

BUILDING THE ENTERPRISE

A NEW **CIVIL**
SERVICE
FRAMEWORK

APRIL 2014



PARTNERSHIP FOR PUBLIC SERVICE

Booz | Allen | Hamilton

PREFACE

In 2013 the Partnership for Public Service and Booz Allen Hamilton articulated a vision for creating a federal government that acts as a single, integrated enterprise—not a set of disconnected agencies and programs—in tackling the nation’s biggest problems and challenges. In no area is this need for a unified, whole-of-government approach more critical than in the way the government manages its talent.

Throughout our discussions with numerous current and former federal officials, academics and stakeholders about how to make government more effective, one theme that emerged early and often centered on the inadequacy of the civil service system in helping our federal government recruit, hire, develop, retain and reward our nation’s top talent.

The Partnership is firmly committed to the idea that good government starts with good people. And to be clear, our nation is fortunate to count some of the brightest, most dedicated professionals among its ranks. But too often they succeed in spite of the current civil service system, not because of it, and it is getting harder to attract highly qualified and skilled employees in this age of pay freezes, ad hoc hiring freezes and tight budgets.

Only 9 percent of the federal workforce is made up of people younger than 30—compared to 23 percent of the total U.S. workforce. By 2017 nearly two-thirds of the Senior Executive Service, our nation’s career leadership corps, will be eligible for retirement, and about 31 percent of the government’s permanent career employees will be able to head out the door. Given the state of the economy over the past several years, government has held on to its experienced employees for longer than anticipated, but retirements are back on the rise.

We have an opportunity and an imperative to plan for the future federal workforce, but to do it properly will mean revamping the system that supports it. The General Schedule, the pay and job classification system under which the majority of the federal workforce still operates, dates back to 1949. It reflects the needs and characteristics of the last century’s workforce—not those required for today’s complex, interagency challenges.

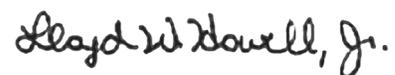
The work of government has changed. The way we work and the skills needed have changed. And the world has changed. Our civil service system has not kept pace. To cope, some agencies, many of whom experienced a crisis, were able to cut their own deals with Congress that enable them to operate under separate systems, with higher pay rates and more hiring flexibilities. The result is a patchwork quilt of “have” and “have not” agencies, where government competes with itself for high-caliber employees instead of approaching talent at a strategic, enterprise level on behalf of all of government.

In his 2015 budget proposal, President Obama reiterated a commitment to taking executive actions that will “attract and retain the best talent in the federal workforce and foster a culture of excellence.” These steps are critical. But we are long overdue for fundamental reforms that go beyond executive action for the civil service system. No reform effort will be successful, however, without strong leadership to drive its successful implementation.

Our hope is that the broad framework offered in the pages that follow ignites a conversation on how to modernize our federal civil service and brings stakeholders together to create a system that our public servants deserve and that will produce the results our country needs.



Max Stier
President and CEO
Partnership for Public Service



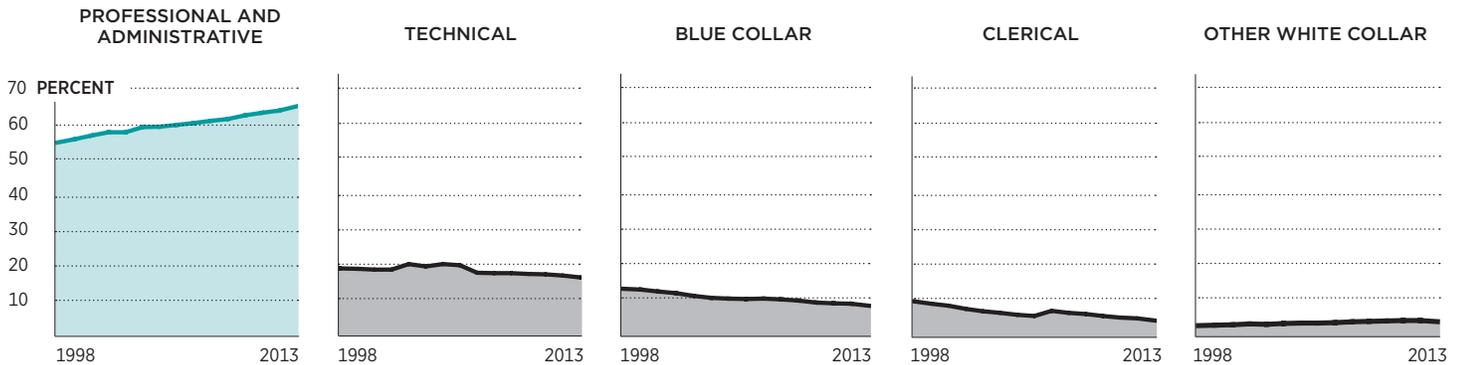
Lloyd W. Howell Jr.
Executive Vice President
Booz Allen Hamilton

Federal Workforce by the Numbers

Today's federal workforce is composed largely of knowledge-based, professional occupations—a much different picture than the largely clerical occupations that dominated the previous century's workforce. The entire federal government is made up of 2.1 million civilian employees, 1.8 million of whom work in full-time, permanent, nonseasonal positions. Nearly two-thirds of these employees work in professional and administrative positions. But what does this portion of the overall federal workforce look like today? Which agencies do these employees work in, and in which fields? The figures in the following pages focus on federal civilian employees in the executive branch, excluding the intelligence community and U.S. Postal Service.

FEDERAL WORKFORCE BY OCCUPATIONAL CATEGORY

The nature of the work performed by federal employees has evolved over time. The percentage of the federal workforce in professional and administrative occupations—those focused on knowledge-based work and often requiring college education—has risen steadily for the past 15 years. At the same time, the percentage of employees in clerical occupations—those that primarily require mastery of a specific task or skill—has fallen 4.6 percent.

