

# WORKFORCE ANALYSIS IN FEDERAL GOVERNMENT: KEY FINDINGS AND RECOMMENDATIONS

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## Executive Summary

A wide array of government agencies are beginning to absorb many of the human capital policy and process changes brought about by the current Administration. While a new Administration is certain to bring changes, the strategic management of human capital has and will continue become more strategic and performance driven.



### Summary of Recommendations

A recent Federal Workforce Dialogue, hosted by The Performance Institute in partnership with the Kronos Federal Division, captured a cross-section of issues, concerns and trends facing Federal human capital leadership.

This summary report will highlight five key findings from the Dialogue and provide recommendations for each. A more detailed report of the key findings and recommendations follows this Executive Summary.

#### Key Finding I: Momentum may be Ebbing for Performance Pay

##### Recommendations:

1. Start Slow and Understand the Impact of Organizational Change.
2. Provide Vigorous Training Prior to and During Implementation.
3. Shift Initiative Ownership to Career Employees.
4. Implement a Pilot Program.

#### Key Finding II: The President's Management

#### Agenda (PMA) is Having an Impact, Yet May Not Be Sustainable

##### Recommendations:

1. Institutionalize Agency Ownership of Performance Improvement Initiatives.
2. Improve Training on Performance Measurement and Program Evaluation.
3. Shift Focus from Compliance to Improving Performance.
4. Move from Outputs to Outcomes.
5. Automate the Collection of Program Labor Costs.

#### Key Finding III: The Human Resources Workforce is Aging and Lacks Needed Policy and Internal Consulting Skills

##### Recommendations:

1. Transform HR's Role From Transaction Center to Business Partner.
2. Consider a Centralized Talent Management Approach.
3. Combine Protection for the Individual and Efforts to Build Accountability for the Agency.

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4. Build and Emphasize Human Capital Planning Divisions.

#### Key Finding IV: Many Business Line Managers Lack Needed Workforce Management Skills

##### Recommendations:

1. Implement a 360 Feedback Program.
2. Integrate Performance and Learning Goals in Evaluations of Management.
3. Implement a Human Capital Training Program for Agency Managers.
4. Prioritize Your Leadership Pipeline Based on Performance, Competency and Potential.
5. Ensure the Blended Workforce is Managed Effectively.

#### Key Finding V: Developing Mission-Critical Competencies is Increasingly Recognized as a Long-Term Priority

##### Recommendations:

1. Consider Core Competencies Throughout the Employee Recruitment and Development Life Cycle.
2. Measure the Return from Competency Development.

# Detailed Analysis

## I. Momentum may be Ebbing for Performance Pay

### Key Findings:

A leading theme during the Dialogue session was the continuing challenges and future opportunities for pay-for-performance in the Federal Government. The private sector has long used merit pay and bonuses to reward high performers or employees in certain occupations, but only a few agencies have adopted the practice in the Federal government. The government's major pay system, the General Schedule (GS) system, passes along the pay raise set by the Congress to about 1.6 million workers in a predictable fashion each year.

The GS scale, which dates back to 1949, has 15 grades and 10 steps. Bush Administration officials have faulted the system citing the system's tendency to reward longevity and the amount of red tape which burdens personnel decisions. In response to these concerns, the Administration moved the two largest departments, the Department of Homeland Security (DHS) and the Defense Department (DoD) into new pay-for-performance systems in 2002. Even following this fundamental shift, many pay-for-performance initiatives have lost momentum after only five years, falling far short of the level of implementation desired by the current Administration.

Dialogue participants articulated on the following themes:

1. The Administration cited the pre-text of national security and the attacks of 9/11 as a rationale for moving the two Departments to pay-for-performance, a premise many HR employees say should be reexamined.

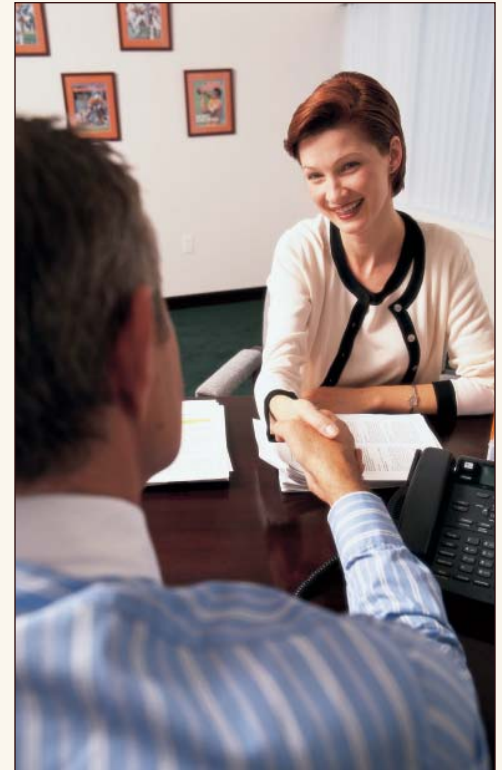
2. Administration and Department leaders did not effectively bargain with unions on work rule changes as mandated by their labor agreements. While work rule changes do not technically impact pay-for-performance,

they are part of the same legislation and are connected in the minds of employees and management. As a result, a court-backed overturn of the rule changes weakened momentum for the overarching initiative.

