



PARTNERSHIP FOR PUBLIC SERVICE

## HOMELAND SECURITY:

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*WINNING THE WAR FOR TALENT TO WIN THE WAR ON TERROR*

A Preliminary Report by:  
***The Partnership for Public Service***  
July 31, 2002

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## EXECUTIVE SUMMARY

***“As it enters the 21st century, the United States finds itself on the brink of an unprecedented crisis of competence in government. The maintenance of American power in the world depends on the quality of U.S. government personnel, civil and military, at all levels.”***

From “Road Map for National Security: Imperative for Change,”  
The Phase III Report of the U.S. Commission on National Security/21st Century, March 2001

Underlying the current debate over the proposed Department of Homeland Security is a shared understanding that our domestic security hinges on the present and future quality of the new Department’s workforce. Affecting more than 20 federal agencies and approximately 170,000 federal employees, the Department must be organized in a way that ensures a high-performing, model organization. Americans should demand no less.

The current dialogue about how to achieve this goal has sparked a heated debate about whether the laws governing the civil service—also known as “title 5”—should apply to the new Department. Undeniably, the federal personnel system has become encumbered with procedures that sometimes inhibit organizational effectiveness. The underlying objectives of the federal government’s merit-based personnel system, however, are also the hallmarks of a high-performing organization.

In this report, the Partnership for Public Service defines the common ground for those on either side of the debate. Federal agencies have successfully experimented with civil service flexibilities that achieve high-performing workplaces *without* compromising the statutory civil service merit principles of title 5. The workforce management tools available to the new Department should be modeled on these successful experiments.

The urgent need for better workforce management tools springs not only from the critical nature of the new Department’s mission, but also, as outlined in the first section of this report, from the daunting recruitment and retention environment that the new Department will face in the economy of the 21<sup>st</sup> century. The remainder of the report details the successes that government agencies have already enjoyed in using experimental flexibilities to meet those challenges and the Partnership’s recommendations based on that history and its own research.

### THE CHALLENGES

A key challenge facing the new Department is the need to recruit and retain top employees in an environment characterized by a growing gap between the supply of and demand for mission-critical talent. Technology and science skills, in particular, will continue to be lacking as graduation rates at U.S. universities fail to keep pace with demand for these skills. The creation of the new Transportation Security Administration (TSA) has already increased the need for federal law enforcement workers and has pulled employees away from other agencies. An impending wave of retirements will only further diminish the current supply of experienced homeland security talent.

Compounding the challenge are Americans’ perceptions about federal service, which reveal that college graduates believe the private and non-profit sectors offer more challenging work, with greater incentives and rewards for high performance. Only one out of six college-educated Americans express significant interest in working for the federal government.

Additionally, the agencies that the Administration propose for inclusion in the Department of Homeland Security currently lack the organizational capacity to address the human capital challenges associated with a

merger of more than 170,000 employees. According to the Brookings Institution, the new Department will have to first merge, and then reconcile, close to 80 major differences in the personnel systems developed by the component agencies. Unfortunately, Office of Management and Budget's (OMB) Human Capital Executive Branch Management Scorecard effectively "failed" 21 of the 22 agencies targeted for inclusion in the new Department in the area of human capital management. In addition, significant workplace challenges plague the Transportation Security Administration, the Coast Guard, the Customs Service, and the INS.

## **OPPORTUNITIES FOR CHANGE**

Over the last 20 years, an increasing number of federal agencies have been able to utilize the kinds of personnel practices that consistently have been associated with improved organizational performance in the private sector. Companies such as 3M, American Express, General Motors, IBM, Microsoft, and Nordstrom improve their financial performance through human capital practices that include linking pay to business strategies and employee performance, allowing employees to have input on hiring decisions, communicating effectively with employees, and measuring and assessing employee satisfaction.

These lessons from the private sector have been repeatedly confirmed in government workplaces. Office of Personnel Management (OPM) demonstration projects and targeted legislation have offered several agencies the opportunity to implement flexibilities to improve workplace performance outside the framework of title 5. In most cases, these innovations have been highly successful in improving the agency's ability to attract, motivate, and retain a highly qualified workforce that still adheres to the principles of the merit-based system.

These time-tested programs, which focus on offering competitive salaries to targeted, mission-critical employees, empowering managers to select the best employees, and offering tools to reshape the workforce as priorities shift, should serve as welcome reminders to both Congress and the Administration that there is common ground on which to build a high-performing Department of Homeland Security.

## **RECOMMENDATIONS**

The United States will win the war on terror not because of a better organizational chart, but because our country's best and brightest answer the call to serve—and experience a high-performing work environment. To provide assistance to members of Congress, the Administration, and the leaders of the new Department of Homeland Security, the Partnership for Public Service makes the following recommendations:

### **1. Learn From Existing Successes in Government.**

The Department of Homeland Security should adopt human capital flexibilities that have been time-tested and independently evaluated. In an effort to improve performance while maintaining commitments to the merit system principles, any legislation should authorize the new Department to:

- Reward high performance and introduce targeted, competitive salaries by authorizing pay banding and streamlined critical pay. These managerial flexibilities allow the Department more freedom than is currently offered through the General Schedule - the general pay scale system for white collar jobs within the federal government - to reward high-performing employees with financial incentives that also rely on a fair and accurate performance management and appraisal system. Streamlined critical pay, while not a substitute for a market-based compensation system, would permit the Department to pay a limited number of mission-critical employees a salary above the maximum levels currently permitted.
- Select the best and brightest employees by expanding the hiring pool beyond the outdated "rule of three" mandated in title 5. Introducing categorical ranking in its place will offer a flexible

hiring system that expands the candidate pool, simplifies the process and eliminates the arbitrary restrictions on qualified candidates without jeopardizing the merit system principles, employee protections, diversity goals, or veterans' preference.

- Implement workforce reshaping policies that will give the leaders of the new Department the flexibility to staff the department with employees that have the skills needed to respond to shifting priorities and challenges. Separation incentives such as voluntary early retirement authority (VERA) and voluntary separation payments (VSIP) allow agencies to pursue strategic restructuring without relinquishing the money or hiring authority associated with each full-time equivalent (FTE) position.

