



PARTNERSHIP FOR PUBLIC SERVICE

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Prepared for

**The House Committee on Armed Services
Subcommittee on Readiness**

**Hearing Entitled
“The National Security Personnel System:
Is It Really Working?”**

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Chairman Ortiz, Representative Davis, Members of the Subcommittee, thank you very much for the opportunity to appear before you today. I am Max Stier, President and CEO of the Partnership for Public Service, a nonpartisan, nonprofit organization dedicated to revitalizing the federal civil service by inspiring a new generation to serve and transforming the way the federal government works. We appreciate your invitation to discuss the status of the National Security Personnel System (NSPS) in the Department of Defense (DOD).

A skilled, dedicated and engaged civilian workforce is absolutely essential for all departments and agencies, including DOD, to succeed in carrying out their vital missions on behalf of the American people. We have long believed that if the federal government devoted the time, attention and resources to the civilian workforce that it does to the uniformed military, our nation would be better for it. So it is that the Partnership has followed with great interest the legislation that authorized the NSPS and the efforts by DOD to design and implement a system consistent with that legislation. We are honored to share with you our perspective on the current status of the NSPS and our recommendations regarding the way forward.

An Urgent Need for Action

Americans need effective government, and the key to good government is good people. The report of the 9/11 Commission said it best: “[T]he quality of the people is more important than the quality of the wiring diagrams.” Every day, we rely on our federal government to deliver vital services, from protecting the homeland to promoting a competitive economy to preserving our natural resources.

Today, our nation faces challenges of unprecedented complexity. This has been especially apparent for the Department of Defense and the vital role it plays in protecting the United States in the global war on terrorism. As with the rest of the federal government, however, the civilian workforce in DOD is aging and a record number of experienced workers will soon retire, resign or otherwise leave the Department. At the same time, the demands upon DOD continue to grow. The civilian workforce must effectively work with and support over 2.5 million members of the military and also help oversee and manage an annual budget in excess of \$600 billion dollars. DOD civilian employees represent over one-third (34 percent) of all civilian employees in the federal government (not including employees of the U.S. Postal Service). To meet the Department’s many demands and challenges, it is essential to strengthen DOD’s civilian workforce, expertly match highly-skilled employees to the right jobs, and build a workplace environment that supports and engages its civilian workers.

National Security Personnel System: Background and Current Status

Congress gave special recognition to the importance of the civilian DOD workforce when it authorized the development of a National Security Personnel System in 2003. The NSPS legislation waived certain provisions of Title 5 of the U.S. Code so that DOD, in partnership with the Office of Personnel Management (OPM), could establish alternative

human resource (HR) management systems that are more flexible and contemporary than the existing systems. Those new systems have the potential to significantly change the way DOD hires, compensates, rewards and disciplines more than 600,000 civilian employees.

It is widely accepted that while the current General Schedule (GS) pay and classification system established in 1949 may have served the government well for many years, it is no longer sufficient to attract and retain the best and brightest. We say this for two reasons:

- First, the GS pay system, which still governs pay for the large majority of white-collar civilian employees in DOD not yet covered by the NSPS changes, is not market-sensitive at a time when being competitive in the talent market-place is becoming increasingly important.
- Second, we know that the GS pay system and the traditional performance management system are in need of reform by listening to federal employees themselves. In OPM's 2006 Federal Human Capital Survey, to which over 50,000 DOD civilian employees responded, less than one-third (31 percent) percent agreed that "In my work unit, differences in performance are recognized in a meaningful way." Talented people at all levels – from new college graduates to seasoned professionals – look to work in environments that reward and recognize effort and results. Our 2005 *Best Places to Work in the Federal Government* project, based on OPM survey data, shows that compared to workers in the private sector, federal employees are more likely to say their work relates to the organization's mission, their supervisors are supportive in balancing work and life issues, and the people they work with cooperate to get things done. Yet, our 2005 comparison also revealed that DOD lagged 22 points behind top performing companies in the private sector in the percentage of employees who believe that they are rewarded for delivering high quality products and services.

DOD's proposal for the NSPS was a response to a long history of identified and perceived shortcomings in specific federal human capital laws, regulations and policies under Title 5 of the U.S. Code, particularly but not exclusively in the area of pay and performance management. In authorizing the NSPS, Congress made it clear that while any new HR systems established under the NSPS authority should be flexible and contemporary, there were also certain provisions of existing law that could not be waived, such as adherence to the statutory merit system principles and the right of employees to organize, bargain collectively, and participate in labor organizations. Congress was also clear that employees should be involved in the design of the new system.

The Department designed a comprehensive set of proposed regulations to implement the NSPS that drew heavily from its experience with alternative HR systems under a 1978 demonstration project authority (title 5 U.S.C. § 4703). DOD proposed a pay-banded approach to compensation that would be more market-sensitive as well as more performance-sensitive than the GS system. Other changes proposed by DOD and

authorized in the NSPS involve additional flexibilities in the areas of hiring and internal placement of staff and some new “workforce shaping” provisions to address current or anticipated skills gaps.

