



FEDERAL HUMAN CAPITAL: THE PERFECT STORM

A SURVEY OF CHIEF HUMAN CAPITAL OFFICERS

JULY 2007



PARTNERSHIP FOR PUBLIC SERVICE

Grant Thornton 



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ABOUT THE PARTNERSHIP FOR PUBLIC SERVICE

The Partnership for Public Service is a nonpartisan, nonprofit organization that works to revitalize the federal government by inspiring a new generation to serve and by transforming the way government works. The Partnership:

- Raises awareness and helps improve public attitudes about government service
- Promotes government service through outreach to college campuses and jobseekers
- Provides hands-on assistance to federal agencies to improve their operations
- Advocates for needed legislative and regulatory reforms to strengthen the civil service
- Generates thought-provoking resources and strategies for workforce challenges facing the federal government

The Partnership was founded by Samuel J. Heyman and is incorporated as a 501(c)(3) nonprofit organization located in Washington, D.C. Visit the Partnership at www.ourpublicservice.org.

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EXECUTIVE SUMMARY

The 9/11 Commission wrote that “the quality of the people is more important than the quality of the wiring diagrams,” and it detailed how our government’s failure to put the right people in the right jobs contributed to major security lapses. The Government Accountability Office has put human capital management on its “high-risk” list of the most pressing challenges facing our government. Both Grant Thornton and the non-profit Partnership for Public Service have independently conducted research and surveys that identify human capital management as the *number one concern* facing federal managers. There is an overwhelming consensus that the quality of our federal workforce is vitally important to the effectiveness of our government, and our federal leaders have their work cut out for them as they try to build the civil service that the American people deserve and the times demand. For this report, Grant Thornton and the Partnership for Public Service talked to the people on the front lines — Chief Human Capital Officers (CHCOs) and other key federal HR officials — in the effort to tackle our government’s key workforce challenges.

Federal Chief Human Capital Officers work to ensure that agencies have the talent they need for the challenges ahead. The very establishment of the CHCO position, which the Partnership championed and Congress authorized in 2002, reflects the growing recognition that good government starts with good people. The views and experience of CHCOs can and should inform policy decisions to help build on recent progress in this area.

To that end, in early 2007, Grant Thornton and the Partnership for Public Service interviewed 55 key federal human resources officials from 28 major departments and agencies, plus more than a dozen small agencies. Responding to a series of discussion topics and closed-ended questions, participants were assured anonymity and encouraged to shape the content of the interview. The interviews focused not just on the government’s human capital challenges and needs but also the successes realized.

This report contains the results of that extensive series of interviews, which included most of the current CHCOs. While these leaders on the human capital front have some progress to report, they also highlight

a number of critical concerns and issues that need to be addressed. The report’s key findings include:

HUMAN CAPITAL IS INCREASINGLY FRONT AND CENTER

When asked to name their most important success, “leadership involvement,” meaning getting senior leadership to focus on human capital, was the most common answer. One-third of respondents said their agency heads took an active role in developing their agency’s strategic human capital plan. And only one in 10 respondents said they did not have the level of support they would like from their senior leadership. Respondents also reported that, for the most part, they had a seat at the senior management table.

MOMENTUM IS BUILDING TOWARD PAY SYSTEM CHANGES

While a consensus is yet to form on what a new government-wide pay and performance system should look like, the clear majority of CHCOs think the General Schedule (GS) pay system is no longer adequate. More than half of the respondents agreed that a more performance-sensitive and market-sensitive pay system should be a long-term goal. Several interviewees praised the results of pay-for-performance demonstration projects as examples of responsible ways to further strengthen the link between performance and compensation. One-third said we should scrap the GS system immediately. The issue appears to be less a question of if, than how. Most cautioned that the process to design and implement a new pay system should be slow and deliberate and that credible performance management systems and appraisals must come first. A number want to wait and see how the transitions to pay-for-performance at the Departments of Defense and Homeland Security play out before moving forward with any major changes for their agencies. In general, most concerns about performance-sensitive and market-based pay stem less from the policy itself and more from the fact that attempts to implement reforms at DoD, DHS and with Senior Executive Service pay have been controversial, creating reluctance among some CHCOs to fully embrace the idea.

PRESIDENT'S MANAGEMENT AGENDA IS HAVING AN IMPACT

For the most part, CHCOs credited the President's Management Agenda (PMA), a White House management improvement initiative begun in 2001, with focusing their agency heads on workforce issues and setting important milestones. But some respondents expressed concern that reaching quarterly PMA goals has become an end in itself, to the detriment of continued progress.

RECRUITING, HIRING AND RETAINING AN EFFECTIVE WORKFORCE IS STILL TOO DIFFICULT

Many interviewees said they have made substantial progress in reducing the amount of time it takes to hire employees and acknowledged the incentive value of OPM initiatives such as the 45-day hiring process model. However, they believe that additional hiring flexibility is needed. Several noted that current flexibilities often come with "strings attached," such as the need to obtain prior OPM approval that, in their opinion, requires an unnecessarily high burden of proof that the authority is needed. Another frequently noted limitation was that useful tools such as student loan repayments or retention bonuses often lack adequate funding. Two specific suggestions for improvement were repeatedly mentioned:

- Nearly all interviewees would appreciate greater *direct-hire authority*, allowing them to hire needed talent on the spot, especially at job fairs.
- A high percentage of respondents also feel that the authority to provide a *waiver of dual compensation restrictions* — a waiver to offset a federal retiree's annuity, if he or she comes back on the federal payroll — would be a valuable mechanism for keeping needed talent in the workplace. OPM recently submitted proposed legislation to Congress that would help in this regard.

THE HUMAN RESOURCES WORKFORCE IS IN NEED OF ATTENTION

Respondents discussed the need to revamp the competencies of the HR workforce. Currently, about 20,000 HR professionals serve the federal government, many with outdated skills. With increasingly automated, centralized, or out-sourced HR systems, federal agencies now need more HR staff members to serve as manage-

ment advisors and creative problem solvers and fewer for more traditional transaction processing work.

More than half of respondents also said their HR operations lacked sufficient funding, and many felt that HR operations could be improved even further by better harnessing technology or reengineering business processes. However, some of those same respondents noted that they lacked the funds to make the up-front investment in these changes, even though such changes may produce long-term savings.

MANY AGENCY MANAGERS LACK NEEDED WORKFORCE MANAGEMENT SKILLS

The vast majority of interviewees expressed concern about the state of management and leadership skills, both in the government as a whole and in the human resources community. They noted that technical skill is not equivalent to management skill. A number were particularly concerned about the ability of managers to operate effectively under changing HR systems, such as those affecting performance management. Respondents suggested that more training and leadership development programs, supplemented by rigorous assessment and selection systems for new managers, could help correct this imbalance.

PERFORMANCE MANAGEMENT IS IMPROVING

All agencies were required to establish a performance management system beta site (a test site for a portion of the agency that could eventually be expanded, if successful, and perhaps be more closely linked to pay). Most respondents reported positive results from their beta sites and are expanding them to other parts of the agency. In addition, agencies that used pass/fail evaluations of employee performance in the past have now transitioned to multi-level appraisals. This transition was seen as largely positive. Respondents reported that their agencies are doing a better job than before of linking individual employee performance plans to strategic agency goals and mission requirements.

CHANGES IN WORKFORCE DEMOGRAPHICS ARE CREATING STAFFING PRESSURES

Participants cited demographic changes as a top concern. CHCOs mentioned two situations in particular: the impending retirement wave and the "bi-modality" of the federal workforce (too many retirement eligible

senior managers and inexperienced new hires, with too few in the middle ranks) brought on by hiring freezes and reductions in force in the 1990s. Nearly all agreed that workforce planning — basing decisions on a desired set of skills rather than number of employees — is the key to meeting these challenges, and they placed significant emphasis on the need for effective succession planning to ensure that institutional knowledge is retained as workers retire.

OPM RECEIVES MIXED REVIEWS

The U.S. Office of Personnel Management has multiple responsibilities under the law. These include ensuring compliance with federal HR laws and regulations, aiding and advising the President on federal human capital issues, reporting to Congress on federal workforce matters, developing and implementing relevant administration programs and priorities, and maintaining centralized systems and records (e.g., employee retirement and health benefits programs). Given its multiple roles, it may not be surprising that two-thirds of the interviewees felt that OPM does not fully understand or appreciate their needs and resource limitations. For example, they cited the timelines for meeting new human capital reporting or system requirements as sometimes being too aggressive or seemingly arbitrary. A number of interviewees also expressed a desire to have OPM consult with them earlier on HR systems design and requirements. They also thought that much of OPM's oversight activities are based on assessments of how well their HR systems conform to OPM process requirements, rather than on the results their systems achieve. Several individuals suggested that OPM take more of a risk-based approach to oversight that would focus more on problem areas and less on across the board compliance activities.

On the positive side, a number of respondents did compliment current OPM leadership for being more inclusive and receptive to input from the federal HR community compared to prior leadership. There was also widespread praise for OPM's work with the performance management beta sites. Others made favorable note of OPM's more active role in efforts to improve the hiring process and in government-wide recruitment initiatives such as public service ads and career fairs.

VERDICT IS STILL OUT ON SHARED SERVICES AND THE HUMAN RESOURCES LINE OF BUSINESS

Some interviewees saw a benefit to a shared service model where one bureau, agency, or contractor provides HR services for a number of federal "clients." The Human Resources Line of Business (HRLOB), one of several White House initiatives to consolidate back office functions at government-wide Shared Service Centers (SSCs), is a shared service model — but respondents felt that it is too early to judge whether the HRLOB can work on such a large scale. Individual responses were fairly mixed on whether the various organizations planned to use an external Shared Service Center in the next three years. Several individuals expressed a "wait and see" attitude regarding the extent to which they may participate in the HRLOB.

INTRODUCTION

In 1789, the United States government consisted of three cabinet agencies: the State Department, the Department of the Treasury and the Department of War. By 1836, there were five agencies, and the entire civilian federal workforce was 336 employees.

Today, with nearly 1.9 million civilian employees (not including the Postal Service) the federal government is the nation’s largest employer. Approximately sixty percent of all federal workers are classified as professional or administrative (e.g., physicists, economists, actuaries, doctors, budget analysts, human resource specialists). Eighty-six percent work outside the Washington, D.C. area. More than half of federal employees are union members.

For more than a decade, Grant Thornton has partnered with nonprofit organizations to conduct similar surveys of government leaders in financial management, information technology and procurement. The common thread across the surveys is a concern about human capital. In fact, in surveys conducted over the past year, human capital was the *number one concern* of federal Chief Financial Officers, Chief Information Officers and procurement officials.

Where will the next generation of leaders come from? How does the human resources workforce fully transition from its focus on transaction processing to strategic

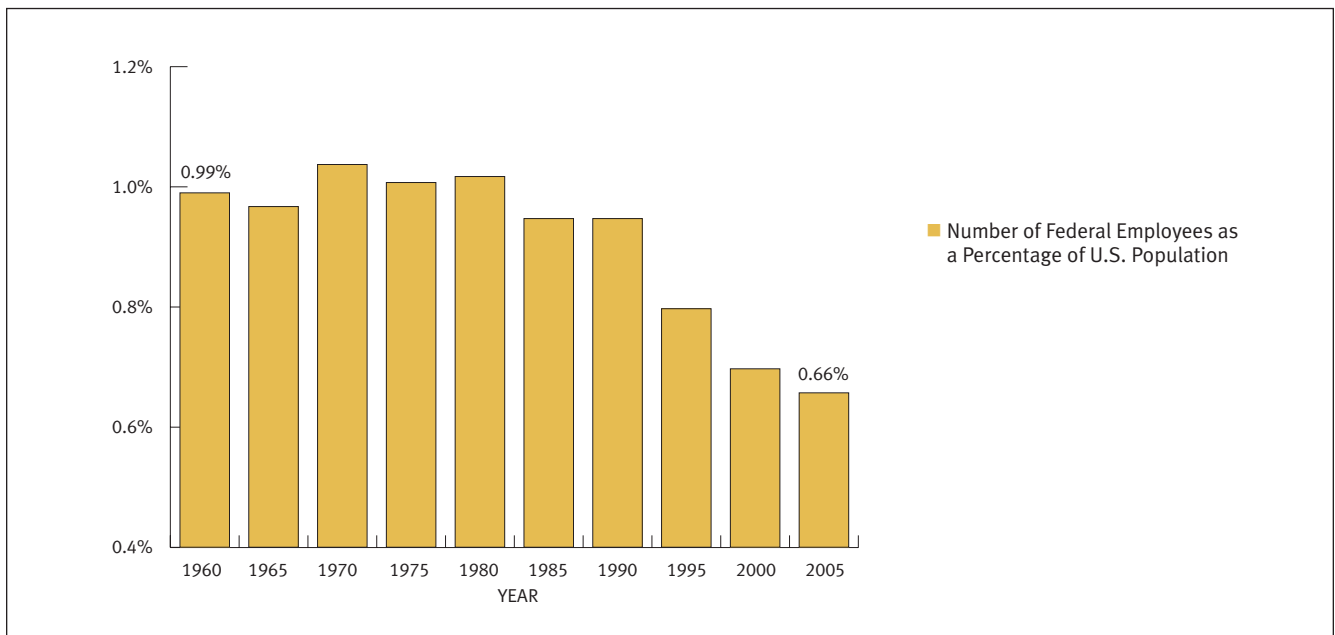
human capital management? Is the federal government doing enough to recruit, develop, motivate and retain a talented workforce? For human resources professionals, the challenge is two-fold: as they seek to enhance the effectiveness of the agencies they serve — indeed the government as a whole — they must also address the same issues within their own staffs.

GENERAL ENVIRONMENT

Until 1883, federal government jobs were awarded and held at the pleasure of the President, who rewarded political supporters with government positions. This was commonly known as the “spoils” system. All that changed when a disgruntled office seeker shot President James Garfield and the resulting reform, the Civil Service Act of 1883, ushered in the era of a merit-based civil service system — awarding jobs on the basis of merit rather than patronage.

The current structure of federal employment has been in place since passage of the Classification Act of 1923, which divided government jobs into five distinct services: professional and scientific; sub-professional; clerical, administrative, and fiscal; custodial; and clerical-mechanical (covering only jobs in the Bureau of Engraving). That law was amended by the Classification

FIGURE I: WORKFORCE DEMOGRAPHICS, U.S. POPULATION VS. FED. POPULATION 1960-2006



Source: U.S. Population data: U.S. Census (<http://www.census.gov>), Federal Data: BLS (<http://data.bls.gov> — data run for federal nonpostal employees)

Act of 1949, which consolidated the first three of these services into the General Schedule, with 18-grade levels. The top three grade levels became the Senior Executive Service in 1978; beyond that change, the GS system, as it is called, is still in use today.

As the population grew and the economy changed, Congress enacted additional civil service reforms. The most significant was the Civil Service Reform Act of 1978, which abolished the Civil Service Commission, created in 1883, and established the U.S. Office of Personnel Management (OPM) and the aforementioned Senior Executive Service. Over the years, Congress has also passed agency-specific legislation allowing agencies to operate under HR rules and regulations different from those most other agencies must follow as set forth in Title 5 of the U.S. Code. The Postal Service, the National Aeronautics and Space Administration, the Securities and Exchange Commission, the Federal Aviation Administration and a growing number of other federal agencies or agency subcomponents now have HR systems with flexibilities not available to other agencies. The departments of Defense and Homeland Security, which together employ more than 45 percent of all federal civilian employees, were the most recent to be granted exemption from parts of Title 5.¹

HISTORY OF THE CHIEF HUMAN CAPITAL OFFICER

The Partnership for Public Service championed the concept of a Chief Human Capital Officer in 2002. The Partnership, along with others, believed that human capital issues were critical to the overall success of each federal organization's mission. Every major department and agency had a Chief Information Officer, Chief Financial Officer and Chief Acquisition Officer, but no official of comparable status focused on agency workforce issues. The title, Chief *Human Capital* Officer (CHCO), emphasized that the federal workforce is an asset worthy of significant investment. CHCOs would have a status equivalent to those officials responsible for agency IT, budget and acquisition. They would also have a seat at the management table.