3. The changing face of Congress since the 2006 election has meant a resurgence in both Union and Federal employee power on Capital Hill, greatly impeding the chances of full implementation. Furthermore, after Department figures revealed higher-than-expected costs of implementation, Congress curtailed financial support for implementing pay-for-performance programs.

HR Managers and Executives are on the front lines of changes to the GS system. As an added challenge, they are confronting confusion about how the new pay system will work and skepticism that line managers will administer the system fairly.

While pay-for-performance will continue as an experiment at DoD for now, it has been halted in much of DHS. The chances of universal reform to the current GS system appear unlikely in the near future.



**Opinion and Insight:** Regardless of whether the next Administration is Democrat or Republican, the GS System will not continue as the sole pay scale in government. Allowing individual agencies to adjust their pay and develop pay bands based on their needs is being advocated by Federal workforce proponents in Congress and will move forward in a long-term experimental or pilot approach. This approach balances Union concerns with the needs of the government to recruit and retain talented individuals.

### Recommendations:

- 1. Start Slow and Understand the Impact of Organizational Change:** Pay-for-performance systems are, in the words of Comptroller General David Walker, "the hardest systems in the world to get right." Individual compensation is uniquely sensitive and must be adjusted slowly and through long-term cultural changes. Initiative stakeholders should view the first implementation wave of pay-for-performance as an opportunity to absorb lessons learned and adjust accordingly.
- 2. Provide Vigorous Training Prior to and During Implementation:** The two-year cycle with which several organizations attempted to implement a pay-for-performance system was too fast which, among other significant consequences, resulted in lost arbitration hearings. Going forward, programs must first establish leadership training and development plans emphasizing new skills for appraising and developing employees.
- 3. Shift Initiative Ownership to Career Employees:** The requirements of a successful program will not match the much shorter time frame of political appointees. Career officials must acquire ownership of performance pay initiatives in order to allow for long-term success.
- 4. Implement a Pilot Program:** A pay-for-performance pilot established by the Army is widely recognized for establishing several best practices. The Army cited managerial training, leadership commitment, and a sophisticated pay panel process that balanced equity, fairness, and performance as keys to their success. Long-term pilots provide a valuable knowledge base for use in a agency-wide implementation of a successful performance-based pay program.

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# Detailed Analysis

## II. The President's Management Agenda (PMA) is Having an Impact, Yet May Not Be Sustainable

### Key Findings:

As we come to the end of the seventh year of the President's Management Agenda (PMA), results show that the strategic management of human capital has taken root as a true strategic driver. Right now 92% of agencies have human capital programs

Human capital professionals share concerns about long term sustainability.

that are aligned with mission, more than 80% of agencies met their targets toward closing gaps in mission critical occupations, and the average time to hire someone into Federal service dropped to an average of 31 days based on the 45-day model.

Despite this progress, the dialogue session indicated that human capital professionals share concerns about long term sustainability. For instance, while agencies have worked to identify leadership gaps and build bench strength, the results of leadership programs are still unclear and uneven between agencies.

Using OPM's Performance Appraisal Assessment Tool (PAAT), OPM verifies that 92% of agency performance pilots have improved their systems

**Opinion and Insight:** The Office of Personnel Management is investing heavily to create teams of performance advocates and in-house consulting teams; this effort is part of a long-term shift in the focus of human resources and will continue. However, without the "stick" of the PMA, OPM may have less success in moving agencies forward with this agenda.

### Recommendations:

- 1. Institutionalize Agency Ownership of Performance Improvement Initiatives:** Recognizing the unique operational environments inherent of every organization, agencies should adopt, implement and institutionalize their own performance improvement and evaluation initiatives. OPM is successfully moving the PAAT and the Human Capital Assessment and Accountability Framework (HCAAF) to an agency ownership model. This is a major step in moving beyond a "one-size fits all" format.
- 2. Improve Training on Performance Measurement and Program Evaluation:** OPM's audit staff has begun to re-train and build their performance and alignment expertise. While not a traditional focus of OPM, it is the right approach if the efforts are to have an impact at the agency level.
- 3. Shift Focus from Compliance to Improving Performance:** We believe that the next Administration's management approach will include human capital, however a compliance method is only a short term solution and the results of these efforts must now take priority.
- 4. Move from Outputs to Outcomes:** Frameworks for long-term success require a focus on outcome, not activity-based, measures.
- 5. Automate the Collection of Program Labor Costs :** To prevent data burden in instances when the collection of activity data is necessary, such as with activity-based costing initiatives, agencies should look to automate the data collection process. Several technology companies offer labor distribution solutions which help agencies quickly determine true project and program labor costs while leaving more time to focus on outcome measurement.

to an effective level. The PAAT approach, however, is largely output and activity based and drives the conclusion that human capital management in the PMA has become a "box-checking", not a results based, exercise.

