lessons and these stem from crises and near failure. The first was in orchestrating the introduction of limited liability after the spectacular failure of the City of Glasgow Bank. The failure of City of Glasgow Bank in 1878 resulted in a 'disaster of the first magnitude',[62] causing an immediate and severe liquidity crisis within British banking. It led to the immediate failure of one bank, namely, the West of England and South Wales District, to the subsequent failures of six banks in England, to three other banks stopping payment and to runs on branches of regional banks, such as the Yorkshire Banking Company and the York City and County Bank.[63] The City of Glasgow Bank failure also inspired long-term changes in the banking system. Although banks were able to use limited liability after 1858, few established banks chose to adopt the format and retained unlimited liability. The City of Glasgow Bank was one of them. When it failed in 1878, shareholders paid as much as 27 times their original holding and only 254 out of 1,819 shareholders remained solvent by the time the bank had been fully wound up.[64] Cottrell commented that the failure 'directly ruined 2,000 families, as their resources were repeatedly drained to satisfy

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[60] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 434.

[61] HSBC Archives: UK 1782, 'In Memoriam: George Rae', p. 1.

[62] Gregory, *The Westminster Bank through a Century*, p. 204. Collins agrees with Gregory that the 1878 City of Glasgow Bank failure led to crisis in the banking system, arguing against Hughes and Morgan's view that it did not. Collins, 'English Banks and Business Cyclers', p. 29; Collins, 'The Banking Crisis of 1878', p. 504–27; Hughes, 'Comment', p. 265–70; Morgan, *The Theory and Practice of Central Banking*.

[63] Collins and Baker, *Commercial Banks and Industrial Finance in England and Wales*, p. 92.

[64] Sykes, *The Amalgamation Movement in English Banking*, p. 38.

the bank's depositors'.[65] 27 banks moved to limited liability in the six years immediately following the 1878 failure. Rae was an ardent advocate of limited liability. He pointed out that the Bank of England and Bank of Scotland were limited liability banks, saying that 'the principle of limited liability is not a new-fangled notion at all… it is the principle of unlimited liability that is by far the newer of the two'.[66]

While serving as General Manager and Managing Director, Rae acted as a political lobbyist to further changes in legislation surrounding banking. Limited liability legislation was, Collins states, 'largely the work of George Rae'.[67] Rae repeatedly wrote against the 1844 Bank Act and in favour of limited liability for banks, as well as currency reform, and was instrumental in the getting the legislation through parliament that repealed the Act in 1857. He was a key force behind subsequent legislation (1858-1862) that permitted banking companies to adopt limited liability.[68] Rae did not rest there. He worked hard to push the Companies Act through parliament in 1879, after the City of Glasgow Bank failure. This legislation permitted the adoption of 'reserved liability' by banks and thus strengthened the rights of shareholders.[69] Rae was able to exert his influence through his position in the Association of English Country Bankers and later as Vice-President of the Institute of Bankers.[70] Correspondence provides evidence of Rae's negotiations with Sir Stafford Northcote, the Chancellor of the Exchequer, which led to the Act's condition for auditing the balance sheets of joint stock banks.[71] Rae had introduced this requirement in his own bank in 1869.[72] He argued that publication of fully independently audited balance sheets provided 'confidence to depositors and the public'.[73] He continued to give advice to politicians on the matter of

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65 Cottrell, 'London's First "Big Bang"?', p. 85. See also Tyson, 'The Failure of the City of Glasgow Bank', p. 126–31.

66 North and South Wales Bank meeting. 27 Jan. 1880 cited in Powell, *The Evolution of the Money Market*.

67 Collins, 'English Banks and Business Cyclers', p. 29.

68 Collins, *Money and Banking in the UK*, p. 74.

69 Under the 1879 Act, the amount that bank shareholders could be called upon was limited to a fixed sum so their liability was no longer unlimited. If the bank went into liquidation, shareholders had to be paid an extra specified amount to cover debts – the 'reserved liability'. Collins, *Money and Banking in the UK*, p. 83 and p. 100–1.

