Chapter Three: People

Having your employees committed and engaged in the work of your organization is critical to your success as a leader. And creating that commitment and engagement is a key role of any good leader.

IBM CENTER FOR THE BUSINESS OF GOVERNMENT
WASHINGTON, DC 20005

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: **People**

Achieving your goals will depend on the hundreds, if not thousands, of people in your organization. While it has become a cliché to say that an organization's most valuable resource is its people, the statement is true.

As you begin to address the people dimension of your job, you will be working in two distinct time frames: the near term, meaning your first six months or so, and the longer term.

Focus on Near-Term Activities

You have an important job to do and you need to get action quickly on the president's agenda. While you and your immediate team will be talented and will work long hours, your immediate team will not be able to accomplish your goals by themselves. Your challenge will be to tap into the skills, talent, ideas, and strong work ethic of the career civil service. To succeed, you will need to rely on the career civil service to help you accomplish your goals.

Your near-term people agenda will be to assess the "state" of the career service in your organization by asking two crucial questions:

- Do you have people with the right skills in place within your organization to get the job done?
- What do your organization's annual employee surveys tell you about your organization? Are your employees engaged in their work? Is there trust and confidence between your employees and their supervisors?

The answers provided to the first question should reflect the status of your organization's workforce. You should probe to find out whether you have *people* with the right *skills* in the right *job* performing their assignments. If the answers are not to your satisfaction, there are many immediate steps you can take to remedy this situation. Your short-term discussions should provide you with a good understanding of your organization and the longer-term challenges the institution may now be facing.

Your answers to the second question are something you can act upon immediately. Having your employees committed and engaged in the work of your organization is critical to your success as a leader. And creating that commitment and engagement is a key role of any good leader. Creating trust and confidence between employees and supervisors is also critical, but that may take time. Still, that will be an important investment of your time to ensure the work of your organization will be done effectively.

Invest in Long-Term Initiatives

After you complete your near-term assessment of the effectiveness of the people in your organization and their levels of commitment, you can then turn to more complex people issues that typically face every agency. These are crucial to the longer-term effectiveness of your organization and its ability to sustain the president's agenda.

- **Managing workforce planning.** Building on the plan you inherited will be one of your most important long-term initiatives in order for you to leave behind a strong institution. Given the anticipated retirement of many "baby boomers" during your tenure, you will have the unique opportunity to reshape the skill mix of your organization to better fit its mission and strategy for the next decade.

- **Managing talent strategically.** As an outgrowth of your workforce planning, you will need to develop and implement strategies to recruit, retain, develop, and manage your employees. Agencies currently have a number of hiring strategies under way including partnerships with universities, job fairs, and other outreach programs; the use of hiring flexibilities such as recruitment, retention, and relocation bonuses; re-employed annuitants; student hiring programs; and direct hire authority. You should aggressively use these hiring flexibilities.

  In addition to these hiring flexibilities, agencies have implemented learning and leadership development programs such as the Candidate Development Program, emerging-leaders programs, and other succession planning initiatives. Agencies have also implemented other programs to retain employees including child care, student loan repayments, telework, and other work life initiatives. Your chief human capital officer will be able to brief you on current strategies, as well as how well these strategies are working.

- **Managing for better performance.** Your agency should have a performance management system that is designed to link employee performance plans with the agency strategic plan. As a result, employees should have performance plan goals that align with and support the organizational goals. Similarly, employee ratings should be linked to the overall performance of the agency. Some agencies have legislation that authorizes a pay-for-performance system, perhaps including paybanding.

  A pay-for-performance system could serve as an effective complement to your initiatives to drive performance and accountability. You will need to decide whether the nature of the work of your organization lends itself to pay for performance including paybanding. If you do decide that your agency needs pay for performance or paybanding to improve performance, then you will need to work with the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) to seek legislation.

Develop Effective Relationships

To accomplish your goals, you will need to create an effective working relationship with a variety of different groups, including individuals inside and outside your own organization. Within your own organization, it is crucial that you develop a good working relationship with your own employees. An important group of your employees is union members. Your chief human capital officer (CHCO) should be able to tell you how many unions and union members are in your organization, as well as the extent of their influence and the "state" of labor relations in your organization. Based on the experience of many previous agency heads in government, spending an appropriate amount of time with your union representatives to forge an effective working relationship can be beneficial.

You will also need to work closely with key government staff outside of your own organization. Specifically, you will have to work closely with two central management agencies: OPM and OMB. Both are intimately involved in a variety of people issues, such as pay, employment ceilings, and the number of Senior Executive Service "slots" within your organization.

Workforce Planning

Question: What is workforce planning and should I pay attention to it?

Answer: Workforce planning, as defined by the National Academy of Public Administration, helps identify the human capital required to meet organizational goals and develop strategies to meet these requirements.

Your agency has a strategic plan, which contains your organization's business plan. Your challenge is to align that plan with your organization's people. Simply put, do you have the right *people* with the right *skills* in the right *job* at the right *time* performing their assignments?

You will have a major opportunity over the next four years (and perhaps the next eight) to reshape your organization's people via an effective workforce planning initiative. Much has been written about the anticipated forthcoming retirement "wave" of the baby boomers. While it is unclear how many will actually retire after becoming eligible, it is safe to say that your workplace will look far different four years from now. This should be viewed as an opportunity to reshape your workforce to be more closely aligned to your strategic plan and contain the appropriate skill sets for the 21st century.

You will need to make sure that a credible and effective workforce planning initiative is in place. A key member of your management team will be your chief human capital officer, who will be responsible for overseeing workforce planning in your organization. You will also need to ensure that workforce planning is under way and that it links to your organization's strategic plan.

Where do you get started on workforce planning? In her report to the IBM Center, University of Baltimore's Ann Cotten sets forth the following key steps:

- **Step One:** You must first find out whether your organization is already undertaking a workforce planning effort. If such an initiative is under way, ask to be briefed on it and probe about its linkage to your strategic goals for the organization. If workforce planning is not under way, get it started.
- **Step Two:** As part of its workforce planning initiative, your organization should be conducting internal and external environmental scans to identify workforce trends in a proactive manner before they become problems for your organization. Do specific professions in your organization face a shortage of workers in the future? You might call upon your organization's strategic planners to assist in the environmental scans.
- **Step Three:** Focus your workforce planning efforts in areas where the most benefit will be achieved. Ann Cotten writes, "By targeting workforce planning efforts in the areas of strategic importance—those mission-critical positions that are instrumental to the organization's success and where the organization is experiencing problems recruiting or retaining employees with the needed skills or abilities—organizations will achieve the best return on investment."
- **Step Four:** You must have an appropriate system in place to collect and report on key workforce indicators. If your organization is not already collecting data about the number of employees and contractors, it must begin to do so. Data should be collected on the number of permanent employees (full or part-time), temporary employees, employees with nonstandard work arrangements, and contractual employees.