Title XIII of the Homeland Security Act of 2002 established the CHCO position for major departments and agencies to assist agency officials in developing a high-quality, productive workforce. The Act also established

¹ The federal workforce is further divided into the Competitive Service, which is under the jurisdiction of OPM and subject to Title 5, and the Excepted Service, which is under the jurisdiction of the employing agency. The majority of civil service appointments are made under the Competitive Service, but certain categories in the Foreign Service, the FBI, and other national security and legal positions are made under the Excepted Service.

a CHCO Council to advise the HR community on systems issues, best practices and policy. The Director of the Office of Personnel Management acts as chairperson of the CHCO Council, and the Deputy Director for Management of the Office of Management and Budget acts as the Council's vice chairperson.

The CHCOs and their colleagues interviewed for this survey shared their key successes, important challenges and desires for the future.

CHCO RESPONSIBILITIES

- Set the agency's workforce development strategy
- Assess workforce characteristics and future needs
- Align the agency's human resources policies and programs with organization mission, strategic goals and performance outcomes
- Develop a culture of continuous learning to attract and retain employees with superior abilities
- Identify best practices and benchmarking studies
- Apply methods for measuring intellectual capital and identify links to organizational performance and growth

SURVEY METHODOLOGY

The Partnership for Public Service, together with Grant Thornton LLP, surveyed federal government Chief Human Capital Officers (CHCOs), Deputy Chief Human Capital Officers and other key human resources advisors. The goal was to learn first-hand from these practitioners about critical issues in federal human capital management. From February to May 2007, Grant Thornton and the Partnership for Public Service interviewed 55 officials from 28 major departments and more than a dozen small agencies. They guaranteed the anonymity of our survey participants and so do not attribute quotations or other responses to specific people. Any analysis or interpretation solely reflects the views of Grant Thornton and the Partnership for Public Service.

Grant Thornton and the Partnership for Public Service offered survey participants seven open-ended discussion topics and five closed-ended questions on critical human capital issues. The goal was to allow the CHCOs themselves to shape the discussion. They asked CHCOs to identify key issues and to tell them what is working and what needs to change. This report summarizes and analyzes the CHCOs' responses.

2007 CHCO SURVEY FINDINGS

LEADERSHIP MATTERS

GOVERNMENT-WIDE LEADERSHIP

In general, respondents felt that strategic human capital issues are now getting the attention they deserve. Figure 2 shows that survey respondents feel that they are valued for their advisory skills and not just their ability to transact the daily business of human resources management (HR).

When asked to name their key successes, the most common answer from the CHCOs was “leadership involvement,” with “leadership” referring to everything from the highest level of the executive branch to other “Chiefs” (Chief Financial Officers, Chief Information Officers and Chief Acquisition Officers) within their own agencies. Driving any type of strategic change requires top-down leadership, with effective, ongoing communication among employees, unions, outside stakeholders and management — yet this has not always been the case in federal HR. The CHCOs report, however, that they are moving in the right direction in this regard.

PRESIDENT’S MANAGEMENT AGENDA: HELP OR HINDRANCE?

CHCOs cited one initiative in particular as instrumental in focusing agency heads on human capital issues: the President’s Management Agenda (PMA), launched by the White House in 2001 and designed to make measurable progress in several areas, including the strategic

management of human capital. Using a red, yellow and green traffic-light scorecard, agencies are evaluated quarterly on their progress toward meeting specific milestones.

OPM is the lead agency for the PMA’s strategic management of human capital initiative. To help agencies meet various requirements (including PMA goals as well as statutory and regulatory mandates), OPM issued the Human Capital Assessment and Accountability Framework (HCAAF) in conjunction with the Office of Management and Budget (OMB). HCAAF is a roadmap for human capital best practices, focusing on:

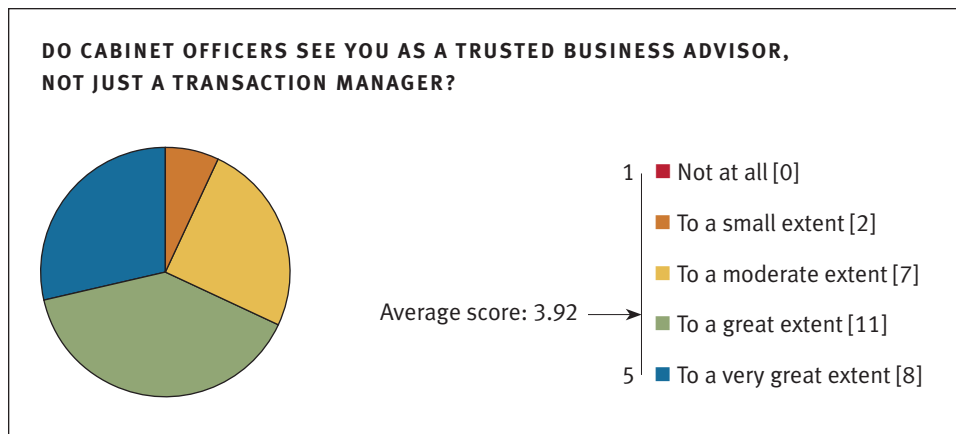
- Leadership and knowledge management
- Results-oriented performance culture
- Talent measurement

While specific quarterly requirements for “getting to green” on the PMA are designed to be moving targets to encourage constant improvement, they are based on the underlying principles laid out in HCAAF.

Although most respondents described the PMA as a valuable tool for keeping agencies focused on human capital issues, several said that sometimes “getting to green” (satisfying quarterly requirements) was more about process than real results. Still, about a fifth of the interviewees cited their “green” status as a key achievement. Nearly a third agreed that the PMA encouraged agency leadership to pay more attention to human capital issues. One CHCO said, “Our Secretary takes the PMA very seriously.” Another stated, “The PMA actually made things happen in the human capital area that would not have happened otherwise.”

The PMA was cited as both a source of pride and consternation — sometimes by the same respondent. While the many goals of the strategic human capital portion of the PMA were seen as worthwhile and laudable, the timeframes and the sheer number of goals were referred to as unrealistic, arbitrary, unworkable or unsustainable.

FIGURE 2: CLOSED-ENDED QUESTION #1



One interviewee put it this way: “It would be heart-breaking if all these reforms were written in sand simply because we tried to implement them too quickly.”

ORIGINAL PMA STRATEGIC HUMAN CAPITAL MANAGEMENT GOALS

- Align human capital strategies with mission goals
- Plan and deploy the workforce to create a citizen-centered and mission-focused organization
- Ensure continuity of effective leadership that sustains a learning environment
- Develop a results-oriented performance culture that rewards those who achieve desired results and corrects performance deficiencies
- Close mission-critical competency gaps by successfully competing for talent
- Develop an accountability system to ensure that human capital management is merit-based, effective, efficient, and supportive of mission accomplishment

One-third saw the PMA as nothing more than a paperwork exercise that kept them from other work. “We have to use two people full time just to keep up with the PMA. Frankly, the PMA asks us to do things that take time away from the job mission. Some of the requests are archaic or unrealistic and could require us to take steps backward,” one respondent lamented. “We’re so busy checking off boxes that we don’t have time for real reform,” said another.

One CHCO cautioned, “The risk of being ‘green’ is that leadership may say that function is OK and put resources elsewhere.”

THE ROLE OF THE OFFICE OF PERSONNEL MANAGEMENT

The U.S. Office of Personnel Management (OPM) serves as the President’s advisor on federal human capital issues and is the central human resources management agency for the executive branch. OPM develops civil service regulations consistent with the laws passed by Congress and is responsible for ensuring compliance with those laws and regulations. It also delegates to the other executive branch agencies the authority to operate various HR functions, including the authority to com-

petitively examine and hire employees. While OPM has an oversight role with the other executive departments and agencies, it also provides advice and assistance to those organizations. OPM conducts (or oversees) background investigations for security clearances; runs the federal employees health benefits and life insurance programs; operates the federal retirement programs; and issues guidance or provides assistance on a wide range of HR matters from recruitment to employee relations issues. OPM also designs government-wide human capital strategies and collects required data from each agency. While OPM provides a central clearinghouse for human capital practices, many specific HR responsibilities (hiring employees, for example) are delegated to each agency.

How well OPM carries out its myriad responsibilities was not a focus of our interviews, but in the course of our conversations, there was general acknowledgement that OPM did many things well. However, two-thirds of respondents felt that OPM staff members do not fully understand or appreciate the particular HR needs or other limitations of their agency. For example, a number reported that tight timelines for meeting some government-wide mandates too often appear arbitrary. Several noted that they would like to have more consultation with OPM before it launches new initiatives. “We don’t like to hear that things are on the drawing board then suddenly see them in front of us,” one interviewee said.

Generally, interviewees said they are not always clear about exactly what is expected of them. They also said that procedural requirements sometimes seem unrelated to the desired end result. Effective two-way communication with OPM staff is sometimes hard to achieve, respondents said. “Sometimes, we’re not even sure whom to call,” according to one CHCO. They also shared a perception that OPM occasionally seems to react to the metric of the week or makes them jump through hoops to get things done in a certain timeframe. One interviewee said, “We need to maintain a posture of *Semper Gumby* — always be flexible.”

Several participants would like to see OPM take a risk-based approach to oversight — spending more time helping struggling agencies instead of focusing on agencies that have demonstrated some level of success. One CHCO said, “It seems peculiar that OPM spends as much time watching over agencies with a ‘green’ score as they do an agency with a ‘red.’ There seems to be no risk-based formula.”

THE ROLE OF THE CHIEF HUMAN CAPITAL OFFICERS COUNCIL

The law creating the CHCO position also established the CHCO Council, an advisory body for the HR community. “I like the rise of the CHCO Council,” said one respondent. “It’s almost on par with the [Chief Financial Officers] Council.” However, several interviewees would like to see the Council take on a greater role in communicating with Congress and external stakeholders. The functions assigned by law to the CHCO Council call for it to “meet periodically to advise and coordinate the activities of the agencies of its members on such matters as modernization of human resources systems, improved quality of human resources information, and legislation affecting human resources operations and organization.”

In its first few years, attendance at Council meetings was restricted to CHCOs only. Several respondents felt that this approach was not the most effective, and they praised the recent decision by current OPM Director Linda Springer to include deputies in meetings and to designate working subcommittees for key issues. Several respondents also complimented the current Executive Director of the Council for his efforts to reach out to the Council members and for being responsive to their inquiries or requests. Generally, interviewees hoped that the inclusion of deputies, who are typically career civil servants as opposed to political appointees, would create continuity and that a subcommittee structure (which is now established) would help to develop and share best practices. “We need fewer dog-and-pony shows and more dialogue — more sharing of technical assistance among CHCOs,” one said of the Council.

FEDERAL HUMAN CAPITAL SURVEY AND THE ANNUAL EMPLOYEE SURVEY

The Federal Human Capital Survey (FHCS), first conducted at the initiative of OPM in 2002, measures “employees’ perception of whether ... conditions characterizing successful organizations are present in their agencies.” OPM repeated the survey in 2004 and 2006. The Partnership for Public Service uses the results for its *Best Places to Work in the Federal Government* rankings, released every two years — most recently in April 2007. The Federal Human Capital Survey:

- Provides general indicators of the effectiveness of human resources management systems

- Serves as a tool for OPM to assess agencies’ progress toward “green” on strategic management of human capital under the PMA
- Gives senior managers critical information to answer the question: What can I do to improve employee engagement and help my agency perform better?

While the FHCS was a voluntary effort by OPM, Section 1128 of the National Defense Authorization for Fiscal Year 2004 created a statutory requirement for an annual employee survey that would be conducted each year for every executive branch entity. The annual survey requirement also mandates that a core set of common questions developed by OPM be part of each agency’s survey and that the survey results be posted on each agency’s official Web site. Currently, OPM plans to continue conducting the FHCS every two years, with the next one scheduled for 2008. They will include the core questions in their survey, thus satisfying the annual requirement. In 2007 and every odd year thereafter, each agency will be responsible for conducting its own survey. One respondent suggested that conducting a survey every year did not provide enough time to analyze and implement changes. “It would be one thing if there wasn’t a cost to conducting the surveys, but there is,” the interviewee said. However, one CHCO cited increased survey participation as a key success, and several respondents said that the surveys have given them valuable information. A number of agencies have developed plans for making constructive use of the survey results. A few others have enough responses to their survey to allow them to drill down to the work unit level, using the survey results to identify needed changes at that level.

HUMAN RESOURCES LINE OF BUSINESS AND SHARED SERVICES

OMB’s Lines of Business initiative aims to consolidate back-office functions, including financial management, budget formulation, human resources management and others at Shared Service Centers (SSCs)². According to survey respondents, this shared service model, in which one agency provides a service for many others, holds promise — especially with limited HR workforce resources. Currently, agencies can choose from among

² Early in 2007, OPM said it would also allow private sector SSCs to enter the HR LOB market by developing solutions that meet specific requirements. Those services would then be available to federal agencies through a schedule (a pre-negotiated list of available contracts) administered by the General Services Administration. When discussing the HR LOB in this survey, most respondents focused on government-run SSCs.

five SSCs under the Human Resources Line of Business (HRLOB):

- Department of Agriculture’s National Finance Center
- Department of Defense’s Civilian Personnel Management Service
- Department of Health and Human Services’ Program Support Center
- Department of the Interior’s National Business Center
- Department of the Treasury’s HR Connect (partnered with the Bureau of the Public Debt)

The concept behind shared services — creating economies of skill and scale — is popular among CHCOs. Nearly all agencies use an SSC for payroll functions, and many agencies use an in-house approach, in which one bureau provides HR services for others within the same department. The logistical aspects of moving to a government-wide SSC, however, are keeping many CHCOs from embracing the HRLOB fully, especially at larger departments. Their concerns include uncertainty about how to structure agreements between agencies, who will pay the costs of transitioning out if the SSC does not provide the right service and how to define appropriate metrics.

A number of respondents are not making a decision on moving to an SSC until they see demonstrated success from a large department. “I’d like to see how it works for someone our size,” remarked one respondent from an agency with multiple components. Figure 3 depicts the likelihood of agencies moving to an SSC by 2010.

Several CHCOs were concerned that moving to an SSC would result in a loss of control over HR functions, and a few actually had a bad experience with shared services.

One participant said, “We have lost out when there is centralization and consolidation. The automation that might come from the LOB can dehumanize the HR function.”

Forty percent of interviewees thought the HRLOB needed clearer guidelines and metrics. “The concept is sound. The problem is: how do we get there? How do we not lose functionality?” said an interviewee. Several CHCOs want to help shape the debate, and they were concerned that OMB and OPM were not consulting them or involving other stakeholders.

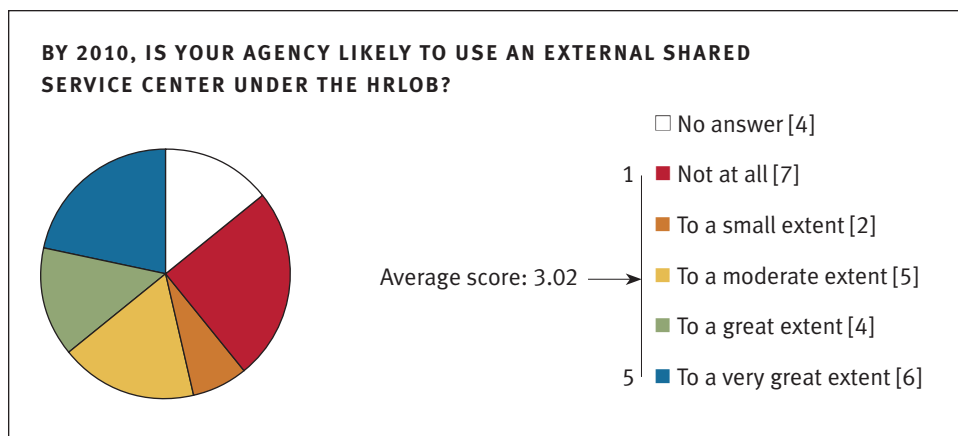
LEADERSHIP AT THE AGENCY AND DEPARTMENT LEVEL

As one CHCO said, “There is an HR component to everything you do.” Just as government-wide leadership is important to CHCOs, leadership at the agency level is equally critical. Two-thirds of interviewees cited the development of a strategic human capital plan as a key achievement, and half of those said their agency head was integral to that process. One said that while his agency head was only paying lip service to human capital issues, this was better than no mention at all. Only one-tenth of respondents said they did not yet have the support of their agency leadership. A few cited “constant changes at the top” as troubling.