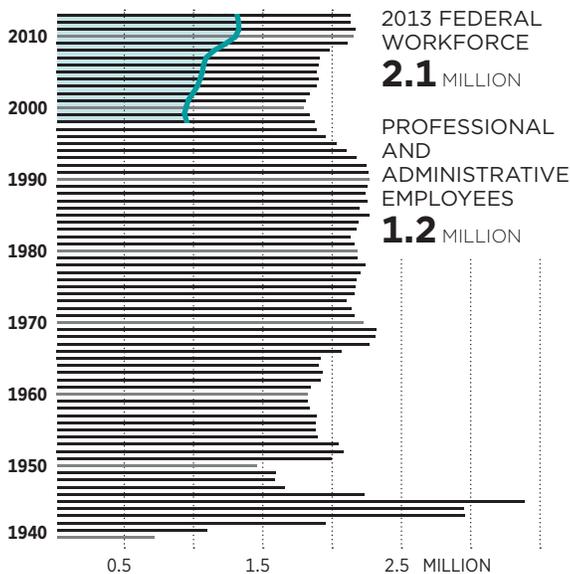


SINCE 1998

THE PERCENTAGE OF PROFESSIONAL AND ADMINISTRATIVE EMPLOYEES HAS RISEN 9.8%

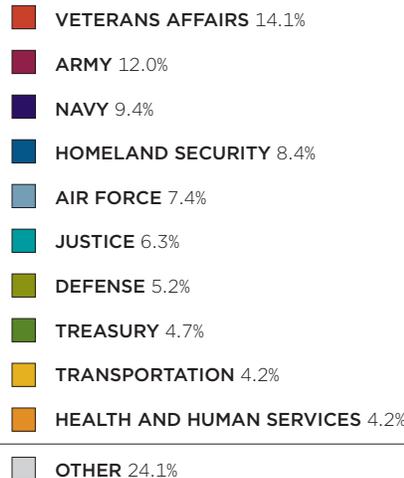
THE PERCENTAGE OF CLERICAL EMPLOYEES HAS DROPPED 4.6%

SIZE OF THE TOTAL FEDERAL WORKFORCE

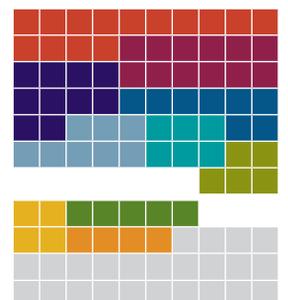


TOP EMPLOYERS: PROFESSIONAL AND ADMINISTRATIVE OCCUPATIONS

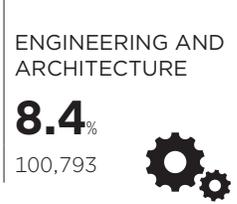
Defense and security-related agencies dominate the composition of the professional and administrative workforce. Employees in these agencies account for 62.8 percent of the professional and administrative workforce, with civilian employees at Department of Defense agencies alone accounting for 34 percent.



62.8%
OF EMPLOYEES WORK FOR DEFENSE AND SECURITY-RELATED AGENCIES



TOP 10 GROUPS: PROFESSIONAL AND ADMINISTRATIVE OCCUPATIONS

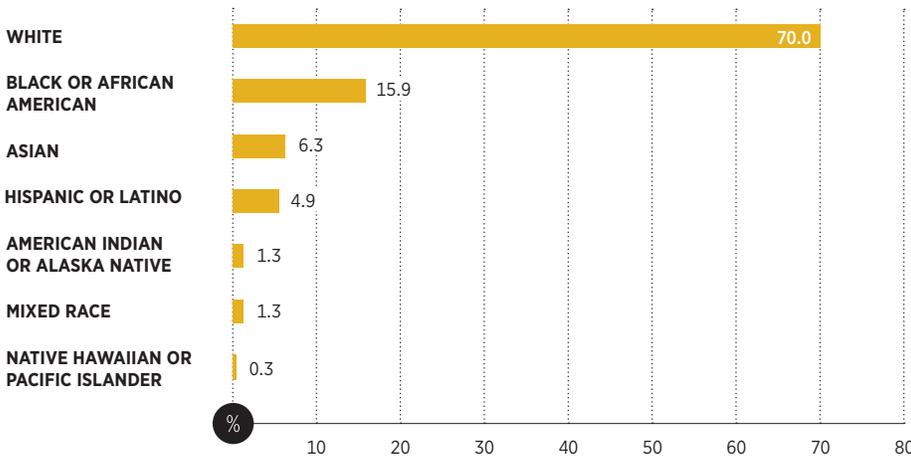


A profile of professional and administrative federal employees

This new civil service framework proposes reforms that would affect the professional and administrative workforce, which comprises 65 percent of the federal workforce. The figures in this spread focus on the 1.2 million civilian, full-time, permanent employees in professional and administrative occupations and are designed to provide an overview of the characteristics of this workforce segment.

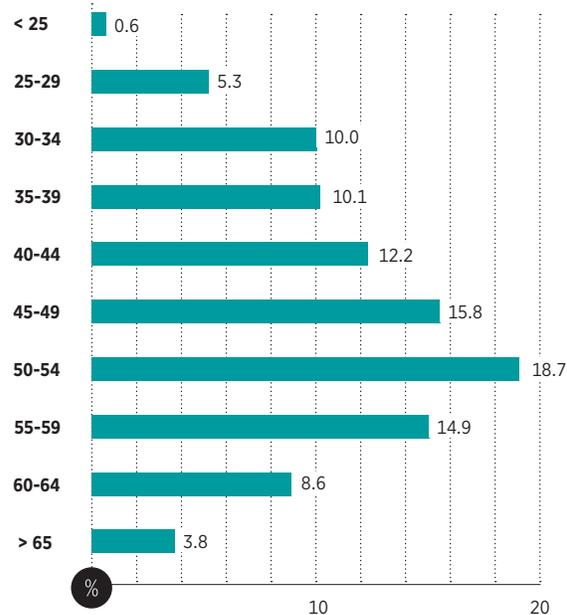
RACE AND ETHNICITY

While the racial diversity of the federal workforce varies from one segment of the workforce to another, the racial diversity of the professional and administrative workforce closely mirrors that of the entire federal workforce. For example, 30 percent of the professional and administrative workforce is composed of individuals of a minority racial group, compared to 33.2 percent of the entire federal workforce.



AGE

Employees under 30 years of age account for only about 6 percent of the professional and administrative workforce. This stands in contrast to the civilian workforce (including the private sector), where 23 percent of employees are under 30 years old. Many of the reforms in this proposal could help government better attract and retain younger talent.



Data Sources: Unless otherwise noted below, all data are from FedScope (fedscope.opm.gov), from the Office of Personnel Management, for all full-time, nonseasonal, permanent employees (Sept. 2013).

Veteran Status: Partnership for Public Service analysis of the Central Personnel Data File (now called the EHRI-SDM) for full-time, nonseasonal, permanent employees (Sept. 2012).

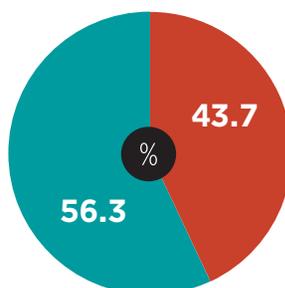
Disability Status: Partnership for Public Service analysis of the Central Personnel Data File for full-time, nonseasonal, permanent employees (Sept. 2011).

