

PROBLEMS OF MANAGEMENT -- IMPLICATIONS FOR PERSONNEL

Remarks at Personnel Surveys Annual Meeting

April 3, 1974

I. The strange (unique) nature of the Federal Reserve System.

- A. Not government; not private.
- B. Make huge "profits", yet have no direct market test for efficiency.
- C. Hybrid responsibilities.
 - 1. Assembly line operations, with rapidly changing technology.
 - 2. Monetary/credit policy.
 - 3. Bank supervision.
- D. Banks separate corporations, with individual boards of directors, yet part of nation-wide system.
 - 1. Constant tug of war between centralization/decentralization.
 - a. True of monetary policy as well as operations.
 - b. Will never be settled as abstract principle, only as working arrangement for specific functional areas.

II. Struggling with attempts to define and digest new systems of management.

Both within each Bank, and for System as a whole.

A. Why new systems now?

- 1. Very rapid increases in (taxpayer supported) costs of running the System.

1962	\$200 million
1967	\$250 million
1972	\$450 million

a. Major speed-up of check processing.

RCPC's.

b. Electronic funds transfer systems.

c. Holding company administration.

d. New buildings.

2. Unwieldy structure for "controlling" System:

Board of Governors, Presidents Conference, etc.

a. Much frustration.

3. Management by Objective -- an idea whose time had come.

4. Response: Planning and Control System (PACS).

B. Within the Bank:

1. Establishment of goals and objectives.

Dovetail bank, departments, individual officers: C I T E #2, 6

2. An integrated process of management: time phased planning, budgeting, expenditure control, performance review.

3. New demands on managers and staff.

But also, hopefully, new channels of communication:

Performance evaluation; ombudsman; senior staff group;
black/white awareness; planning/budgeting at unit level;
job enrichment.

4. Staff development program - C I T E

(Not yet integrated: education program).

C. For System as a whole:

1. Complexity.

Already mentioned: Board of Governors, Conference of Presidents.

In addition: Conference of First Vice Presidents;
Board Committee on Reserve Bank Operations;
Executive Committee on Cost Improvement.

2. Theory of Organization - Drucker (HBR Jan. Feb. 1974)

Organizational structure frequently criticized because not sufficiently free form to provide scope for self-fulfillment. Crisis in organization instead because old forms not adequate to new tasks.

a. Changes in tasks of organizations.

- 1) Formerly manufacturing; now mainly services, including banking, communications, etc.
- 2) Single product/technology/market; now multi-product/technology market.
- 3) Manual production workers; now knowledge workers.

b. Suggested changes:

- 1) Functional structure (engineering, production, sales, etc.) supplemented by team approach, to accomplish tasks (people skills move to work tasks, rather than vice versa).
- 2) Federal decentralization (decentralized authority/centralized control - G.M.) supplemented by simulated decentralization to measure results and performance.

3) Systems approach - combines team and simulated decentralization for large, complex tasks - NASA.

3. Organizational Changes in Federal Reserve System:

- a. Improved information system for effective control.
Uniform accounting system. Threat vs. help.
- b. Operations Research Center - to supplement task forces.
- c. Rotation of management personnel.
- d. Staff College to train managers.
- e. Redefining role of Presidents Conference to speed response, get better control of operations.

Result: Great flux, unsettling, compounded by move.

Yet operations only part of responsibilities.

III. Role of Personnel Department.

Much more being asked; and shows in budget.

A.	<u>Employees</u>	<u>Personnel</u>	<u>Ratio</u>	<u>Cost per Employee</u>
1970-72	← 800	15	50/1	\$500
1974	← 1000	25	40/1	\$650

B. Added responsibilities:

1. Training and education.
2. Analytical work - partly wage controls, also analysis of increased holidays, vacation, shift differential, parking policy.
3. Affirmative Action: counselling, deaf/handicapped.
4. Growth in work force and turnover.

2. More broadly, for society

Rollo May - Power and Innocence.

a. Used to think that violence in society the product of power and abuse of power.

b. May says opposite:

Deeds of violence in our society are performed largely by those trying to establish their self-esteem, to defend their self-image, and to demonstrate that they, too, are significant.

IV. Personnel policies and corporate responsibility to employees and society.

A. Growing emphasis on evaluation of job performance, not individual characteristics (initiative, gets along, honesty).

1. Corollary: Not concerned with employees' life outside work, e.g., alcoholism, etc.

B. New justification for this approach in Glasser's Reality Therapy.

Turns classical concepts of psychotherapy on head.

1. People neurotic because don't successfully satisfy needs.

a. Freud: needs = sex/aggression.

b. Glasser: needs = relatedness (relationships)/respect.

2. People get into emotional difficulties because:

a. Freud - society sets unattainable standards.

b. Glasser - individual's performance doesn't meet standards.

3. Freud - people act "irresponsibly" because they are "ill" (i.e., out of touch with reality).

Glasser - people are ill because they act irresponsibly.

4. Therapy -

Freud - get person to understand why he became "ill" and he will be cured.

Glasser - get person to act responsibly, and he will be cured.

C. Implications.

1. If we can help employees to act responsibly on job (i.e., understand clearly what is required, and helped to achieve acceptable norms), will gain/enhance self-respect, and hence lives outside work as well.