DOD also designed some alternatives to its labor-management relations policies and to the process by which employees could appeal a proposed adverse personnel action. Those proposed changes had not been previously tested through demonstration projects or in other federal organizations. When these latter changes were challenged in court by employee unions, the D.C. District Court enjoined those parts of the regulations as inconsistent with the legal requirements of the NSPS. A decision on a DOD appeal of the lower court ruling is expected from the D.C. Circuit Court of Appeals in the next several weeks. In the meantime, DOD has started implementation of their proposed changes for selected non-bargaining unit employees only. This latter implementation is being done in “Spirals” with the first of three initial roll-outs (Spiral 1.1) implemented in 2006. The first performance management cycle and payouts under Spiral 1.1 were completed in January 2007.

Is NSPS Working?

While a full evaluation of the impact of the NSPS is premature, we note that many of the principles -- other than those proposed in the areas of employee due process and labor-management relations -- have been thoroughly tested in DOD and a number of other federal agencies over the past 25 years. For example, there are over 30 federal agencies or major agency subcomponents that have implemented more performance-sensitive alternatives to the General Schedule system through the aforementioned demonstration project authority or agency-specific legislation or exemptions such as that for the Government Accountability Office (GAO), National Credit Union Administration, Patent and Trademark Office and Internal Revenue Service. Interestingly, most of the demonstration projects were undertaken by DOD and, as required by law, independently evaluated as to their “impact on improving public management.” While many of the earlier alternative systems have continued to be refined over time, the clear indications are that eventually almost every alternative system in place for a number of years has been found by independent evaluation to be superior to the system it replaced.

Change of the magnitude represented by the NSPS will take time and effort. It will also take a period of time before the effects and potential benefits of the NSPS can be fully assessed. However, we believe that the NSPS – if implemented with employee involvement and strong congressional oversight – has the potential to make a positive difference and to gain acceptance by the DOD civilian workforce. We are supported in this belief by evidence such as that provided in a January 2004 GAO report (GAO-04-83) based on an examination of “pay for performance” approaches at six established demonstration projects. Among GAO’s findings was that the pay-banded, pay-for-performance demonstration project started in 1980 at the Department of the Navy’s China Lake Naval Weapons Center was initially favored by only 29 percent of employees; by 1998, that number had grown to 71 percent. GAO concluded in its report that it “strongly supports the need to expand pay for performance in the federal government. How it is

done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful.”

Attempts at reform of the federal civil service and federal HR policies and practices are not new. Prior to the NSPS, perhaps the largest civil service reform effort in recent memory was the Civil Service Reform Act of 1978. The 1978 Act made some significant changes to the civil service, such as the creation of OPM and the Senior Executive Service and statutory recognition of labor-management relations. Congress also recognized in 1978 that the specific government-wide reforms being authorized were unlikely to be sufficient and they established a research and demonstration project authority to help guide future reform efforts. Over time, individual federal agencies have successfully made the case for HR reforms tailored to their needs (including federal financial agencies such as the FDIC and the SEC, as well as FAA, IRS, NASA, GAO and DHS). DOD is simply the latest and the largest.

The Partnership believes it is too soon to know what the ultimate effects or benefits of the NSPS will be. Many of the regulations proposed by DOD for implementation of the NSPS in the areas of pay and pay administration, performance management, staffing and employment, and workforce shaping have merit and, as importantly, a foundation in demonstration project experience. We also understand that the regulations have the potential for substantial impact to the workplace and that employees question the ability of some managers and supervisors to exercise their new authorities in a fair and unbiased manner. A specific focus on improving the skills of supervisors and managers in this regard could have a substantial benefit. For example, in our analysis of DOD’s civilian employee survey data for our 2005 *Best Places to Work* rankings, it was clear that “effective leadership” was the area most highly connected to overall employee satisfaction. GAO’s 2004 caveat about pay for performance in the federal government could easily apply to the overall implementation of the NSPS, i.e., “How it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful.”

Traditionally, employee interests and rights with respect to major workplace changes have been protected, in part, by the ability of employees to appeal adverse personnel actions to independent third parties for adjudication. The proposed regulations by DOD regarding changes to the employee appeals process have not been tested in a demonstration project setting, and may have the unintended consequence of making even highly-performing employees feel particularly exposed to unfair or biased treatment by supervisors or managers.

Another traditional safeguard for many federal employees in a time of workplace change is the ability to negotiate the impact and implementation of those changes via employee representatives if part of a union bargaining unit. We recognize that the changes proposed in the NSPS provide a special challenge in this regard. This is clearly an area in which additional congressional oversight would be beneficial.

