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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to comment on the Working for America Act (WAA). After briefly introducing myself, I will make three main points. First, there is a clear need for reform of the personnel system. Second, there are several areas of reform covered in the WAA with which we agree. Finally, there are a number of crucial aspects of implementation that must be addressed in order for the WAA to succeed.

I -- Introduction

Professor Linda Bilmes, from the Harvard Kennedy School of Government, and I have been working for the past year on a book entitled The People Factor, to be published by the Brookings Institution next year. The book will contain our research findings and recommendations for a 21st Century government personnel management system. Consequently, our work is directly related to the WAA presently under consideration by this Committee.

During the past year, Professor Bilmes and I have turned our attention to the federal government workforce because of our shared commitment to excellence in public service. Professor Bilmes is a member of the faculty at Harvard University's Kennedy School of Government, former Director at the Boston Consulting Group and former Assistant Secretary for Administration and Chief Financial Officer at the U.S. Department of Commerce. She previously co-authored a book that correlated investment in human resources with corporate financial performance. I am a Vice President, Public Sector Strategy and Change at IBM Corporation where I lead the Global Leadership Initiative. Formerly, I preceded Professor Bilmes as Assistant Secretary for Administration and Chief Financial Officer at the U.S. Department of Commerce. I am a retired Captain in the U.S. Naval Reserves and a fellow of the National Academy of Public Administration.

The book in progress will draw on academic research and best practices in the public sector, military, and the private sector. We have also conducted a study of 1000 college

students' attitudes toward government as an employer, and we have interviewed a wide range of stakeholders, including government executives, senior civil servants, union officials, academics, organizational experts, and congressional staff who are familiar with the federal workforce situation.

I am happy to comment on the WAA in light of our preliminary findings and conclusions at this stage in our research.

II -- Overview

There are three points we wish to make at this time.

1. We agree with those who advocate major changes to the current federal personnel management system. The current system is often a barrier to recruiting, retaining, rewarding, and reshaping the workforce our government needs to meet the challenges of the 21st century. Some of the barriers are being addressed by the reforms at DHS and DoD. But a large number of federal employees still work under Title V. It is time to move forward and address the remaining segment of the federal workforce. For this reason, we are in favor of the provisions of the Working for America Act that accomplish this goal.

2. For the most part, we agree that the components of the WAA propose necessary changes to this system. However, these changes alone are not enough to turn the federal government, if I may borrow a phrase from Senator Akaka, into "the employer of choice, not the employer of last resort." I will outline our preliminary recommendations about the essential elements of a personnel system that allows the government to recruit and retain its fair share of the best and brightest in the U.S.

3. We encourage those who advocate the modernization of the personnel system to anticipate and prepare for the implementation challenges posed by the WAA. The architects of the WAA proposal should heed the lessons learned from dozens of large-scale organizational change efforts. GAO and others have researched the time-tested practices that work best to promote the adoption of innovations in large organizations. The inescapable conclusion of these studies and prior initiatives is that successful implementation will require consultation with all of the parties, extensive training, resources to fund the effort, and time to make a successful adjustment to the new personnel system.

We address each of these points below.

III -- The Case for Change

In the extensive research, survey, and interview work we have done for the book, we often asked whether the case for change has been made. Surprisingly, most people we

have interviewed feel that a traditional "business case" -- with benefits net of costs has not been made.

The arguments for reform still rest largely on the principle that the current system is broken and needs to be fixed. While we agree with many of these arguments, in our book, we have tried to put forward a ***positive*** rationale for why the federal workforce will perform better if it is reformed, based on our empirical findings. We have calculated the benefits to the government of personnel reform, using a new formula we call "return on taxpayer investment" or "ROTI." We have also estimated the costs of implementing a modernized personnel system, and we find that the benefits outweigh the costs by a wide margin.

The primary concern expressed to us is that the current system no longer "fits" much of today's government workforce and is often a deterrent to bringing in the talent government needs. In addition, we heard concern that "red tape" chokes the system, and that many existing flexibilities are unused or underutilized because of a lack of funding, or a lack of knowledge about how to employ them as they were intended. There is also agreement that Title V needs to be "cleaned up" due to its overwhelming complexity, which is the product of years of practical implementation, interpretation, and court rulings. There is a sense that few managers or employees in government can master these rules and fewer still are willing to bear the cost to plan, document, and work their way through the rule-based processes that define today's personnel system. Therefore, the WAA should seek to reduce the administrative burden on managers and HR professional associated with mastering and adhering to personnel rules, freeing them to focus more of their time on developing the workforce.

We are not saying that the General Schedule and length-of-service increases first put in place many years ago are unsuitable for *everyone* in government. Instead, we are saying that these elements of the current system are badly suited to the needs and expectations of *many* of the people that government needs for today's and tomorrow's workforce.