One of the biggest challenges for CHCOs was driving change down through middle management — something they noted cannot be done without top-level attention.

Management structure and the set of responsibilities assigned to the CHCO (beyond those required by law) vary from agency to agency, and one idea that seemed popular with a few interviewees was combining several statutory responsibilities (e.g., those of the CFO, CIO, CAO and CHCO) into one position. Several agencies already have a CHCO who also functions in one or more of the other positions. The concept encouraged the integration of management functions to streamline operations, they said. As one CHCO put it, “when you have all these offices — a CFO, a CIO and a CAO with their own staffs, the bureaucracy works its magic.” One participant,

FIGURE 3: CLOSED-ENDED QUESTION #5



however, thought it was important that a CHCO not be distracted by other responsibilities. Another participant noted that where the CHCO wore other hats, such as also being the CFO, the role of the deputy CHCO became particularly important for keeping a focus on the human capital policies, programs and practices.

LEADERSHIP COUNCILS

A number of CHCOs pointed to the formation of “leadership councils” within their organizations. These groups are either HR-specific, with HR professionals forming communities of practice, or cross-cutting, consisting of other “Chiefs” in the management structure. Whatever their makeup, the most successful groups meet regularly to discuss human capital issues in the context of an agency’s mission or in conjunction with activities such as financial management or procurement. Collaboration leads to better decision-making and more effective policies, respondents said.

“Getting buy-in is one of the most important things you can do, both from our peers [CFOs, CIOs, program managers] and from employees,” said one CHCO who used a leadership council to vet ideas and develop policy.

THE IMPORTANCE OF COMMUNICATION AND COLLABORATION

Several CHCOs said that effective two-way communication is critical and that a collaborative approach facilitates decision making and helps to drive change. A quarter of interviewees mentioned working well with unions as a key success — an important concern to any sector as highly unionized as the federal government. Keeping an open dialogue is a key component, they said. One interviewee discussed the success of a “listening month,” when managers were directed by the secretary of one department to spend time listening to the concerns of employees and then feed the information up the chain of command. This effort helped drive change through the organization and brought important issues to the attention of agency leaders, the survey participant noted.

GROOMING LEADERS

A key concern for the vast majority of interviewees was the state of management and leadership skills across the federal workforce. “One of the weaknesses in the federal personnel system is that we don’t look for leadership potential early enough in a person’s career. Instead, we focus on technical success. But, if we fire people, it’s usually not for lack of technical expertise — it is lack of management skills,” one respondent observed.

Several mentioned a need for better training and more flexibility to create separate or “dual” career tracks for “the GS-13 to GS-15 who is technically proficient, but not necessarily a good leader.”

A few CHCOs pointed to successful leadership development programs created within their agency. The primary goal of these programs is to identify employees who exhibit leadership skills early and then offer them continuous training at various career stages — from new managers to senior executives.

Several interviewees said it is important for managers to understand the full scope of an agency’s mission, and they suggested providing rotating joint duty assignments to create a well-rounded cadre of leaders. One agency is developing a database, which will be managed by a career senior executive, to match rotational opportunities with interested candidates. This agency’s survey participant stressed that such a program must be supported by an agency’s top leadership so that assignments are not seen as punitive or arbitrary.

OPM recently developed the Federal Competency Assessment Tool — Management (FCAT-M), a Web-based application that helps agencies assess management skills, yet only a handful of interviewees mentioned this tool. When asked how technology could help train managers, one interviewee responded, “The reality is that managers value a high-touch approach, so if high-tech means less high-touch, they may not like it.” The most effective programs were reported to be those that involved interactive training and mentoring with “360-degree feedback.”

PERFORMANCE MANAGEMENT

The idea of pay as a management function, not just an administrative function, was espoused in the Civil Service Reform Act of 1978, which laid the groundwork for a more performance-sensitive pay system. The Act authorized demonstration projects for agencies to build alternative pay systems. A number of these systems use a form of pay-for-performance that combines several GS pay grades into a smaller number of pay bands and ties movement through the bands more closely to performance rather than time on the job.

While more than half of the respondents agreed that pay-for-performance should be a long term goal, they believe it will require small, measured steps to get there and that credible performance management systems and appraisals must come first. All are watching how systems at the Defense and Homeland Security Departments begin to take shape after a series of legal challenges from federal employee unions over labor relations issues and what appears to be growing opposition in Congress.

Despite these delays, there are signs of progress with performance management. The last Federal Human Capital Survey reflected a slight increase in the percentage of employees agreeing with such statements as “in my work unit, steps are being taken to deal with a poor performer who cannot or will not improve” and “differences in performance are recognized in a meaningful way.”

EARLY TESTS FOR PERFORMANCE MANAGEMENT BETA SITES

Last summer, to receive a “green” score on the PMA every agency was required to set up a “beta site” of employees to test new performance accountability systems that could eventually be spread to all employees and linked to pay. Systems were evaluated using OPM’s Performance Appraisal Assessment Tool (PAAT) and audited for compliance with OPM standards.

When asked about the experience, every CHCO said that it was relatively positive and that they will be expanding the beta site. One CHCO said, “This is one place where I have to give kudos to OPM. The instructions were clear, and our auditor actually worked with us along the way. It was an educational experience.”

Nearly all agencies that used a pass/fail appraisal system have transitioned to a multi-tiered system. (As a few CHCOs noted, OPM made clear that agencies could not get to “green” on the PMA with a pass/fail system.)

The goal of a multi-tiered system is to create meaningful distinctions based on levels of relative performance.

CHCOs now face the challenge of ensuring the fairness, transparency and credibility of those systems. One respondent said, “There is a real fear of quotas or the possibility of politics driving decisions. That’s something that only time will change. The more transparency we have and the more employees are involved in the process, the better it will be.” That point was reiterated by another CHCO, who said, “While people may want to fix the performance appraisal system, what really needs to change is the culture.”

SOFT SKILLS

An important part of creating an effective performance culture is strengthening the communication skills of managers, nearly all respondents said. One survey participant stressed, “We need to differentiate between leadership skills and actual day-to-day management skills.” Communication becomes especially important with the move toward multi-tiered appraisals, which require more specific and meaningful feedback than simple pass/fail evaluations.

“Writing an effective performance review is not intuitive,” said one CHCO. “Often *how* you communicate — and how often — is more important than *what* you communicate. No employee should ever be surprised by a performance review, yet we’ve seen that happen.” Many CHCOs said that sensitivity to employee needs and effective communication — so-called soft skills — are difficult to teach, especially for technical professionals.

LINKING INDIVIDUAL PERFORMANCE TO AGENCY GOALS

Employees need to feel connected to the mission of their agencies, respondents said. One used the hypothetical example of asking a janitor at NASA what he does. “If he says, ‘I put people on the moon,’ then you’re doing the right thing,” the CHCO said.

Linking employee performance to his or her agency’s strategic plan is an important way to achieve that objective. One of the key milestones for a “green” score on the PMA is a human capital plan that ties in with an agency’s strategic plan under the Government Performance and Results Act. From there, the challenge is taking the next step and aligning personal performance goals with the goals of the agency. By and large, agen-

FIGURE 4: CLOSED-ENDED QUESTION #3



cies have had success, according to survey respondents. Said one CHCO, “You can go up to anyone in my agency and ask them which strategic goal they are supporting, and they will know.” Figure 4 shows the extent to which respondents felt their agencies were able to link individual performance with agency goals.

PAY-FOR-PERFORMANCE DEMONSTRATION PROJECTS AND PAY BANDING

Every agency can petition OPM for authority to place up to 5,000 employees in a pay-for-performance demonstration project, and OPM can grant up to 10 projects at any one time. A number of these efforts have been successful. In fact, 44 percent of participants mentioned knowledge of a successful pay-for-performance demonstration project or pilot program. According to one CHCO, “We’ve actually seen the performance level rise at those bureaus. Employees are more certain of what is expected of them. We’ve found it to be a great retention and recruiting tool.” Others noted that under pay-for-performance systems, poor performers are more likely to voluntarily leave the organization.

Many of the demonstration projects use “pay-banding,” with the GS grade levels divided into a smaller number of broad bands. Managers have greater authority and flexibility to set pay for individuals within their band. “Agencies with pay banding are better able to attract employees,” said one survey participant.

The performance-based pay system established by Congress in 2003 for the Senior Executive Service (SES) received mixed reviews from interviewees — particularly because timelines were too aggressive and CHCOs said they didn’t get clear or consistent guidance from OPM. One felt that “SES performance pay was shoved down our throats without any guidance.” Several interviewees

complained that they still did not know exactly how to get their SES performance-based pay system certified by OPM.

Several respondents feared that legal and legislative setbacks with the National Security Personnel System at the Department of Defense and the pay system authorized for the Department of Homeland Security would

stifle enthusiasm for the eventual move to a government-wide pay-for-performance system. “Congress needs to understand the General Schedule is not working. Maybe we need to take baby steps — but we can’t just go backwards,” said one CHCO.

IS IT TIME TO REFORM THE GENERAL SCHEDULE?

According to a March 2007 study by the Congressional Budget Office, *Characteristics and Pay of Federal Civilian Employees*, the General Schedule determines the pay of 80 percent of full-time salaried federal workers. Our survey indicated a growing discontent with the ability of the GS system to serve a 21st century workforce.

When we asked CHCOs what laws or regulations they would change, they spoke of a need, to varying degrees, to overhaul the General Schedule. A third of the participants advocated drastic change: “Get rid of the General Schedule. It’s antiquated, and it no longer serves its purpose. We need market-based pay.” The majority discussed the need for small, measured steps toward a more flexible and contemporary pay system.

There were several caveats. Similar to concerns about aggressive timelines with the PMA, many CHCOs stressed the importance of timing and the involvement of stakeholders in the process. Another concern was the damage that piecemeal solutions could do to the effort as a whole. One CHCO said, “We don’t need any more special pays or special this or that. What we need is more simplicity.”

Another said, “We need to rethink the system from a holistic point of view. We need to make small, incremental improvements in order to drive progress.”

WORKFORCE PLANNING

During the 1990s, the federal workforce shrank by more than 300,000 full-time employees, primarily through attrition and hiring freezes. The result is what one CHCO referred to as “demographic bi-modality,” too many retirement-eligible senior managers and inexperienced new hires with a “trough” in the middle. The gap in skills will become increasingly evident as those managers retire.

This situation shows the danger of focusing only on body count, as one respondent put it, and not on skills. All agreed that the federal government needs a framework for making staffing decisions based on a desired set of competencies — a process known as workforce planning.

Strategic workforce planning is one of the underlying goals of the human capital section of the PMA, and CHCOs agree that this is their core mission: planning for future needs by attracting, hiring and keeping talented individuals at all levels. “At the end of the day, if you haven’t changed the skills of your workforce, you haven’t done anything,” one respondent said.

SUCCESSION PLANNING AND KNOWLEDGE TRANSFER

Most CHCOs cited succession planning and knowledge transfer — keeping the right mission-critical skill set in the face of smaller budgets and retirements — as a ma-

ior concern. “With tight budgets and the potential to see a large percentage of our long-term employees retire, we are faced with a need to balance skills, to manage knowledge transfer and to assure that we have a strong pool of candidates to succeed those who are leaving the organization,” said one survey respondent.

Succession planning establishes a process to recruit candidates, hire employees, develop their abilities and prepare them for advancement — all while retaining them to ensure a return on training investment. It involves:

- Understanding long-term goals and objectives
- Identifying developmental needs
- Determining workforce trends and predictions

In the past, succession planning focused on key leadership positions, but it has become increasingly important to include other positions in order to transfer institutional knowledge — the unwritten rules that can only be learned through on-the-job training.

RECRUITING

Several CHCOs concentrate more on recruiting new employees than worrying about retirees. As one CHCO put it, “My idea is to watch the faucet — not the drain.”

In terms of recruiting, a few CHCOs think the federal workforce needs a facelift. “When I was coming

THE RETIREMENT “WAVE”

The Office of Personnel Management (OPM) projects that more than 550,000 federal employees — almost one-third of the entire full-time permanent workforce — will leave the government in the next five years, the majority through retirement. OPM further projects that by 2016, nearly 40 percent of all current federal employees will retire.

While some disagree that there will be an actual wave (or “tsunami,” as OPM Director Linda Springer put it), most CHCOs mentioned impending retirements as a top concern. In fact, one said, “We ARE having a retirement wave — at least at my agency. I read a story recently that said we weren’t, but that’s not what I see.”

“Sometimes I feel like I have to lock the doors and windows,” said another respondent.

RETIREMENT PROJECTIONS FOR FULL-TIME PERMANENT FEDERAL EMPLOYEES ON-BOARD AS OF 10/01/06 CUMULATIVE PERCENTAGES

YEAR	NON-SUPERVISOR	SUPERVISOR	TOTAL
2007	3.6%	5.5%	3.9%
2008	7.3%	11.0%	7.8%
2009	11.0%	16.5%	11.7%
2010	14.8%	21.8%	15.7%
2011	18.4%	27.0%	19.5%
2012	22.1%	32.0%	23.3%
2013	25.6%	36.8%	27.0%
2014	29.0%	41.3%	30.5%
2015	32.3%	45.6%	34.0%
2016	35.5%	49.6%	37.3%

into the workforce, getting a government job was a good thing. The perception now is that's not the case anymore. We need to better understand what it is that attracts younger workers and then put those things in place," said one survey respondent. Several CHCOs voiced concern about attracting a younger generation of workers. One said, "We need to be able to offer what they feel is important — maybe it's a better work-life balance. We need to be more creative in the benefits we offer, like telework, flex time. I do sense a different attitude toward work — a healthier attitude." Many respondents said they need to look beyond the typical, fresh-out-of-college candidate and also seek mid-career professionals to replenish management ranks.

OPM's Career Patterns initiative, released in June 2006, provides a framework to help agencies target recruiting to potential types of employees — from young college graduates to private sector retirees. The guide provides an analytical tool to assess the attributes of certain positions (timing within a career, mobility, workplace flexibility, permanence and mission focus) and match them with potential recruits.

HIRING

Attracting workers is one thing, actually hiring them is another. Nearly every CHCO interviewed wanted direct-hire authority (i.e., the ability to make offers of immediate employment to qualified candidates) for at least some jobs. Many said they would love to hire on-the-spot, especially at job fairs. OPM can and does currently grant direct-hire authority when it has evidence of a severe shortage of candidates or a critical hiring need exists on a government-wide basis. However, a number of interviewees expressed a desire to be delegated the authority to make that determination. As one respondent noted, "Why should we wait until we fail [to find a qualified applicant] before we fix a problem we predicted?" Several respondents also acknowledged that it is important to ensure compliance with veterans preference rules and to seek diversity in the workforce, but asked to be held accountable based on results rather than simple adherence to procedural requirements.

The time it takes to hire someone for a federal job has been a concern for years. OPM responded to long-running complaints by revamping its USAJOBS Web site, sponsoring job fairs and developing an online Hiring Toolkit in collaboration with the Partnership for Public Service. Reducing hiring time is a key PMA metric, and OPM established a 45-day hiring process model to help agencies achieve it. These initiatives have had some im-

pact, according to respondents. In fact, several CHCOs pointed to significant reductions — from 170 days to 31 days, for example, at one department.

For others, hiring is still a problem. "We just put the job announcement on USAJOBS and forget about it," one interviewee said, suggesting that timely, quality hires are not a management priority in that agency.

INTERNSHIP PROGRAMS

Over the years, as it became clear that certain occupations needed an influx of new workers, OPM designed internship programs to recruit targeted individuals, test their abilities through internships and then hire successful candidates on an expedited basis.

Survey respondents mentioned one program in particular: the Federal Career Intern Program (FCIP), developed in July 2000 to recruit talented mid-level candidates for targeted positions. In FCIP's first year, 400 people were hired under the program. By fiscal 2005, that number increased to 11,000. (FCIP's popularity increased dramatically when an excepted hiring authority, the Outstanding Scholars Program, was all but discontinued after the Merit Systems Protection Board ruled that it violated veterans preference rules.)

Several interviewees said the FCIP was a helpful tool, but they expressed concern about a pending court case filed by a federal employee union charging that the program was being used beyond its original intent to the detriment of union members. "We hope [the FCIP] doesn't go away," one interviewee said.