Recommendations

In response to the current situation, the Partnership has the following five recommendations:

1. Congress should allow DOD to proceed with aspects of the NSPS that have already been tested through demonstration projects before reaching a final conclusion about the effects or benefits of the NSPS. Rigorous and ongoing oversight by the Congress, coupled with meaningful employee collaboration and involvement, will help to ensure that the implementation of the NSPS benefits both the mission of DOD and its employees.
2. The Subcommittee should review the process by which employees may appeal adverse personnel actions and consider a larger role for an adjudicatory body outside of, and independent from, DOD. One obvious approach would be to enlarge the role that the current regulations assign to the U.S. Merit Systems Protection Board. Of course, the forthcoming decision by the D.C. Circuit Court of Appeals will heavily influence DOD's posture in this regard.
3. The Subcommittee should review the proposed changes to labor-management relations in the Department to examine the concerns of bargaining unit employees regarding the ability of their union representatives to adequately safeguard their interest in (1) being treated in a fair and equitable manner, and (2) having a workplace in which they can be involved in decisions that affect them or their work. Once again, the forthcoming decision by the D.C. Circuit Court of Appeals will heavily influence DOD's posture in this regard.
4. The Subcommittee should arrange for an ongoing assessment of the NSPS by an outside evaluator as required by the demonstration project authority. This ongoing assessment should be based on established criteria and indicators that will provide the Congress with much-needed, objective insight into the impact of the NSPS on DOD's mission and employees.
5. To assist Congress in the exercise of its oversight responsibility and to respond to any concerns that the NSPS might actually detract from the ability of the Department to accomplish its mission, the Partnership recommends the development and use of a set of metrics for the specific purpose of evaluating the effectiveness of the NSPS over time. Such metrics will only be of value if the Congress, DOD and other key stakeholders agree on a common set of measures to inform future decision-making. The following principles should apply in this regard:
 - a. The key to effective oversight will be looking at the *right* measures, not the *most* measures.
 - b. Metrics should include qualitative as well as quantitative measures.
 - c. Metrics should not impose an undue collection and analysis burden on DOD.
 - d. Metrics should be used to inform decision-making and not simply to monitor compliance/non-compliance.

The Partnership has recently completed a thorough review of human capital metrics in federal, state and local governments, as well as the leading practices of top companies in the Partnership's *Private Sector Council (PSC)*, that serve as a useful guide to the Subcommittee in its oversight capacity.

Based on this research and mindful of the principles mentioned above, we recommend that the Subcommittee work with DOD to collect and analyze **metrics in seven areas**: *recruitment, retention, skills gaps, performance distinctions, performance culture, leadership and NSPS implementation.*

Recruiting

To assess whether they are winning the war for talent, leading organizations are collecting information about **new hire rates** – e.g., the ratio of new employees hired to the number of planned hires for critical skills – and **new hire quality** – e.g., monitoring Federal Human Capital Survey results about the skills of new hires.

Retention

To measure whether DOD is retaining high-performing employees with critical skills, we recommend that the Subcommittee look at the **attrition rates of high performers** compared to overall attrition and the **attrition rates of critical skill employees** compared to overall attrition.

Skills Gaps

If NSPS is achieving its goals, DOD should be closing the gap between the **actual numbers of employees with a critical skill compared to the number needed**. Ideally, the Subcommittee will monitor the results over time to assess whether the gap is decreasing.

Performance & Rewards

A modern compensation system should make meaningful distinctions between employees based on their performance. Members can evaluate whether managers are effectively using the NSPS by monitoring **employee evaluations** – e.g., the numbers of employees reaching the various levels of performance – and **employee bonuses and rewards** – e.g., the number of employees receiving various levels of pay and bonuses.

Performance Culture

We advocated for, and the final NSPS legislation included, a provision requiring an annual survey of employees across the federal government. The survey should prove to be an invaluable window into employees' views of their agencies' management practices.

The survey questions specified in recent regulations issued by OPM include several questions about supervision and pay that constitute a **Performance Culture Index** with items such as:

- Promotions in my work unit are based on merit.
- In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.
- In my work unit, differences in performance are recognized in a meaningful way.

The Subcommittee can compare the results of components participating in the NSPS spirals with the results of components operating under the non-NSPS system. DOD and the Subcommittee will want to monitor the results over time to track whether the “performance culture” is increasing.

Leadership

In any organization, and especially in the implementation of the NSPS, it is vital that supervisors and senior leaders treat employees fairly, resolve disputes in a reasonable manner, and have the respect of their employees. Members can evaluate leadership effectiveness by using another set of questions from the Federal Human Capital Survey. The Partnership has created an **Index for Effective Leadership**, which we use in our *Best Places to Work* rankings. This index includes items such as:

- I have a high level of respect for my organization’s senior leaders.
- Complaints, disputes or grievances are resolved fairly in my work unit.
- In my organization, leaders generate high levels of motivation and commitment in the workforce.

The Subcommittee can compare DOD’s scores on these questions to scores across government and the private sector.

NSPS Implementation – Pulse Surveys

Finally, it is important to examine real-time data on the success of the NSPS implementation. **Pulse surveys** are short surveys going to a small, representative sample of employees used to provide leaders with real-time information on critical issues. DOD could administer pulse surveys semi-annually to examine employee opinions on NSPS training/briefings, understanding of the new system, satisfaction with the NSPS, et cetera. This data will allow DOD to improve the rollout of the system based on employee feedback.

Conclusion

Mr. Chairman, Representative Davis, Members of the Subcommittee, we thank you again for the opportunity to share our views on the DOD’s National Security Personnel System and to offer our recommendations for the best way forward. We look forward to being of assistance to this Subcommittee and to the Congress as you consider the future of NSPS.