Overall, agency human capital accountability systems are in the early stages of development and could back-slide without a solid follow-up approach

by the next Administration. As a step forward, many agencies are beginning to track employee activities to determine true project and program labor costs. By September 30, 2007, agencies are expected to have begun using the results of their accountability activities to inform their human capital decision making, which is the final phase of the accountability cycle which should help begin to institutionalize these process before January 2009.



# Detailed Analysis

## III. The Human Resources Workforce is Aging and Lacks Needed Policy and Internal Consulting Skills

### Key Findings:

A leading topic among HR leadership during the dialogue was the continuing viability and relevance of the HR workforce itself. While agencies have promoted mission critical skills in many areas, they often overlook the changing nature of federal human capital needs.

HR professionals currently working in the Federal government must begin expanding their knowledge base in performance management, competency development, succession planning, and internal consulting to line managers.

While the Federal government is seeking to upgrade its HR policies and practices (changes which already affect about 45% of all civilian federal employees), major policy reforms are



developing amid a slow down in HR training and development. On the contrary, reforms of this magnitude and importance are very difficult and require years to develop and mature. Both managers and the HR professionals who advise and assist those managers will need new skills and competencies.

The 22,000 HR professionals current working in Federal government have risen through the ranks largely based on their experience in the process and paperwork skills that characterized HR in the 1960's and 1970s. In order for their organizations to effectively address the workforce challenges they face,

including the design and implementation of new, more modern HR policies and practices, these professionals must begin expanding their knowledge base in performance management, competency development, succession planning, and internal consulting to line managers.

Even as the need for new skills has increased, the outlook has worsened. On top of a turnover rate which has increased 140% from 2001 to 2005, approximately 73% of the 1,420 federal HR professionals who left government in 2005 retired. In order for any other human capital initiatives to succeed, agencies must quickly address internal HR skill gaps.

**Opinion and Insight:** Unfortunately in many agencies, HR has reached a demographic point of “no return” and may continue to see three continuing trends:

- The outsourcing of much of the process work;
- The highest qualified segment of the workforce moving into human capital policy roles and;
- The use of business-oriented line managers and senior executives without an HR background being tapped for leadership positions in HR.

In the long run, Federal government will likely find these approaches counter-productive and will begin to re-examine the impact on this new HR workforce.

### Recommendations:

- 1. Transform HR's Role From Transaction Center to Business Partner:** While recent changes in the role of HR are evident, agencies should follow established best practices which aim to bring about a true transformation of HR. Most critical is shifting HR's roles from transaction center to business partner. Some organizations, for instance, have already moved from a geographic to occupational matrix used for assigning HR management and staff. This move cements a connection between the business side of the agency and talent management. Other organizations are beginning a major shift in training and development to emphasize best-in-class business practices and the development of internal consulting skills.
- 2. Consider a Centralized Talent Management Approach:** Work to fully implement a talent management concept which integrates all aspects of recruiting, training, development and retention. Agencies may consider a centralized office model such as the Office of Talent Management recently introduced at the National Aeronautics and Space Administration (NASA).
- 3. Combine Protection for the Individual and Efforts to Build Accountability for the Agency:** The new focus for human capital professionals is two-fold: protect the individual and promote accountability for the agency or bureau, its culture and values. As the safety valve of the GS pay scale likely fades over the next several years, fairness and individual equity will become a bigger issue than we've seen in the past several decades.
- 4. Build and Emphasize Human Capital Planning Divisions:** The human capital planning area is a key part of the execution of agency mission and serves the business strategy. It's important for government HR professionals to become much more attuned to that strategy and to tailor their programs accordingly.

# Detailed Analysis

## IV. Many Business Line Managers Lack Needed Workforce Management Skills

### Key Findings:

While there are several factors which have led to staffing challenges in many federal agencies, the leading cause for talented federal employees to leave government is their immediate supervisor or manager. Despite the continual high cost of recruiting, training, and developing the individual employee, many of these efforts are short-circuited due to issues at the immediate supervisory level. Participants at the Dialogue agreed that agencies must provide managers with effective leadership skills in order to elicit high levels of effort and execute effectively towards strategy. Line managers need increased workforce skills in order to ensure ROI for Federal human capital strategies.

Managers should begin to understand that employee feedback actually helps them establish how they are faring.