**2. Allocate Sufficient Resources to Provide Tools for Success.**

Congress and the Administration must invest in the resources necessary for the new Department to effectively compete with other organizations for mission-critical talent. Relocation incentives, student loan repayment authorities, and first-class training and equipment are essential tools in attracting and developing high-performing employees.

**3. Create Clear Accountability.**

The new Department must have a Chief Human Capital Officer (CHCO) to ensure continued focus by top leadership on workforce planning and development; attracting and retaining key talent; developing world-class leaders, managers and supervisors; and creating a work environment where employees are empowered and challenged to perform their best work. In addition, the CHCO must be responsible for developing and implementing reliable measures that can be used by managers to assess their progress on workforce management.

# INTRODUCTION

## INTRODUCTION

### WINNING THE WAR FOR TALENT TO WIN THE WAR ON TERROR

Amidst all the debate about the shape, size, and design of the proposed Department of Homeland Security, there is one simple imperative: it cannot fail. This new entity must become a high-performing organization that will bolster our domestic security for the foreseeable future.

This starting point has sparked a contentious and often polarizing debate about whether current laws and practices governing the civil service (“title 5,” for the uninitiated) need to be reformed, modified or altogether abandoned to ensure the highest level of performance. The prominence of these issues is heartening because it reflects a clear recognition by top policymakers of the link between how the homeland security workforce is managed and how the Department will perform. Our country’s security will hinge on the present and future quality of that workforce.

What is missing from the current debate, however, is the institutional experience government has accumulated with title 5 modifications that have already successfully allowed government agencies to emulate high-performing workplaces—without compromising merit principles, including protections against politicized personnel decisions.

The successful innovations that have occurred to date point the way towards government workplaces that share the following characteristics with high-performing organizations in the private sector:

- Flexibilities for leaders and managers that allow them to respond to new challenges, such as the ability to quickly supplement their staffs with specialized talent and a reward system that recruits, motivates, and retains top performers by responding to market conditions.
- The collaborative involvement of the career workforce – the “front-line experts” – in the implementation and ongoing pursuit of the new Department’s mission. Establishing and communicating clear organizing principles, values and processes fosters the employee commitment that is essential to organizational effectiveness.
- A sustained commitment by top leadership to the strategic importance of human capital management. This leadership commitment is manifested, in part, by adequate and stable funding commensurate with the workforce needs of the organization, including strategic workforce development programs.

All these characteristics of high-performing organizations are consistent with the merit principles that animate title 5. The statutory civil service merit principles explicitly state that the government should set pay with reference to private sector rates, reward high performers, not tolerate poor performers, and provide training to increase organizational effectiveness.

Regrettably, the personnel systems that have emerged from these principles have sometimes become encrusted and overlain with procedures that are far-removed from the original purposes of civil service protections and that effectively inhibit the accomplishment of organizational mission.

Therefore, in numerous instances over the past 20 years employees, executives, and policymakers have fashioned new workplace models that have balanced their respective visions of the merit principles to more successfully manage the crucial workforce issues underlying organizational success.

This report seeks to outline in broad terms the essential elements of these previous innovations. The workforce management tools available to the new Department should, in the first instance, be modeled on the successful experiments agencies have implemented.

Yet, these initial flexibilities are not the end of the matter. The future of the entire civil service system, whether devoted to defeating terrorist threats or guaranteeing corporate accountability, is undergoing serious scrutiny and many thoughtful proposals for reform are emerging.

Still to come, for example, are the recommendations of the Second National Commission on the Public Service, headed by former Federal Reserve chairman Paul Volcker, which currently is deliberating on the very issues with which Congress now wrestles. Just as the Administration needs to maintain its focus on its workforce management challenges, it also will be incumbent upon Congress to continue to revisit the task of reconciling our existing merit systems across the government with the demands of high-performing organizations.

## **THE CHALLENGES**

## THE CHALLENGES

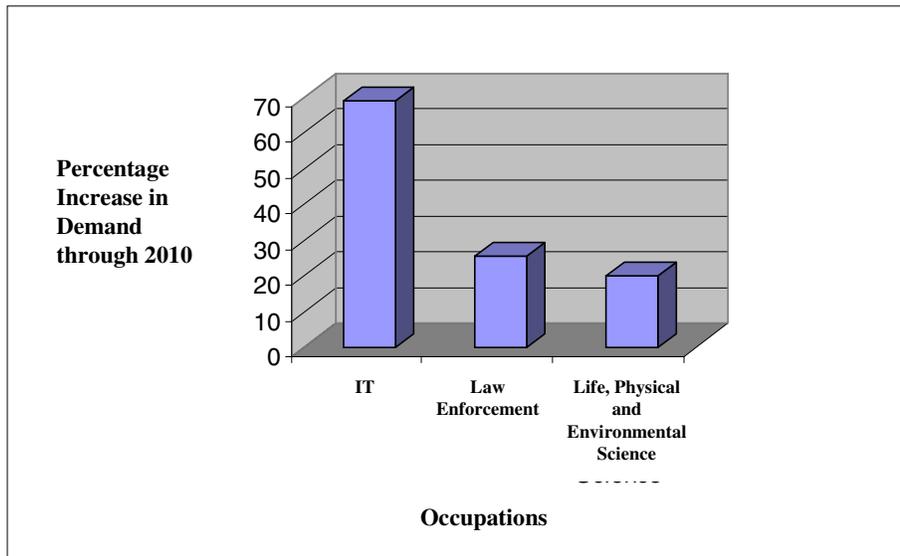
The Department of Homeland Security is likely to face a number of challenges that will make employing the best and brightest difficult, including the increased demand for a limited supply of mission-critical employees; an increasing number of employees approaching retirement; poor perceptions about public service; and agencies' difficulties in effectively and strategically managing people.

### 1. DEMAND FOR TALENT EXCEEDS SUPPLY

In spite of an economy that is generally growing more slowly than during the 1990s, the "war for talent," particularly the war for highly skilled, high-performing talent, remains as competitive as ever given the ongoing mobility of the workforce, the increasing demand for employees in certain occupations and industries, and the decreasing supply of workers in critical occupations and industries.