Assessing Future Workforce Needs

From *Seven Steps of Effective Workforce Planning* by Ann Cotten

In the public sector, projecting future workforce needs is a relatively new phenomenon. The assessment requires leaders to think critically about how the organization will do business in the future. Assessments can be complex, data-driven models for organizations with sound workforce data or more qualitative estimates developed by the organization's leadership team for organizations that lack strong workforce data. Regardless of the technique used, one maxim applies: Bad assumptions create bad models. Therefore, it is important to vet the model's assumptions thoroughly.

The workforce demand forecast is an estimate of the number and mix of employees that an organization will need in the future. Particular attention should be paid to identifying and projecting mission-critical occupations. The forecast has two components: first, the estimated workload and related staffing requirements; and, second, the likely competencies and skill sets needed. Guidance for both is provided by the strategic plan.

PEOPLE

Workforce supply is, at its most basic level, the current workforce plus new hires less projected separations at some specific date in the future, as shown in the figure below. For some organizations, projected workforce supply will be the result of a sophisticated mathematical model. For others, it will be an educated guess based upon data collected in the environmental scan. For most, it will be somewhere in between.

No matter the level of sophistication, all models need to consider the same elements when projecting the future workforce composition: the inventory of the current workforce; the rate at which employees in specific occupations and at various leadership levels will leave the organization; what types of skills and abilities the organization will be able to attract; how the permanent workforce can be supplemented; and how the skill set of those who remain will or can change.

Projecting Workforce Supply

Start with Current Workforce	Add	Subtract	Compute Workforce Supply
Permanent employees	New hires	Retirees	Permanent workforce
Supplemental direct-hire employees	Transfers	Voluntary separations	Supplemental direct-hire employees
Contract employees	Supplemental direct-hire employees	Involuntary separations	Contract employees
	Contract employees		

Personnel Flexibilities

Question: How do I maximize the use of personnel flexibilities in my own organization?

Answer: Your workforce planning initiative is your first step in effectively aligning your people to your agency's mission, goals, and strategy. Your organizational strategy should drive your human resource reform initiatives.

The extent of your human resource reform effort will depend, in part, on the "starting place" of your organization when you take over and the public and congressional attitudes toward your organization. When the new commissioner of the Internal Revenue Service (IRS) took over in 1997, he found an agency very unpopular in Congress and heavily criticized for its management practices and personnel. As an outgrowth of the National Commission on Restructuring the Internal Revenue Service, Congress passed the IRS Restructuring and Reform Act of 1998 (RRA '98), which granted IRS a variety of new human resource flexibilities aimed at improving the organizational, including its people, capability of IRS.

Your challenge will be twofold: to use the flexibilities you currently have, and to determine if you need additional flexibilities beyond the authorities you have in place. The table on page 57 is significant because of the 15 actions taken by IRS to make its personnel system more flexible, only five required congressional authorization. The table sets forth the following key aspects to transforming human resources in your organization:

- **Developing an effective human resource infrastructure**, including a competency-based personnel system and deploying workforce planning tools (see pages 54–55).
- **Transitioning the workforce to a new structure**, including making managers recompete for positions, and using buy-out and early retirement authorities.
- **Renewing the workforce for improved performance**, including using critical pay authorities to recruit needed talent, succession planning, and modern recruitment techniques, as well as expediting the hiring process.
- **Investing in employee training and development for enhanced capacity**, including expanding job scope for frontline workers, providing world-class training, and supporting employee development and growth.
- **Heightening performance and maintaining accountability**, including developing technical leaders, linking pay to performance through paybanding, and distinguishing levels of performance through a performance management system.

In many ways, the IRS initiatives can serve as your "playbook" for identifying flexibilities you might deploy in your organization to accomplish your mission and goals. After you review what human resource initiatives are currently in place within your organization and you are briefed on your organization's workforce planning efforts, you will then face a series of choices as to whether you need to work with the Office of Management and Budget and the Office of Personnel Management to request additional human resource flexibilities to accomplish your mission.

Examples of additional flexibilities include critical pay authorities (to hire needed expertise at higher pay levels), buy-out and early retirement authority (to reduce your personnel levels and/or reshape the skill set of your employees), a payband system (to base pay on qualifications and skills rather than longevity), and a streamlined hiring process (to give your managers more flexibility in hiring).

If you conclude that your people needs require more flexible 21st century personnel practices, there is much that you can do to change your agency's personnel practices. You must, however, be prepared to make the business case that your mission requires such actions.

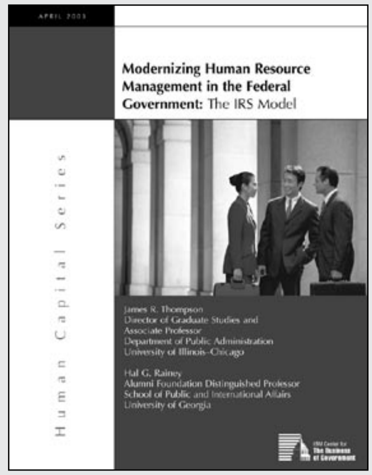
Human Resource Initiatives at the Internal Revenue Service

From *Modernizing Human Resource Management in the Federal Government: The IRS Model*
by James R. Thompson and Hal G. Rainey

The table below distinguishes the various elements of the IRS HR model according to:

- Those implemented pursuant to special flexibilities provided under RRA '98, and
- Those implemented pursuant to generally available authorities.

Apparent from the table is that the majority of changes under way fall into the second category and, hence, are suitable for widespread adoption within the federal government.



IRS Human Resource Initiatives

	Implemented Pursuant to RRA '98 Flexibilities	Implemented Pursuant to Generally Available Authorities
Developing a Modernized Human Resources Infrastructure		
Structuring the Human Resource Function for Mission Accomplishment		✓
Creating a Competency-Based Personnel System		✓
Utilizing Workforce Planning Tools to Drive Recruitment and Development Processes		✓
Transitioning the Workforce to a Modernized Structure		
Making Managers Compete for Positions in the New Organization		✓
Shaping the Workforce through Buy-Out and Early Retirement Authority	✓	✓
Renewing the Workforce for Improved Performance		
Using Critical Pay to Recruit Technical and Organizational Leaders	✓	
Planning and Managing Leadership Succession		✓
Employing Modern Recruitment Techniques		✓
Expediting the Hiring Process through Category Rating	✓	
Investing in Employee Training and Development for Enhanced Capacity		
Expanding the Job Scope for Frontline Positions		✓
Partnering in the Provision of World-Class Training		✓
Supporting Employee Development and Growth		✓
Heightening Performance and Maintaining Accountability		
Developing Technical as well as Organizational Leaders: the Senior Leadership Service	✓	
Linking Pay to Performance through Paybanding	✓	
Distinguishing Levels of Performance through the Performance Management System		✓

Managing for Better Performance

Question: What is the difference between performance appraisal and performance management? And how are they both related to pay for performance?