70 HSBC Archives: UK 1782, 'In Memoriam: George Rae', p. 14; HSBC Archives: UK 1626 (4 boxes): Correspondence of George Rae, including letters concerning the 1878 Bank Act; Green, *Debtors to Their Profession*, p. 59.

71 HSBC Archives: UK 1626 (4 boxes): Correspondence of George Rae, including letters concerning the 1878 Bank Act and details of meetings with Northcote.

72 Green, 'George Rae', p. xxviii.

73 Rae, *The Country Banker*, p. 317.

banking and gave evidence to parliamentary committees. An obituary written in August 1902 stated that '[i]n not a few instances he either initiated or supported most useful legislation, much appreciated in financial circles'.[74]

The second memory perpetuated after Rae's tenure was in the keen development of capital/asset ratios, which also stemmed from the Rae's management of an earlier crisis. Capie and Wood considered 1845 to be the North and South Wales Bank's worst experience of a crisis.[75] Crick and Wadsworth concurred by stating that, 'after less than two years' experience in the position… [Rae] was called upon to steer the bank through the most difficult period in its career'.[76] Branches were urged to 'keep their overdrafts down to the lowest practicable limit' in 1845, with directors 'suggesting that a little strictness now might prevent severity hereafter'.[77] But the bank had continued the practice of lending more money than was safe – the volume of loans and bills exceeded the volume of deposits by approximately £200,000 in 1846 - and two large customers were also borrowing heavily from the bank. To cope with this activity, the Wales Bank relied heavily on re-discounting bills of exchange with its London agents. This became a problem in 1847 when an international financial crisis initially saw discount rates rise and then re-discounting in London cease completely at the start of October of that year. As a consequence, the Wales Bank had to call in loans and overdrafts. Crick and Wadsworth noted that attempts 'were made to re-discount in Scotland, whilst Rae himself went to London and Birmingham in search of funds'.[78] Two other Liverpool Banks, the Royal Bank of Liverpool and the Liverpool Banking Company, failed, leading to public panic and a run on banks in the city. The run only lasted a few days and the withdrawal of deposits from branches of the Wales Bank were being met when a newspaper published a report stating that the bank had stopped payment. The report was untrue but George Rae stated:

> the report exploded amongst our branches like a shell, and literally blew the bank up. Traversing a large aggregate of liabilities in a few hours and at twenty different points

[74] HSBC Archives: UK 1782, 'In Memoriam: George Rae', p. 1. This piece was originally published in the *Liverpool Daily Post*, 5th August 1902.

[75] Capie and Wood, *Banking Theory*, p. 13.

[76] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 183.

[77] HSBC Archives: UK M 0006, 1845–46, Board of Directors Minute Books, 18 Dec. 1845.

[78] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 183.

without notice – without an instant of time allowed us to turn it in – it rolled back upon the Head Office a volume of demands… impossible for us to meet.[79]

The Wales bank suspended payment two days later.[80] Requests for assistance from the Chancellor of the Exchequer and the Bank of England were rejected and therefore the bank was forced to issue fresh calls for capital. The bank issued £100,000 worth of preference shares at seven per cent, the majority of which were taken up by existing shareholders. Depositors were persuaded not to make further withdrawals from the bank by accepting bills from the bank that were to mature over the following 18 months. Some branches were also closed. The Wales Bank re-opened for business after three months of suspension of business.[81] The lesson learnt by Rae through this experience was one that reverberated in the bank due to the enactment of strict capital/asset ratios that would save the institution from such severe distress in future.

The third lesson was one that both Rae and Robertson's memorials dispensed as they reminded others that banks should be governed with caution. The suspension of payments in 1847 ensured that the Wales Bank became more cautious in its lending and investment policies.[82] It was likely that this incident, so early on in his managerial career, had a lasting impact on Rae. Capie and Wood consider that 'Rae offered wisdom on a range of subjects but was particularly keen on caution'.[83] At the start of *The Country Banker*, Rae provided the advice that: '[t]here is, no doubt, as you suggest, a possibility of being over-cautious; but in banking that is one of the cardinal virtues, compared with the opposite evil and mischief of being over-credulous'. [84] This lesson reinforced within the bank through the monitoring and application of its lending policies.