Bureau of Labor Statistics (BLS) data projects that employment in three occupational groups critical to homeland security—information technology, law enforcement, and the sciences—is expected to grow rapidly through 2010. As shown in Figure 1, employment in computer specialist occupations is projected to grow 68.6 percent, employment in law enforcement is expected to grow 25.6 percent, and employment in life, physical and environmental sciences is expected to grow by approximately 20 percent through 2010.<sup>1</sup>

**Figure 1: Job Growth in Mission-Critical Homeland Security Occupations Is Increasing Rapidly**



Source: BLS

<sup>1</sup> Hecker, Daniel E., "Occupational Employment Projections to 2010," *Monthly Labor Review* (November 2000).

### *TECHNOLOGY AND SCIENCE SKILLS IN SHORT SUPPLY*

Even as the demand for talent in information technology and science occupations increases dramatically through 2010, the future supply of employees in these areas is growing at much slower rate. Should these trends in labor market supply and demand continue, the supply of mission-critical homeland security talent will not be enough to satisfy the increased demand for these occupations in the public and private sectors.

According to data from the U.S. Department of Education's National Center for Education Statistics (NCES), the number of college students graduating with bachelor's degrees in computer and information sciences has increased approximately 50 percent since 1994-1995 to just more than 36,000 graduates in 1999-2000.<sup>2</sup> The number of students graduating with bachelor's and master's degrees in biological sciences/life sciences has generally remained constant over the last five to six years. Since 1996-1997, approximately 63,000 students graduate with bachelor's degrees in biological sciences/life sciences each year, and approximately 6,200 students graduate with master's degrees in biological sciences/life sciences annually.<sup>3</sup> Even among those students graduating with degrees in science disciplines, 40 percent of the graduate students in engineering, mathematics, and computer science programs are foreign nationals.<sup>4</sup> If any of these graduates are going to work for the federal government, they must first become U.S. citizens. Given these factors, it is unclear whether the future supplies of employees in information technology and biological sciences/life sciences will be sufficient to meet the increased demand for such positions in the future.

### *THE TSA EFFECT—LAW ENFORCEMENT SKILLS IN SHORT SUPPLY*

Within the public sector, the emerging gap between the supply of and demand for federal law enforcement occupations is becoming increasingly clear. The growing need for law enforcement workers in the wake of September 11<sup>th</sup> has sparked a "war for talent" among law enforcement organizations. The creation of the new Transportation Security Administration (TSA) alone has increased the demand for federal law enforcement workers, as TSA is seeking to hire more than 60,000 employees by the end of 2002. TSA, with human capital flexibilities provided by Congress, has been aggressively recruiting experienced federal law enforcement workers by offering higher salaries than other agencies are able to offer under their current compensation structures.<sup>5</sup>

At the same time, other federal law enforcement agencies are losing large numbers of employees to TSA. In 2002, the already troubled Immigration and Naturalization Service (INS) has seen a 500 percent increase in the loss of its immigration inspectors and other employees to other agencies, such as TSA, relative to previous years.<sup>6</sup> Within INS, the U.S. Border Patrol has seen a 583 percent increase in the transfer of its employees to other agencies—primarily TSA—relative to previous years.<sup>7</sup> And,

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<sup>2</sup> U.S. Department of Education, National Center for Educational Statistics, *Digest of Education Statistics, 2001*.

<sup>3</sup> *Ibid.*

<sup>4</sup> National Science Board, *Science and Engineering Indicators-2002*, National Science Foundation (January 2002).

<sup>5</sup> Fulton, April, "Aviation security agency faces budget, staffing challenges," *GovExec.com Daily Briefing* (January 24, 2001).

<sup>6</sup> Blair, Bridgette and Tim Kauffman, "Bidding War: Counterterrorism Efforts Spark Competition For Law Enforcement Agents," *FederalTimes.com* (June 24, 2002).

<sup>7</sup> *Ibid.*

the U.S. Secret Service has lost more than 10 percent of its uniformed services employees to the TSA during 2002.<sup>8</sup>

*LOSING MISSION-CRITICAL, EXPERIENCED EMPLOYEES TO RETIREMENT*

The current supply of federal employees in occupations critical to homeland security is likely to decline dramatically in the near future. Analyzing data from the U.S. Office of Personnel Management 's (OPM) Central Personnel Data File (CPDF)—the personnel database for the entire federal executive branch of government—the Partnership found that nearly half of the federal workforce, including those targeted for inclusion in the new Department, will be eligible to retire in the next five years. For example, 48 percent of the career civil service employees at the Federal Emergency Management Agency (FEMA), 42 percent at the Coast Guard, 36 percent at the Customs Service, 33 percent at the Animal and Plant Health Inspection Service (APHIS) and 24 percent at the INS will be eligible to retire in 2006.

*AMERICANS' POOR PERCEPTIONS OF FEDERAL SERVICE*

The federal government faces a special set of challenges as it competes for talented recruits to replace retiring workers and meet new needs. A national public opinion poll commissioned last year by the Partnership found that only one in six college-educated Americans expresses significant interest in working for the federal government. Many Americans know very little about civil service opportunities or how to pursue them. Their perceptions about federal employment in certain key respects are negative in comparison to the private and non-profit sectors. For example, by large margins, college graduates believe that the private sector offers more interesting and challenging work, better rewards outstanding performers, and allows more opportunity for employee initiative. And, they believe the non-profit sector provides a better venue than the federal government to contribute to society and make a difference.<sup>9</sup> Finally, the government's ability to compete for top talent is severely constrained by a hiring process that is currently too hard, too slow, and too confusing.