Answer: There are important distinctions between performance appraisal and performance management. Performance appraisals focus on the year-end rating made by a manager of an employee. These ratings can be used in the performance-based pay systems discussed on page 62.

In contrast, performance management is a broader, more comprehensive process. As described by Howard Risher and Charles Fay in their report to the IBM Center, performance management is future oriented since it starts with performance planning discussions at the beginning of the year. Risher and Fay write, "It [performance management] focuses on planned performance, with a goal of improvement over the prior year. Ratings are still required in the process, but are a natural step in the usual year-end review of organization performance."

In order for your performance appraisal system and any pay-for-performance systems to be successful, you must have a performance management system in place. The recent experience of the Department of Homeland Security has demonstrated this. A senior executive at the Department of Homeland Security concluded that the department "needs to have a good performance management program in place before pay can be linked to it."

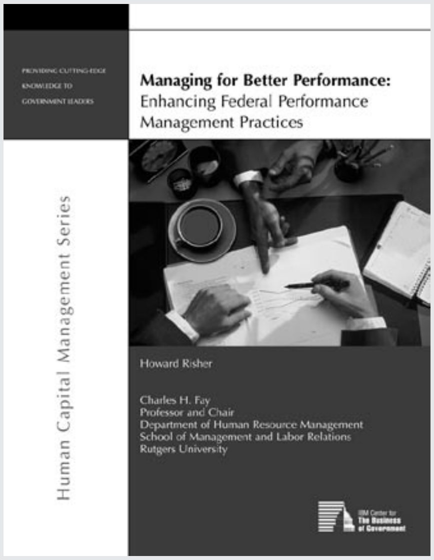
The goal of performance management is to link the relationship between your agency's goals and achievements to staff performance ratings. The goal, according to Risher and Fay, is clear: "There should be a strong relationship between the performance ratings of the employees in the department and the effectiveness of that department." An effective performance management system is crucial to linking pay and bonus decisions to performance appraisals.

A clear lesson learned about performance management in recent years is the need to involve employees in defining successful performance. American University's Robert Tobias recommends engaging employee representatives in all stages of a performance management system—initial planning, implementation, monitoring, and subsequent modifications. Such engagement, according to Tobias, creates a much better chance of achieving the goal of a performance management system: improved individual and organizational performance.

Based on an analysis of the Office of Personnel Management's annual Federal Human Capital Survey, Tobias found that when employees understand the linkage between their efforts and the desired agency outcomes, their engagement and productivity increase. Tobias writes, "Employee involvement in identifying agency output goals will bring to light any difficulty in achieving those goals, and will show how employees can contribute to their attainment." Tobias also believes that employee participation allows managers to leverage employees' desire to make a difference by accomplishing agency goals.

Eight Management Practices That Contribute to a Performance Culture

From *Managing for Better Performance: Enhancing Federal Performance Management Practices* by Howard Risher and Charles H. Fay



- **Leaders as champions.** Leaders across the organization need to explain, in most cases repeatedly, why the new practices are necessary, how they are expected to benefit the organization, and how they are expected to affect employees. This is a walk-the-talk, beat-the-drums mission to convince people that change is necessary.
- **Linkage of work to mission.** Employees want to feel their work efforts are contributing to the success of their organization. That means they need to understand the mission and to have a "line of sight" that enables them to see how their work output is linked to the achievement of goals. Cascading goals help to solidify that linkage.
- **Performance tracking and dialogue.** The common practice in a goal-based environment is to track performance over time, to take corrective action when necessary, and to communicate the results widely. Employees want to know how their employer is performing, and regular communication keeps employees involved. The Total Quality Management (TQM) movement prompted employers to post performance data so everyone could keep track of how well they were doing. Practices like that reinforce the focus on performance.
- **Cascading goals.** This argument has been in management textbooks for decades. Each level of an organization defines goals that are linked to the goals above and below. It may be difficult to define performance goals at lower levels, but even the lowest-level employees will be more engaged if they see the cascading goals.
- **Investment in talent.** Organizations that want to perform at high levels need well-qualified people. They need to invest in the development of individual skills, and they need to ensure that the most qualified people are promoted. Organizations that commit to talent management send the message that performance is important.
- **Recognition and rewards.** It may be difficult to gain adequate support for pay for performance, but every organization has a reasonably long list of ways that employees are recognized and rewarded. Recognition and reward practices should be evaluated occasionally to decide if they are serving the needs of the organization. One purpose is to recognize that high-performing employees and their accomplishments are to be celebrated.
- **Manager accountability.** Managers should be held accountable for managing the performance of their people. That has to be a primary role for frontline managers, and that is reinforced when their pay increases (and other rewards) depend on how well they perform this role. That should be a theme throughout their training. They need to understand the performance management process, but even more important is their commitment to help their people improve. They need to provide guidance and coaching advice, and those competencies should be a priority.
- **Employee engagement.** Finally, we know from research by The Gallup Organization that employee engagement is associated with significantly better performance. A survey to learn how employees feel about their organization, their jobs, and their supervisors will provide a picture related to employee engagement.

Paybanding

Question: What is paybanding and is it another tool to transform the organization? Will it help my organization? If I decide to move toward paybanding, how do I go about it?

Answer: According to James R. Thompson of the University of Illinois at Chicago, in his report to the IBM Center (2007), "The essential concept behind paybanding is that, for the purpose of salary determination, positions are placed within broad bands instead of within narrow grades." This is in contrast to the traditional 15-grade General Schedule (GS). Payband systems usually have six steps instead of 15 grades. This allows organizations more flexibility in hiring and promoting individuals within broad bands instead of narrow pay grades. In the traditional General Schedule, promotions (for instance, from a GS-14 to a GS-15) are linked to assuming a supervisory position. In a paybanding system, an individual can be promoted based on technical expertise and not the number of employees supervised.

Thompson also notes that a second distinguishing feature of payband systems is that, in general, there are no "steps" within the band. Under the General Schedule, employees automatically move up one pay step each year, two years, or three years. With paybanding, as described by Thompson, the intent is that an employee's progress through the payband is on the basis of performance rather than longevity.

