

UNIVERSITY OF MINNESOTA
TWIN CITIES

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Mr. Mel Burstein
Vice President
Federal Reserve Bank
of Minneapolis
Minneapolis, MN 55480

Dear Mel:

I enjoyed meeting again with you and your staff.

The rough transcription of Mark's presentation is enclosed.

Cordially,



William Pyle
Director

WP:df

Enclosure

Dr. Mark H. Willes, President
Federal REserve Bank
of Minneapolis

Thank you Bill, it's a pleasure to be here. I'm sure all of you noticed a conspicuous lack of any education or training in the personnel field. You're probably wondering why I'm up here talking to you about how to measure personnel. And that's particularly true of personnel officers that I've worked with in the system. They're wondering why I'm up here talking to you about how to measure personnel. I'm delighted to be here, I want to share with you a story in my own defense, at least I hope it will be in my own defense. It has taken on added meaning to me since I've been out here in Minnesota a couple of months. This is a story that I heard out in Pennsylvania where I spent the last 10 years of my life, about a Quaker meeting where the man who was supposed to sing at the meeting got sick. So they had no one to sing so they just called upon the next man who walked in the door to sing, and he was a little reluctant, but he said "well, OK, I'll do that" and he sang, and he did just an awful job. It was terrible, he forgot the words and he sang off-key, it was just miserable and he felt very badly about it. When he was finished, one of the other men in the congregation could see that he was upset, and so in an effort to reassure him he went up to him and said, "Thee should not feel bad, Thee did thy very best. 'Tis he that asked thee should be shot." Now I want to make it very clear that it was Dr. Pyle who asked me to come here. Should you find that I say anything you don't like, please take it out on him. That's particularly crucial because in the two months that I've been in Minnesota, I've already managed to alienate more farmers than I ^{thought} ~~knew~~ existed in the whole country, and I just can't take on anymore. I should also add, that everything I know, plus, about personnel, I learned from people like Jim Gaylord, who is one of your participants today, so if you don't like anything I say, you just take it up with Jim, and he can straighten you out. My assignment, as Bill mentioned,

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was to talk about human resources and productivity. To do that, I would like to review some fundamentals. Probably more for my sake than for yours. But I find that when I have a topic like this, I have to start right with the basics or I can't understand where I'm going, and on the hope and assumption that its useful from time to time to review fundamentals, although you probably know them better than I, let me go ahead and do that, and then you can just chalk this up to another discussion that you really didn't need to hear but maybe a refresher didn't hurt all that much. Now I'd like to define productivity, in a slightly different way than Bill did, but I think its consistent with what he said. I'd like to break it down into, essentially, three dimensions, and you'll see that they correspond roughly with the way Bill put it, but the way I put it makes it easier for me to think about it, so I'm going to use my definitions rather than his. The first dimension of productivity has to do with the worthwhileness of the objectives of the organization. That is to say it has to do with the desirability of the outputs. Whether ~~their-goods-are-service~~ they're goods or services or whatever they are. Now simple little analogies, somebody will walk out of a meeting and say, "Gee, that was a productive meeting" They don't usually mean that a lot was done, they usually mean is that something worthwhile was accomplished. It's in that sense that I mean the productivity of the output. That the end result, the output, is desirable, is worthwhile, has meaning and significance, for the organization. I think that corresponds with what you called, effectiveness, Bill. The second definition has to do with the ration between inputs and outputs, that's what Bill referred to as effeciency. If you can get the same output, with fewer inputs, or you can get more outputs with the same inputs, you're more productive, and more efficient. Now those two dimensions of productivity apply to the organization as a whole. The third dimension, in the categorization that I'd like to use, relates to the product-