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<sup>8</sup> *Ibid.*

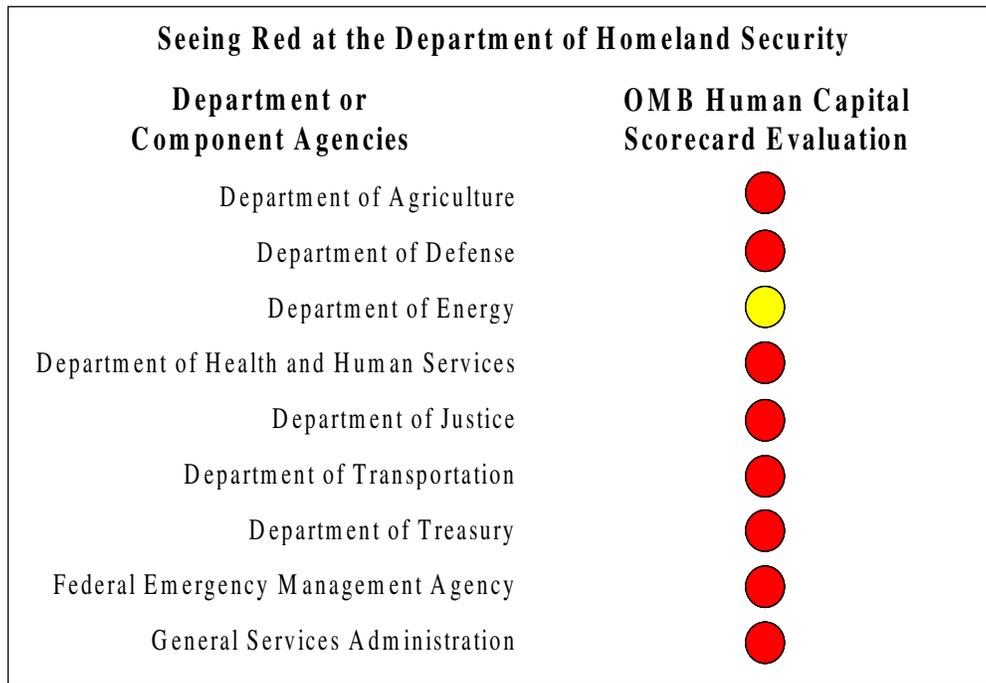
<sup>9</sup> *The Unanswered Call to Public Service: Americans' Attitudes Before and After September 11*, Hart/Teeter Research (October 2001).

**2. AGENCIES STRUGGLE TO MANAGE HUMAN CAPITAL**

Of the 22 federal agencies proposed to be part of the new Department of Homeland Security, all but one of the agencies—or the departments overseeing the agencies—received a failing grade from OMB for human capital management.

In 2001, the Office of Management and Budget (OMB) instituted a scorecard measuring agencies in five key areas, the first of which was human capital. To measure success, the Office established a simple red to green scoring system. A green light indicates that an agency meets all of the standards for success. A yellow light signals that an agency has “achieved some, but not all, of the criteria” in the management area. A red light indicates that an agency “has any one of a number of serious flaws” in the management area.

**Figure 2: Human Capital Scorecard: Departments and Component Agencies Proposed for Department of Homeland Security**



Note: Of the approximately 22 agencies involved in the proposed Department of Homeland Security merger, most are included within the major departments and agencies listed in the chart above.

Source: OMB

The human capital scorecard assessed agency performance in these basic areas:<sup>10</sup>

- Do the human capital programs support the agency’s mission, vision, and strategies?

<sup>10</sup> See OPM Human Resources Management Council Transmittal #MSG-112a for the Human Capital Scorecard criteria OPM established in coordination with OMB.

- Does the agency demonstrate the ability to recruit, hire, develop, and retain employees with mission critical competencies?
- How effective is the leadership of the organization in motivating and managing its workforce?
- Does the agency have a culture of high performance and employee involvement?
- Is the agency effectively managing continuous learning, knowledge sharing and employee improvement required for meeting the challenges of today and the future?

Among the large agencies slated for inclusion in the new Department, the TSA, the Coast Guard, and the INS all face considerable human capital challenges. The TSA is having trouble just meeting payroll expenses.<sup>11</sup> The Coast Guard's capable employees are being overworked, and are sometimes under-trained, to meet the considerable increase in workload following the September 11<sup>th</sup> terrorist attacks.<sup>12</sup> The INS—an agency besieged by ongoing human capital challenges—is unable to achieve its mission while struggling to staff, train, develop, and retain needed employees.<sup>13</sup> According to one GAO report, the INS has failed to train all necessary staff to use a fingerprint identification system in its Forensic Document Laboratory, an essential enforcement tool for the only federal forensic crime laboratory dedicated to detecting document fraud.<sup>14</sup>

In defense of these individual agencies, it should be noted that most federal agencies share their struggle for excellence in human capital management. Government wide, only three managed to earn even a yellow light. However, only the Department of Homeland Security faces the prospect of a monumental merger challenge. The Brookings Institution's recent report, *Assessing the Department of Homeland Security*, noted that the new Department will need to reconcile close to 80 major differences in the personnel systems developed by the component agencies, including a number of special pay scales for occupations, a variety of overtime rates, and labor contracts with at least 18 different employee unions.<sup>15</sup>

The track record of well-run private sector companies does not provide any encouragement in the quest for “green.” In fact, two-thirds of newly formed private sector companies created through mergers and acquisitions end up performing well below industry averages. Studies often attribute this trend, and similar merger setbacks, to corporations' failures to deal with the “people issues,” as attrition levels increase and employees remaining with merged organizations become preoccupied with their now-uncertain futures.<sup>16</sup>

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<sup>11</sup> CNN.com, *Mineta: TSA running out of money* (July 15, 2002).

<sup>12</sup> U.S. General Accounting Office, *Coast Guard: Budget and Management Challenges for 2003 and Beyond*, (March 19, 2002).

<sup>13</sup> U.S. General Accounting Office, *Immigration and Naturalization Service: Overview of Recurring Management Challenges* (October 17, 2001).

<sup>14</sup> U.S. General Accounting Office, *INS Forensic Document Laboratory: Several Factors Impeded Timeliness of Case Processing*, (March 13, 2002).

<sup>15</sup> The Brookings Institution, *Assessing the Department of Homeland Security* (July 2002).

<sup>16</sup> Donahue, Kristen B., “How to Ruin a Merger: Five People-Management Pitfalls to Avoid,” *Harvard Management Update* (September 2001). Also see “People Issues & Mergers and Acquisitions,” Research Findings, William M. Mercer (August 2001).