Data on the civilian labor force: "Employment status of the civilian noninstitutional population by age, sex, and race," Bureau of Labor Statistics, <http://1.usa.gov/1geGOD3> (accessed Feb. 25, 2014).

GENDER

Women account for 43.7 percent of the entire professional and administrative workforce.

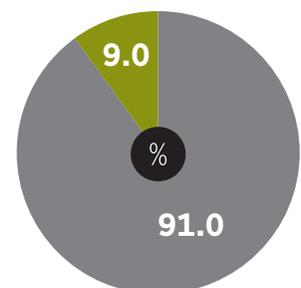
- FEMALE
- MALE



DISABILITY STATUS

Nine percent of all professional and administrative employees report having a disability.

- EMPLOYEES WITH DISABILITIES
- EMPLOYEES WITHOUT DISABILITIES



ACCOUNTING AND BUDGET

7.1%

84,368



SOCIAL SCIENCES AND PSYCHOLOGY

6.8%

81,759



INFORMATION TECHNOLOGY

6.7%

80,101



BUSINESS AND COMMERCE

6.5%

77,947



LEGAL AND CLAIMS SERVICES

5.3%

63,208



BIOLOGY AND NATURAL RESOURCES MGMT.

3.1%

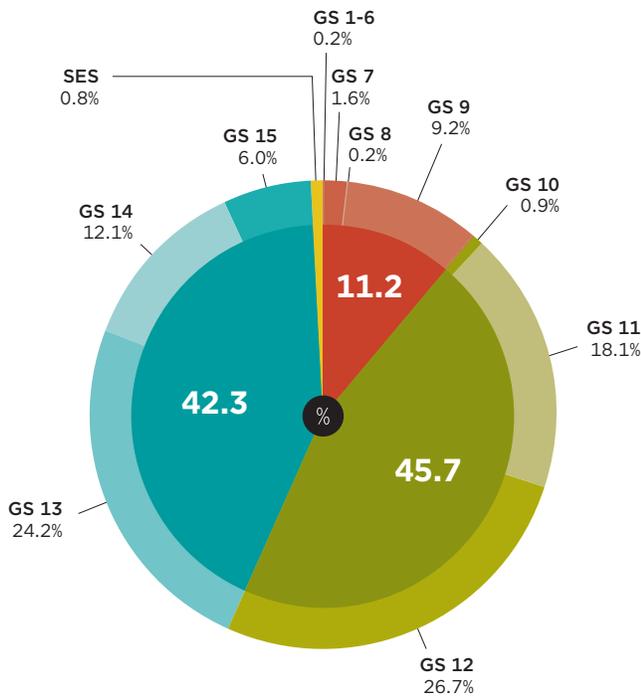
36,741



GS LEVEL

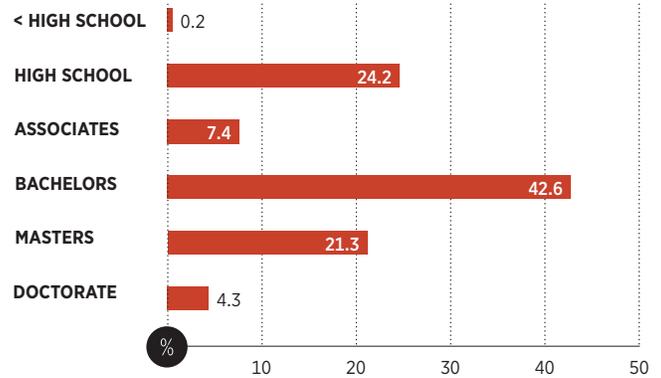
- ENTRY LEVEL
- MID LEVEL
- SENIOR LEVEL
- SES

The General Schedule (GS) is a 15-level, government-wide pay and classification system used for the majority of the federal workforce. Currently, the professional and administrative workforce is predominantly composed of mid- and senior-level grades, with 88.8 percent of professional and administrative employees working at the GS-10 level or higher. We propose a simplified classification system with five work levels (see pages 17-19, SES 35-38).



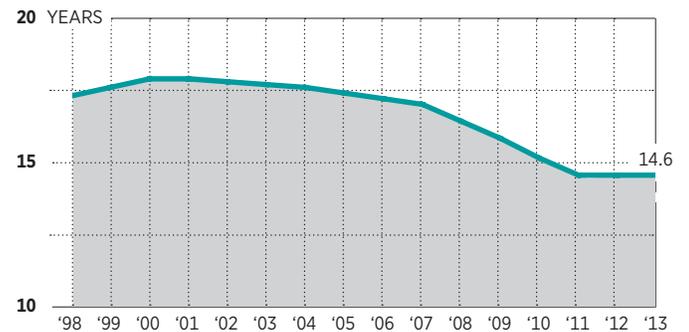
EDUCATION LEVEL

While the education level of current employees primarily represents the education level when hired, there is a marked difference in average education level between the entire workforce and the professional and administrative workforce, where occupations often require a more advanced level of formal education. In 2013, 58.5 percent of the entire federal workforce had some form of college degree when hired. In contrast, a full 68.2 percent of the professional and administrative workforce in 2013 had a college degree when hired.



AVERAGE YEARS OF SERVICE

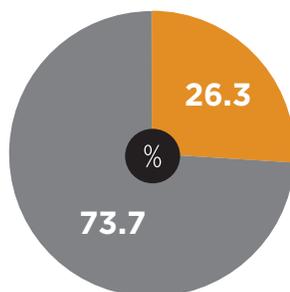
Average years of service refers to the average number of years of federal civilian employment, including creditable military service. The average for all professional and administrative employees has remained steady for the past three years, and in 2013 was higher than the government-wide average of 13.9.



VETERAN STATUS

Individuals who have served in the active uniformed military service constitute a significant segment of the federal workforce. Currently, 26.3 percent of employees in professional and administrative occupations are veterans.

- VETERAN
- NON-VETERAN



TOP 5 GOVERNMENT AGENCIES WITH THE LONGEST AVERAGE YEARS OF SERVICE

1. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION 19.8 YEARS
2. GOVERNMENT PRINTING OFFICE 19.5 YEARS
3. ENVIRONMENTAL PROTECTION AGENCY 19.4 YEARS
4. FEDERAL COMMUNICATIONS COMMISSION 19.2 YEARS
5. NATIONAL AERONAUTICS AND SPACE ADMINISTRATION 19.1 YEARS

INTRODUCTION

The American federal civil service system, the foundation for effective government, is in crisis.

Designed more than 60 years ago, the personnel system governing more than 2 million workers is a relic of a bygone era, reflecting a time when most federal jobs were clerical and required few specialized skills, and when the government's role in society was smaller and far less complicated.