RETENTION

Nearly all respondents felt that the current laws are designed to discourage senior managers from staying in government. Specifically, they pointed to the "dual compensation restriction," which bars retirees from drawing a full annuity while working for the federal government even on a time-limited or part-time basis. Almost all respondents said they would like greater authority to waive this restriction when it's in the best interests of the government. Currently, only a few agencies have this authority, although others can request it from OPM on a case by case basis. CHCOs whose agencies are able to use dual compensation waiver authority said it is a key management tool that aids knowledge transfer.

"We need to make it more attractive for some of our retired experts to bring their talent back to the work-

force. If our only access to them is hiring them back as contractors at a higher price, how smart is that?” one interviewee asked. OPM has proposed legislation to ease the dual compensation restriction, which has generated some interest on Capitol Hill and support within the CHCO community.

BUY-OUT AUTHORITY

A few CHCOs mentioned the use of “buy-outs” as a way to shape the workforce. Voluntary Separation Incentive Payment (VSIP) authority allows agencies to offer employees lump-sum payments up to \$25,000 as an incentive to voluntarily separate from the federal government. While some agencies have VSIP authority, most agencies must request it from OPM. Several CHCOs said they would also like to have this authority delegated to them.

COMPETITIVE SOURCING

OMB Circular No. A-76, *Performance of Commercial Activities*, sets procedures for executive branch agencies to identify commercial activities and determine whether these activities are best provided by the private sector or government employees, a process known as competitive sourcing. The theory behind competitive sourcing is that it creates efficiency regardless of who wins. It is a key initiative of the President’s Management Agenda.

Although CHCOs were not asked directly about competitive sourcing, several brought it up during their interviews. One respondent said that competitive sourcing was good and “generated efficiencies.” Several others, however, thought it lowered morale, and they questioned its effectiveness. One CHCO said, “Look at A-76 — is it working as intended? I don’t think so.”

STRENGTHENING THE HR WORKFORCE

Human resources professionals play a critical role in the government. In addition to the strategic element of workforce planning, they must be experts in navigating the complex web of civil service laws and regulations, all while keeping the trains running on time — making payroll, facilitating hiring and recruiting, maintaining diversity, and helping employees transition to retirement. Yet as CHCOs deal with the issues affecting the entire government and their own agencies — competency gaps, large numbers of impending retirements — they are facing the same challenges within their own staffs.

Currently, about 20,000 HR professionals serve nearly 1.9 million civilian federal employees. However, many have outdated skills. With increasingly automated, centralized, or out-sourced HR systems, federal agencies now need HR staff members to serve as management advisors and creative problem solvers. This reduces the number of HR staff needed for more traditional transaction processing work. Skill gap assessments among the HR workforce and the consensus of those we interviewed support the conclusion that too many current HR professionals do not have all the necessary competencies. Like others across government, the HR community is dealing with the effects of hiring freezes in the 1990s, when HR positions were considered overhead and disproportionately targeted for reductions.

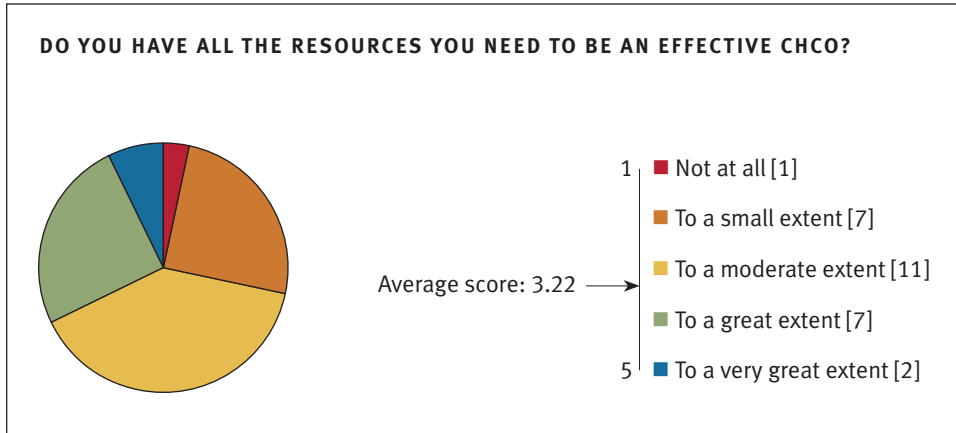
LACK OF RESOURCES

CHCOs responded in a generally positive way when asked to rate on a scale of one to five “whether they have all the resources they need to be an effective CHCO,” as shown in Figure 5.

But when asked in an open-ended discussion question what they “needed to meet challenges,” most respondents said they needed more resources. More than half said funding was inadequate for overall workforce management, and a third said that their HR workforce lacked the necessary skills.

“In today’s environment, our HR employees are working well beyond an eight-hour day, which cannot be sustained long-term,” said one interviewee. A few mentioned that the tendency over the past few fiscal years toward the use of Continuing Resolutions (short-term spending bills passed at the beginning of a fiscal year to provide money temporarily until permanent legislation is enacted to fund agencies in the next fiscal year) had a negative impact on operations because agencies were

FIGURE 5: CLOSED-ENDED QUESTION #2



A common theme throughout the interviews was that transaction processing could be improved. One CHCO put it this way: “In terms of how we process transactions, we’re perfectly positioned — for 1990.”

Several saw shared services — either external through the HRLOB or using an in-house center — as a way to provide HR services more

unable to implement planned programs or pay bonuses in a timely manner.

One CHCO brought up the problem of having authorization from Congress to use tools but not the funding to actually implement them. “We have some programs that were authorized that we don’t have money to pay for — like repayment of student loans. When it comes to the mission... or repaying student loans — you know what happens.” In this case, said several interviewees, it becomes important to demonstrate the value of strategic workforce initiatives.

LOST IN TRANSACTIONS

Are HR professionals too overwhelmed by daily operations to think and act strategically? This was a question raised by several survey participants. “Contrary to what you hear sometimes said or implied, traditional HR services and transactions have not disappeared. That is actually the day-to-day work on which we are judged, so we’re challenged to do it well and also do the forward-thinking program improvement work,” said one CHCO.

“Most of my peers — CFOs, CIOs — are focused on their own areas, and when they look at HR they see it from a transactional standpoint. They understand the transaction side. That’s their comfort zone. In terms of our HR staff, that’s how they were raised and taught — it’s their bread and butter,” said a respondent.

Many lamented that the only interaction most federal employees have with HR is during a time of crisis — problems with pay or leave or difficult employment situations. “Too often, HR specialists are seen as obstacles, as the holders of the keys, so to speak,” said one interviewee.

efficiently and to free employees for analytical work.

HR SKILLS GAP

Several respondents expressed concern about the skills gap among HR staff. Impending retirement of employees with very specialized knowledge weighed heavily on the minds of several interviewees. One CHCO said, “We are forever dwindling, filling only one in six vacancies in operations. In some areas, we are only one deep in capability — only one person has the knowledge.” Because the pool of mid-level managers is so small, agencies often steal HR professionals from one another, respondents said.

Another cause of the gap in skills is the changing nature of HR work. As shown in Figure 6, the general consensus among participants was that the HR workforce as a whole needs to expand its competencies. More training is needed in core competencies, such as analysis and management skills. “When I think of resources,” said one CHCO, “I think of people and their skills, and in that case we do need more training.”

“There is nothing more important than continuous learning. We need to be continually training in both soft and hard skills,” said one respondent.

USING TECHNOLOGY

Often, managers turn to information technology (IT) to generate efficiencies, and several respondents expressed a need for better IT tools — from large HR systems to simple automated process improvements.

“We need better samples, models and frameworks so that [program managers], who are not skilled in HR, can still do the basics,” said one respondent. Many

participants stressed the need for a collaborative and consultative approach to designing and rolling out new systems. A few others said they did not have the resources to procure and implement new systems. One lamented the fact that his organization still cannot accept online applications for some jobs, and he doesn't have the funding to fully automate the process even though the initial up-front investment in automation would save money in the long run.

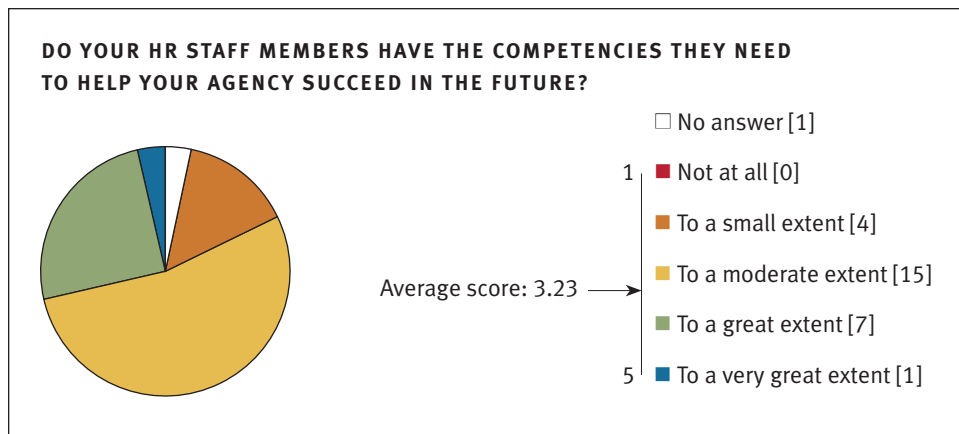
Several survey participants warned that IT alone will not fix the skills gap — especially since new IT products typically involve a steep learning curve. One CHCO said, “We spend more on the IT products than we do developing our people to use them.”

MANAGING A MULTI-SECTOR WORKFORCE

Like others across government, HR managers are, more often than not, supervising a multi-sector workforce — a combination of contractors, civil servants and others. This requires a different set of competencies, and many survey participants mentioned this issue as a key challenge, particularly when contract employees are in-house, sitting side-by-side with civil servants. “It used to be that you had to be an expert on Title 5, now you throw in managing contractors. We are in a whole different realm,” said an interviewee.

Agencies are developing strategies to deal with this new reality, including training and consultation with Chief Acquisition Officers to see if management agreements or requirements can be strengthened in service contracts. The challenge is not limited to the HR function. As more and more work is done by contract employees, managing a multi-sector workforce is becoming a government-wide challenge.

FIGURE 6: CLOSED-ENDED QUESTION #4



MOVING FORWARD

The following summary highlights the most widely advocated ways to build on recent successes and tackle emerging challenges.

KEEPING HUMAN CAPITAL FRONT AND CENTER

To maintain the positive trend of paying attention to human capital issues, survey respondents stressed the importance of keeping the focus on the big picture — overall results and *outcomes* rather than *process*. Along the same lines, it's clear that policy changes should be based on sound principles. For example, proposals to make arbitrary cuts in the federal workforce as a means to reduce the size of government would be counterproductive. The findings of the survey suggest that any policy initiatives should focus on the *skills* of the workforce and on the missions assigned to the federal government — not solely on the number of employees.

IMPROVING PERFORMANCE MANAGEMENT SYSTEMS

One of the most intriguing findings was that nearly all respondents had a positive experience implementing a performance management beta site within their agency. This model, in which each agency was asked to choose a specific office or bureau as a test case for a new system, could serve as a template for future reforms. As these beta sites are expanded — and almost all agencies are in the process of expansion — agencies can use lessons learned to improve the system.

CHCOs mentioned another important improvement: multi-tiered appraisal systems as opposed to pass/fail systems are now the rule rather than the exception. These two developments lay the foundation for the eventual move to a more market-sensitive and performance-sensitive pay structure. Most respondents saw the change to a multi-tiered system as one that provided a positive incentive for managers and employees to engage in constructive conversations about individual performance and organizational goals.

It is important that performance management systems be trusted and credible before linking them to pay, according to respondents, and in that regard a majority of respondents thought there was still considerable work to be done.

STOPPING ONE-SIZE-FITS-ALL POLICIES

A one-size-fits-all approach to policy and oversight does not work. OPM and Congress shouldn't levy the same administrative and reporting requirements on a 200-person agency as they do on a large department. Similarly, specifying desired end results in terms of HR program or policy objectives was seen as perfectly appropriate by CHCOs, but they believed that each department or agency should be given as much latitude as possible in how they achieve those results. Too often — particularly according to those representing some of the smaller agencies — process requirements are overly prescriptive.

CHCOs want guidelines, not prescriptions. Sometimes they feel that what they're being asked to do does not help achieve the mission of their agency. In this context, it may be important for OPM and Congress to either allow agencies greater flexibility or to better explain why greater uniformity in operation is necessary.

While a search using the term “HR flexibilities” on the OPM Web site will yield a considerable list of flexibilities, most must be granted on a case-by-case basis by OPM or may not be as “user-friendly” as they appear, respondents said. As shown by the near-universal request for approval to make greater use of direct-hire authority and easier access to dual compensation waiver authority (to re-employ recently retired federal employees for limited periods of time), CHCOs generally expressed a desire to be held accountable for end results, rather than adherence to a set process.

BRIDGING SKILL GAPS

According to our survey participants, the retirement wave is real, and effective succession planning is critical. Creative recruiting and hiring solutions are an important first step, but effectively utilizing and retaining the existing workforce is a key element as well. This is where a focus on management competencies can help. For too long, government managers were promoted because doing so enabled agencies to give salary increases to technically proficient workers whether or not they possessed management skills, interviewees said. Some suggested a parallel career track for those who lack management skills but deserve to be compensated for important technical capabilities.

The trend toward more automation and the growing use of contractor support or shared services also present new challenges as needed skill sets evolve, the survey showed. While automation can create efficiencies, it

will inevitably render some jobs obsolete, shifting needs from process to analysis. Working with a multi-sector workforce requires a similar shift in skills, and CHCOs increasingly need to work alongside procurement and acquisition professionals to guide the process.

REVITALIZING THE HR WORKFORCE

The HR workforce is not where it needs to be in terms of numbers or skills. This situation has been exacerbated by profound changes in workforce demographics and the evolving nature of HR work. Demonstrating the value of strategic human capital initiatives is important so that CHCOs can garner support for appropriate long-term investments in training and information technology.

Congress and the executive branch must take a serious look at resource issues in the HR community. With half of survey respondents citing a lack of money and one-third saying their staffs do not have adequate skills, the old adage of “doing more with less” rings hollow. In this case, they may need to do “something different with less.”

CLARIFYING THE HUMAN RESOURCES LINE OF BUSINESS

“Something different” may be the Human Resources Line of Business (HRLOB). In theory, the HRLOB offers the opportunity to reduce costs and allows the HR workforce to be less transaction-oriented. But implementation must be careful and deliberate, with clear guidance and multiple opportunities for feedback along the way — a point made abundantly clear by survey responses. Important first steps are defining and standardizing processes. Even if all agencies do not eventually migrate to shared service providers, standardization will go a long way toward reducing costs. The HRLOB should leverage the experience gained from the successful implementation of beta sites: start small and build slowly.

SHAPING THE WORKFORCE OF TOMORROW

Some respondents speculated about the impact of moving away from the 1949-era General Schedule pay system to a more flexible structure — one aligned with the goals of a performance and market-sensitive compensation system, such as the pay-banded systems tested in various agencies. Generally, survey participants thought such a move would be beneficial, although there was some trepidation about the difficulty of making that switch in terms of the time, resources and training needed to do it correctly.

When asked what one thing they wanted to tell the readers of the survey, one respondent said, “The report ought to acknowledge that agency HR staffs are truly dedicated to supporting agency missions.” Today, our nation faces challenges of unprecedented complexity — from combating terrorism and competing in a global marketplace to dealing with an aging population at home. These challenges require new skills from our federal workforce, and CHCOs are focused on that future.

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APPENDIX C: SURVEY/INTERVIEW QUESTIONS

DISCUSSION QUESTIONS

1. What are your key human capital achievements/successes?
2. What will be your most pressing human capital challenges over the next three years?
3. What do you need to meet these challenges (e.g., support, resources, regulatory or statutory changes)?
4. Do your managers and supervisors have the competencies they need to be successful (including, if necessary, being able to successfully manage a multi-sector workforce of contractors, volunteers or others in addition to federal employees)?
5. What is your experience with your agency's performance management beta site? Will you be expanding it?
6. If you could unilaterally change one law or OPM regulation affecting human capital management, what would it be?
7. Keeping in mind that we will be sharing the consolidated results of these interviews with Congress, OPM, OMB, and others, is there anything else we should know or any other issues we should focus on?