**OPPORTUNITIES FOR CHANGE**

## OPPORTUNITIES FOR CHANGE

### 1. PRIVATE SECTOR HUMAN CAPITAL STRATEGIES THAT CAN BE USED IN GOVERNMENT

To win the war on terror, the new Department of Homeland Security must overcome its human capital challenges. It will need to focus on those human capital areas that can make the greatest difference in mission accomplishment. Private sector researchers have established clear links between specific human capital practices and organization success.<sup>17</sup> Most of that research highlights the importance of four key human capital practices—strategic recruitment programs, performance based rewards, effective performance management, and employee involvement.

For example, the human capital consulting firm Watson Wyatt examined the human capital practices of 500 large companies in the United States and 250 companies in Europe—including high—performing private sector organizations such as 3M, American Express, GM, IBM, Microsoft and Nordstrom—as part of the firm’s Human Capital Index (HCI) research. By viewing recruiting and retention as critical to achieving missions, engaging employees in management improvement activities, communicating effectively with employees, linking pay to business strategies and performance, and measuring and assessing employees’ views on the workplace, high-performing private sector organizations increase their market value by as much as 47 percent.<sup>18</sup>

Similarly, Professors Brian E. Becker and Mark A. Huselid surveyed a broad range of firms over the last decade and found that private sector organizations’ use of certain human capital practices led to decreased employee turnover, increased sales, and an overall increased market value.<sup>19</sup> As shown in Figure 3, organizations with high-performing work systems dedicate resources to recruit highly qualified, high-performing employees; implement employee training and development; utilize compensation systems that link pay with individual performance; and create self-managed, cross-function work teams.

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<sup>17</sup> For examples of this research see Bruce N. Pfau and Ira Kay, *The Human Capital Edge: 21 People Management Practices Your Company Must Implement (Or Avoid) To Maximize Shareholder Value* (McGraw-Hill, 2001); Jac Fitz-Enz, *The ROI of Human Capital: Measuring the Economic Value of Employee Performance* (AMACOM, 2001); and Brian E. Becker, Mark A. Huselid, and David Ulrich, *The HR Scorecard: Linking People, Strategy, and Performance* (Harvard Business School Press, 2001).

<sup>18</sup> Pfau, Bruce N. and Ira Kay, *The Human Capital Edge: 21 People Management Practices Your Company Must Implement (Or Avoid) To Maximize Shareholder Value* (McGraw-Hill, 2001).

<sup>19</sup> Becker, Brian E., Mark A. Huselid, and Dave Ulrich, *The HR Scorecard: Linking People, Strategy, and Performance* (Harvard Business School Press, 2001).

**Figure 3: Strategic Human Capital Practices of High-Performing Private Sector Organizations Relevant to the Department of Homeland Security**

	<i>Bottom 10% HR Index</i>	<i>Top 10% HR Index</i>
<b>HR Practices</b>		
Number of qualified applicants per position	8.24	36.55
Percentage hired based on a validated selection test	4.26	29.67
Percentage of jobs filled from within	34.90	61.46
Percentage in a formal HR plan including recruitment, development and succession	4.79	46.72
Percentage of employees receiving a regular performance appraisal	41.31	95.17
Percentage of workforce whose merit increase or incentive pay is tied to performance	23.36	87.27
Percentage of workforce who received performance feedback from multiple sources (360)	3.90	51.67
Target percentile for total compensation (market rate = 50%)	43.03	58.67
Percentage of the workforce eligible for incentive pay	27.83	83.56
Percentage of difference in incentive pay between a low-performing and high-performing employee	3.62	6.21
Percentage of the workforce routinely working in a self-managed, cross-functional, or project team	10.64	42.28
<b>Firm Performance</b>		
Employee turnover	34.09	20.87
Sales per employee	\$158,101	\$617,576
Market value to book value	3.64	11.06

Source: Becker, Brian E., Mark A. Huselid, and Dave Ulrich, *The HR Scorecard: Linking People, Strategy, and Performance* (Harvard Business School Press, 2001)

## **2. TIME-TESTED, INDEPENDENTLY EVALUATED HUMAN CAPITAL FLEXIBILITIES USED BY FEDERAL AGENCIES**

There are also some valuable lessons learned by various federal agencies within government. The Partnership's research has found that a significant number of agencies seeking to improve performance have taken advantage of options—provided by Congress—to test or implement innovative human capital policies, programs, and practices that operate outside the structure of title 5. In most cases, these innovations have proven to be highly successful in improving the agency's ability to attract, motivate or retain a highly qualified workforce while still adhering to the basic principles of a merit-based system.

Many of the successful practices were developed through the use of OPM demonstration projects which come with stringent requirements for independent evaluation. Others innovations, such as special authorities at Federal Aviation Administration (FAA) and the Internal Revenue Service (IRS), are the result of targeted legislation which comes with Congressional oversight and is subject to outside review by independent agencies such as OPM. Almost half of all federal executive branch employees work in agencies with human resources management programs, policies or practices that operate in whole or in part outside of the framework of title 5.<sup>20</sup> Further, nearly all legislative branch and judicial branch agencies operate systems almost completely outside of title 5, including the U.S. General Accounting Office which is striving to become a model human capital agency.

From these examples of time-tested and proven human capital policies, programs, and practices come several lessons learned involving “best practice flexibilities” that—when carried out within a framework of employee involvement and adherence to the values of a merit-based civil service system—could be used to good effect within the Department of Homeland Security. Those flexibilities and the underlying framework are as follows:

### *REWARDING HIGH PERFORMANCE AND INTRODUCING TARGETED, COMPETITIVE COMPENSATION*

The current compensation system flowing from title 5 is based on a general schedule (GS) of 15 grades, each grade consisting of 10 steps. As OPM has noted, the federal compensation system “established at the end of the 1940s . . . when over 70 percent of Federal white-collar jobs consisted of clerical work,” rewards employees for longevity rather than performance.<sup>21</sup> However, the world has changed since 1940; today only about 10 percent of federal jobs are classified as clerical. Most federal white-collar jobs now require highly skilled employees with specialized knowledge, a commodity in high demand.