Whether paybanding can help your organization largely depends on the mission of your organization. Organizations consisting of knowledge workers, such as scientific research agencies, have found that payband systems work well for them. As many organizations move away from the traditional 20th century hierarchical model of command and control, paybanding systems appear to be effective in managing knowledge workers in flat organizations.

Receiving approval to move to paybanding will require some work on the part of your organization. There are two paths you can take to receiving approval for the change to paybanding: (1) work with OPM and OMB to seek approval from Congress, as was requested by the Internal Revenue Service and the Department of Defense laboratories; or (2) seek approval from OPM under its demonstration project authority, as was requested by the National Institute of Standards and Technology.

Thompson offers six recommendations to guide you in the design and implementation of a new pay and performance system once you have decided to move to a payband system:

- **Determine system objectives.** The design of a pay system requires that trade-offs be made among three competing objectives: efficiency, equity, and employee acceptance.
- **Determine the principles that will guide pay system design prior to deciding pay system specifics.** This entails deciding on three key design issues: the degree to which the system will be performance-oriented, the degree to which lower-level managers will be given discretion in administering the system, and whether or not the system will be market-based.
- **Decide the extent to which cost control is an objective.**
- **Take contextual factors into account.** As noted above, the adoption of paybanding will allow your organization to move from the "one size fits all" General Schedule to a system specifically designed to fit the mission and needs of your organization.
- **Attend to the cultural aspects of performance-oriented payband systems.**
- **Train managers in the administration of performance-oriented payband systems.**

Why Paybanding?

From *Designing and Implementing Performance-Oriented Payband Systems*
by James R. Thompson

A 2004 report by the National Academy of Public Administration lists the following as reasons "why employers shift to broadbanding":

- **Paybanding "supports organizational change."** This is the case because the rigidities of a conventional system such as the General Schedule greatly complicate attempts to redefine jobs or reduce hierarchical layers. The breadth of the bands in a payband system means that in many instances jobs can be redefined without affecting the salary or status of the incumbent. In 2001, the IRS effectively employed its new payband system to mitigate the impact of its delayering exercise on managers. Approximately 400 mid- and top-level management positions were eliminated in the process of collapsing management layers by half. Managers who had previously been segregated into GS-14 and GS-15 grades were placed into a single "senior manager" band, thereby eliminating hierarchical distinctions and permitting the agency greater flexibility in making assignments.

- **Payband systems are more compatible with "high-performance work systems" than are traditional pay and compensation systems.** Among the distinguishing features of high-performance work systems, according to Nadler and Tushman, are employee empowerment, redesigned processes, the organization of work by teams, broad jobs, and flexible organizational boundaries. Such systems emphasize flexibility in job assignments and de-emphasize both vertical and horizontal boundaries within the organization. Attention is directed less to the "job" as defined in a narrow, bureaucratic way than to meeting the needs of the "customer," however that is achieved. Paybanding is compatible with this organizational model in that it places greater emphasis on the individual rather than on the job for pay-setting purposes.

- **Paybanding "encourages lateral movement" in delayered organizations.** As organizations reduce the number of hierarchical layers, they simultaneously truncate career ladders. Paybanding makes it possible for those who may not be able to move upward in the organization to nevertheless increase their salaries by expanding the scope of their responsibilities. Payband systems sometimes provide for a "dual track" whereby technical experts can be compensated at the same level as managerial personnel.

- **By allowing line managers more responsibility in pay and classification matters, payband systems contribute to a reduction in administrative costs and to a shift in roles for human resource management (HRM) personnel.** Most payband systems provide managers with expanded authority in pay matters and hence there is less need for HRM officials to serve in a policing role. There is also less of a need for classification experts to determine appropriate grade placements.

- **Paybanding avoids the dysfunctional consequences of traditional grade and step systems.** This is perhaps the most compelling argument in support of paybanding. The importance of the grade assignment in traditional systems in conjunction with the emphasis on "job" over "person" provides incentives to "game" the classification system, that is, to reward the incumbent of a job for good performance by getting his or her job reclassified. Also, the priority given "internal equity," that is, the determination of salary levels primarily on the basis of comparison to other internal jobs, rather than to "external equity," the amount paid similar positions on the outside, can lead to excessive salary costs.

PEOPLE

Performance-Based Pay

Question: What is pay for performance and should I consider it for my organization?

Answer: Pay for performance is one of the most controversial elements of a performance management system, especially in the public sector. The private sector has had more experience with pay-for-performance systems and is generally more positively disposed to such pay systems than the public sector.

The issue of pay for performance is, however, receiving increasing attention because both the Department of Homeland Security and the Department of Defense received legislative authorization to develop their own pay systems. Other departments, such as the Department of State, have requested pay-for-performance systems. Other government organizations, such as the Government Accountability Office and Internal Revenue Service, have already implemented pay-for-performance systems. In addition, both the Senior Executive Service (SES) and the Senior Foreign Service have moved to pay-for-performance systems.

What is pay for performance? The most common definition is that it "links pay, in whole and/or in part, to individual, group, and/or organizational performance." In stark terms, pay for performance contrasts with "longevity-based pay increases" in which individuals receive annual pay raises based on length of service.

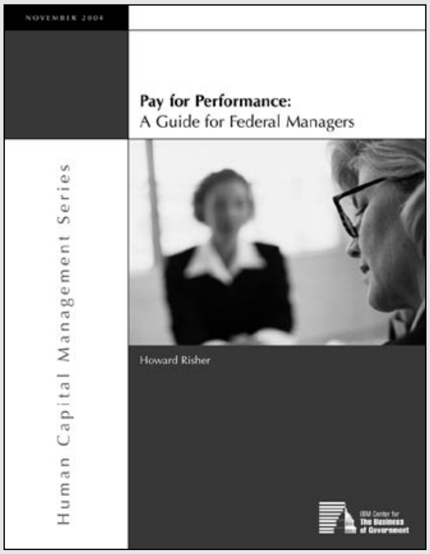
In government, pay for performance is usually discussed in the context of annual salary increases. In the private sector, it is common to have both annual salary increases based on performance and bonuses on top of the annual increases. While members of the Senior Executive Service are eligible for bonuses, the use of bonuses for those not in the SES is inconsistent throughout government. It is also important to recognize that there are various types of bonuses available to organizations: individual bonuses (such as "spot" bonus awards, year-end incentive awards, technical achievement awards, and key contributor awards) and group awards (gain-sharing plans and goal-sharing plans).