CLOSED-ENDED QUESTIONS

On a scale of 1-5 using the benchmarks below, please answer the following questions:

Not at all		Moderate extent		Very great extent
1	2	3	4	5

To what extent:

1. ...Do you feel that HR is viewed by your agency leadership as a trusted business advisor (versus a transaction manager)?
2. ...Do you have the resources you need to be an effective CHCO?
3. ...Do you feel that, in general, your agency does a good job aligning organizational goals and individual employee performance standards?
4. ...Do you believe your HR staff members have the competencies needed to help your agency succeed in the future?
5. ...By 2010, is your agency likely to use an external shared service center under the HR LOB?



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EXECUTIVE SUMMARY

The 9/11 Commission wrote that “the quality of the people is more important than the quality of the wiring diagrams,” and it detailed how our government’s failure to put the right people in the right jobs contributed to major security lapses. The Government Accountability Office has put human capital management on its “high-risk” list of the most pressing challenges facing our government. Both Grant Thornton and the non-profit Partnership for Public Service have independently conducted research and surveys that identify human capital management as the *number one concern* facing federal managers. There is an overwhelming consensus that the quality of our federal workforce is vitally important to the effectiveness of our government, and our federal leaders have their work cut out for them as they try to build the civil service that the American people deserve and the times demand. For this report, Grant Thornton and the Partnership for Public Service talked to the people on the front lines — Chief Human Capital Officers (CHCOs) and other key federal HR officials — in the effort to tackle our government’s key workforce challenges.

Federal Chief Human Capital Officers work to ensure that agencies have the talent they need for the challenges ahead. The very establishment of the CHCO position, which the Partnership championed and Congress authorized in 2002, reflects the growing recognition that good government starts with good people. The views and experience of CHCOs can and should inform policy decisions to help build on recent progress in this area.

To that end, in early 2007, Grant Thornton and the Partnership for Public Service interviewed 55 key federal human resources officials from 28 major departments and agencies, plus more than a dozen small agencies. Responding to a series of discussion topics and closed-ended questions, participants were assured anonymity and encouraged to shape the content of the interview. The interviews focused not just on the government’s human capital challenges and needs but also the successes realized.

This report contains the results of that extensive series of interviews, which included most of the current CHCOs. While these leaders on the human capital front have some progress to report, they also highlight

a number of critical concerns and issues that need to be addressed. The report’s key findings include:

HUMAN CAPITAL IS INCREASINGLY FRONT AND CENTER

When asked to name their most important success, “leadership involvement,” meaning getting senior leadership to focus on human capital, was the most common answer. One-third of respondents said their agency heads took an active role in developing their agency’s strategic human capital plan. And only one in 10 respondents said they did not have the level of support they would like from their senior leadership. Respondents also reported that, for the most part, they had a seat at the senior management table.

MOMENTUM IS BUILDING TOWARD PAY SYSTEM CHANGES

While a consensus is yet to form on what a new government-wide pay and performance system should look like, the clear majority of CHCOs think the General Schedule (GS) pay system is no longer adequate. More than half of the respondents agreed that a more performance-sensitive and market-sensitive pay system should be a long-term goal. Several interviewees praised the results of pay-for-performance demonstration projects as examples of responsible ways to further strengthen the link between performance and compensation. One-third said we should scrap the GS system immediately. The issue appears to be less a question of if, than how. Most cautioned that the process to design and implement a new pay system should be slow and deliberate and that credible performance management systems and appraisals must come first. A number want to wait and see how the transitions to pay-for-performance at the Departments of Defense and Homeland Security play out before moving forward with any major changes for their agencies. In general, most concerns about performance-sensitive and market-based pay stem less from the policy itself and more from the fact that attempts to implement reforms at DoD, DHS and with Senior Executive Service pay have been controversial, creating reluctance among some CHCOs to fully embrace the idea.

PRESIDENT'S MANAGEMENT AGENDA IS HAVING AN IMPACT

For the most part, CHCOs credited the President's Management Agenda (PMA), a White House management improvement initiative begun in 2001, with focusing their agency heads on workforce issues and setting important milestones. But some respondents expressed concern that reaching quarterly PMA goals has become an end in itself, to the detriment of continued progress.

RECRUITING, HIRING AND RETAINING AN EFFECTIVE WORKFORCE IS STILL TOO DIFFICULT

Many interviewees said they have made substantial progress in reducing the amount of time it takes to hire employees and acknowledged the incentive value of OPM initiatives such as the 45-day hiring process model. However, they believe that additional hiring flexibility is needed. Several noted that current flexibilities often come with "strings attached," such as the need to obtain prior OPM approval that, in their opinion, requires an unnecessarily high burden of proof that the authority is needed. Another frequently noted limitation was that useful tools such as student loan repayments or retention bonuses often lack adequate funding. Two specific suggestions for improvement were repeatedly mentioned:

- Nearly all interviewees would appreciate greater *direct-hire authority*, allowing them to hire needed talent on the spot, especially at job fairs.
- A high percentage of respondents also feel that the authority to provide a *waiver of dual compensation restrictions* — a waiver to offset a federal retiree's annuity, if he or she comes back on the federal payroll — would be a valuable mechanism for keeping needed talent in the workplace. OPM recently submitted proposed legislation to Congress that would help in this regard.

THE HUMAN RESOURCES WORKFORCE IS IN NEED OF ATTENTION

Respondents discussed the need to revamp the competencies of the HR workforce. Currently, about 20,000 HR professionals serve the federal government, many with outdated skills. With increasingly automated, centralized, or out-sourced HR systems, federal agencies now need more HR staff members to serve as manage-

ment advisors and creative problem solvers and fewer for more traditional transaction processing work.

More than half of respondents also said their HR operations lacked sufficient funding, and many felt that HR operations could be improved even further by better harnessing technology or reengineering business processes. However, some of those same respondents noted that they lacked the funds to make the up-front investment in these changes, even though such changes may produce long-term savings.

MANY AGENCY MANAGERS LACK NEEDED WORKFORCE MANAGEMENT SKILLS

The vast majority of interviewees expressed concern about the state of management and leadership skills, both in the government as a whole and in the human resources community. They noted that technical skill is not equivalent to management skill. A number were particularly concerned about the ability of managers to operate effectively under changing HR systems, such as those affecting performance management. Respondents suggested that more training and leadership development programs, supplemented by rigorous assessment and selection systems for new managers, could help correct this imbalance.

PERFORMANCE MANAGEMENT IS IMPROVING

All agencies were required to establish a performance management system beta site (a test site for a portion of the agency that could eventually be expanded, if successful, and perhaps be more closely linked to pay). Most respondents reported positive results from their beta sites and are expanding them to other parts of the agency. In addition, agencies that used pass/fail evaluations of employee performance in the past have now transitioned to multi-level appraisals. This transition was seen as largely positive. Respondents reported that their agencies are doing a better job than before of linking individual employee performance plans to strategic agency goals and mission requirements.

CHANGES IN WORKFORCE DEMOGRAPHICS ARE CREATING STAFFING PRESSURES

Participants cited demographic changes as a top concern. CHCOs mentioned two situations in particular: the impending retirement wave and the "bi-modality" of the federal workforce (too many retirement eligible

senior managers and inexperienced new hires, with too few in the middle ranks) brought on by hiring freezes and reductions in force in the 1990s. Nearly all agreed that workforce planning — basing decisions on a desired set of skills rather than number of employees — is the key to meeting these challenges, and they placed significant emphasis on the need for effective succession planning to ensure that institutional knowledge is retained as workers retire.

OPM RECEIVES MIXED REVIEWS

The U.S. Office of Personnel Management has multiple responsibilities under the law. These include ensuring compliance with federal HR laws and regulations, aiding and advising the President on federal human capital issues, reporting to Congress on federal workforce matters, developing and implementing relevant administration programs and priorities, and maintaining centralized systems and records (e.g., employee retirement and health benefits programs). Given its multiple roles, it may not be surprising that two-thirds of the interviewees felt that OPM does not fully understand or appreciate their needs and resource limitations. For example, they cited the timelines for meeting new human capital reporting or system requirements as sometimes being too aggressive or seemingly arbitrary. A number of interviewees also expressed a desire to have OPM consult with them earlier on HR systems design and requirements. They also thought that much of OPM's oversight activities are based on assessments of how well their HR systems conform to OPM process requirements, rather than on the results their systems achieve. Several individuals suggested that OPM take more of a risk-based approach to oversight that would focus more on problem areas and less on across the board compliance activities.

On the positive side, a number of respondents did compliment current OPM leadership for being more inclusive and receptive to input from the federal HR community compared to prior leadership. There was also widespread praise for OPM's work with the performance management beta sites. Others made favorable note of OPM's more active role in efforts to improve the hiring process and in government-wide recruitment initiatives such as public service ads and career fairs.

VERDICT IS STILL OUT ON SHARED SERVICES AND THE HUMAN RESOURCES LINE OF BUSINESS

Some interviewees saw a benefit to a shared service model where one bureau, agency, or contractor provides HR services for a number of federal "clients." The Human Resources Line of Business (HRLOB), one of several White House initiatives to consolidate back office functions at government-wide Shared Service Centers (SSCs), is a shared service model — but respondents felt that it is too early to judge whether the HRLOB can work on such a large scale. Individual responses were fairly mixed on whether the various organizations planned to use an external Shared Service Center in the next three years. Several individuals expressed a "wait and see" attitude regarding the extent to which they may participate in the HRLOB.

INTRODUCTION

In 1789, the United States government consisted of three cabinet agencies: the State Department, the Department of the Treasury and the Department of War. By 1836, there were five agencies, and the entire civilian federal workforce was 336 employees.

Today, with nearly 1.9 million civilian employees (not including the Postal Service) the federal government is the nation’s largest employer. Approximately sixty percent of all federal workers are classified as professional or administrative (e.g., physicists, economists, actuaries, doctors, budget analysts, human resource specialists). Eighty-six percent work outside the Washington, D.C. area. More than half of federal employees are union members.

For more than a decade, Grant Thornton has partnered with nonprofit organizations to conduct similar surveys of government leaders in financial management, information technology and procurement. The common thread across the surveys is a concern about human capital. In fact, in surveys conducted over the past year, human capital was the *number one concern* of federal Chief Financial Officers, Chief Information Officers and procurement officials.

Where will the next generation of leaders come from? How does the human resources workforce fully transition from its focus on transaction processing to strategic

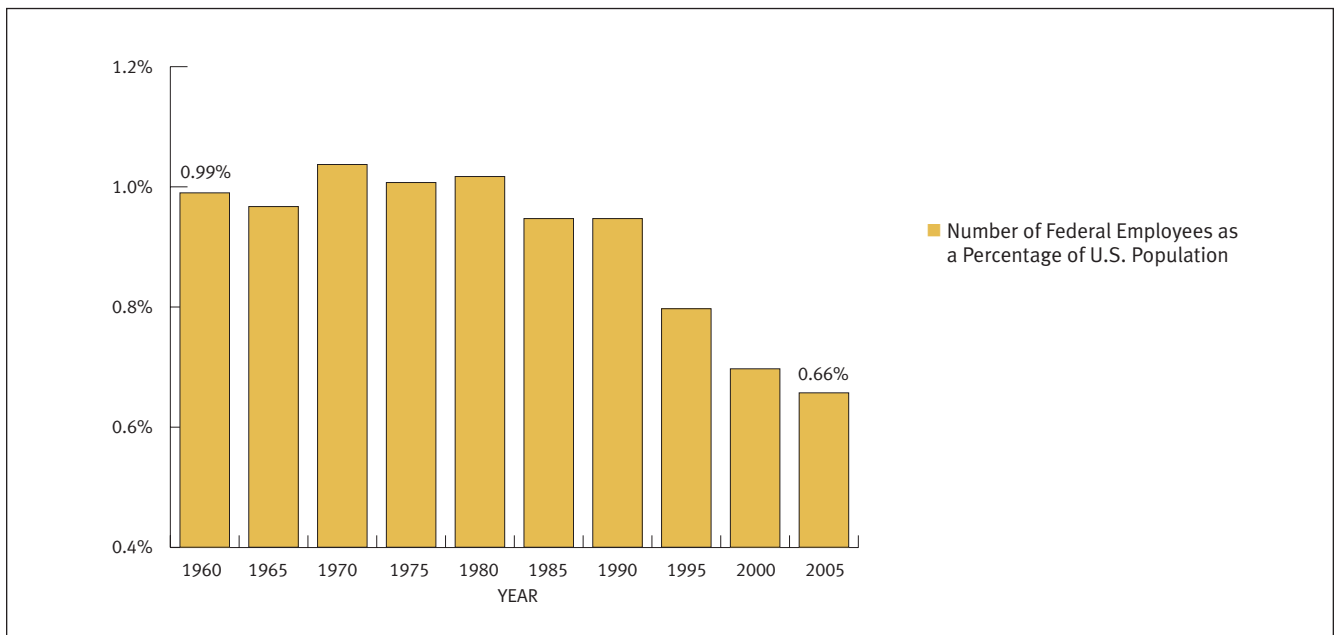
human capital management? Is the federal government doing enough to recruit, develop, motivate and retain a talented workforce? For human resources professionals, the challenge is two-fold: as they seek to enhance the effectiveness of the agencies they serve — indeed the government as a whole — they must also address the same issues within their own staffs.

GENERAL ENVIRONMENT

Until 1883, federal government jobs were awarded and held at the pleasure of the President, who rewarded political supporters with government positions. This was commonly known as the “spoils” system. All that changed when a disgruntled office seeker shot President James Garfield and the resulting reform, the Civil Service Act of 1883, ushered in the era of a merit-based civil service system — awarding jobs on the basis of merit rather than patronage.

The current structure of federal employment has been in place since passage of the Classification Act of 1923, which divided government jobs into five distinct services: professional and scientific; sub-professional; clerical, administrative, and fiscal; custodial; and clerical-mechanical (covering only jobs in the Bureau of Engraving). That law was amended by the Classification

FIGURE 1: WORKFORCE DEMOGRAPHICS, U.S. POPULATION VS. FED. POPULATION 1960-2006



Source: U.S. Population data: U.S. Census (<http://www.census.gov>), Federal Data: BLS (<http://data.bls.gov> — data run for federal nonpostal employees)

Act of 1949, which consolidated the first three of these services into the General Schedule, with 18-grade levels. The top three grade levels became the Senior Executive Service in 1978; beyond that change, the GS system, as it is called, is still in use today.

As the population grew and the economy changed, Congress enacted additional civil service reforms. The most significant was the Civil Service Reform Act of 1978, which abolished the Civil Service Commission, created in 1883, and established the U.S. Office of Personnel Management (OPM) and the aforementioned Senior Executive Service. Over the years, Congress has also passed agency-specific legislation allowing agencies to operate under HR rules and regulations different from those most other agencies must follow as set forth in Title 5 of the U.S. Code. The Postal Service, the National Aeronautics and Space Administration, the Securities and Exchange Commission, the Federal Aviation Administration and a growing number of other federal agencies or agency subcomponents now have HR systems with flexibilities not available to other agencies. The departments of Defense and Homeland Security, which together employ more than 45 percent of all federal civilian employees, were the most recent to be granted exemption from parts of Title 5.¹

HISTORY OF THE CHIEF HUMAN CAPITAL OFFICER

The Partnership for Public Service championed the concept of a Chief Human Capital Officer in 2002. The Partnership, along with others, believed that human capital issues were critical to the overall success of each federal organization’s mission. Every major department and agency had a Chief Information Officer, Chief Financial Officer and Chief Acquisition Officer, but no official of comparable status focused on agency workforce issues. The title, Chief *Human Capital* Officer (CHCO), emphasized that the federal workforce is an asset worthy of significant investment. CHCOs would have a status equivalent to those officials responsible for agency IT, budget and acquisition. They would also have a seat at the management table.

Title XIII of the Homeland Security Act of 2002 established the CHCO position for major departments and agencies to assist agency officials in developing a high-quality, productive workforce. The Act also established

¹ The federal workforce is further divided into the Competitive Service, which is under the jurisdiction of OPM and subject to Title 5, and the Excepted Service, which is under the jurisdiction of the employing agency. The majority of civil service appointments are made under the Competitive Service, but certain categories in the Foreign Service, the FBI, and other national security and legal positions are made under the Excepted Service.

a CHCO Council to advise the HR community on systems issues, best practices and policy. The Director of the Office of Personnel Management acts as chairperson of the CHCO Council, and the Deputy Director for Management of the Office of Management and Budget acts as the Council’s vice chairperson.