To recruit, motivate, and retain the best talent available, therefore, federal agencies need a market-sensitive compensation system, that allows managers to respond to changing needs and labor market conditions coupled with the flexibility to truly recognize and reward exceptional individual or group performance. Pay banding, while not a substitute for a fully flexible and market-based compensation system is a significant improvement over the existing general schedule system. It is an approach that a number of federal organizations have used successfully.

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<sup>20</sup> U.S. Office of Personnel Management, *HRM Policies and Practices in Title 5-Exempt Organizations* (August 1998).

<sup>21</sup> U.S. Office of Personnel Management, *A Fresh Start for Federal Pay: The Case for Modernization* (April 2002).

Pay banding is a compensation strategy that improves the link between strategic goals, employee performance and financial rewards. No fewer than 14 agencies—including the Department of Commerce, the IRS, and several agencies within the Department of Defense (DoD)—use pay banding as an alternative, more flexible compensation system compared to the General Schedule (GS). Pay banding is a compensation system that groups the 15 grades of the GS into three, four, five or six “bands.”<sup>22</sup> Pay banding is often linked with employee performance, so that high-performing employees receive greater financial rewards than they would through the GS system. In fact, OPM’s research suggests that agencies with pay banding are more likely to retain high performers and more likely to encourage poor performers to either improve or voluntarily leave.

Federal agencies with a successful pay banding system also typically have a performance management and employee appraisal system developed with the input and support of employees. Broad pay bands, rather than narrow grades, also provide agencies with the flexibility to offer job candidates more competitive starting salaries. The bottom line is that a pay banding approach contributes to organizational performance by enhancing an agency’s ability to recruit, motivate, and retain high-performing employees.

Agencies have also tested the use of critical pay authority and have found it useful in attracting a limited number of highly skilled individuals into key management, scientific, or technical jobs. The current law and regulations establish a “critical pay” authority that allows pay-setting above the maximum levels otherwise available for up to 800 positions government wide. Its use requires approval from the Office of Management and Budget and, in some cases, the personal approval of the President. Yet according to OPM’s research, the current system does not offer agencies the opportunity to effectively compete in the labor market for certain high demand, mission-critical occupations.<sup>23</sup> Therefore, current critical pay authority is seldom used, perhaps due to the cumbersome and time-consuming case by case approval process. However, allowing more streamlined use of this authority, similar to that provided to the Internal Revenue Service in 1998, might enable the new Department to attract and hire individuals with unique, and critical, skills.<sup>24</sup>

### *SELECTING THE BEST*

A title 5 provision, the statutory “rule of three,” is truly an anachronism that dates back to the late 1800s. While originally intended to expand the choices a federal manager has by ensuring they are not limited to only one candidate, more than 130 years after its inception, the “rule of three” actually does what it was intended to prevent—unnecessarily limit a manager’s ability to select the best

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<sup>22</sup> U.S. Office of Personnel Management, *Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned*.

<sup>23</sup> *Ibid.*

<sup>24</sup> Rainey, Hal, *A Weapon in the War for Talent: Using Special Authorities to Recruit Crucial Personnel*, The PricewaterhouseCoopers Endowment for the Business of Government, December 2001. From 1998 through 2008, the Secretary of the Treasury is authorized to establish compensation levels for up to 40 mission-critical IRS positions. The appointments may not exceed four years and the total compensation may not exceed that of the Vice President. Although only a partial substitute for a more comprehensive, market-based compensation system, this streamlined critical pay authority offers IRS the opportunity to successfully recruit and/or retain exceptionally well-qualified individuals for a select number of hard-to-fill, mission-critical positions.

candidate for the job based on merit. Consequently, today, many agencies successfully recruit excellent job candidates, only to lose them because an initial assessment fails to place them among the “top three” candidates to which a selecting official is limited. Additionally, in many cases the initial ranking process required to numerically order a large group of candidates is so time-consuming that the best candidates accept other offers before hearing from the government.

As the non-partisan, independent U.S. Merit Systems Protection Board recently concluded, “The problem [with the rule of three] is the shortage of reliable tools with which to make those fine distinctions that are necessary to actually identify the three best candidates. Further, if there are more than three candidates tied for the highest score, tie breakers must be used to get down to only three. Random selection based on social security number is usually used in such cases. This is hardly an example of sound merit-based selection, and it’s difficult to argue that it gives managers truly meaningful choices.”<sup>25</sup>

A categorical ranking approach, by contrast, places all candidates into two or three groups so managers can then consider *any* of the candidates in the most highly qualified group. Individuals who are entitled to veterans’ preference consideration in hiring and who are in the most highly qualified group are given first consideration.

Among agencies that have been authorized to use a categorical ranking approach, this authority has clearly demonstrated that it offers a flexible, more responsive hiring system that expands the candidate pool and simplifies the hiring process—without placing the statutory merit system principles, employee protections, diversity goals, or veterans’ preference at risk. With the appropriate oversight, categorical ranking will improve the ability of the Department of Homeland Security to successfully compete with all of the organizations seeking to attract and hire from a limited talent pool of highly qualified, high-performing candidates.

### *RESHAPING THE WORKFORCE*

A new Department of Homeland Security, born of 22 different agencies and organizations, will require the ability to reshape and realign its workforce according to changing priorities and needs. According to GAO, an inattention to strategic workforce planning during the downsizings of the 1990s affected the ability of agencies to achieve organizational missions and goals.<sup>26</sup> This was due, in part, to the fact that involuntary separation of employees is accomplished through formal reduction in force procedures that are heavily weighted toward seniority rather than employee skills or performance as a criterion for separation. However, providing separation incentives to encourage voluntary departures of employees with outdated skills, but then losing the ability to hire new employees with needed skills, proved to be self-defeating for many organizations. What is needed, of course, is the ability to provide targeted separation incentives while also retaining the ability to fill necessary positions.

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<sup>25</sup> U.S. Merit Systems Protection Board, *Issues of Merit* (November 2001).