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ivity of the personnel or human resources function itself. That is to say, how efficient are you in providing the services that you provide in helping to accomplish the first two dimensions of productivity that I listed. OK? So there are three dimensions: The worthwhileness of the output, the ratio of inputs to outputs, and then how efficient the personnel function is in making its unique contribution to those first two. Now, that may seem like an overly simplified view of the world, and I suppose it is, but I think that it has some interesting implications, at least in my mind, for how you measure the contribution of a personnel function to the productivity of an organization. & Just for starters, it probably exposes, at least from the work with which I'm familiar, one of the most common mistakes in trying to measure the performance or effectiveness of a personnel function, because most of the measures that I see used, and there aren't very many, but even most of those I see talked about have to do with only the third category. That is, the effectiveness with which the human resources function provides its services, and a good number of the measures that people talk about, what's the cost of training, what's the cost/benefit ratio between training and the speed-up on the learning curve and all that sort of thing. Those really only apply to the third dimension, and yet the first two, from the organization's point of view, are the most important dimensions of productivity. So that it seem to me that you can't really talk about the productivity and the performance of the personnel function without talking about their relationship with those two dimensions of productivity. So what I'd like to do is talk for just a minute about how I see the role of the personnel function relating to all three dimensions of productivity and then some of the implications of that, or how you go about measuring it.

First, and in my judgement, most important, has to do with the relationship of the personnel function to the worthwhileness of the enterprise. That

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That is to say, the desirability of the end results, the outputs, of the organization. Now you will readily say that it's really the responsibility of the chief executive officer, or the line manager, whoever it is, to decide what is worthwhile to produce or deliver from our organization, and I will readily agree. That's his responsibility. But I would also suggest that it is the responsibility of the human resources function to assure that the right processes are used in generating the decisions relating to the outputs of the organization. That is to say, it is the responsibility of the human resources function to make sure that the line managers are asking the right questions within the right framework, are analyzing and dealing with them in the right way so that in fact, wise decisions are made with regard to the outputs of the organization. Now I suspect that there might be some controllers or budgeteers or others who would have difficulty with that. It is often felt that because the controller, for example, is responsible for the budget function, and sometimes the planning function in the organization, he controls the process, the primary process, through which decisions are made, and therefore, that determines how the organization manages itself. I think that happens to be true, by default, in many organizations, but I don't think that makes it right. It seems to me that you have to look to the human resources function as the in-house management expert, to make sure that the management processes that are used, are the best possible for that organization. That's particularly true because you have to make sure that the processes focus on outputs, and not just on inputs, and too many management systems that I see, spend most of their time focusing on inputs. What's the cost, what are the human resource inputs required, and so on and so on. Very little time deciding what the really desirable outputs should be, and you can be just as efficient as anything, but if you're producing the wrong outputs you're making a bad mistake. I think it's the

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human resource function's responsibility to make sure that the process that's being used in the organization is the right one. Now that does not mean, in my judgement, that hold the human resource function responsible for the decision that's made, that is the CEO or the line manager, or whoever it is, who has to make that decision. But you do hold the human resource function responsible for the process that's used. And if the wrong process is being used, I don't think the human resource man can say, "Well, that's the way the boss wants to do things," if he's using the wrong system he ought to be in there telling the boss, "You're doing things the wrong way, and you'd better change." More than once, my personnel man has come in to me and said, "That's a stupid way to do things," and we've changed, and we've been better off with the results.

Now, here again, I don't think it's fair to measure the human resources function on the basis of the overall productivity of the firm. It's really the line manager's responsibility to make sure that the result is as good as is possible. But, it is the responsibility of the human resources function, as Bill has already pointed out, first to make sure that enough of the right kind of people are hired, and I would also say fired, it's as important to outplace the appropriate people as it is to in-place the appropriate people, from the point of view of the organization, and that's of course where all of the activities that you engage in, relating to hiring and training and firing, and so on that take place. It's also a responsibility, in my judgement, of the human resources function to make sure that the people in the enterprise are working together in the most productive climate. Now I hear an awful lot of mushy talk about climate in organizations, personally I think most of us, well, I won't say what it is since I'm here in Minnesota, but that's what I think it is, and I think that it's important to distinguish between being happy, and being productive. Now I'm all for have people hap-