The CHCOs and their colleagues interviewed for this survey shared their key successes, important challenges and desires for the future.

CHCO RESPONSIBILITIES

- Set the agency’s workforce development strategy
- Assess workforce characteristics and future needs
- Align the agency’s human resources policies and programs with organization mission, strategic goals and performance outcomes
- Develop a culture of continuous learning to attract and retain employees with superior abilities
- Identify best practices and benchmarking studies
- Apply methods for measuring intellectual capital and identify links to organizational performance and growth

SURVEY METHODOLOGY

The Partnership for Public Service, together with Grant Thornton LLP, surveyed federal government Chief Human Capital Officers (CHCOs), Deputy Chief Human Capital Officers and other key human resources advisors. The goal was to learn first-hand from these practitioners about critical issues in federal human capital management. From February to May 2007, Grant Thornton and the Partnership for Public Service interviewed 55 officials from 28 major departments and more than a dozen small agencies. They guaranteed the anonymity of our survey participants and so do not attribute quotations or other responses to specific people. Any analysis or interpretation solely reflects the views of Grant Thornton and the Partnership for Public Service.

Grant Thornton and the Partnership for Public Service offered survey participants seven open-ended discussion topics and five closed-ended questions on critical human capital issues. The goal was to allow the CHCOs themselves to shape the discussion. They asked CHCOs to identify key issues and to tell them what is working and what needs to change. This report summarizes and analyzes the CHCOs’ responses.

2007 CHCO SURVEY FINDINGS

LEADERSHIP MATTERS

GOVERNMENT-WIDE LEADERSHIP

In general, respondents felt that strategic human capital issues are now getting the attention they deserve. Figure 2 shows that survey respondents feel that they are valued for their advisory skills and not just their ability to transact the daily business of human resources management (HR).

When asked to name their key successes, the most common answer from the CHCOs was “leadership involvement,” with “leadership” referring to everything from the highest level of the executive branch to other “Chiefs” (Chief Financial Officers, Chief Information Officers and Chief Acquisition Officers) within their own agencies. Driving any type of strategic change requires top-down leadership, with effective, ongoing communication among employees, unions, outside stakeholders and management — yet this has not always been the case in federal HR. The CHCOs report, however, that they are moving in the right direction in this regard.

PRESIDENT’S MANAGEMENT AGENDA: HELP OR HINDRANCE?

CHCOs cited one initiative in particular as instrumental in focusing agency heads on human capital issues: the President’s Management Agenda (PMA), launched by the White House in 2001 and designed to make measurable progress in several areas, including the strategic

management of human capital. Using a red, yellow and green traffic-light scorecard, agencies are evaluated quarterly on their progress toward meeting specific milestones.

OPM is the lead agency for the PMA’s strategic management of human capital initiative. To help agencies meet various requirements (including PMA goals as well as statutory and regulatory mandates), OPM issued the Human Capital Assessment and Accountability Framework (HCAAF) in conjunction with the Office of Management and Budget (OMB). HCAAF is a roadmap for human capital best practices, focusing on:

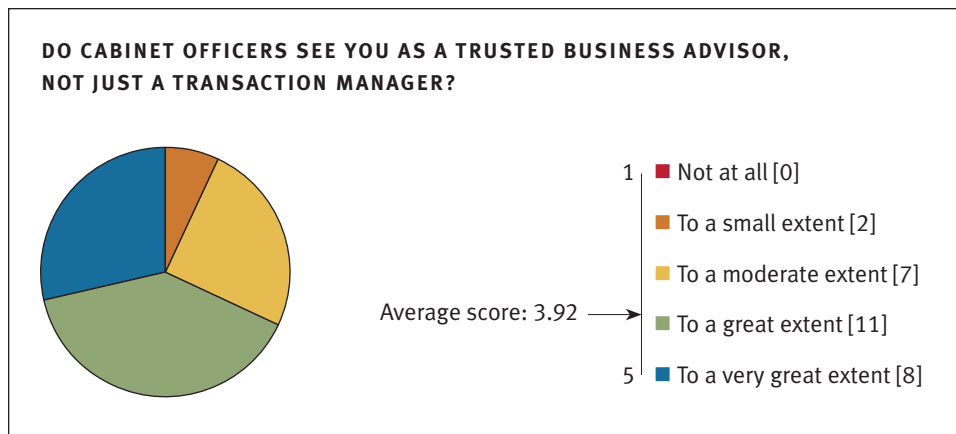
- Leadership and knowledge management
- Results-oriented performance culture
- Talent measurement

While specific quarterly requirements for “getting to green” on the PMA are designed to be moving targets to encourage constant improvement, they are based on the underlying principles laid out in HCAAF.

Although most respondents described the PMA as a valuable tool for keeping agencies focused on human capital issues, several said that sometimes “getting to green” (satisfying quarterly requirements) was more about process than real results. Still, about a fifth of the interviewees cited their “green” status as a key achievement. Nearly a third agreed that the PMA encouraged agency leadership to pay more attention to human capital issues. One CHCO said, “Our Secretary takes the PMA very seriously.” Another stated, “The PMA actually made things happen in the human capital area that would not have happened otherwise.”

The PMA was cited as both a source of pride and consternation — sometimes by the same respondent. While the many goals of the strategic human capital portion of the PMA were seen as worthwhile and laudable, the timeframes and the sheer number of goals were referred to as unrealistic, arbitrary, unworkable or unsustainable.

FIGURE 2: CLOSED-ENDED QUESTION #1



One interviewee put it this way: “It would be heart-breaking if all these reforms were written in sand simply because we tried to implement them too quickly.”

ORIGINAL PMA STRATEGIC HUMAN CAPITAL MANAGEMENT GOALS

- Align human capital strategies with mission goals
- Plan and deploy the workforce to create a citizen-centered and mission-focused organization
- Ensure continuity of effective leadership that sustains a learning environment
- Develop a results-oriented performance culture that rewards those who achieve desired results and corrects performance deficiencies
- Close mission-critical competency gaps by successfully competing for talent
- Develop an accountability system to ensure that human capital management is merit-based, effective, efficient, and supportive of mission accomplishment

One-third saw the PMA as nothing more than a paperwork exercise that kept them from other work. “We have to use two people full time just to keep up with the PMA. Frankly, the PMA asks us to do things that take time away from the job mission. Some of the requests are archaic or unrealistic and could require us to take steps backward,” one respondent lamented. “We’re so busy checking off boxes that we don’t have time for real reform,” said another.

One CHCO cautioned, “The risk of being ‘green’ is that leadership may say that function is OK and put resources elsewhere.”

THE ROLE OF THE OFFICE OF PERSONNEL MANAGEMENT

The U.S. Office of Personnel Management (OPM) serves as the President’s advisor on federal human capital issues and is the central human resources management agency for the executive branch. OPM develops civil service regulations consistent with the laws passed by Congress and is responsible for ensuring compliance with those laws and regulations. It also delegates to the other executive branch agencies the authority to operate various HR functions, including the authority to com-

petitively examine and hire employees. While OPM has an oversight role with the other executive departments and agencies, it also provides advice and assistance to those organizations. OPM conducts (or oversees) background investigations for security clearances; runs the federal employees health benefits and life insurance programs; operates the federal retirement programs; and issues guidance or provides assistance on a wide range of HR matters from recruitment to employee relations issues. OPM also designs government-wide human capital strategies and collects required data from each agency. While OPM provides a central clearinghouse for human capital practices, many specific HR responsibilities (hiring employees, for example) are delegated to each agency.

How well OPM carries out its myriad responsibilities was not a focus of our interviews, but in the course of our conversations, there was general acknowledgement that OPM did many things well. However, two-thirds of respondents felt that OPM staff members do not fully understand or appreciate the particular HR needs or other limitations of their agency. For example, a number reported that tight timelines for meeting some government-wide mandates too often appear arbitrary. Several noted that they would like to have more consultation with OPM before it launches new initiatives. “We don’t like to hear that things are on the drawing board then suddenly see them in front of us,” one interviewee said.

Generally, interviewees said they are not always clear about exactly what is expected of them. They also said that procedural requirements sometimes seem unrelated to the desired end result. Effective two-way communication with OPM staff is sometimes hard to achieve, respondents said. “Sometimes, we’re not even sure whom to call,” according to one CHCO. They also shared a perception that OPM occasionally seems to react to the metric of the week or makes them jump through hoops to get things done in a certain timeframe. One interviewee said, “We need to maintain a posture of *Semper Gumby* — always be flexible.”

Several participants would like to see OPM take a risk-based approach to oversight — spending more time helping struggling agencies instead of focusing on agencies that have demonstrated some level of success. One CHCO said, “It seems peculiar that OPM spends as much time watching over agencies with a ‘green’ score as they do an agency with a ‘red.’ There seems to be no risk-based formula.”

THE ROLE OF THE CHIEF HUMAN CAPITAL OFFICERS COUNCIL

The law creating the CHCO position also established the CHCO Council, an advisory body for the HR community. “I like the rise of the CHCO Council,” said one respondent. “It’s almost on par with the [Chief Financial Officers] Council.” However, several interviewees would like to see the Council take on a greater role in communicating with Congress and external stakeholders. The functions assigned by law to the CHCO Council call for it to “meet periodically to advise and coordinate the activities of the agencies of its members on such matters as modernization of human resources systems, improved quality of human resources information, and legislation affecting human resources operations and organization.”

In its first few years, attendance at Council meetings was restricted to CHCOs only. Several respondents felt that this approach was not the most effective, and they praised the recent decision by current OPM Director Linda Springer to include deputies in meetings and to designate working subcommittees for key issues. Several respondents also complimented the current Executive Director of the Council for his efforts to reach out to the Council members and for being responsive to their inquiries or requests. Generally, interviewees hoped that the inclusion of deputies, who are typically career civil servants as opposed to political appointees, would create continuity and that a subcommittee structure (which is now established) would help to develop and share best practices. “We need fewer dog-and-pony shows and more dialogue — more sharing of technical assistance among CHCOs,” one said of the Council.

FEDERAL HUMAN CAPITAL SURVEY AND THE ANNUAL EMPLOYEE SURVEY

The Federal Human Capital Survey (FHCS), first conducted at the initiative of OPM in 2002, measures “employees’ perception of whether ... conditions characterizing successful organizations are present in their agencies.” OPM repeated the survey in 2004 and 2006. The Partnership for Public Service uses the results for its *Best Places to Work in the Federal Government* rankings, released every two years — most recently in April 2007. The Federal Human Capital Survey:

- Provides general indicators of the effectiveness of human resources management systems

- Serves as a tool for OPM to assess agencies’ progress toward “green” on strategic management of human capital under the PMA
- Gives senior managers critical information to answer the question: What can I do to improve employee engagement and help my agency perform better?

While the FHCS was a voluntary effort by OPM, Section 1128 of the National Defense Authorization for Fiscal Year 2004 created a statutory requirement for an annual employee survey that would be conducted each year for every executive branch entity. The annual survey requirement also mandates that a core set of common questions developed by OPM be part of each agency’s survey and that the survey results be posted on each agency’s official Web site. Currently, OPM plans to continue conducting the FHCS every two years, with the next one scheduled for 2008. They will include the core questions in their survey, thus satisfying the annual requirement. In 2007 and every odd year thereafter, each agency will be responsible for conducting its own survey. One respondent suggested that conducting a survey every year did not provide enough time to analyze and implement changes. “It would be one thing if there wasn’t a cost to conducting the surveys, but there is,” the interviewee said. However, one CHCO cited increased survey participation as a key success, and several respondents said that the surveys have given them valuable information. A number of agencies have developed plans for making constructive use of the survey results. A few others have enough responses to their survey to allow them to drill down to the work unit level, using the survey results to identify needed changes at that level.

HUMAN RESOURCES LINE OF BUSINESS AND SHARED SERVICES

OMB’s Lines of Business initiative aims to consolidate back-office functions, including financial management, budget formulation, human resources management and others at Shared Service Centers (SSCs)². According to survey respondents, this shared service model, in which one agency provides a service for many others, holds promise — especially with limited HR workforce resources. Currently, agencies can choose from among

² Early in 2007, OPM said it would also allow private sector SSCs to enter the HR LOB market by developing solutions that meet specific requirements. Those services would then be available to federal agencies through a schedule (a pre-negotiated list of available contracts) administered by the General Services Administration. When discussing the HR LOB in this survey, most respondents focused on government-run SSCs.

five SSCs under the Human Resources Line of Business (HRLOB):

- Department of Agriculture’s National Finance Center
- Department of Defense’s Civilian Personnel Management Service
- Department of Health and Human Services’ Program Support Center
- Department of the Interior’s National Business Center
- Department of the Treasury’s HR Connect (partnered with the Bureau of the Public Debt)

The concept behind shared services — creating economies of skill and scale — is popular among CHCOs. Nearly all agencies use an SSC for payroll functions, and many agencies use an in-house approach, in which one bureau provides HR services for others within the same department. The logistical aspects of moving to a government-wide SSC, however, are keeping many CHCOs from embracing the HRLOB fully, especially at larger departments. Their concerns include uncertainty about how to structure agreements between agencies, who will pay the costs of transitioning out if the SSC does not provide the right service and how to define appropriate metrics.

A number of respondents are not making a decision on moving to an SSC until they see demonstrated success from a large department. “I’d like to see how it works for someone our size,” remarked one respondent from an agency with multiple components. Figure 3 depicts the likelihood of agencies moving to an SSC by 2010.

Several CHCOs were concerned that moving to an SSC would result in a loss of control over HR functions, and a few actually had a bad experience with shared services.

One participant said, “We have lost out when there is centralization and consolidation. The automation that might come from the LOB can dehumanize the HR function.”

Forty percent of interviewees thought the HRLOB needed clearer guidelines and metrics. “The concept is sound. The problem is: how do we get there? How do we not lose functionality?” said an interviewee. Several CHCOs want to help shape the debate, and they were concerned that OMB and OPM were not consulting them or involving other stakeholders.

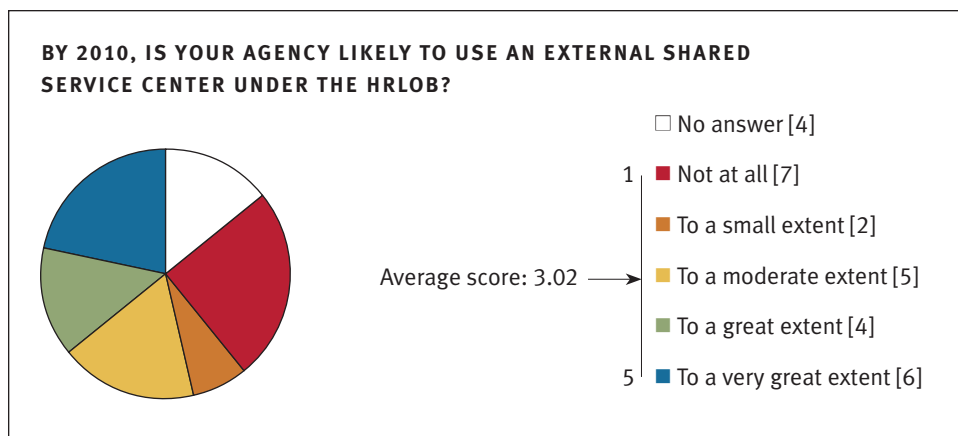
LEADERSHIP AT THE AGENCY AND DEPARTMENT LEVEL

As one CHCO said, “There is an HR component to everything you do.” Just as government-wide leadership is important to CHCOs, leadership at the agency level is equally critical. Two-thirds of interviewees cited the development of a strategic human capital plan as a key achievement, and half of those said their agency head was integral to that process. One said that while his agency head was only paying lip service to human capital issues, this was better than no mention at all. Only one-tenth of respondents said they did not yet have the support of their agency leadership. A few cited “constant changes at the top” as troubling.

One of the biggest challenges for CHCOs was driving change down through middle management — something they noted cannot be done without top-level attention.

Management structure and the set of responsibilities assigned to the CHCO (beyond those required by law) vary from agency to agency, and one idea that seemed popular with a few interviewees was combining several statutory responsibilities (e.g., those of the CFO, CIO, CAO and CHCO) into one position. Several agencies already have a CHCO who also functions in one or more of the other positions. The concept encouraged the integration of management functions to streamline operations, they said. As one CHCO put it, “when you have all these offices — a CFO, a CIO and a CAO with their own staffs, the bureaucracy works its magic.” One participant,

FIGURE 3: CLOSED-ENDED QUESTION #5



however, thought it was important that a CHCO not be distracted by other responsibilities. Another participant noted that where the CHCO wore other hats, such as also being the CFO, the role of the deputy CHCO became particularly important for keeping a focus on the human capital policies, programs and practices.