Finally, let me focus on the competitive landscape. Past organizational changes in DHS and planned personnel reforms at DHS and DoD have created competition between government agencies for personnel. For example, when TSA created hundreds of new law enforcement positions at higher grades with the associated higher pay, we saw an exodus of qualified personnel from other law enforcement agencies; their sudden departure left their home agencies short of trained personnel. When pay banding and pay for performance initiatives are implemented at DHS and DoD, this is likely to happen again. Other federal agencies will be at a competitive disadvantage in their efforts to recruit and retain entry-level and experienced personnel in certain occupations unless a government-wide system is in place.

We also see evidence that government agencies are now competing more directly with the private sector to keep well-trained personnel in government. The current system is partly responsible for allowing or encouraging an exodus of talented government workers whose skills are in high demand across sectors. Civilian and military personnel have

been drawn away from their government jobs by contractors that assume greater risk but offer higher annual compensation packages. When these former government employees return to government service as contractors, taxpayers end up paying much more for the same basic skills in the short-term, per-person basis. There have been several studies at Harvard, conducted by Professors George Borjas and Jack Donahue as well as Professor Bilmes, documenting the growing wage gap between the senior levels of government and the private sector over the past 30 years.

The WAA may be able to help government compete in this tough labor market, but only if it provides sufficient resources. Resources are needed in three areas: first, to narrow the wage gap between government and the private sector for the vast majority of employees who are doing what we ask of them and doing it well. Second, to provide performance bonuses to the group of employees who are doing truly extraordinary work. We recognize the Lake Wobegon effect and we note that not everyone can earn a performance bonus. However, the WAA should provide resources to make it possible for the government to seriously reward individuals who have made a significant contribution to the country. Third, there must be resources provided for training of supervisors to be able to judge and evaluate performance of their subordinates. Employees need to be able to ask "why did I get a 1.7 and Betty Ann got a 1.9?" Without a robust training program that teaches managers to perform, document and explain such evaluations, the system will not work.

Let us emphasize the concept of certification. Professor Bilmes has recently taught an executive program at Harvard with 175 GS-14s and 15s from throughout government. They expressed the wish that supervisors should go through a program and earn a "credential" (their word) to demonstrate proficiency in doing performance evaluations.

Therefore, government-wide personnel reform is needed to level the playing field in the competition for talent. First, inside government, it will minimize the chances of unfair inter-agency competition, which could arise between government agencies that have similar occupational groups, but have very different personnel management rules. Second, it will allow *all* federal agencies to compete more fairly with organizations outside government in the increasingly competitive marketplace for talent.

IV – Discussion on Essential Elements of the Working for America Act

Every organization must have the ability to handle basic personnel management functions effectively. Government is no different. Our review of research and our personal experiences managing in government have led us to conclude that the people who work in government organizations now and those who will work in them in the future are motivated by a desire to make a difference, a desire to grow and develop professionally, and a desire to be recognized for their contributions – just like workers in the private sector.

So from the beginning, when Professor Bilmes and I discussed what government organizations must do to be effective, we relied as much on our experiences with and research on *other* organizations -- in the private sector, the not-for-profit sector, and the

military -- as our experiences in government. Instead of using Title V as our starting point, we started with what we have learned about high-performing organizations in other sectors. And we worked backwards from there.

We set out to determine the factors that contribute to the results achieved by high-performing companies. Our research shows the important role that excellence in people management plays in the overall success of organizations in all sectors.

Professor Bilmes and I are developing a framework for a people management system for a 21st century government workforce. This framework will encompass many of the features of the system proposed in the Working for America Act and a number of new elements as well. At this stage in the legislative process, we suggest the following elements are necessary in a system for managing the 21st century government workforce:

A **workable pay-for-performance system** requires first, a robust performance management system that articulates clear employee performance expectations and places those expectations in the context of the performance goals of their teams, their agency, and their departments. Personnel reform is about organizational performance. Second, federal managers must learn new skills. The perceived fairness of this system is entirely dependent on the ability of managers to provide useful feedback to employees and to make meaningful distinctions in performance. Holding managers accountable for providing performance feedback to staff is a necessary component in a system that fosters individual growth and development. We find these features in high-performing organizations in all sectors.

This will be a tall order for a cadre of federal managers who, in general, have not been accountable for the mandatory and effective use of a high quality performance evaluation system before. For this reason, **managers must be trained** thoroughly, coached, and their skills as people managers must be evaluated for as long as it takes for effective performance management to become embedded in the culture of the federal workplace. We also advocate that organizations refine their performance management systems and develop managers' skills *before* they tie pay decisions to performance ratings. This is the approach that was used at the IRS, when they implemented their pay-for-performance system.