<sup>26</sup> U.S. General Accounting Office, *Federal Workforce: Payroll and Human Capital Changes During Downsizing* (August 13, 1999).

During periods of major restructuring, some agencies, including GAO and the IRS, have used voluntary early retirement authority (VERA) and voluntary separation incentive payments (VSIP) without the requirement that they reduce the total number of funded positions proportionately.<sup>27</sup> This gives agencies the opportunity to offer selected employees, whose skills are no longer needed, financial incentives to resign or retire earlier than they may otherwise have done. The agency is then free to hire employees who possess the needed skills. Agencies using VERA and VSIP as part of workforce reshaping are better able to strategically staff their organizations with employees who possess the skills needed to respond to rapidly shifting priorities and needs.

*INVOLVING EMPLOYEES AND ADHERING TO MERIT PRINCIPLES: A KEY CONDITION FOR SUCCESS*

Whether in the private sector or public sector, active employee involvement in the design and implementation of management improvement activities is a proven method for achieving positive results. Every federal demonstration project or alternative personnel system that has successfully tested or implemented a human resources management policy outside the requirements of title 5 has first engaged in consultation or negotiation with employee unions or, in the absence of a union, direct consultation with affected employees.

Further, every demonstration project or alternative personnel system in the executive branch also has successfully and productively used the flexibilities available to them while still adhering to the statutory merit system principles. This has demonstrated clearly that there need not be a conflict with the use of effective human resources management flexibilities and the basic values of merit and fairness that have been an essential part of the federal civil service system since 1883.

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<sup>27</sup> Most agencies that use voluntary separation incentives must eliminate a position and thus lose the ability to fill-in behind a departing employee.

**Figure 4: Summary of Time-tested, Independently Evaluated Human Capital Flexibilities Used by Agencies**

Flexibility	Agencies	Benefit(s)
<b>Pay Banding</b>	<ul style="list-style-type: none"> <li>• Navy (China Lake)</li> <li>• National Institute of Standards and Technology (NIST)</li> <li>• Army Aviation &amp; Missile</li> <li>• Air Force Research Lab</li> <li>• Army Research Lab</li> <li>• Army Engineer R&amp;D Center</li> <li>• Army Medical Research &amp; Materiel Command</li> <li>• Naval Sea Systems Command Warfare Centers</li> <li>• Department of Commerce</li> <li>• Naval Research Lab</li> <li>• Department of Defense (DoD) Acquisition Workforce</li> <li>• Federal Aviation Administration (FAA)</li> <li>• Bureau of Alcohol, Tobacco and Firearms</li> <li>• Internal Revenue Service (IRS)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Increases compensation for high-performing employees</li> <li>✓ Improves retention of high-performing employees</li> <li>✓ Offers another management tool for improving poor performance</li> <li>✓ Enhances ability to recruit employees with more competitive starting salaries</li> </ul>
<b>Critical Pay</b>	<ul style="list-style-type: none"> <li>• DoD Lab Demo Program</li> <li>• IRS</li> </ul>	<ul style="list-style-type: none"> <li>✓ Improves ability to recruit and/or retain exceptionally well-qualified scientific, technical, professional or administrative disciplines in hard-to-fill, mission-critical positions</li> </ul>
<b>Categorical Ranking</b>	<ul style="list-style-type: none"> <li>• U.S. Department of Agriculture (USDA)</li> <li>• FAA</li> <li>• DoD Lab Demo Program</li> <li>• DoD Acquisition Workforce</li> <li>• IRS</li> </ul>	<ul style="list-style-type: none"> <li>✓ Expands the candidate pool</li> <li>✓ Simplifies the hiring process</li> <li>✓ Engages managers in the hiring process</li> <li>✓ Preserves the commitment to Merit System Principles, diversity and veterans preferences</li> </ul>
<b>Voluntary Early Retirement Authority (VERA)/ Voluntary Separation Incentive Payments (VSIP)</b>	<ul style="list-style-type: none"> <li>• U.S. General Accounting Office (GAO)</li> <li>• IRS</li> </ul>	<ul style="list-style-type: none"> <li>✓ Avoids RIF procedures that are seniority based rather than merit based</li> <li>✓ Offers ability to strategically staff agencies with employees who possess the skills needed to meet shifting priorities</li> </ul>

Source: OPM, *Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned*.

## **RECOMMENDATIONS**

## RECOMMENDATIONS

The United States will win the war on terror not because of a better organizational chart, but because our country's best and brightest answered the call to serve and were provided with a high-performing work environment. To provide assistance to Members of Congress, the Administration, and the leaders of the new Department of Homeland Security, the Partnership for Public Service offers the following recommendations:

### 1. LEARN FROM EXISTING SUCCESSES IN GOVERNMENT

Adopt time-tested, independently evaluated human capital flexibilities used successfully by other agencies as the foundation for a Department human capital system. With these flexibilities, this system will attract, develop, motivate, and retain the high-performing employees needed to win the war on terror.

Although there are legitimate differences of opinion regarding the human capital flexibilities proposed for the new Department, many agencies already operate human capital policies and practices that deviate from title 5. Furthermore, they do so in an environment that aims to improve performance while maintaining commitments to the statutory merit system principles. Human capital flexibilities that have been time-tested and independently evaluated include:

**Reward high performance and implement targeted, competitive compensation.** Pay banding and streamlined critical pay authority, while not a substitute for a fully flexible and market-based compensation system, are a significant improvement over the existing general schedule system. Both are also approaches that have been used successfully in a number of federal organizations. Allowing the Department to implement a pay banding system similar to that being used by more than 14 other federal departments and agencies would allow them to more easily calibrate pay to needed competencies. It also offers the potential to better recognize and reward superior performance based on a fair and accurate performance appraisal system designed with the input and support of employees.

**Pay banding** will provide the Department with the flexibility needed to offer greater competitive starting salaries, reward high-performing employees with financial incentives and send a clear message to poor performers that improvement is needed. Given the gap between the supply of, and demand for, highly skilled employees for critical homeland security occupations, pay banding is one human capital flexibility that would help ensure that the Department wins the war for talent by attracting, developing, motivating, and retaining the employees needed to win the war on terror.