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py, but that's not really the objective of the enterprise. The objective of the enterprise is to be productive, and I guess that I'm convinced that if people really are productive in the right kind of environment, they will be happy, but it won't work the other way around, necessarily. It's the responsibility of the human resources function, it seems to me, to assure that the right things are done so that that climate is as it should be. In addition, the human resources function has to have, has to be really plugged in. Has to have it's finger on the pulse of the organization, so there are no nasty surprises. One of the least productive things to anybody is a nasty surprise, you get hit by a grievance or a suit that you weren't expecting, and you chew up all kinds of resources trying to respond to it. All of a sudden you realize that you're plant is about to get unionized, and your productivity goes way down. It's the function, in my judgement of the human resources department to make sure to the maximum extent possible that those surprises don't happen, without the line managers being aware of it. Finally, relating to this second dimension of productivity it seems to me that it is the responsibility of the human resources function to make sure that the people in the enterprise are organized and managed in the most effective way. This is probably the most critical dimension of all. I think this is much more critical, ~~for-instanees~~, personally, than however effective you are in hiring people, and even in most of the standard skills training programs that we run. It is much more crucial, in my judgement, to make sure that the enterprise is organized in such a way as to achieve the end results of the organization, given the style and ability of those who are primarily responsible for accomplishing those results. Now that suggests to me that there is ^{one}no/organization. That's not new to you, but it's amazing to me how many people try fit everything into a standard organization, and the organization does have to be a function of 1) the

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end results that are to be achieved, and 2) the style, the characteristics the ability, the capacity, of the key characters who are responsible for achieving those results. Expect, in rare cases, it's probably not the responsibility of the personnel man to see that the CEO gets fired. If he's got the wrong style, somehow, it's probably a more appropriate role, and I'm saying this obviously in my own defense, to help that CEO understand how he can organize to make his style work ~~th~~with the objectives that have to be met. Now I suspect there are rare cases where the CEO is just so bad that the human resource guy has a responsibility to see that something happens, but I suspect that if he's really that bad it's going to be apparent to more than the personnel man. Now this sounds very simple, yet I took a little poll one day, when I had a whole bunch of personnel people together, about how many of them really were involved in the organizational considerations in their enterprise, and it was less than 50%, that is to say, when a line manager decided how to organize things underneath him, did he had to consult with the personnel function less than 50% said "yes." More importantly, when the CEO decided he was going to reorganize the office of the president did he consult with the top personnel man, there the ratio was about one to ten, and I personally think that's a mistake, that it reflects poorly both on the profession and on the CEO's who are not capitalizing on a very valuable resource. Well, OK, finally, the third dimension of productivity has to do with how efficient the personnel function itself is in providing the services which it uniquely provides to the other two dimensions. I won't go into any detail there, except to say that unfortunately this is an area where many personnel executives fall down. Nobody here, of course, falls down in this regard, but more than once I have seen a personnel officer who felt absolutely capable, and in some senses was absolutely capable, of telling other managers how to manage, and he ran the sloppiest operation himself in

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the whole enterprise, no concern for the cost effectiveness of what he was doing, absolutely refused to write down objectives, as though you can't write down objectives for the personnel function, and yet he's going out and telling everybody else they've got to write down objectives, they've got to be measured and accountable for results, and so on and so on. Well, it just won't work that way, obviously, so that a personnel man has to be, if he's going to have the respect of his peers and serve effectively, he's got to be an absolutely first rate manager himself. Well, OK, if you will accept that, whether you believe it or not, that kind of framework, that kind of role, for the human resources function, then the question is how do you measure the personnel function, and I guess, before I mention briefly how you do that, let me just assert that you can measure the personnel function. Now hopefully, since you're all here, you all agree with that premise. I guess you also know there are a lot of your colleagues that don't agree with that premise, the most typical response, when you talk about measuring the personnel function is "Oh, you can't do it." Or they say. "Theoretically it's possible, but in practice you can't do it." Very much like the story relating to WWII when they were having trouble with the German U-boats sinking all the American shipping boats. So some General said, "I know how you solve that problem: you heat up the ocean and you get it so hot that the U-boat have to pop up to the surface where you can bomb them." And the poor Admiral who had to carry out that responsibility said, "How do you do that?" and the General said, "Well, I don't know, I just come up with the ideas, you work out the details." Sometimes, personnel officers think that that is as impractical an assignment as we're giving them. The idea sounds fine, but when you go out to work out the details, it's not so easy. I don't think that's right. I think it can