We also believe that in addition to certifying managers, there must be a review process in which individual employees can appeal. This is especially important at the outset, but even over the long-term, accepting that we are all humans and therefore fallible, we must build such a failsafe mechanism into the new system.

And, finally, we believe that managers and employees must have a set of tools that allow concerns to be addressed short of formal complaints and grievances such as alternative dispute resolution. These tools have been shown to reduce the number of formal complaints and grievances by substantial margins.

We have called for a **market-responsive, competency-based job classification system** to replace the General Schedule (GS) system. The WAA approach to compensation allows for variances by occupational group in market demand and geographic location. However, it is unclear what source will be used for this market data on occupations and demand. Unless the government uses the same market data used by the private and non-profit organizations in their compensation strategy and recruiting campaigns, government is likely to be at a competitive disadvantage.

In our research, we have noticed that there are more studies and demonstration projects focused on **improving hiring practices** than on any other personnel function. With so much attention on streamlining this process, one might expect to see substantial improvement across government. Yet, we continue to hear stories of vacancies that remain unfilled for as long as nine months. And the impression among graduating college students continues to be that the only way to get a job in government is to know someone. The Partnership for Public Service and other groups have reported on improvements made, but these improvements are not widespread. The hiring process in most government agencies remains a major barrier to recruiting. We think that the WAA ought to set explicit performance standards for hiring in each major occupational group and these should be benchmarked against large private sector firms. After all, government is competing with these firms and a candidate's often lasting impression of a potential employer is his or her experience during the hiring process.

Over the last few months, it has become clear to us that providing **a secure and reliable funding source for successful implementation** of this major change is essential to its success. This is especially important if the implementation of the proposed rules is meant to serve as a "test" of the overall approach, or if adoption of a new government-wide system is contingent on the success of one agency's implementation. Evaluating one agency's success will not be a valid test of reform if we fail to provide adequate resources to conduct the test.

We want to make one final point on the key elements of a new personnel management system. The WAA should do much more to encourage federal employees to pursue career-long growth and development opportunities. While funding training programs is important, we also advocate the creation of a mechanism that would allow experience to be the teacher. Our research suggests that the personnel system should provide the means for easier **movement of talented individuals between the public sector and private sector.** We have come to this conclusion based on our analysis of data collected from undergraduate and graduate students on their career aspirations. These data show that young people – even those who express their desire to do public service work – want opportunities to work in various sectors over a career. They are anxious to make a contribution, and see opportunities to do this in all three sectors.

Our research also shows that those agencies that have experimented with job rotations and agencies that rehire people after a stint in the private sector are enthusiastic about the results. One of our interviewees put it to us this way. "Most agencies cannot afford to send an employee away for 6 months or a year to retrain and update their skills. Some

things are just easier to learn on the job in the private sector." This strikes us as an opportunity for a win-win. Job candidates want a varied career and agencies want people with up-to-date skills. WAA should provide mechanisms to satisfy this confluence of desires.

What we are recommending is that agencies be permitted to hire federal "hybrid" employees. These would be people with particular skills, from inside or outside of government, who could work on short-term government assignments for up to three years. They would not be contractors. They could be drawn from academia, the non-profit sector, other federal departments, state and local government, or the private sector. They would be full-fledged government employees, able to supervise other federal employees, and covered under FEHB and FERS, and subject to merit principles and other government values. The purpose of creating this new category of employee would be to enable the government to reach out and tap into the skills that are needed -- and to allow workers in government to branch out and receive extra compensation for replicating important innovations in other places.

We agree with the emphasis in the WAA that certain key elements of the current system should be retained in the new system, including protection from undue political influence, diversity, protection for whistle blowers and veterans' preference.

V -- The Challenge of Implementation

For more than two decades, organizational researchers and change consultants have been studying and working on major organizational changes. From this large body of empirical work and practical experience, we can say a few things with assurance about organization change. One of those things is that implementation is the hardest part. In fact, implementation failure is the cause of many organizations' inability to achieve the intended benefits of innovations.

Implementation is the tough part of organizational change for several reasons. It is the stage when most employees are first touched by the change, which tends to trigger emotional reactions. In fact, many employees do not believe changes will occur until they have to *do* something different on the job. This phase is where we often experience for the first time the effects of lack of alignment between managers and staff – between those who have been actively involved in planning the change and those who must implement the change. This is often labeled as "staff resistance." For these reasons, implementation is the stage when organizational changes are most likely to disrupt mission-critical operations.