**Streamlined critical pay authority** is another human capital flexibility that would offer the Department an improved opportunity to attract and retain certain hard-to-recruit employees with highly developed scientific, technical, professional, or administrative skills needed to achieve its new mission and goals. The current law does establish a "critical pay" authority that allows pay-setting above the maximum levels otherwise available, but it is seldom used. Allowing more streamlined use of this authority, similar to that provided to the IRS in 1998,

might encourage and enable the new Department to make appropriate use of the authority to attract and hire individuals with the unique, and critical, skills.

**Selecting the best.** Agencies often successfully recruit job candidates, only to lose those individuals to competitors able to make a job offer more quickly. At the same time, title 5 imposes arbitrary restrictions on the number of qualified candidates who can be considered for a given job. Categorical ranking offers agencies a flexible, more responsive hiring system that expands the candidate pool and simplifies the hiring process, without placing the merit system principles, employee protections, diversity goals, and veterans' preference at risk. Categorical ranking will improve the ability of the Department to compete successfully with other organizations seeking to attract and hire a limited talent pool of highly qualified, high-performing talent. More generally, reforms that promise to reduce the amount of time required to hire people into the federal workforce will greatly increase the government's edge in an already intensely competitive war for talent.

**Reshaping the workforce.** Given the complexity of terrorist threats in the current environment—radiological, biological, chemical and nuclear—the leaders of the new Department must be able to strategically staff the Department with employees who possess the skills needed to respond to rapidly changing priorities. Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payments (VSIP) can be used without decreasing the number of full-time equivalent positions, thereby giving the Department the flexibility it needs to restructure the organization based on mission-critical skills and merit. They move away from the more rigid, seniority-driven reduction-in-force process.

The time-tested and independently evaluated practices discussed above have enabled agencies to improve their organizational performance, while preserving a commitment to the merit system principles. Moreover, every successful federal demonstration project or alternative personnel system that departed from the requirements of title 5 has first involved consultation or negotiation with employee unions, or, in the absence of unions, direct consultation with affected employees. Such consultation, far from inhibiting performance, is one of the key common characteristics shared by high-performing organizations.

## **2. ALLOCATE SUFFICIENT RESOURCES TO PROVIDE TOOLS FOR SUCCESS**

Dedicating the financial resources necessary to attract and retain highly qualified and motivated employees is a critical component of winning the war on terror. Private sector research demonstrates that organizations willing to invest in their human capital demonstrably improve organizational performance. Federal agencies already have extensive authorities to offer job candidates and employees recruitment, retention, and relocation incentives; student loan repayments; and training and development opportunities. However, many agencies simply lack the resources needed to sufficiently invest in these human capital activities. Congress and the Administration must invest the resources necessary for the Department to effectively compete with other employers for the best and brightest employees. Job candidates should not have to choose between financial security and working to secure our country.

### **3. CREATE CLEAR ACCOUNTABILITY**

The new Department needs a Chief Human Capital Officer (CHCO) to ensure continued high-level attention to workforce planning and development strategy. The CHCO will be responsible for ensuring that the management team has the competencies, training and tools required to manage and motivate a high performance organization. Similarly, this official will work with the leadership team to cultivate a climate of employee empowerment and innovation.

In addition, the CHCO must be responsible for developing and implementing reliable measures that can be used by managers to assess their progress on workforce management. Creating an environment where performance in human capital management is rigorously measured will provide leaders at the Department with the information needed to build on its success, improve in areas representing a challenge, and seek additional reforms based on reliable data.

All stakeholders in this debate will be better served if a talented, dynamic, and experienced human capital leader is both appointed and assured a seat at the leadership table via the CHCO proposal.



## ABOUT THE PARTNERSHIP FOR PUBLIC SERVICE

The Partnership for Public Service ([www.ourpublicservice.org](http://www.ourpublicservice.org)) is a non-partisan, non-profit organization dedicated to recruiting, and retaining excellence in the federal civil service. Through an aggressive campaign of agency reform, legislative advocacy, focused research, and educational efforts, the Partnership encourages talented people to choose federal service for some or all of their careers and works with the government to help retain high-achieving federal employees.

The need for action is urgent. In the next five years, well over half of the federal workforce may qualify for retirement. Within the same period, 71 percent of the government's senior managers will reach retirement age. To replace these experienced workers, and to ensure quality service to the public, the government must continue to attract talented employees.

Even after the September 11 tragedies, the federal government is seldom viewed as the "employer of choice" for the best of our country's labor pool. A recent nationwide public opinion poll commissioned by the Partnership found that private sector jobs are significantly more attractive to college graduates seeking challenging work and financial reward, and the non-profit sector is more appealing than government to those who want to "make a difference." Polls also indicate, however, that more and more graduates are interested in contributing to their society and community.

These attitudes and demographic realities present the government with substantial challenges but also suggest that there are unprecedented opportunities to engage a new generation seeking meaningful ways to serve.

To meet this challenge, the Partnership for Public Service is pursuing a comprehensive five-part strategy:

- (1) A partnership with federal agencies to help create a work environment for the 21<sup>st</sup> century that allows government to better support and retain its talented workers;
- (2) A legislative reform agenda to address outdated laws that keep the government from attracting and retaining highly skilled employees, and to implement management practices more comparable to those in the private sector;
- (3) A practical research plan to increase our understanding of the human capital crisis and its possible solutions;
- (4) An education and outreach effort to inform talented mid-career professionals about employment opportunities in government and a national college and university campaign to inform students about federal jobs ([www.calltoserve.org](http://www.calltoserve.org)); and
- (5) A communications program designed to improve public understanding and perception of government service.

In pursuing this strategy, the Partnership is building coalitions with the Administration, lawmakers, corporate leaders, federal employees, academic institutions and other interested groups. The Partnership is guided by a Board of Governors comprised of prominent, committed individuals who provide advice and expertise and serve as spokespersons for the importance of public service.

The Partnership was founded by Samuel J. Heyman in 2001 and is incorporated as a 501(c)(3) non-profit organization in Washington, D.C.