The world has changed dramatically, but the civil service system has remained stuck in the past, serving as a barrier rather than an aid to attracting, hiring and retaining highly skilled and educated employees needed to respond to today's domestic and global challenges.

The American public expects federal employees to competently handle a wide array of critical matters on a routine basis, from making Social Security payments, ensuring air safety and caring for veterans to maintaining a strong military, protecting the food supply and the air we breathe, and securing our borders—each one of these tasks requiring the work of skilled professionals and presenting complex organizational challenges.

Americans also expect government employees to tackle long-term challenges, such as finding cures for diseases, ensuring energy security and providing the building blocks for economic growth, while guarding against and responding to the unthinkable, whether it's a terrorist attack, a devastating hurricane or a financial collapse.

We seldom consider the complexity of these tasks or the people who must handle these matters. We just take it for granted.

While the vast majority of the government's employees are dedicated professionals who seek to make a difference, the civil service system in which they operate is so out of touch with the complexities these employees face and places so many obstacles in their way that it puts at risk the government's ability to accomplish all that we expect of it. And we only see the evidence when it's too late, after something has broken or failed and there are dramatic consequences. It's long past time for a change.

The federal personnel system is disconnected from the broader labor market

In many respects, the federal workplace has become an island disconnected from the larger talent market for knowledge-based professional and administrative occupations that are mission-critical. This is where being competitive for talent really matters, but the government has fallen behind the private sector in that competition. Today these jobs account for about 65 percent of the full-time, nonseasonal federal civilian workforce.

Federal employee pay for professional and administrative occupations, for example, is not tied to the broader labor market, making it hard for government to compete with the private sector for talent. That disconnect is exacerbated by a job classification system (the basis for comparing public- and private-sector jobs) that describes a workplace from the last century.

Unable to compete for and retain some of the high-end skills and lacking the capacity to handle many critical day-to-day tasks, the government often has to look to outside contractors for the intellectual capital and know-how that is needed.

There also is an absence of clarity and consequence regarding individual and organizational performance. Top performers seldom receive sufficient rewards, poor performers are rarely fired or demoted, and managers are not held accountable for how well they manage employees or the outcomes of the work they oversee.

What was once a unified civil service system with a set of common rules and procedures has become deeply fractured, with numerous agencies having obtained special exemptions from Congress that give them greater leeway in setting pay, classifying jobs, hiring and rewarding top-performing employees, even

while other agencies remain saddled with the outdated General Schedule (GS) system created in 1949.¹ As a result, agencies wind up competing among themselves for critical talent, as well as with the private sector, and those organizations with the added flexibilities end up having a distinct advantage.

The hiring system itself is slow, complex, a mystery to applicants and imprecise in identifying the best-qualified candidates. Job descriptions typically are complicated, arcane and out-of-date. Employees frequently are stymied from moving among agencies, and the entry of experienced and qualified applicants into government from the private sector is often difficult.

The civil service system has become a maze of rules and procedures that are not perceived as rational by the people who serve in government or by the general public. Rigid policies that were designed to encourage long-term tenure and internal equity, for example, are now a burden on a government that needs to encourage flexibility and innovation to meet rapidly changing and difficult challenges.

In addition, the government faces a leadership crisis. A very high percentage of senior career executives are nearing retirement, and there is a lack of diversity in the leadership corps and an inadequate pipeline for new talent. Many who are chosen to lead are technical experts rather than seasoned managers. Federal employee surveys routinely show that only about half of the workforce has a high level of respect for their senior leaders.

The Senior Executive Service (SES), created by a 1978 reform law as a unified career executive corps whose members would have a broad perspective of government and the

ability to bring leadership and managerial expertise to a wide range of national problems, has become insular and agency-centric, with most executives staying in the same organization for their entire careers. As a result, while their knowledge is deep, their perspective can be narrow and many lack the experience of handling complex, multi-agency and government-wide missions and functions.

¹ See Appendix One for a list of federal agencies with their own compensation systems.

The way forward:

A transformed civil service

Unlike the private sector, the government's success is judged by how it serves the broader public interest, promotes the general social welfare and protects society and its citizens. The federal government also aspires to be a model employer and an example for others, with a long and respected tradition of placing a high value on merit, nonpartisan independence, preference for our veterans, equal employment opportunity and nondiscrimination, due process and collective bargaining.

A modernized civil service system should continue to be based on these long-held principles. It should have the consistent policies and procedures and level playing field that are characteristics of a single enterprise, but also be flexible and adaptive enough to accommodate the wide variety of agency

missions, cultures and constituents.

The system should be designed to more easily attract, hire, promote and retain the best qualified employees, and place greater attention on the development of leaders. It should be based on state-of-the-art human capital practices and have a total compensation system that is occupation-specific and market-sensitive. And it should have career paths that support progression and job mobility, and be designed to reward performance, not just time on the federal payroll.

The pages that follow offer a framework for reforming the outdated federal civil service system with these goals in mind. Taken together, these proposals represent truly transformational change, but nearly all of them have been tried—and more importantly, proven—in one or more agencies. We are confident that with the commitment of the White House,

the Congress and such critical stakeholders as federal employee unions, professional associations and veterans groups, we can begin a serious conversation, flesh out the details, reach compromises and successfully implement important changes that will lead to improved government performance that better serves the needs of the American people.

There are legitimate differences of opinion about what government should do, but none about wanting whatever government does to be done well. This requires a civil service system that attracts competent, high-quality candidates to public service, pays public servants in a way that reflects the broader labor market, rewards high performance and develops and utilizes top-notch leadership at all levels. That is our aspiration and our goal. America deserves no less.

MERIT SYSTEM PRINCIPLES

The nine merit system principles, codified in law, are the foundation of the civil service, have stood the test of time and should be an integral part of any modernized federal personnel system.

1. Recruitment should be from qualified individuals from appropriate sources in an endeavor to achieve a work force from all segments of society, and selection and advancement should be determined solely on the basis of relative ability, knowledge and skills, after fair and open competition which assures that all receive equal opportunity.
2. All employees and applicants for employment should receive fair and equitable treatment in all aspects of personnel management without regard to political affiliation, race, color, religion, national origin, sex, marital status, age or handicapping condition, and with proper regard for their privacy and constitutional rights.
3. Equal pay should be provided for work of equal value, with appropriate consideration of both national and local rates paid by employers in the private sector, and appropriate incentives and recognition should be provided for excellence in performance.
4. All employees should maintain high standards of integrity, conduct and concern for the public interest.
5. The federal workforce should be used efficiently and effectively.
6. Employees should be retained on the basis of adequacy of their performance, inadequate performance should be corrected, and employees should be separated who cannot or will not improve their performance to meet required standards.
7. Employees should be provided effective education and training in cases in which such education and training would result in better organizational and individual performance.
8. Employees should be protected against arbitrary action, personal favoritism or coercion for partisan political purposes, and prohibited from using their official authority or influence for the purpose of interfering with or affecting the result of an election or a nomination for election.
9. Employees should be protected against reprisal for the lawful disclosure of information which the employees reasonably believe evidences a violation of any law, rule or regulation, or mismanagement, a gross waste of funds, an abuse of authority or a substantial and specific danger to public health or safety.