LEADERSHIP COUNCILS

A number of CHCOs pointed to the formation of “leadership councils” within their organizations. These groups are either HR-specific, with HR professionals forming communities of practice, or cross-cutting, consisting of other “Chiefs” in the management structure. Whatever their makeup, the most successful groups meet regularly to discuss human capital issues in the context of an agency’s mission or in conjunction with activities such as financial management or procurement. Collaboration leads to better decision-making and more effective policies, respondents said.

“Getting buy-in is one of the most important things you can do, both from our peers [CFOs, CIOs, program managers] and from employees,” said one CHCO who used a leadership council to vet ideas and develop policy.

THE IMPORTANCE OF COMMUNICATION AND COLLABORATION

Several CHCOs said that effective two-way communication is critical and that a collaborative approach facilitates decision making and helps to drive change. A quarter of interviewees mentioned working well with unions as a key success — an important concern to any sector as highly unionized as the federal government. Keeping an open dialogue is a key component, they said. One interviewee discussed the success of a “listening month,” when managers were directed by the secretary of one department to spend time listening to the concerns of employees and then feed the information up the chain of command. This effort helped drive change through the organization and brought important issues to the attention of agency leaders, the survey participant noted.

GROOMING LEADERS

A key concern for the vast majority of interviewees was the state of management and leadership skills across the federal workforce. “One of the weaknesses in the federal personnel system is that we don’t look for leadership potential early enough in a person’s career. Instead, we focus on technical success. But, if we fire people, it’s usually not for lack of technical expertise — it is lack of management skills,” one respondent observed.

Several mentioned a need for better training and more flexibility to create separate or “dual” career tracks for “the GS-13 to GS-15 who is technically proficient, but not necessarily a good leader.”

A few CHCOs pointed to successful leadership development programs created within their agency. The primary goal of these programs is to identify employees who exhibit leadership skills early and then offer them continuous training at various career stages — from new managers to senior executives.

Several interviewees said it is important for managers to understand the full scope of an agency’s mission, and they suggested providing rotating joint duty assignments to create a well-rounded cadre of leaders. One agency is developing a database, which will be managed by a career senior executive, to match rotational opportunities with interested candidates. This agency’s survey participant stressed that such a program must be supported by an agency’s top leadership so that assignments are not seen as punitive or arbitrary.

OPM recently developed the Federal Competency Assessment Tool — Management (FCAT-M), a Web-based application that helps agencies assess management skills, yet only a handful of interviewees mentioned this tool. When asked how technology could help train managers, one interviewee responded, “The reality is that managers value a high-touch approach, so if high-tech means less high-touch, they may not like it.” The most effective programs were reported to be those that involved interactive training and mentoring with “360-degree feedback.”

PERFORMANCE MANAGEMENT

The idea of pay as a management function, not just an administrative function, was espoused in the Civil Service Reform Act of 1978, which laid the groundwork for a more performance-sensitive pay system. The Act authorized demonstration projects for agencies to build alternative pay systems. A number of these systems use a form of pay-for-performance that combines several GS pay grades into a smaller number of pay bands and ties movement through the bands more closely to performance rather than time on the job.

While more than half of the respondents agreed that pay-for-performance should be a long term goal, they believe it will require small, measured steps to get there and that credible performance management systems and appraisals must come first. All are watching how systems at the Defense and Homeland Security Departments begin to take shape after a series of legal challenges from federal employee unions over labor relations issues and what appears to be growing opposition in Congress.

Despite these delays, there are signs of progress with performance management. The last Federal Human Capital Survey reflected a slight increase in the percentage of employees agreeing with such statements as “in my work unit, steps are being taken to deal with a poor performer who cannot or will not improve” and “differences in performance are recognized in a meaningful way.”

EARLY TESTS FOR PERFORMANCE MANAGEMENT BETA SITES

Last summer, to receive a “green” score on the PMA every agency was required to set up a “beta site” of employees to test new performance accountability systems that could eventually be spread to all employees and linked to pay. Systems were evaluated using OPM’s Performance Appraisal Assessment Tool (PAAT) and audited for compliance with OPM standards.

When asked about the experience, every CHCO said that it was relatively positive and that they will be expanding the beta site. One CHCO said, “This is one place where I have to give kudos to OPM. The instructions were clear, and our auditor actually worked with us along the way. It was an educational experience.”

Nearly all agencies that used a pass/fail appraisal system have transitioned to a multi-tiered system. (As a few CHCOs noted, OPM made clear that agencies could not get to “green” on the PMA with a pass/fail system.)

The goal of a multi-tiered system is to create meaningful distinctions based on levels of relative performance.

CHCOs now face the challenge of ensuring the fairness, transparency and credibility of those systems. One respondent said, “There is a real fear of quotas or the possibility of politics driving decisions. That’s something that only time will change. The more transparency we have and the more employees are involved in the process, the better it will be.” That point was reiterated by another CHCO, who said, “While people may want to fix the performance appraisal system, what really needs to change is the culture.”

SOFT SKILLS

An important part of creating an effective performance culture is strengthening the communication skills of managers, nearly all respondents said. One survey participant stressed, “We need to differentiate between leadership skills and actual day-to-day management skills.” Communication becomes especially important with the move toward multi-tiered appraisals, which require more specific and meaningful feedback than simple pass/fail evaluations.

“Writing an effective performance review is not intuitive,” said one CHCO. “Often *how* you communicate — and how often — is more important than *what* you communicate. No employee should ever be surprised by a performance review, yet we’ve seen that happen.” Many CHCOs said that sensitivity to employee needs and effective communication — so-called soft skills — are difficult to teach, especially for technical professionals.

LINKING INDIVIDUAL PERFORMANCE TO AGENCY GOALS

Employees need to feel connected to the mission of their agencies, respondents said. One used the hypothetical example of asking a janitor at NASA what he does. “If he says, ‘I put people on the moon,’ then you’re doing the right thing,” the CHCO said.

Linking employee performance to his or her agency’s strategic plan is an important way to achieve that objective. One of the key milestones for a “green” score on the PMA is a human capital plan that ties in with an agency’s strategic plan under the Government Performance and Results Act. From there, the challenge is taking the next step and aligning personal performance goals with the goals of the agency. By and large, agen-

FIGURE 4: CLOSED-ENDED QUESTION #3



cies have had success, according to survey respondents. Said one CHCO, “You can go up to anyone in my agency and ask them which strategic goal they are supporting, and they will know.” Figure 4 shows the extent to which respondents felt their agencies were able to link individual performance with agency goals.

PAY-FOR-PERFORMANCE DEMONSTRATION PROJECTS AND PAY BANDING

Every agency can petition OPM for authority to place up to 5,000 employees in a pay-for-performance demonstration project, and OPM can grant up to 10 projects at any one time. A number of these efforts have been successful. In fact, 44 percent of participants mentioned knowledge of a successful pay-for-performance demonstration project or pilot program. According to one CHCO, “We’ve actually seen the performance level rise at those bureaus. Employees are more certain of what is expected of them. We’ve found it to be a great retention and recruiting tool.” Others noted that under pay-for-performance systems, poor performers are more likely to voluntarily leave the organization.

Many of the demonstration projects use “pay-banding,” with the GS grade levels divided into a smaller number of broad bands. Managers have greater authority and flexibility to set pay for individuals within their band. “Agencies with pay banding are better able to attract employees,” said one survey participant.

The performance-based pay system established by Congress in 2003 for the Senior Executive Service (SES) received mixed reviews from interviewees — particularly because timelines were too aggressive and CHCOs said they didn’t get clear or consistent guidance from OPM. One felt that “SES performance pay was shoved down our throats without any guidance.” Several interviewees

complained that they still did not know exactly how to get their SES performance-based pay system certified by OPM.

Several respondents feared that legal and legislative setbacks with the National Security Personnel System at the Department of Defense and the pay system authorized for the Department of Homeland Security would

stifle enthusiasm for the eventual move to a government-wide pay-for-performance system. “Congress needs to understand the General Schedule is not working. Maybe we need to take baby steps — but we can’t just go backwards,” said one CHCO.

IS IT TIME TO REFORM THE GENERAL SCHEDULE?

According to a March 2007 study by the Congressional Budget Office, *Characteristics and Pay of Federal Civilian Employees*, the General Schedule determines the pay of 80 percent of full-time salaried federal workers. Our survey indicated a growing discontent with the ability of the GS system to serve a 21st century workforce.

When we asked CHCOs what laws or regulations they would change, they spoke of a need, to varying degrees, to overhaul the General Schedule. A third of the participants advocated drastic change: “Get rid of the General Schedule. It’s antiquated, and it no longer serves its purpose. We need market-based pay.” The majority discussed the need for small, measured steps toward a more flexible and contemporary pay system.

There were several caveats. Similar to concerns about aggressive timelines with the PMA, many CHCOs stressed the importance of timing and the involvement of stakeholders in the process. Another concern was the damage that piecemeal solutions could do to the effort as a whole. One CHCO said, “We don’t need any more special pays or special this or that. What we need is more simplicity.”

Another said, “We need to rethink the system from a holistic point of view. We need to make small, incremental improvements in order to drive progress.”

WORKFORCE PLANNING

During the 1990s, the federal workforce shrank by more than 300,000 full-time employees, primarily through attrition and hiring freezes. The result is what one CHCO referred to as “demographic bi-modality,” too many retirement-eligible senior managers and inexperienced new hires with a “trough” in the middle. The gap in skills will become increasingly evident as those managers retire.

This situation shows the danger of focusing only on body count, as one respondent put it, and not on skills. All agreed that the federal government needs a framework for making staffing decisions based on a desired set of competencies — a process known as workforce planning.

Strategic workforce planning is one of the underlying goals of the human capital section of the PMA, and CHCOs agree that this is their core mission: planning for future needs by attracting, hiring and keeping talented individuals at all levels. “At the end of the day, if you haven’t changed the skills of your workforce, you haven’t done anything,” one respondent said.

SUCCESSION PLANNING AND KNOWLEDGE TRANSFER

Most CHCOs cited succession planning and knowledge transfer — keeping the right mission-critical skill set in the face of smaller budgets and retirements — as a ma-

ior concern. “With tight budgets and the potential to see a large percentage of our long-term employees retire, we are faced with a need to balance skills, to manage knowledge transfer and to assure that we have a strong pool of candidates to succeed those who are leaving the organization,” said one survey respondent.

Succession planning establishes a process to recruit candidates, hire employees, develop their abilities and prepare them for advancement — all while retaining them to ensure a return on training investment. It involves:

- Understanding long-term goals and objectives
- Identifying developmental needs
- Determining workforce trends and predictions

In the past, succession planning focused on key leadership positions, but it has become increasingly important to include other positions in order to transfer institutional knowledge — the unwritten rules that can only be learned through on-the-job training.

RECRUITING

Several CHCOs concentrate more on recruiting new employees than worrying about retirees. As one CHCO put it, “My idea is to watch the faucet — not the drain.”

In terms of recruiting, a few CHCOs think the federal workforce needs a facelift. “When I was coming

THE RETIREMENT “WAVE”

The Office of Personnel Management (OPM) projects that more than 550,000 federal employees — almost one-third of the entire full-time permanent workforce — will leave the government in the next five years, the majority through retirement. OPM further projects that by 2016, nearly 40 percent of all current federal employees will retire.

While some disagree that there will be an actual wave (or “tsunami,” as OPM Director Linda Springer put it), most CHCOs mentioned impending retirements as a top concern. In fact, one said, “We ARE having a retirement wave — at least at my agency. I read a story recently that said we weren’t, but that’s not what I see.”

“Sometimes I feel like I have to lock the doors and windows,” said another respondent.

RETIREMENT PROJECTIONS FOR FULL-TIME PERMANENT FEDERAL EMPLOYEES ON-BOARD AS OF 10/01/06 CUMULATIVE PERCENTAGES

YEAR	NON-SUPERVISOR	SUPERVISOR	TOTAL
2007	3.6%	5.5%	3.9%
2008	7.3%	11.0%	7.8%
2009	11.0%	16.5%	11.7%
2010	14.8%	21.8%	15.7%
2011	18.4%	27.0%	19.5%
2012	22.1%	32.0%	23.3%
2013	25.6%	36.8%	27.0%
2014	29.0%	41.3%	30.5%
2015	32.3%	45.6%	34.0%
2016	35.5%	49.6%	37.3%

into the workforce, getting a government job was a good thing. The perception now is that's not the case anymore. We need to better understand what it is that attracts younger workers and then put those things in place," said one survey respondent. Several CHCOs voiced concern about attracting a younger generation of workers. One said, "We need to be able to offer what they feel is important — maybe it's a better work-life balance. We need to be more creative in the benefits we offer, like telework, flex time. I do sense a different attitude toward work — a healthier attitude." Many respondents said they need to look beyond the typical, fresh-out-of-college candidate and also seek mid-career professionals to replenish management ranks.

OPM's Career Patterns initiative, released in June 2006, provides a framework to help agencies target recruiting to potential types of employees — from young college graduates to private sector retirees. The guide provides an analytical tool to assess the attributes of certain positions (timing within a career, mobility, workplace flexibility, permanence and mission focus) and match them with potential recruits.

HIRING

Attracting workers is one thing, actually hiring them is another. Nearly every CHCO interviewed wanted direct-hire authority (i.e., the ability to make offers of immediate employment to qualified candidates) for at least some jobs. Many said they would love to hire on-the-spot, especially at job fairs. OPM can and does currently grant direct-hire authority when it has evidence of a severe shortage of candidates or a critical hiring need exists on a government-wide basis. However, a number of interviewees expressed a desire to be delegated the authority to make that determination. As one respondent noted, "Why should we wait until we fail [to find a qualified applicant] before we fix a problem we predicted?" Several respondents also acknowledged that it is important to ensure compliance with veterans preference rules and to seek diversity in the workforce, but asked to be held accountable based on results rather than simple adherence to procedural requirements.

The time it takes to hire someone for a federal job has been a concern for years. OPM responded to long-running complaints by revamping its USAJOBS Web site, sponsoring job fairs and developing an online Hiring Toolkit in collaboration with the Partnership for Public Service. Reducing hiring time is a key PMA metric, and OPM established a 45-day hiring process model to help agencies achieve it. These initiatives have had some im-

pact, according to respondents. In fact, several CHCOs pointed to significant reductions — from 170 days to 31 days, for example, at one department.

For others, hiring is still a problem. "We just put the job announcement on USAJOBS and forget about it," one interviewee said, suggesting that timely, quality hires are not a management priority in that agency.

INTERNSHIP PROGRAMS

Over the years, as it became clear that certain occupations needed an influx of new workers, OPM designed internship programs to recruit targeted individuals, test their abilities through internships and then hire successful candidates on an expedited basis.

Survey respondents mentioned one program in particular: the Federal Career Intern Program (FCIP), developed in July 2000 to recruit talented mid-level candidates for targeted positions. In FCIP's first year, 400 people were hired under the program. By fiscal 2005, that number increased to 11,000. (FCIP's popularity increased dramatically when an excepted hiring authority, the Outstanding Scholars Program, was all but discontinued after the Merit Systems Protection Board ruled that it violated veterans preference rules.)

Several interviewees said the FCIP was a helpful tool, but they expressed concern about a pending court case filed by a federal employee union charging that the program was being used beyond its original intent to the detriment of union members. "We hope [the FCIP] doesn't go away," one interviewee said.

RETENTION

Nearly all respondents felt that the current laws are designed to discourage senior managers from staying in government. Specifically, they pointed to the "dual compensation restriction," which bars retirees from drawing a full annuity while working for the federal government even on a time-limited or part-time basis. Almost all respondents said they would like greater authority to waive this restriction when it's in the best interests of the government. Currently, only a few agencies have this authority, although others can request it from OPM on a case by case basis. CHCOs whose agencies are able to use dual compensation waiver authority said it is a key management tool that aids knowledge transfer.

"We need to make it more attractive for some of our retired experts to bring their talent back to the work-

force. If our only access to them is hiring them back as contractors at a higher price, how smart is that?” one interviewee asked. OPM has proposed legislation to ease the dual compensation restriction, which has generated some interest on Capitol Hill and support within the CHCO community.