As with many of the ideas discussed in this volume, a key question is always what to do first. In his 2004 report to the IBM Center, Howard Risher recommends the following steps to get started:

- **Your initial steps should be to document, evaluate, and understand current reward practices in your agency.** The review should consider the existing performance management system as well as cash awards. You should ask managers and employees how they view these practices. The assessment should also look at the ratings and awards in your agency over the past year or two.
- **If you decide to proceed with performance pay, you must play a prominent role in planning and overseeing the change to the new system.** While your role may be limited to attending key meetings or adding key statements to communications, your participation is essential and must be highly visible.
- **You should appoint a key senior member of your team to be responsible for managing pay and performance in your organization, including moving to a new system.** This individual must be highly respected within your organization.
- **Be prepared for the design and implementation of a pay-for-performance system to take time.** It can't be done overnight and will require much consultation and engagement with employees within your organization.

Senior Executive Service Pay and Performance Regulations

From *Pay for Performance: A Guide for Federal Managers* by Howard Risher



In 2004, the Office of Personnel Management issued regulations creating a new performance-based pay system for the Senior Executive Service that established a solid linkage between the compensation of senior federal executives and their performance. The changes are the most sweeping since the SES was established almost 25 years ago.

Now both salary increases and annual performance bonus awards depend on performance. For the first time, agency performance has to be a factor in compensating executives.

Under these regulations, SES salaries can increase from the old maximum, \$145,600, to the new ceiling, \$158,100. The combination of salary and bonuses can now go as high as \$203,000, the salary of the vice president of the United States. These ceilings are adjusted annually.

To be eligible for the higher pay ceilings, an agency's performance management system has to be certified by OPM that it satisfies nine criteria related to the performance expectations defined for executives as follows:

- **Alignment:** performance expectations linked to the agency's mission, strategic goals, and annual performance plan
- **Consultation:** performance expectations based on executive input
- **Results:** performance expectations that are "measurable, demonstrable or observable, and focus on tangible outputs, outcomes, milestones or other deliverables"
- **Balance:** performance expectations that include measures or indicators of "results, customer/stakeholder feedback, quality, quantity, timeliness, and cost effectiveness … and competencies or behaviors that contribute to and are necessary to distinguish outstanding performance"
- **Assessments and guidelines:** agency head provides an assessment of the agency's performance as well as the performance of each major program and functional area relative to its Government Performance and Results Act goals to be used in rating executives
- **Oversight:** agency head provides rigorous oversight of SES appraisal system
- **Accountability:** performance ratings reflect the individual's performance as well as the agency's performance
- **Performance differentiation:** the appraisal process "results in meaningful distinctions in performance"
- **Pay differentiation:** pay must reflect "meaningful distinction among executives based on their relative contribution …"

The funds available for performance awards are unchanged: 10 percent of the aggregate SES payroll. In all other respects, however, the regulations require agencies to completely rethink the way they manage executive salaries and bonus awards.

Performance-Based Pay in the Federal Government: An Historical Overview

by John Kamensky in *Pay for Performance: A Guide for Federal Managers* by Howard Risher

The federal government has experienced a series of fits and starts over the past quarter century in the use of performance-based pay. The following chronology reflects some of the challenges that have faced government-wide reformers: Should these efforts be government-wide or agency specific? Should all levels of employees be subjected at the same time, or should it be targeted to, or implemented by, segments (Senior Executive Service, managers, line staff)? Can such a system be cost neutral, or should additional funds be appropriated? Following are some of the steps taken along the way.

1978: The Civil Service Reform Act of 1978 (CSRA) held promises for performance-based pay for both executives and the managerial ranks. But in the succeeding years, Congress did not support the funding needed to support this initiative, which would have been on top of the existing cost-of-living adjustment and within-grade increases.

1980: CSRA authorized a series of "demonstration projects" to pilot new approaches in personnel management. The Naval Air Warfare Center Weapons Division in China Lake, California, conducted a wide-ranging pilot that centered on the use of performance pay. While not adopted government-wide, its success led to its permanent authorization at China Lake (CSRA demonstration projects were to have ended after five years). In addition, several other Department of Defense organizations have since adopted similar approaches. This demonstration showed both an increase in performance and an overall increase in salary spending.

1984–1993: Congress creates the Performance Management and Recognition System, tying pay increases for GS-13 through GS-15 employees to their performance ratings. Regulations were issued in 1986. Congress revised and extended the program twice, but after numerous implementation and funding problems, the program was terminated in 1993.

1993: In this year, several events revived the notion of pay for performance. First, the National Performance Review (NPR) recommended decentralizing the civil service system to each individual agency, within a framework of guiding principles, and allowing each agency to create its own incentive and bonus systems. Second, Congress adopted the Government Performance and Results Act (GPRA), requiring agencies to create strategic and performance plans, and to measure and report on their performance.

1996: While the administration and Congress took no action on NPR's proposed civil service reforms, the Results Act contributed to agencies more clearly defining and measuring their performance. Also in 1996, NPR recommended the creation of performance-based organizations (PBOs), patterned after British "Next Steps" agencies that created a performance contract between the chief executive of the agency and the home department. A share of the executive's pay was based on meeting performance targets; in exchange, the department delegated administrative flexibilities (in pay, personnel, procurement, etc.) to the executive in the operation of the agency.

1999–2000: By this time period, most agencies had clear missions, goals, and measures. This in turn created some political pressures for agencies to deliver on their goals, resulting in agency leaders creating better links with what their employees did to contribute to these goals. Some agencies had adopted elements of the PBO—the Internal Revenue Service, the Federal Aviation Administration, the Patent and Trademark Office, and the Office of Federal Student Aid—and they pioneered variations of pay-for-performance systems within the limits of existing law.

OPM abandoned government-wide civil service reform in favor of streamlined demonstration authority. But this made no progress either. The President's Management Council (PMC), composed of the chief operating officers of the major departments and agencies, commissioned a task force to examine other alternatives for dealing with poor performers and providing incentives for better performance. Based on the task force's findings, the PMC outlined an approach to improving performance that included elements of a pay-for-performance system.

2001: The President's Management Agenda set forth by the George W. Bush administration included an element that required agencies to link SES performance plans to the goals and performance of their agencies. The director of the Office of Personnel Management decried the trend whereby nearly all members of SES were rated at the top of the rating scale, calling for agencies to make "meaningful distinctions in performance" when rating their executives. In addition, the new leadership in OPM supported agency-by-agency personnel reforms within the bounds of broad performance-based criteria rather than holding out for government-wide reforms. As a consequence, various agencies pursued personnel reforms, including NASA and the Securities and Exchange Commission.

2002: The creation of the new Department of Homeland Security included a requirement for a performance-based personnel performance management system. The same legislation also lifted the government-wide cap on total SES compensation, with the proviso that agencies first create executive performance management systems that make "meaningful distinctions in performance."