RECOMMENDATIONS

The Partnership for Public Service and Booz Allen Hamilton arrived at the following recommendations to reshape the system for managing white-collar professional and administrative federal employees after a lengthy examination of past reform efforts and the current state of the civil service, and in consultation with dozens of government and union leaders, former federal executives and academics. We propose:



Creating a unified civil service that operates under a set of common core principles and policies to level the playing field across the federal landscape in the competition for talent, while giving high-performing agencies flexibility to adapt aspects of their personnel systems to meet mission needs; and establishing in law the National Council on Federal-Labor Management Relations as the primary vehicle for consultation between the executive branch and employee unions on civil service policy decisions.

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Establishing a simplified, streamlined job classification system for professional and administrative positions that condenses the General Schedule's 15 grade levels (GS-5 through GS-15) into five work levels that more closely align with the knowledge work that most federal employees currently perform, and that enable them to progress based on their technical expertise, not just the number of people they supervise.

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Adopting an occupation-specific, market-sensitive system for professional and administrative jobs that takes into account total compensation roughly comparable to what is offered by major private-sector employers as well as state and local governments. This system would account for geographic differences in salaries and levels of responsibility.

PAGE 16



Improving today's performance management system by ensuring that supervisors and managers have the skills necessary for it to work, and making it consequential by awarding above-market base pay raises only to those employees and managers who perform above expectations, and no pay increases to those whose performance is unsatisfactory.

PAGE 23



Ensuring greater accountability and speedier justice for employees disciplined or fired for poor performance or misconduct by consolidating the multiple complaints and appeals channels into a one-stop process managed by a reconstituted Merit Systems Protection Board.

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Changing the hiring process by expanding the use of flexibilities now available to only certain "excepted" agencies, without compromising such core principles as veterans preference, merit-based selection, diversity and equal opportunity; holding managers accountable for bringing the right talent into their agencies; charging the Office of Personnel Management to lead the development of valid assessment tools capable of identifying the best qualified from among large numbers of candidates; allowing direct-hire authority whenever agencies can show a shortage of highly qualified candidates; and permitting former high-performing federal officials to reenter government service more easily and at levels that match their skills and experience.

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Creating a single, four-tier executive service that would better prepare accomplished career civil servants for high-level agency and enterprise leadership positions. The top tier would be reserved for specially developed and deployable enterprise executives who possess interagency, intergovernmental or private-sector leadership experience to manage major cross-cutting government initiatives. Candidates for the senior executive corps, with few exceptions, would need to demonstrate the capacity to lead in a complex, interagency, intergovernmental environment. We also propose filling key government management positions with senior career executives instead of political appointees to provide a long-term perspective and leadership continuity, and reducing the overall number of political appointees.

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Unifying the Civil Service



WHAT WE PROPOSE

Create a unified civil service system for the entire federal enterprise that balances bedrock principles and common policies across the government with agency flexibility to tailor their personnel systems to support their separate missions.

THE PROBLEM

The federal civil service system has become increasingly obsolete, with most of its major components last retooled more than six decades ago. As that system has aged, agencies both large and small have broken from its ranks, cutting deals with Congress for agency-specific personnel flexibilities, including separate compensation systems, to further their own unique missions and circumstances. The net result is a balkanized, disjointed system with some agencies exempted from all or part of general civil service rules to create their own more modern agency-specific systems, and other agencies still mired in an antiquated 1949 law. Agencies end up competing not only with the private sector, but also with each other for talent, and those organizations without the personnel flexibilities are placed at a great disadvantage.

THE SOLUTION

We need to build a civil service system that is far more unified than it is today if the federal government is to act as an integrated enterprise, one that operates under a common core framework, levels the playing field across the federal landscape in the competition for talent, and enables agencies to acquire and leverage that talent to deal with the complex challenges that face our nation. This does not mean creating a system that surrenders to the lowest common denominator, mandates one-size-fits-all rules or forces agencies now operating with their own personnel flexibilities back into the box. Instead, it

means taking advantage of the many lessons learned by those agencies that have broken free from the rigid, outdated system and developing a new civil service system that is up to the challenges of 21st-century government. This system should strike a balance between core principles and common policies that apply to all agencies on the one hand, and provide agency flexibility to configure and even customize those human resources policies on the other.

HOW IT WOULD WORK

The enterprise human capital system must be anchored by the core values and operating principles that have defined the American civil service since its inception, and have made that system the envy of the world when it comes to steady, incorruptible continuity in the face of partisan turmoil and transition. That core, common to all agencies regardless of mission, funding mechanism or enabling statute, would be composed of such bedrock principles as merit, nonpartisan political neutrality, veterans preference, due process in terminations and other adverse actions, collective bargaining, diversity and the goals of being a model employer and serving the public interest.

These are all ideals to which every agency should aspire, but many of these operating principles and core values largely have become background noise. These ideals should be reaffirmed and firmly grounded in a new civil service system. The same must be true for the current set of prohibited personnel practices that bar discrimination based on race, sex, age, national origin, political affiliation or disability, and that protect whistleblowers from retaliation. They serve as the alter ego to the core civil service values. These core values, both principles and prohibitions, are inviolable and must govern every federal agency. They are the foundation upon which all other aspects of the system are based, and they would serve as the glue that binds all the federal government's agencies together.

A NEW CIVIL SERVICE SYSTEM ARCHITECTURE

CORE CIVIL SERVICE PRINCIPLES

Merit-based

Nonpartisan

Veterans preference

Non-discrimination

Due process

COMMON ENTERPRISE SYSTEM

Job classification and qualification standards

Streamlined appointing authorities

Occupation-specific and market-sensitive salary ranges

Pay-setting process

Performance management

Unified senior executive service

Independent complaint/appeal adjudication

Core benefits (e.g., health insurance, retirement and leave)

AGENCY-SPECIFIC CONFIGURATION

Recruitment, assessment and selection

Promotion process

Performance appraisals and awards programs

Internal grievance procedures

Special salary rates

CONDITIONAL/CUSTOM

Earned autonomy for high performing agencies

Customizable except for core principles

OPM certification and review

Subject to bargaining

Common, enterprise-wide human capital policies to level the field

In addition to the core principles, a reformed civil service system must be bounded by a set of government-wide human capital policies and procedures that are common across all agencies—policies and practices that are so fundamental that they must apply regardless of mission or circumstance. This commonality is necessary in part to serve as the connective tissue that binds the federal enterprise and its civil servants together, and in part to level the playing field for today's agencies stuck with the outdated personnel and pay policies that have left them at a competitive disadvantage with the private sector and other federal organizations in the search for talent. This would include those common, core benefits—health insurance, leave and pensions that are best provided at government-wide scale, as well as other fundamental aspects of the employment relationship.