Another way to reduce risk in terms of lending was to require the provision of collateral to secure any credit or advance. Rae counselled that the only way to protect against bad debts 'is never to make and advance to any one, except on security of approved quality and adequate value'.[85] This was the same attitude which Robertson apparently adopted at

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[79] *The Express*, 22 Oct. 1847.

[80] HSBC Archives, UK M 0007: Board of Directors Minute Book 1846–1947: 24 Oct. 1847.

[81] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 183.

[82] Collins, *Money and Banking in the UK*, p. 84.

[83] Capie, 'The Emergence of the Bank of England', p. 299; Capie and Wood, *The Lender of Last Resort*, p. 301.

[84] Rae, *The Country Banker*, p. 3.

[85] Ibid., p. 33–4.

National Provincial. In terms of advances as a whole, Rae discussed the balance of lending too much versus the underutilisation of deposits. He urged that: 'it will be well to keep in mind that on one side of it lies safety, and on the other the path to danger'.[86] On the final page of his book, Rae cautioned against departure from the 'lines of prudent banking… towards advances on securities of an outside character and uncertain negotiability' in order to secure larger returns.[87] Rather, '[y]our safe rule is steadfastly to abide by the limits which you have assigned to your various forms of asset, so that you may always have your resources in hand, come what may'.[88] Rae was able to set limits through the collection of financial information about his bank, its branches and their activities. This leads us to consider Rae's next key lesson to be passed down to subsequent generations of bankers and within his institution.

The final memory and lesson from Rae related to the changes he made in gathering internal statistics and improving reporting. The financial crisis of 1878 was brought about by the City of Glasgow Bank failure and the Wales Bank managed it well. Although some depositors withdrew their funds totalling £976 in cash,[89] demands were met. Crick and Wadsworth argue that:

> the power to cope with such disturbances had… been increased by the measures adopted by Rae with a view to raising the standard of liquidity observed by the bank… he had begun the submission to the board of weekly financial statements setting out the ratios for the various items over which the bank's funds were distributed. [90]

Rae collected a variety of internal statistics with which he kept himself and the bank's board appraised of the business of the bank. Green noted that following his appointment as Chairman and Managing Director in 1873, Rae 'significantly increased his control over the financial management of the Wales Bank' and was 'especially energetic in improving the quality of statistical information about the distribution of funds'. [91] Detailed weekly financial statements were introduced from 1875, which allowed the management of the bank to monitor advances more carefully and to ensure that lending remained at a level that did not prove to be too high a risk for the bank. The lessons of the 1840s would still have been remembered by

[86] Ibid., p. 229.

[87] Ibid., p. 318.

[88] Ibid., p. 318.

[89] HSBC Archives: UK M 0153-0046 Letter from George Rae to Thomas Brocklebank, 22 July 1896.

[90] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 183.

[91] Green, 'George Rae', p. xxv.

Rae and by others within the bank itself,[92] although the governance structures had changed substantially.

By the 1870s, branch managers referred 'important' decisions upwards to Rae, whilst Rae took an overall view of the accounts held by the bank. Day-to-day decision-making was delegated to a 'Daily Committee' of three Directors, which reported to the bank's General Board of Directors Meeting once a week.[93] As a result of such management, the balance sheet of the bank from the 1870s onwards continued to be strong. As Rae argued, 'a strong balance sheet attracts business'. Fraud was avoided by 'not allowing any ledger-keeper to balance his own weekly ledger, and by preventing any one officer from balancing the same ledger two weeks running'.[94]

The North and South Wales Bank survived crises in 1836, 1847, 1857, 1866 and 1878.[95] Crick and Wadsworth, the historians who retold the story of North and South Wales Bank and its successor bank, Midland, noted: the financial crisis of 1857 'was surmounted without difficulty' and the 1866 financial crisis, although felt deeply by the city of Liverpool (causing two bank failures in the city) and the north west of England, 'brought no serious disturbance to the bank, largely because of the perspicacity of George Rae'.[96] When the City of Glasgow Bank failed in 1878, the board of directors minute books recorded that on the day of the failure: 'we held the above Bank's acceptances to the extent of £61,611 from four London Discount Houses who, however, had taken them all out of our hands and replaced them with other, and good, bills'.[97] Thus, this particular bank failure did not have unduly negative repercussions for the Wales Bank. During all these fluctuations for the organization itself, in the banking sector in general and in the national and international economy, George Rae had been at the helm. It is unsurprising that the bank, and its successor, wished to preserve the memory of such a successful manager. Even so, Robertson has not been remembered in such a way. An interest in company's past - and the historical work of Crick and Wadsworth – were ways to keep a memory of the bank's past alive. Although Midland has now become HSBC and the North and South Wales Bank is a relic of past long gone, Rae remains a visible part of HSBC's current memory. A room in its head office named after him