For the bulk of the workforce, the most relevant leadership comes from first-line supervisors. Supervisors have direct contact with workers and impact day-to-day performance more than managers at other levels. Participants at the Dialogue emphasized that, within the federal sector, individuals are selected as supervisors largely on the basis of their technical qualifications. Unfortunately, those with the best “hard” skills do not always make the best leaders. Of equal, if not greater importance, are “soft” skills such as communication, team-building and conflict resolution.

In many cases, Federal agencies are highly dependent on the contractor workforce to complete key initiatives. Due to understaffed departments and specialized skills, contractors are often assigned critical tasks. Under the notion of a “blended workforce”, agencies often focus on the assets they own (employees) rather than the assets upon which they are critically dependent (contractors). Federal contractors need to be assigned tasks appropriately under federal guidelines. Contractors also need to be held accountable for the time spent on their work.

**Opinion and Insight:** Though agencies are beginning to address leadership development and succession planning, a trend that will accelerate over the next few years, widespread skills gap for line managers remains problematic in both the private and public sectors and threaten to undo hard-fought improvements in other areas of HR. Training and the use of new pay-bands will help alleviate some of these issues.

### Recommendations:

- 1. Implement a 360 Feedback Program:** Managers should begin to understand that employee feedback actually helps them establish how they are faring. Better individual management of performance leads to better results for the program.
- 2. Integrate Performance and Learning Goals in Evaluations of Management :** In many cases, The Institute advocates embedding learning goals for individual employees within a manager’s own performance evaluation. Only through actively changing how we regard and reward supervisors, can we begin to see changes in attitude and behavior.
- 3. Implement a Human Capital Training Program for Agency Managers:** Rising private sector investment in manager training reflects heightened interest in moving front line managers away from purely technical duties towards addressing a more strategic view of employee’s developmental needs. This type of strategic emphasis is not yet part of the government’s culture, but will become necessary in coming years. The Institute recommends emphasizing strategies that include a non-technical/supervisory pay band, reserving specific days of the year for pay panels and other performance events, as well as piloting 360 degree reviews for line level supervisors.
- 4. Prioritize Your Leadership Pipeline Based on Performance, Competency and Potential :** The growing retention issues in highly-skilled and competitive private sector fields are spilling over to the public sector, especially with new portable retirement plans. An inconsistent level of managerial ability is widely agreed upon to be a leading cause of employee dissatisfaction and high turnover. In response, the government needs to prioritize managers who are capable of leading on an individual level, mentoring, rating performance and reinforcing what employees learn.
- 5. Ensure the Blended Workforce is Managed Effectively:** With the ongoing pressures of performance management and accountability, agencies must be mindful of the work their contractors are assigned. Contractor assignments, performance, and accountability for their tasks should be well-understood and reportable to executive management.



# Detailed Analysis

## IV. Developing Mission-Critical Competencies is Increasingly Recognized as a Long-Term Priority

### Key Findings:

The Human Capital Scorecard of the President's Management Agenda has focused extensively on competency development and gap analysis as a framework for evaluating agencies' key knowledge, skills and behaviors. This continued attention has achieved the desired impact of re-focusing human capital policy on mission critical competencies that are the foundation for effective organizational performance.

demonstrate. While private and public sector organizations have used competency targets for recruitment and career development since the 1980s, methodologies linking competencies to government missions and performance are still relatively new concepts.

While recognized as a promising development, concerns remain about the quality of

competency development that comes from the employees themselves versus external benchmarked sources. This long-term priority in government promises to bring together recruiting, retention, training and leadership development around common goals and outcomes. Few agencies are able to effectively implement this approach in the current operating environment.

**Opinion and Insight:** While the new emphasis on competencies alone is a clear success story, Federal agencies are only beginning to verify whether proper skill sets and behaviors are being adopted and utilized. While many private sector organizations have attempted to link competencies to enhanced returns in profit and revenue, Federal government and the contracting community have produced only marginal analysis of return on competency development. Limited analysis of return could jeopardize the credibility of the approach and stifle momentum.

### Recommendations:

- 1. Consider Core Competencies Throughout the Employee Recruitment and Development Life Cycle:** National and international companies are developing competency models to improve the quality of the employees hired and to improve employee performance in the workplace. A national survey by the Corporate Leadership Council of American Employers revealed that six of seven desired traits for new professional staff were non-academic. The government must increasingly recognize the role competencies play in hiring, developing and retaining the best professionals.
- 2. Measure the Return from Competency Development:** Core competencies are rigorously linked to organizational performance in successful organizations. More attention must be paid to the return on this development, instead of simply allowing employees and others to self-select their own competencies.

Methodologies linking competencies to government missions and performance are still relatively new concepts.

Today, a large amount of strategic human capital work is centered on finalizing those competency profiles and identifying both specific competencies as well as those core values that all staff members should



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