For example, there should be a common classification system, with common job evaluation standards and occupational series, to ensure a measure of internal unity across the federal enterprise, but one that is far simpler and more flexible than exists today. Similarly, there should be a single pay-setting process for the entire federal civil service to ensure an enterprise view and good decision-making, but one that is far more market-sensitive and occupation-based than the current system. A common senior federal executive service should be established (today there as many as seven senior executive and equivalent systems) to foster interagency mobility and the development and deployment of that cadre of elite enterprise executives who can be dispatched to handle major government initiatives and multi-agency missions and functions.

In many cases, the common policies would serve to operational-

ize the system's core principles—like equal pay for substantially equal work—but this is not intended to force agencies to default to a less flexible common denominator. Rather, it would mean institutionalizing for all agencies those flexibilities that have proved effective for those few fortunate enough to have acquired them.

And to ensure that rank-and-file civil servants have a say in the substance of those common policies, the National Council on Federal Labor-Management Relations should be codified in law as the principal platform for consultation between the executive branch and the unions that represent most of its employees. The council, established by an executive order issued early in the Obama administration to facilitate greater cooperation between federal unions and agency leaders, is the latest edition of the original Labor-Management Partnership Council created by a 1993 Clinton administration executive order that was later rescinded by President George W. Bush. The council should be given permanent institutional status and a substantive advisory role to the director of the Office of Personnel Management (OPM), the President's Management Council (PMC) and the president in major government-wide civil service policy decisions—including pay-setting.

Earned autonomy for top agencies

A few exceptions notwithstanding, recent civil service reforms have been incremental and limited to individual agencies or groups of agencies rather than government-wide in nature. Ironically, many of these reforms have been in response to some more general organizational fiasco. The personnel flexibilities afforded financial regulatory agencies in 1989, for example, came about as a result of the savings-and-loan crisis and in 1998 the Internal Revenue

Service received them as a result of allegations of abusing taxpayers. When the Department of Homeland Security was established in 2003 in response to the 9/11 terrorist attacks, it was given personnel flexibilities to design a more modern system. Each case came in response to perceived mission failures on the part of the agencies involved, and the changes were justified as part of the fix for that failure.

The opposite dynamic should be the case, with human capital flexibilities afforded to those agencies that have demonstrated the highest performance, not the lowest. These relatively few departments and agencies—by virtue of their superior performance, high ethical standards and exemplary stewardship of core civil service principles—could earn the autonomy to develop their own customized human capital systems.

The human capital flexibilities available would be much like those already available today via the largely underutilized demonstration project authority authorized by the 1978 Civil Service Reform Act. To earn such autonomy to implement innovative personnel management policies and procedures, an agency would have to meet certain performance-based criteria established by the Office of Management and Budget (OMB) and OPM, with appropriate congressional oversight. And just as that existing authority is subject to collective bargaining if an agency's workforce is unionized, those agencies that earn the opportunity to customize their own human capital system in the future would have to negotiate the details of that system with their resident unions.

Matching the Market: Classifying Jobs and Setting Pay



WHAT WE PROPOSE

Modernize the decades-old federal General Schedule (GS) job classification system to better reflect the work of today’s federal professionals and administrators, and use it to match federal occupations—and federal pay—to comparable jobs in the private and nonprofit sectors, as well as in state and local governments.

THE PROBLEM

The federal workforce is treated as a single entity for purposes of compensating professional and administrative personnel, rather than as employees engaged in a set of highly differentiated occupations—an approach that is unheard of among successful private-sector organizations. This federal pay-setting process undermines the ability of the government to attract and retain high-quality, white-collar talent because it treats the workforce as a unified mass, and it bears little relationship to the compensation rates paid for similar work in the broader labor market.

Determining what the labor market is paying starts with classifying jobs. That is how employers determine the relative value of jobs—internally compared with one another and externally with respect to positions in other organizations. The federal government’s way of going

about that determination is archaic. The General Schedule, once the state of the art in personnel management, is now more than six decades old. The job classifications in the General Schedule reflect a time when more than 70 percent of federal employees performed clerical or low-level administrative work, and it has little connection to the knowledge work performed by a majority of today’s civil servants.

Worse, statutory distinctions between those classifications—represented by the 15 General Schedule pay grades—are arbitrary and arcane. For example, a civil service position may be classified at grade GS-11 because its work is of “marked difficulty and responsibility” or at GS-12 if its duties are judged to be of “a very high order of difficulty and responsibility.” As a consequence, the ability to evaluate the relative value of federal jobs internally and externally—for example, to set benchmark salary ranges for comparable work—is close to impossible.

The bottom line: It is difficult to know how federal jobs—and federal salary rates—compare with the competition, and as a consequence the current system for making adjustments to those rates is fatally flawed.

Each year, for example, the Federal Salary Council posits a double-digit salary gap between the federal and private sectors and recommends government-wide salary rate adjustments, only to find them received with skepticism and suspicion from all quarters. Even in times of budget plenty, many on Capitol Hill argue that they

are too high, the unions counter that they are too low, and experts inside the executive branch privately concede that, paradoxically, they are a little bit of both.

And each year, the president declares yet another economic emergency so as to trigger an escape clause that according to the 1990 Federal Employees Pay Comparability Act (FEPCA) allows the administration and Congress to pick a number for a pay increase that typically doesn't satisfy anyone. Bad enough in good times, but in times of real economic emergency, the net result is no across-the-board pay increase at all, no matter how justified. To be sure, FEPCA tried to get it right. It operationalized the principle of geographic market-based pay for civil servants in statute, and it relied on a pay-setting process that, given the data available at the time, was both analytically reasonable and politically palatable. Now we need to complete the job by adding occupational market sensitivity for pay.

However well intentioned the General Schedule and FEPCA may have been, they are now obsolete. Dramatic changes in the nature and stature of federal work, wide fluctuations in the labor markets in which the federal government competes for talent and even changes in the kinds of salary data available to the Office of Personnel Management (OPM) all have contributed to pay grades and pay rates that are suspect. Attempts to match the market through annual, across-the-board salary adjustments do little more than further fuel the wrong debate over whether federal civil servants are paid too much or too little, rather than the real issue of whether they are being paid in the right way.