[92] Ibid., p. xxvi.

[93] Ibid., p. xxv.

[94] Ibid., p. xxv.

[95] Crick and Wadsworth, *A Hundred Years of Joint Stock Banking*, p. 183.

[96] Ibid.

[97] HSBC Archives UK M 0018: Board of Director Minute Book 1875–1879: 8 Oct. 1878.

containing his portrait on conspicuous display, demonstrating ways to make the lessons of history prominent and emphasising the banks longevity and stability.

Conclusion

Both Rae and Robertson became General Managers of their respective joint stock banks at a time when this type of organization was in its infancy. With a wider range of investors, joint stock banks were well capitalised and capable of expanding beyond the restrictions of a single unit bank and to develop substantial branch networks. Despite the advantages of this organizational form, Green noted that the new type of banks 'were vulnerable to speculation, fraud, and slapdash management, and many promotions failed at the first sign of difficulty'.[98] Both bankers discussed here were believed to have successfully steered their organizations through their initial establishment as new entities, over long periods of time and through crises and threats. Therefore, they were used as an example for others who came after them.

Learning through experience was vital for the new joint stock banks. Bank managers, such as Robertson of National Provincial and Rae of North and South Wales Bank, studied the consequences of their own behaviour and aimed to learn from it. After they were gone, those at bank financed lasting physical artefacts to commemorate these individuals and also to create a memory store. In doing so, the bank invested in establishing an active learning memory. Artefacts were used in the same way as a museum or gallery. Objects served as a memory bank to remember a period, invoke a story and preserve a lesson about good management. Banks did this in the knowledge that crisis, panics and manias would reoccur and that past mistakes or successes should not be forgotten.

Of the lessons noted here, both Robertson and Rae were used as talking points to discuss the value of caution in finance. Lending without security was risky and undesirable behaviour. Security might include liquid assets such as stocks, shares, bonds or simply to be guaranteed by another individual with capital. They also cautioned against lending too much to too few customers, and to lending to those that they judged to be untrustworthy. By following such guidelines, come the crisis, mania or panic, lenders knew that their loans were more likely to be repaid. Rae, unlike Robertson, was also heavily involved in the formal education of bankers. Character building and soft social skills were, however, just as important as a formal education. Loan applicants were to be carefully screened and bankers

[98] Green, 'George Rae', p. xxx.

should use the network in their local community as a way to check creditworthiness.[99] Both Rae and Robertson instituted new internal accounting and reporting procedures to generate new information. They were identified as the people who put strong governance systems in place within their organizations, which ensured that the bank was less susceptible in a crisis. In this respect, both men were seen as being ahead of their competitors and pressing for a general change in the English banking system.

While Rae and Robertson were undoubtedly individuals who were prominent in their respective organizations, many of the fables told about them remain useful to the present day. Their legacy, however, differs. This is in part due to the way that memories about the bank were stored. Rae remains a visible figure in the HSBC's history and is still remembered, but Robertson is not. Robertson was memorialised and died in office just as the bank was building its new head offices and entering a new stage in its history. As the bank no longer resides in this building, and even in the 1960s attempted to demolish it, Robertson is longer a physical part of NatWest's heritage. The story of his life and career are no longer keenly remembered. Rae's name, by contrast, is spoken of each time a staff member or customer enters the *George Rae Meeting Room* in HSBC's head office. His appearance here prompts reflection on who he was and what he did; it allows a re-telling of the fables, stories, and lessons, which are associated with him.

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[99] Newton, 'The Birth of Joint-Stock Banking', p. 27–52.

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