BUY-OUT AUTHORITY

A few CHCOs mentioned the use of “buy-outs” as a way to shape the workforce. Voluntary Separation Incentive Payment (VSIP) authority allows agencies to offer employees lump-sum payments up to \$25,000 as an incentive to voluntarily separate from the federal government. While some agencies have VSIP authority, most agencies must request it from OPM. Several CHCOs said they would also like to have this authority delegated to them.

COMPETITIVE SOURCING

OMB Circular No. A-76, *Performance of Commercial Activities*, sets procedures for executive branch agencies to identify commercial activities and determine whether these activities are best provided by the private sector or government employees, a process known as competitive sourcing. The theory behind competitive sourcing is that it creates efficiency regardless of who wins. It is a key initiative of the President’s Management Agenda.

Although CHCOs were not asked directly about competitive sourcing, several brought it up during their interviews. One respondent said that competitive sourcing was good and “generated efficiencies.” Several others, however, thought it lowered morale, and they questioned its effectiveness. One CHCO said, “Look at A-76 — is it working as intended? I don’t think so.”

STRENGTHENING THE HR WORKFORCE

Human resources professionals play a critical role in the government. In addition to the strategic element of workforce planning, they must be experts in navigating the complex web of civil service laws and regulations, all while keeping the trains running on time — making payroll, facilitating hiring and recruiting, maintaining diversity, and helping employees transition to retirement. Yet as CHCOs deal with the issues affecting the entire government and their own agencies — competency gaps, large numbers of impending retirements — they are facing the same challenges within their own staffs.

Currently, about 20,000 HR professionals serve nearly 1.9 million civilian federal employees. However, many have outdated skills. With increasingly automated, centralized, or out-sourced HR systems, federal agencies now need HR staff members to serve as management advisors and creative problem solvers. This reduces the number of HR staff needed for more traditional transaction processing work. Skill gap assessments among the HR workforce and the consensus of those we interviewed support the conclusion that too many current HR professionals do not have all the necessary competencies. Like others across government, the HR community is dealing with the effects of hiring freezes in the 1990s, when HR positions were considered overhead and disproportionately targeted for reductions.

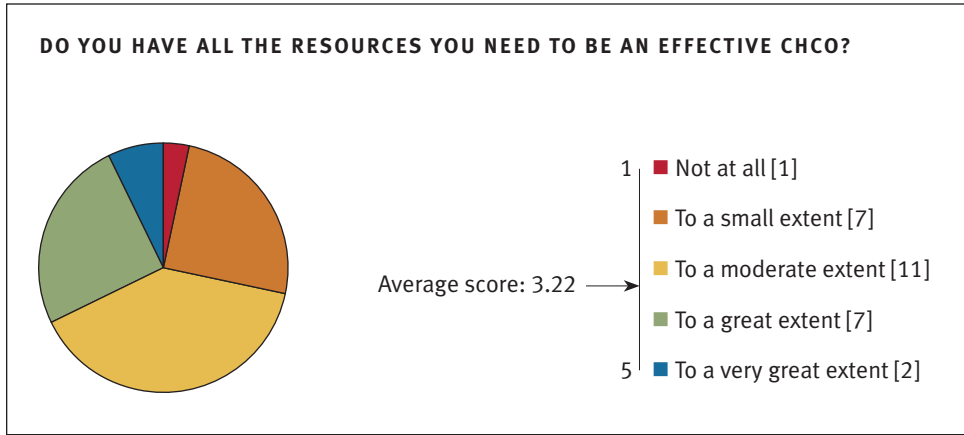
LACK OF RESOURCES

CHCOs responded in a generally positive way when asked to rate on a scale of one to five “whether they have all the resources they need to be an effective CHCO,” as shown in Figure 5.

But when asked in an open-ended discussion question what they “needed to meet challenges,” most respondents said they needed more resources. More than half said funding was inadequate for overall workforce management, and a third said that their HR workforce lacked the necessary skills.

“In today’s environment, our HR employees are working well beyond an eight-hour day, which cannot be sustained long-term,” said one interviewee. A few mentioned that the tendency over the past few fiscal years toward the use of Continuing Resolutions (short-term spending bills passed at the beginning of a fiscal year to provide money temporarily until permanent legislation is enacted to fund agencies in the next fiscal year) had a negative impact on operations because agencies were

FIGURE 5: CLOSED-ENDED QUESTION #2



A common theme throughout the interviews was that transaction processing could be improved. One CHCO put it this way: “In terms of how we process transactions, we’re perfectly positioned — for 1990.”

Several saw shared services — either external through the HRLOB or using an in-house center — as a way to provide HR services more

unable to implement planned programs or pay bonuses in a timely manner.

One CHCO brought up the problem of having authorization from Congress to use tools but not the funding to actually implement them. “We have some programs that were authorized that we don’t have money to pay for — like repayment of student loans. When it comes to the mission... or repaying student loans — you know what happens.” In this case, said several interviewees, it becomes important to demonstrate the value of strategic workforce initiatives.

LOST IN TRANSACTIONS

Are HR professionals too overwhelmed by daily operations to think and act strategically? This was a question raised by several survey participants. “Contrary to what you hear sometimes said or implied, traditional HR services and transactions have not disappeared. That is actually the day-to-day work on which we are judged, so we’re challenged to do it well and also do the forward-thinking program improvement work,” said one CHCO.

“Most of my peers — CFOs, CIOs — are focused on their own areas, and when they look at HR they see it from a transactional standpoint. They understand the transaction side. That’s their comfort zone. In terms of our HR staff, that’s how they were raised and taught — it’s their bread and butter,” said a respondent.

Many lamented that the only interaction most federal employees have with HR is during a time of crisis — problems with pay or leave or difficult employment situations. “Too often, HR specialists are seen as obstacles, as the holders of the keys, so to speak,” said one interviewee.

efficiently and to free employees for analytical work.

HR SKILLS GAP

Several respondents expressed concern about the skills gap among HR staff. Impending retirement of employees with very specialized knowledge weighed heavily on the minds of several interviewees. One CHCO said, “We are forever dwindling, filling only one in six vacancies in operations. In some areas, we are only one deep in capability — only one person has the knowledge.” Because the pool of mid-level managers is so small, agencies often steal HR professionals from one another, respondents said.

Another cause of the gap in skills is the changing nature of HR work. As shown in Figure 6, the general consensus among participants was that the HR workforce as a whole needs to expand its competencies. More training is needed in core competencies, such as analysis and management skills. “When I think of resources,” said one CHCO, “I think of people and their skills, and in that case we do need more training.”

“There is nothing more important than continuous learning. We need to be continually training in both soft and hard skills,” said one respondent.

USING TECHNOLOGY

Often, managers turn to information technology (IT) to generate efficiencies, and several respondents expressed a need for better IT tools — from large HR systems to simple automated process improvements.

“We need better samples, models and frameworks so that [program managers], who are not skilled in HR, can still do the basics,” said one respondent. Many

participants stressed the need for a collaborative and consultative approach to designing and rolling out new systems. A few others said they did not have the resources to procure and implement new systems. One lamented the fact that his organization still cannot accept online applications for some jobs, and he doesn't have the funding to fully automate the process even though the initial up-front investment in automation would save money in the long run.

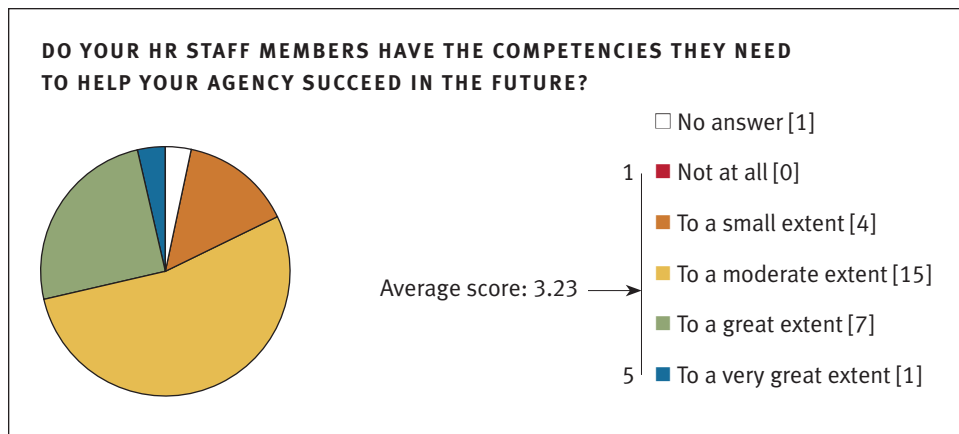
Several survey participants warned that IT alone will not fix the skills gap — especially since new IT products typically involve a steep learning curve. One CHCO said, “We spend more on the IT products than we do developing our people to use them.”

MANAGING A MULTI-SECTOR WORKFORCE

Like others across government, HR managers are, more often than not, supervising a multi-sector workforce — a combination of contractors, civil servants and others. This requires a different set of competencies, and many survey participants mentioned this issue as a key challenge, particularly when contract employees are in-house, sitting side-by-side with civil servants. “It used to be that you had to be an expert on Title 5, now you throw in managing contractors. We are in a whole different realm,” said an interviewee.

Agencies are developing strategies to deal with this new reality, including training and consultation with Chief Acquisition Officers to see if management agreements or requirements can be strengthened in service contracts. The challenge is not limited to the HR function. As more and more work is done by contract employees, managing a multi-sector workforce is becoming a government-wide challenge.

FIGURE 6: CLOSED-ENDED QUESTION #4



MOVING FORWARD

The following summary highlights the most widely advocated ways to build on recent successes and tackle emerging challenges.

KEEPING HUMAN CAPITAL FRONT AND CENTER

To maintain the positive trend of paying attention to human capital issues, survey respondents stressed the importance of keeping the focus on the big picture — overall results and *outcomes* rather than *process*. Along the same lines, it's clear that policy changes should be based on sound principles. For example, proposals to make arbitrary cuts in the federal workforce as a means to reduce the size of government would be counterproductive. The findings of the survey suggest that any policy initiatives should focus on the *skills* of the workforce and on the missions assigned to the federal government — not solely on the number of employees.

IMPROVING PERFORMANCE MANAGEMENT SYSTEMS

One of the most intriguing findings was that nearly all respondents had a positive experience implementing a performance management beta site within their agency. This model, in which each agency was asked to choose a specific office or bureau as a test case for a new system, could serve as a template for future reforms. As these beta sites are expanded — and almost all agencies are in the process of expansion — agencies can use lessons learned to improve the system.

CHCOs mentioned another important improvement: multi-tiered appraisal systems as opposed to pass/fail systems are now the rule rather than the exception. These two developments lay the foundation for the eventual move to a more market-sensitive and performance-sensitive pay structure. Most respondents saw the change to a multi-tiered system as one that provided a positive incentive for managers and employees to engage in constructive conversations about individual performance and organizational goals.

It is important that performance management systems be trusted and credible before linking them to pay, according to respondents, and in that regard a majority of respondents thought there was still considerable work to be done.

STOPPING ONE-SIZE-FITS-ALL POLICIES

A one-size-fits-all approach to policy and oversight does not work. OPM and Congress shouldn't levy the same administrative and reporting requirements on a 200-person agency as they do on a large department. Similarly, specifying desired end results in terms of HR program or policy objectives was seen as perfectly appropriate by CHCOs, but they believed that each department or agency should be given as much latitude as possible in how they achieve those results. Too often — particularly according to those representing some of the smaller agencies — process requirements are overly prescriptive.

CHCOs want guidelines, not prescriptions. Sometimes they feel that what they're being asked to do does not help achieve the mission of their agency. In this context, it may be important for OPM and Congress to either allow agencies greater flexibility or to better explain why greater uniformity in operation is necessary.

While a search using the term “HR flexibilities” on the OPM Web site will yield a considerable list of flexibilities, most must be granted on a case-by-case basis by OPM or may not be as “user-friendly” as they appear, respondents said. As shown by the near-universal request for approval to make greater use of direct-hire authority and easier access to dual compensation waiver authority (to re-employ recently retired federal employees for limited periods of time), CHCOs generally expressed a desire to be held accountable for end results, rather than adherence to a set process.

BRIDGING SKILL GAPS

According to our survey participants, the retirement wave is real, and effective succession planning is critical. Creative recruiting and hiring solutions are an important first step, but effectively utilizing and retaining the existing workforce is a key element as well. This is where a focus on management competencies can help. For too long, government managers were promoted because doing so enabled agencies to give salary increases to technically proficient workers whether or not they possessed management skills, interviewees said. Some suggested a parallel career track for those who lack management skills but deserve to be compensated for important technical capabilities.

The trend toward more automation and the growing use of contractor support or shared services also present new challenges as needed skill sets evolve, the survey showed. While automation can create efficiencies, it

will inevitably render some jobs obsolete, shifting needs from process to analysis. Working with a multi-sector workforce requires a similar shift in skills, and CHCOs increasingly need to work alongside procurement and acquisition professionals to guide the process.

REVITALIZING THE HR WORKFORCE

The HR workforce is not where it needs to be in terms of numbers or skills. This situation has been exacerbated by profound changes in workforce demographics and the evolving nature of HR work. Demonstrating the value of strategic human capital initiatives is important so that CHCOs can garner support for appropriate long-term investments in training and information technology.

Congress and the executive branch must take a serious look at resource issues in the HR community. With half of survey respondents citing a lack of money and one-third saying their staffs do not have adequate skills, the old adage of “doing more with less” rings hollow. In this case, they may need to do “something different with less.”

CLARIFYING THE HUMAN RESOURCES LINE OF BUSINESS

“Something different” may be the Human Resources Line of Business (HRLOB). In theory, the HRLOB offers the opportunity to reduce costs and allows the HR workforce to be less transaction-oriented. But implementation must be careful and deliberate, with clear guidance and multiple opportunities for feedback along the way — a point made abundantly clear by survey responses. Important first steps are defining and standardizing processes. Even if all agencies do not eventually migrate to shared service providers, standardization will go a long way toward reducing costs. The HRLOB should leverage the experience gained from the successful implementation of beta sites: start small and build slowly.

SHAPING THE WORKFORCE OF TOMORROW

Some respondents speculated about the impact of moving away from the 1949-era General Schedule pay system to a more flexible structure — one aligned with the goals of a performance and market-sensitive compensation system, such as the pay-banded systems tested in various agencies. Generally, survey participants thought such a move would be beneficial, although there was some trepidation about the difficulty of making that switch in terms of the time, resources and training needed to do it correctly.

When asked what one thing they wanted to tell the readers of the survey, one respondent said, “The report ought to acknowledge that agency HR staffs are truly dedicated to supporting agency missions.” Today, our nation faces challenges of unprecedented complexity — from combating terrorism and competing in a global marketplace to dealing with an aging population at home. These challenges require new skills from our federal workforce, and CHCOs are focused on that future.

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APPENDIX C: SURVEY/INTERVIEW QUESTIONS

DISCUSSION QUESTIONS

1. What are your key human capital achievements/successes?
2. What will be your most pressing human capital challenges over the next three years?
3. What do you need to meet these challenges (e.g., support, resources, regulatory or statutory changes)?
4. Do your managers and supervisors have the competencies they need to be successful (including, if necessary, being able to successfully manage a multi-sector workforce of contractors, volunteers or others in addition to federal employees)?
5. What is your experience with your agency's performance management beta site? Will you be expanding it?
6. If you could unilaterally change one law or OPM regulation affecting human capital management, what would it be?
7. Keeping in mind that we will be sharing the consolidated results of these interviews with Congress, OPM, OMB, and others, is there anything else we should know or any other issues we should focus on?

CLOSED-ENDED QUESTIONS

On a scale of 1-5 using the benchmarks below, please answer the following questions:

Not at all		Moderate extent		Very great extent
1	2	3	4	5

To what extent:

1. ...Do you feel that HR is viewed by your agency leadership as a trusted business advisor (versus a transaction manager)?
2. ...Do you have the resources you need to be an effective CHCO?
3. ...Do you feel that, in general, your agency does a good job aligning organizational goals and individual employee performance standards?
4. ...Do you believe your HR staff members have the competencies needed to help your agency succeed in the future?
5. ...By 2010, is your agency likely to use an external shared service center under the HR LOB?



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