2003: Congress authorized the Defense Department to overhaul its performance management system to be more performance based. The same legislation also eliminated government-wide pay levels and automatic cost-of-living adjustments within SES ranks. It also lifted the pay ceiling from Executive Schedule 3 to Executive Schedule 2, but with the condition that agencies first create performance management systems that make meaningful distinctions in performance among executives and that are certified by OPM before they can provide performance pay up to the new ceiling. The law also created an OPM Performance Fund.

2004: OPM put in place the SES pay-for-performance system. This included the creation of a new position for agencies, the "senior performance officer," who is responsible for approving performance goals at the beginning of the year and evaluating the performance of both the agency and its executives at the end of the year, in addition to pay decisions.

2006: OPM implemented the concept of "beta sites" in which agencies demonstrate, through an organizational unit within the agency, the linking of performance-related outcomes and accountability down through all levels of that unit. OPM helped 25 agencies establish operational beta sites. These sites provide agencies an opportunity to assess the success of the new performance management systems, as well as identify problems that need to be addressed before expansion. Each year, the beta site is to be expanded to include other parts of the agency.

Demonstration Projects Involving Pay for Performance

Department of Commerce
National Institute of Standards and Technology (made permanent in 1996)
Department of Commerce (implemented 1998)

Department of Defense
DoD Acquisition Workforce (phased implementation completed 1999)

Department of Defense, Department of the Air Force
Air Force Research Laboratory (implemented 1997)

Department of Defense, Department of the Army
Aviation Research, Development and Engineering Center (implemented 1997)
Engineer Research & Development Center (implemented 1998)
Medical Research and Material Command (implemented 1998)
Missile Research, Development and Engineering Center (implemented 1997)
Research Laboratory (implemented 1998)

Department of Defense, Department of the Navy
China Lake Research Laboratories (started 1980, made permanent in 1994)
Naval Research Laboratory (implemented 1999)
Naval Sea Systems Command Warfare Centers (implemented 1998)

PEOPLE

Nonstandard Work Arrangements

Question: What are "nonstandard work arrangements" and should I use them in my organization?

Answer: You are entering government in a time of change. If you had entered government 10 or 20 years ago, you would have found that your organization consisted of nearly *all* full-time, permanent positions. This is changing and you now have more flexibility in how you staff your organization. In their report to the IBM Center, University of Illinois at Chicago's James Thompson and Sharon Mastracci state that the current employment model (full time, full-year, permanent) greatly impedes managerial flexibility when it comes to accommodating either rapid increases in demand requiring more staff or budget reductions requiring less staff.

To gain more flexibility and agility, several federal agencies (most notably the Office of Naval Research, the Transportation Security Administration, and the National Aeronautics and Space Administration) are increasingly moving toward nonstandard work arrangements (NSWAs), which are defined as work arrangements other than full-time, full-year, and permanent.

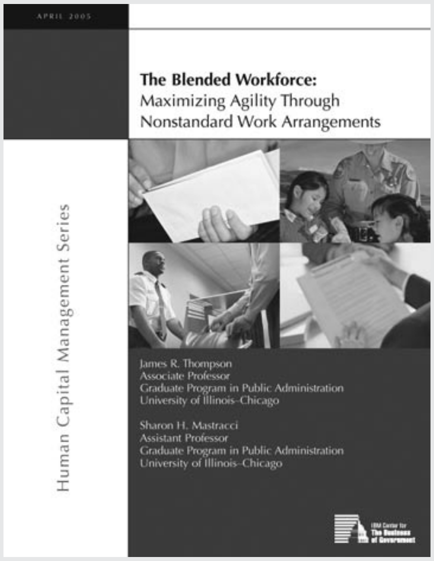
Thompson and Mastracci cite several advantages to moving toward nonstandard work arrangements:

- **To accommodate fluctuations in workflow.** Many agencies, such as the Internal Revenue Service and the Forest Service, have fluctuations due to changes in seasonal workload. Thus, IRS hires seasonal employees in April and May while the Forest Service brings on large numbers of seasonal employees in the summer.
- **To provide a family-friendly workplace and promote work/life balance.** A 2007 survey by the Pew Research Center reported that over 60 percent of employed mothers find part-time work highly appealing—but only 24 percent of them actually have part-time hours. In response to this trend, some agencies, such as the Environmental Protection Agency, are seeking to create more part-time opportunities.
- **To screen and recruit new talent.** The Forest Service has found that temporary seasonal employees serve as an excellent pool of candidates for permanent positions. In addition, nonstandard work arrangement positions can become a competitive advantage when seeking to recruit individuals who desire a nonstandard position.
- **To obtain skills on demand.** This is becoming increasingly important as government needs to obtain skilled talent who may not be interested in a permanent federal position but might consider a term appointment. In addition, the cumbersome federal personnel system is often too time-consuming when access to talent is needed quickly to facilitate mission accomplishment. The Department of Veterans Affairs is using nonstandard work arrangements to obtain skills that are in short supply and difficult to hire through normal hiring mechanisms.
- **To expand the labor pool by addressing demographic trends.** According to Thompson and Mastracci, "One reason for NSWAs is to access the talents and capabilities of populations who prefer such arrangements.… The most prominent groups in this category are retirees, students, and those with family obligations."

Based on their research, Thompson and Mastracci are very positive on the use of nonstandard work arrangements. They recommend that heads of organizations, like yourself, expand the availability of part-time work arrangements and use limited appointments as a means to bring in individuals from outside government to stimulate new thinking.

What Are Nonstandard Work Arrangements?

From *The Blended Workforce: Maximizing Agility Through Nonstandard Work Arrangements*
by James R. Thompson and Sharon H. Mastracci



We define a "nonstandard work arrangement" (NSWA) as any work arrangement other than full-time, full-year, and permanent, as well as those involving people whose services are acquired via a contractual arrangement with another organization. Examples of NSWAs include part-time, seasonal, and on-call workers, as well as temporary help agency and contract company personnel. A key source of data on NSWAs for the economy as a whole has been the Contingent Work Supplement (CWS), which was conducted biennially between 1995 and 2001 by the Bureau of Labor Statistics (BLS). In this survey, BLS identifies four nonstandard arrangements:

- **Independent contractors—**"workers who were identified as independent contractors, independent consultants, or free-lance workers, whether they were self-employed or wage and salary workers"
- **On-call workers—**"workers who are called to work only as needed, although they can be scheduled to work for several days or weeks in a row"
- **Temporary help agency workers—**"workers who were paid by a temporary help agency, whether or not their job was temporary"
- **Contract company workers—**"workers who are employed by a company that provides them or their services to others under contract and who are usually assigned to only one customer and usually work at the customer's worksite"

Although these four types have been used in many studies, other studies define nonstandard arrangements somewhat differently. In her study of the flexible staffing arrangements used in the private sector, economist Susan Houseman uses the above categories plus "short-term hires" and "regular part-time workers." The U.S. Government Accountability Office (GAO) identifies a total of nine separate categories of nontraditional work arrangements: BLS's four types, plus "direct-hire temps," "day laborers," "self-employed workers," "standard part-time workers," and "leased workers." GAO finds that, depending upon the types of work arrangements included, estimates of NSWAs range from 5 to 30 percent of the workforce.