The "disconnect" between managers and staff happens because while executives and some managers usually are directly involved in conceiving the new system, staff members are not. When it is time to implement the new system, those who were involved in the planning phase are usually on board. They understand why the change is needed and how it is likely to affect the organization. Those who were not involved, on the other hand, are at the bottom of the learning curve on the new system. As one of my

colleagues at IBM discovered in her study of a government agency going through a major change, employees may receive communications about what changes are coming, but one-way communication is never sufficient to build understanding and a desire to try a new way.

There are four specific steps that the WAA should encourage.

Active Consultation and Involvement Strategy

Two-way dialogue, active involvement, and participation by managers and employees at all levels in the organization are effective techniques that help everyone understand the need for change. There are many examples of successful initiatives in government and elsewhere that can be attributed to the high-involvement strategies that were employed.

Extensive Training and Reliable Technology

Training people on their new duties and responsibilities also reaps excellent results. Training can overcome the very natural anxiety that many feel about learning new processes and technologies and doing things they have never done before. When training is done well, it is designed and delivered in a way that suits both to the needs of the learner population and the demands of the learning content. We contend that giving managers a two-hour computer-assisted training program will not teach them how to set performance goals, provide meaningful performance feedback, and make fair judgments when rating employee performance.

Dedicated Resources to Support the Transformation Effort

Successful implementation of a new personnel system will require sufficient dedicated resources from inside government agencies and, in most cases, guidance from experts who have done this before. This is not a time for learning on the job.

The technical systems that HR personnel, managers, and staff members will rely on to capture and aggregate data will have to work right the first time. Again, this is not the time to try out untested technologies. And these tools must be simple and familiar -- if possible, similar to what employees are accustomed to already. As we all know, people can digest only so much new information at one time.

Time to Effect the Change

In addition to extensive training and coaching, federal managers will need time to adapt to a much more demanding people management role. Employees will need customized information for each occupational group, focused leadership, coaching and time to adapt as well. This implementation will be like a marathon; most organizations are ready to run a 5K.

In the case of personnel system reform, employees, managers, and citizens alike will judge the wisdom of this undertaking by their real-time experiences over the next few years as the new system is implemented. They will have no choice, because the outcomes we expect – a more capable, flexible workforce – will only emerge over a much longer period of time. In our view, the implementation process used during this period will have a far greater impact on how key stakeholders view the system than the debates that have occurred to date.

Management of Occupational Groups across Organizations

We find it difficult to conceive how a highly decentralized agency-by-agency approach to implementation can co-exist with the espoused desire for a government-wide personnel system. While we are firmly of the view that there is no "one size fits all" solution for the federal government, the variations needed in the system exist at the occupational level, not the agency level. Why should there be different systems for personnel management of intelligence staff – one for DoD, one for DHS, and who knows how many more?

We suggest that a better way to bring about both needed flexibility and consistency across government is to implement the reforms one occupational group at a time.

In government, the pool of talent in any one occupation or discipline often crosses agency and department lines. For example, there are law enforcement experts in multiple departments. There are financial analysts in every department. Members of each occupational group usually have similar educational backgrounds and similar competencies. These shared experiences and qualifications make it possible for them to move across organizational boundaries within government. This kind of lateral movement should be encouraged for career development, but it should not be prompted by unjustified inequities in compensation and other personnel rules.

VI -- Conclusion

Our research suggests that there is relatively little disagreement about the need for change in the personnel system. In addition, there is a general consensus around *what* should be done. For example, who would argue with the fairness of rewarding your hardest working and most capable employees in a way that is understood and accepted by the rest of their fellow workers?

But there is a good deal of disagreement about *how* it should be done. Also, government tends to overemphasize the importance of conceiving the change (policy development) and pay less attention to the challenges of putting the change on the ground (implementation). The realities of implementation should be fully considered during the policy development phase – especially in the case of personnel reform.

For these reasons, we encourage Congress, the Administration, and key stakeholders to resolve their final concerns about specific elements of the reform together and turn to the enormous task of anticipating, planning, and executing the changes contemplated by the

WAA. In particular, more consultation with Congress, unions, the workforce, as well as agency leaders and managers is needed; as is investment in training and development of supervisors and managers to prepare them to discharge their new responsibilities and meet new expectations. We must have a plan to fund the additional resources that will be required to get the job done and we must allow government personnel adequate transition time to adjust to their new work environment while continuing to meet ongoing mission requirements.

Above all, we must remember that public servants make possible the millions of individual transactions and relationships that serve the people of our country. They provide the essential capacity of government to serve its citizens. They implement the laws that Congress creates and support a just, fair, and safe society. The change envisioned in the WAA asks a lot of government employees. In return, leadership must do its utmost to earn and keep mutual trust, respect and accountability with these employees in order to succeed.