

Avoid the size trap

Big banks, big unions, big government, big business. Each of those terms has come to be a pejorative.

That is slippery slope.

Equally dangerous is the attitude that small companies are "Mom and Pop" operations—that nothing really innovative comes from them, except maybe in Silicon Valley.

Bunk to both notions. The United States is big. It grew to be the world's largest economy by being successful. The country has been and still is an incubator for ideas and ventures, most of which began on "the back of an envelope," often far removed from big companies and big cities.

But those big companies got that way much the way the country as a whole did—by being successful. IBM was once a startup. Every large bank was once a small bank.

There's always been a certain tension between small and large in banking and in business generally. Some of that is just posturing, but in banking the financial crisis and the Dodd-Frank Act have led to greater polarization. This is a road down which banks should not go further.

The big have great power, without doubt—buying power, pricing power, etc. It's one of the motivations to become big. If abused, that power eventually attracts the attention of government, as it should. Even with that power, however, many of the mighty have stumbled. They did so in part because it's very difficult to sustain the same level of creativity, agility, and control as the organization grows. People get sloppy, wasteful, arrogant. This happened to the mighty IBM. In that case, drastic changes managed to save the business, but as a very different company. Such big-company turnarounds are rare (especially without government support), and in banking even more so. Because of the unique role played by banks, turnaround usually involves acquisition.

Community bankers would point out that in banking the very biggest have become too big to acquire and too big to fail, and that the new rules being put in place to end that condition may not work in practice. They may be right about that.

Yet, if the industry falls into the trap of the small thinking that big is bad, and the big thinking that small is irrelevant, only bad things will happen. A divided industry cannot prevail.

If you think JP Morgan Chase, et al are bad news for banking, criticize the specific practices you dislike, not the institution.

And if, on the other hand, you are among those thinking community banks live in the past, think again. The good ones will run circles around you.

It's a shame that bankers from big and small institutions seldom meet and talk as they once did. They would find they have more in common than they might think. The article about U.S. Bancorp's Richard Davis (p. 26) demonstrates this.

The industry's collective focus should not be on its asset-size differential, but on stemming the swelling tide of government involvement.

That is the real threat to the future of a thriving and broadly diverse banking industry. •

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