In this analysis, we use a blended definition that is informed by these past studies. Consistent with BLS, we include temporary help agency and contract company personnel in our definition of NSWAs. Consistent with GAO, we add part-time workers to our definition, and consistent with OPM, we include part-year or seasonal workers. We go further to identify separately "direct" and "indirect" nonstandard work arrangements. Direct arrangements include part-time, on-call, seasonal, and intermittent workers, and independent contractors, for whom the federal agency need not work through a third-party entity in order to hire. Indirect arrangements include temporary agency and contract company workers, whose services are acquired by the federal agency via an arrangement with a temporary employment service or contractor.

Labor Relations

Question: Does government have unions and do I need to spend time on labor relations in my organization?

Answer: Yes, the federal government has unions and, yes, you should pay attention to the unions in your organization. After assuming your position, you will be briefed by your chief human capital officer. Your CHCO will tell you how many of your employees belong to unions and the “state” of agency relations with your unions. While the unions in the federal government sector are far different from their private sector counterparts and do not have collective bargaining authority regarding pay, the number of union members is growing in the public sector (including the federal government) and unions have become increasingly influential. The American Federation of Government Employees (AFGE) represents the largest number of federal employees, followed by the National Treasury Employees Union (NTEU).

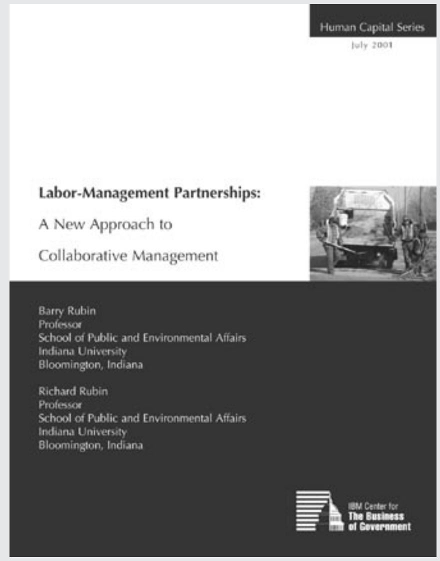
The involvement of unions is essential if you plan to implement a performance management system in your organization. Laws governing federal bargaining are somewhat complex, but your CHCO will assist you in sorting out appropriate ways to engage your union members.

In local governments, there are many examples of innovative approaches to collaboration between unions and management. Collaborative management is a joint process where both employees and their employer share in managerial decision making. The essence of successful partnerships is the creation of a parallel structure to the traditional union-management structure for collective bargaining. Ideally, the parallel structure involves union and management representatives in collaborative decision making.

A well-known example of such a collaborative effort took place in Indianapolis, Indiana, in the 1990s that encouraged cooperation between the unions and management. Working in a collaborative mode, the city’s Department of Public Works was able to lower its costs and win several public-private competitions. As a result, formal grievances declined significantly in number, which freed up both time and resources.

Labor Relations in the Federal Government

From *Labor-Management Partnerships: A New Approach to Collaborative Management*
by Barry Rubin and Richard Rubin



Key Events

1962 Executive Order 10988 was signed by President John F. Kennedy. The E.O. recognized the rights of federal employees to join unions, granted recognition to those unions, and allowed limited bargaining rights.

1970 The Postal Reorganizations Act was passed allowing postal workers to come under the National Labor Relations Act (NLRA).

1978 The Civil Service Reform Act replaced previous executive orders concerning federal employee bargaining rights. Title VII of that act established the Federal Labor Relations Authority (FLRA) and modeled bargaining rights in the federal government after the NLRA.

1993 Executive Order 12871 was signed by President Bill Clinton as part of the reinvention initiative, creating a National Partnership Council to change the way management and unions relate in the public sector.

2001 Executive Order 13203 was signed by President George Bush, which dissolved the National Partnership Council.

2007 Legislation is introduced in Congress by Senator Daniel Akaka and Representative Danny Davis to create a new National Labor-Management Partnership Council.

Background

In 1962, President John F. Kennedy signed Executive Order 10988, which recognized the rights of federal employees to join or to refrain from joining labor organizations, granted recognition to those labor organizations, and detailed bargaining subjects. Before 1962, only 26 union or association units in the executive branch of the federal government had union shops, and they represented only 19,000 workers. Six years after the Kennedy order, there were 2,305 bargaining units, with a total membership of 1.4 million employees. A number of different unions represented federal workers, the largest being the American Federation of Government Employees.

Currently, federal employee labor relations are governed by the provisions of Title VII of the Civil Service Reform Act of 1978. Title VII, Federal Service Labor-Management Relations, is modeled after the National Labor Relations Act. Central authority was placed in a three-member panel, the Federal Labor Relations Authority.

The Federal Labor Relations Authority oversees creation of bargaining units, conducts elections, decides representation cases, determines unfair labor practices, and seeks enforcement of its decisions in the federal courts. The Federal Service Impasse Panel was continued by the act and provides assistance in resolving negotiation impasses. Unlike private sector labor laws, Title VII mandates inclusion of a grievance procedure with binding arbitration as a final step in all federal collective bargaining agreements.

Source: *Adapted from M. R. Carrell and C. Heavrin,* Labor Relations and Collective Bargaining *(6E), 2001. Upper Saddle River, NJ: Prentice Hall (pp. 34-37).*

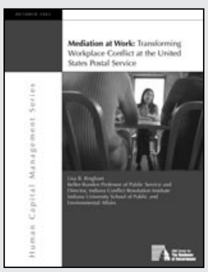
For Additional Information on People

The Transformation of the Government Accountability Office: Using Human Capital to Drive Change (2005) by Jonathan Walters and Charles Thompson

The authors present a case study of the transformation of the GAO. The report discusses challenges faced and overcome, mistakes made, and lessons learned. The report describes how human capital management can be a driver for organizational transformation and what it can mean for the public sector as a whole.