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be done, in fact, I would go so far as to say that if the human resource officer says it can't be done, then he either ought to be fired or be made president where he can't hurt anybody. Well, if you're to measure the human resource function, it seems to me perfectly obvious from what I said that there are different dimensions that have to be measured, relating to the different roles of the human resource function has planned. If you look, for example, at the first dimension of productivity, which has to do with the desirability of the outputs, and the human resource function has to do with assuring that the proper processes are used to see that wise decisions are made. There is no way to put a number on that, but somebody does have to make sure that the right questions are asked, that the right analysis is done, that a judgement is reached as to whether or not the human resource function is making the contribution that it ought to be making in that area. I think if we would only admit to ourselves that we need to reach that kind of judgement, we would go a long way in appraising the human resource function in what I consider to be its most critical dimension. The same thing would be true of course relating to the ability of the human resource function to make sure that an organization is appropriately organized, and managed. There are no numbers that can be attached to that, but somebody has to go through a hard analytical process to reach a judgement as to whether what is being done is appropriate or not. Then, of course, there is a whole class of specific measures, most of which only relate to the third dimension, how fast can we speed up the learning curve with our training program? What are the benefits to the organization if we do so? What's the ratio between those two, are we better off to do the training in or not? That's nice, that's something that absolutely has to be done, but we ~~are~~ not to mislead ourselves. That only relates to the third dimension, although I must confess, at the moment that I'd be delighted if we even had some good measures even on the

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third dimension, because I don't see any of those around at the moment.

Well, how do you develop measures of both those kinds? It seems to me in the first instance, where you're reaching judgemental decisions, the only way you can do that is to involve people who have good judgement, and ask them to do it. Now that means sometimes you can do it yourself, though I suspect sometimes that tends to taint things a little bit, at least in the minds of the recipient of the evaluation, so that it seems almost inevitable to me that if you're to measure the human resource function on some of its most critical dimensions, you have to introduce somebody else into the process. That can be, and should be most of the time in my judgement, the top line officer in the organization. I think this is one responsibility that the president or chief executive officer can't duck. If he doesn't spend any of his time thinking about or evaluating the human resource function, he's not doing his job. In addition to that, it is sometimes productive and useful as we're beginning to do in the Federal Reserve System, and I emphasize just beginning, we have a long way to go, to develop certain kinds of groups and procedures to perform a zero base review, or an operational review or whatever you want to call it, to have an external group come into, in our case, a reserve bank, go through the way the department is organized, the kinds of involvement it has, the kind of procedures that it tries to get put in place throughout the organization, and so on. Very productive, very useful. I would suggest that ~~what~~ it would be particularly useful if from time to time that review group involved somebody entirely outside the organization. That is, in our case outside the Federal Reserve System. I would hope, for example, in addition to having Dave Shannon send in his guns, that sometime we'd ask one of you to come in, from an entirely different orientation, and look at what we're doing. Now in effect, we did this in Philadelphia,

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only we hired him. But when Jim Gaylord came to Philadelphia, he'd never set foot inside a Federal Reserve Bank. So he was able to give us an absolutely objective view from a professional personnel man's point of view as to what we were doing. As you can imagine, what we were doing was just awful, which is why we hired him to come in and straighten us out. But I think that kind of external perspective is absolutely critical. With regard to the specific quantitative measures, I personally have a whole host of ideas which at some point I'm going to inflict on somebody. I'm not going to do that today, I really think that you should come up with the details, and then we'll see how they go. Let me simply say that there are, in my judgement, a surprisingly large proportion of your activities that are measurable, and should be measured on a regular basis, and if you're to play the kind of role in your organization that I think you should play, one of the implications is that you have to be willing to stand up and be held accountable, just like everyone else in the organization, and that includes being accountable in a quantitative as well a qualitative sense. Well, I've already said a lot more than you probably wanted me to say, let me simply close by saying--e indicating a personal bias, and that is that I really believe people are our most important resource, I really believe in the responsibilities that you have or you should have. And I personally find it very exciting to be working with you and your counterparts to try to get the very most we can and provide the very most we can for our most important resource, and that's people.