THE SOLUTION

The current pay-setting process should be replaced with one that compares federal and nonfed-

eral salaries and benefits on an occupation-by-occupation basis, proposes a change in the government's total compensation costs based on those comparisons and, given an overall compensation budget enacted by Congress, provides far greater discretion to the executive branch to actually manage those costs. Under this plan, funds from the total compensation budget could be used to more precisely target benefits and pay rate and pay range increases by occupation, work level and location, to keep the federal government on par with its labor market competition.

At the same time, the General Schedule as it applies to professional and administrative positions that are today classified at GS grades 5 through 15—and account for 65 percent of the workforce—should be replaced by a far simpler, five-level classification framework, with each level representing a much wider range of duties and responsibilities to more closely reflect the work of a modern civil service. Further, Congress should legislate only the broadest contours of that framework, empowering OPM—in close consultation with the President's Management Council (PMC) and the National Council on Federal Labor-Management Relations—to define and, as necessary, refine the details of those work levels and occupation-based classification standards administratively in order to keep pace with the changing nature of government work.

HOW IT WOULD WORK CLASSIFICATION

For white-collar professional and administrative positions currently classified at GS-5 to GS-15, a new classification system would replace those grade levels with five distinct classification levels, from entry to executive. While Congress would establish this framework in law, it

should not require detailed, rigid definitions for those levels. Instead, OPM would be empowered to flesh out and, when appropriate, adjust those levels administratively, in consultation with the PMC and the National Council on Federal Labor-Management Relations. OPM also would be authorized to issue more detailed, occupation-specific classification standards for each level as necessary. It would issue standards for classifying supervisory and managerial positions within all the work levels at full performance or above, with those who are entrusted to lead federal employees receiving a pay differential. Here is what those levels would look like:

ENTRY / DEVELOPMENT

This level would be reserved for professional and administrative employees just beginning their federal careers, from their initial career-conditional appointment and examination period through graduation from trainee to full-performance, career status. The entry and development level would accommodate new undergraduates without significant work experience as well as entrants with advanced education and some relevant experience.

FULL PERFORMANCE I

This encompasses employees who graduate from the entry/development level or demonstrate they can meet all of the performance requirements for a particular job at full performance level. Promotion to this level would be noncompetitive but not automatic. The employing agency would be required to make an affirmative, competency-based assessment in that regard. External candidates who meet those standards could be appointed directly into Full Performance I status.

FULL PERFORMANCE II

This category is intended to accommodate positions that require competencies comparable to those classified at Full Performance I but involve greater complexity, scope or responsibility. For

A NEW JOB CLASSIFICATION SYSTEM

FOR WHITE-COLLAR PROFESSIONAL AND ADMINISTRATIVE POSITIONS, GS LEVELS 5 TO 15

FULL PERFORMANCE II

Jobs that require employees to have skills and experience comparable to those classified as Full Performance I, but involving greater complexity, scope, or responsibility.

FULL PERFORMANCE I (GS 11-12)*

Employees who have moved up from the entry/development level or have demonstrated they can meet performance requirements for a particular journey-level job.

ENTRY / DEVELOPMENT (GS 5-11)*

Professional and administrative jobs for employees just beginning their federal careers.

*GS grades are for reference only and may not align with final design or salaries

For example, a budget position classified at Full Performance I in a field office may be classified at Full Performance II at an agency headquarters because of its agency-wide scope. Promotion to this performance level would be competitive. Supervisors and managers of Full Performance I and II employees also would receive a pay differential.

EXPERT OR MANAGER

Where classification at the first three levels would be based on the duties and responsibilities of a particular job, classification at the Expert or Manager level would be individualized and awarded on the basis of an employee's superior technical or functional expertise or broader management responsibilities—

in other words, a dual track that gives agencies and employees more choices. Unlike today's General Schedule system, those with superior technical qualifications could be promoted and compensated accordingly, without forcing them to become a manager to progress. On the other hand, those that aspired to and demonstrated the aptitude for

SENIOR EXECUTIVE / SENIOR PROFESSIONAL (SES, SL AND ST)*

Positions currently in the Senior Executive Service or the senior technical and senior leader ranks

MANAGER (GS 12-15)*

Jobs assigned management and supervisory responsibilities

EXPERT (GS 14-15)*

Individuals with superior technical or subject-matter expertise

(GS 12-13)*

Have competencies
Performance I, but
no supervisory responsibility

managerial and, eventually, executive ranks could pursue that track.

SENIOR EXECUTIVE / SENIOR PROFESSIONAL

This level would encompass today's Senior Executive Service (SES), Senior Level (SL) and Senior Scientific and Technical (ST) positions, as well as comparable senior service systems such as those in the FBI and the Drug Enforcement Administration (see pages 35-38).

This new system would not alter the current federal wage system for assigning grades and pay for blue-collar jobs in the trade and crafts such as carpenters, plumbers, mechanics, machinists and warehousemen, which is already relatively market-sensitive compared to the General Schedule system.

Similarly, we are not recommending any change to the current classification or pay system for clerical and lower-graded technical jobs. These positions are a rapidly declining percentage of the federal civil service and are generally filled from local labor markets. If recruiting and retention rates are any guide, their pay is relatively competitive in those local labor markets.

This simplified five-level system would be far more fluid than today's etched-in-statute General Schedule, a fluidity that is consistent with today's workplace. Having this framework will help employees understand how they can progress in their careers. While this system and all of its standards would be common to the entire federal enterprise, a key element of this framework

would shift the focus of job classification away from semantic debates over grade level to meaningful distinctions regarding the labor market and performance. In that regard, it would enable the federal government to better match the market by facilitating the comparison of its work and pay levels with those of its competitors.

HOW IT WOULD WORK SETTING PAY

We advocate a system in which Congress and the White House decide what the federal government's total compensation budget ought to be for each year, with salary ranges for individual occupations and locations set administratively by the executive branch through a process that is based on measurable market data and other factors, just like any large private-sector organization. Individual agencies would then apply those occupation-based salary ranges to determine the best mix of grades and occupations, all within their separate appropriations. Establishing a clear pay-setting process based on market data will improve the transparency and credibility of the system and will ensure that the federal workforce stays competitive with the broader labor market for its key occupations.

An occupation-based approach to pay comparability

The system we propose would begin with OPM comparing federal salary data for benchmark professional and administrative occupations—that is, occupations that are common to the federal government, such as information technology specialists, accountants, procurement professionals and engineers—with their private-sector, nonprofit and state and local counterparts. Comparisons would be limited to first-tier, Fortune 500 companies as well as large state and local governments

and nonprofits that meet certain size or gross revenue standards, as those are the federal government's principal competitors in the professional and administrative labor market. There are some occupations for which market data will be more challenging because the government essentially makes the market for those jobs, such as air traffic controllers or intelligence analysts, but we expect tailored approaches that will seek to best approximate what the market requires.