Growing Leaders for Public Service (2004, 2nd ed.) by Ray Blunt

This report includes two Center reports *(Leaders Growing Leaders: Preparing the Next Generation of Public Service Executives* and *Organizations Growing Leaders: Best Practices and Principles of Public Service)* in one volume. Both reports address the crucial question of how well the federal government is developing its next generation of leaders.

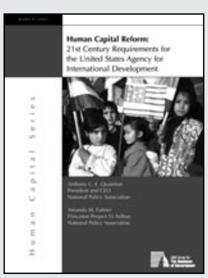


Mediation at Work: Transforming Workplace Conflict at the United States Postal Service (2003) by Lisa B. Bingham

This report addresses the history, implementation, management, institutionalization, and evaluation of the world's largest employment mediation program, the United States Postal Service's REDRESS (Resolve Employment Disputes, Reach Equitable Solutions Swiftly) Program. Designed and implemented top-down as a form of alternative dispute resolution for complaints of discrimination, it served as a bottom-up method for changing how employees and supervisors handle conflict at work.

The Power of Frontline Workers in Transforming Government: The Upstate New York Veterans Healthcare Network (2003) by Timothy J. Hoff

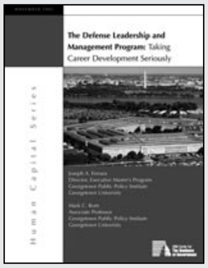
This report describes and analyzes how one organization within the Veterans Health Administration (VHA) encouraged its workforce to become more entrepreneurial and independent in performing their responsibilities.



Human Capital Reform: 21st Century Requirements for the United States Agency for International Development (2003) by Anthony C. E. Quainton and Amanda M. Fulmer

The report presents 50 recommendations for reforming human capital in the U.S. Agency for International Development. The recommendations were developed at a Thought Leadership Forum hosted by the National Policy Association in October 2002 at the Belmont Conference Center in Elkridge, Maryland.

For Additional Information on People

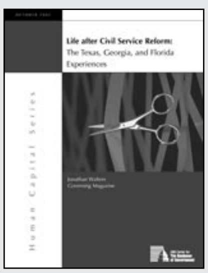


The Defense Leadership and Management Program: Taking Career Development Seriously (2002) by Joseph A. Ferrara and Mark C. Rom

This project examines the implementation of the Defense Leadership Management Program (DLAMP) and draws conclusions about its strengths and weaknesses. DLAMP is an attempt by the federal government to provide a program of systematic career development for civilian employees.

The Influence of Organizational Commitment on Officer Retention: A 12-Year Study of U.S. Army Officers (2002) by Stephanie C. Payne, Ann H. Huffman, and Trueman R. Tremble, Jr.

This report examines employee retention rates within the public sector by examining the longitudinal influence of organizational commitment on turnover. By determining the length of time it takes for organizational commitment to develop, government will have a better understanding of when and how organizational commitment develops.



Life After Civil Service Reform: The Texas, Georgia, and Florida Experiences (2002) by Jonathan Walters

As with the federal government, states and local governments are examining alternatives to the traditional civil service system. This report examines civil service reform programs in Texas, Georgia, and Florida.

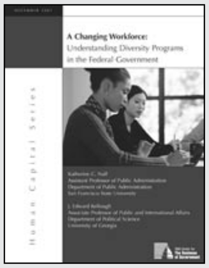
Toward a 21st Century Public Service: Reports from Four Forums (2001) by Mark A. Abramson

This report presents recommendations from four forums on the future of the civil service: Two Federal Leadership Summit Conferences; a Forum on "A New American Diplomacy: Requirements for the 21st Century," hosted by the National Policy Association; and a Forum on "People and Performance: Challenges from the Future of Public Service," hosted by the Maxwell School of Citizenship and Public Affairs, Syracuse University.

Winning the Best and Brightest: Increasing the Attraction of Public Service (2001) by Carol Chetkovich

This report examines the ways in which public policy programs at two universities shape the public service orientations of students in these programs. The study focuses on the important question of how the goals and aspirations of policy students interact with policy training to shape their career trajectories.

For Additional Information on People



A Changing Workforce: Understanding Diversity Programs in the Federal Government (2001) by Katherine C. Naff and J. Edward Kellough

This report assesses the scope and effectiveness of diversity initiatives undertaken by federal agencies. The report identifies practices that have been effective in creating an equitable work environment.

A Weapon in the War for Talent: Using Special Authorities to Recruit Crucial Personnel (2001) by Hal G. Rainey

This report examines the impact of special authorities to hire people into government via streamlined procedures and at higher salaries. This report describes these special authorities and assesses their value to the agencies. The report presents conclusions about effective uses of special hiring authorities.

Using Virtual Teams to Manage Complex Projects: A Case Study of the Radioactive Waste Management Project (2000) by Samuel M. DeMarie

This report describes how technologies are reshaping the workplace. The project studies how the U.S. Department of Energy and its contractors and subcontractors used information and communication technologies to manage a highly complex Radioactive Waste Management Project at Yucca Mountain, Nevada. The Yucca Mountain project implemented “virtual teamwork” as a means to provide efficient and effective collaboration among employees.

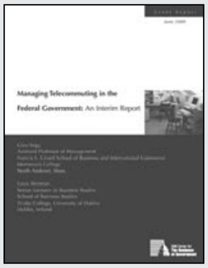
Reflections on Mobility: Case Studies of Six Federal Executives (2000) by Michael D. Serlin

This report presents case studies of six former members of the Senior Executive Service, each of whom accomplished major changes in several different federal agencies. The study identifies common factors in their experiences that led to their interagency mobility.

A Learning-Based Approach to Leading Change (2000) by Barry Sugarman

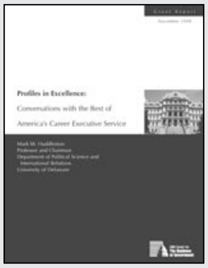
This report examines the experiences of five federal agencies that undertook initiatives to apply the tools, principles, and perspectives of organizational learning. Based on the five case studies, the report describes the successes and failures of organizational learning and presents findings and recommendations.

For Additional Information on People



Managing Telecommuting in the Federal Government: An Interim Report (2000) by Gina Vega and Louis Brennan

This report analyzes and evaluates telecommuting in the public sector. It focuses on two federal agencies to describe the implementation and management of telecommuting. The report presents recommendations of best practices and suggestions for improvement for telecommuting in the public sector.



Profiles in Excellence: Conversations with the Best of America's Career Executive Service (1999) by Mark W. Huddleston

This report consists of a series of in-depth interviews with members of the Senior Executive Service who were identified as outstanding leaders. The report discusses the characteristics that have contributed to the success of these senior executives.