Occupation-specific private-sector salary data could be purchased from private-sector compensation firms that regularly conduct sophisticated salary and benefit surveys of the labor market. The Bureau of Labor Statistics (BLS) used to collect occupation-based salary data but stopped because of budget cuts; it could be funded to do so again. In either case, the BLS ultimately should be responsible for certifying that the market data collected for federal salary comparison purposes, whether by them or by a private compensation firm, is accurate and meets the highest professional and methodological standards. The cost of collecting or certifying such data is relatively minor compared to the cost of over- or under-paying hundreds of thousands of federal employees.

Taking total compensation into account

Based on that BLS-certified data, OPM would compare the cash-equivalent value of the benefits provided by the federal government with those offered by private, nonprofit and other governmental employers. There will be methodological and other challenges to making such comparisons, but if the federal government's pay-setting process is to have credibility with Congress and the American public, a total compensation approach to salary and benefits is imperative. Such an approach is critical to knowing

and managing the true cost of the civil service, and is standard operating procedure for virtually all other large employers.

While a more occupation-based approach to setting and adjusting the salary rates and ranges for government professionals would be used, a standard government benefit package and a standard government contribution to that package would be retained to take full advantage of its enterprise-wide scale. For example, the balanced, strong risk pool supporting the Federal Employees Health Benefit Program is what keeps its costs manageable. However, the cash-equivalent value of the government's benefit package would be taken into account in comparing the federal government's total compensation levels, occupation-by-occupation compared with the private sector and state and local governments.

Targeted, occupation-specific pay increases instead of across-the-board raises

Based on the data, as well as other relevant factors such as offer/acceptance and attrition rates, OPM would develop a notional salary rate and range adjustments for each benchmark occupation by classification level as necessary. This would represent OPM's best judgment based on both qualitative and quantitative considerations. For example, OPM could recommend that the maximum salary rate for expert-level engineers be increased by 4 percent based not only on the market for engineers, but also higher-than-normal attrition, while the salary rates for full performance engineers might remain flat. As noted, annual benefit increases, such as the cost of average annual premium increases to the Federal Employee Health Benefit Program, would also be taken into account.

These recommendations would be submitted to the National Council

on Federal Labor-Management Relations for review and comment and, ultimately, to the PMC. The PMC would make a final recommendation to the director of OMB and the president for approval. Unlike the current pay-setting process, an occupation-based approach doesn't lend itself to a single, across-the-board pay adjustment. There are just too many possible permutations, but the sum total of those permutations would be aggregated along with benefit cost increases in the president's annual budget submission to Congress.

No more economic emergencies, just budget and judgment

The new system would abandon the practice of determining and announcing a pay gap each year between the public and private sectors. That practice has eroded the credibility of FEPCA and has never served its intended purpose—to drive annual across-the-board increases to close that gap. FEPCA's escape clause, the declaration of a national economic emergency, also should be abandoned as a means of avoiding an automatic across-the-board increase. That clause has been exercised as a matter of course regardless of macroeconomic conditions, leaving it to the administration and Congress to reach an agreement on whether to provide a single, across-the-board pay increase, typically without much thought to its labor market considerations.

Instead, Congress and the White House should decide what the federal government's total payroll budget ought to be for the budget year, and allow the executive branch to administratively determine salary rate and range increases and decreases occupation-by-occupation, according to the market. Agencies would then be left to manage within their separate payroll appropriations, adjusting the size and mix of their workforces to optimize that budget.

Administrative discretion to set occupation-specific pay ranges within budget

Once the federal government's total annual compensation budget is established, the executive branch would have administrative discretion to set and adjust the salary ranges for each of the various benchmark occupations within that budget. OMB—in consultation with the PMC and the National Council on Federal Labor-Management Relations—would allocate that budget by occupation and classification level, factoring in locality adjustments and benefit increases. OMB could issue a separate salary schedule for each benchmark occupation, with salary ranges for each occupation's five classification levels. Depending on an analysis of the market, it could group those occupations with separate salary schedules into larger job families such as budget and finance, human resources, procurement, information technologists, scientific and engineering jobs and medical professionals.

In addition to setting minimum and maximum salaries for each benchmark occupation, OMB in consultation with the PMC and the labor-management council, also would set the market point for each salary range within an occupation. The market point or midpoint represents the competitive position of that federal occupation's salary level compared to the rest of the market—in other words, the going rate for professionals in comparable private-sector and state and local government jobs. That adjustment would be independent of any adjustment to the range's minimum or maximum salary rate. In other words, the market point could be increased or decreased even while those minimum and maximum rates remain unchanged.

An increase in the minimum of a salary range would result in an automatic increase for employees who

are at that minimum. If an upward adjustment is made to the market point within the range for a particular occupation, all employees who are at that market point and whose performance meets or exceeds expectations, would have an automatic adjustment made to the new market point. All other employees in the salary range would be eligible for an adjustment based on their performance.

An employee who fails to meet performance expectations would receive no pay increase. Even if that employee is being paid at the salary range's minimum amount and that lower limit is increased, a pay adjustment would not be granted. Rather, employees would remain frozen at a below-the-line salary level unless and until their performance meets expectations. Similarly, an increase in the maximum amount of an occupation's salary range would not necessarily mean that employees already paid at that maximum would automatically receive that increase. Instead, they would still have to exceed expectations to earn an increase up to that new limit.

Conversion and entry

Current employees would be placed into one of the five classification levels established by the new classification system according to occupation-specific job evaluation standards issued by OPM. If their current salary upon placement exceeds the maximum pay for the salary range associated with their classification level, they would not lose pay. Instead, they would retain their salary at the time of conversion, and further adjustments would depend on their performance. Thus, an above-range employee who meets performance expectations would not be eligible for any pay increases triggered by adjustments to that salary range's market rate. However, an employee who exceeds expectations could still receive a performance

bonus above the salary range's maximum. The last thing we want to do is demoralize high performers.

Employees entering federal service would have their pay set somewhere between the minimum and maximum salary for their classification level. The specific amount in that range would be at the hiring agency's discretion and judgment, depending on such issues as the criticality of its need, its personnel budget and the employee's qualifications and experience, even if it means that competition between agencies for the same candidate could drive up starting salaries. Entry-level employees without significant experience would have their pay set closer to the range minimum, with entrants with superior qualifications brought in at a salary level at, or potentially even above, the market rate.

Locality pay and salary caps

The new system would not change the current process for making general locality pay adjustments in the form of add-on differentials to each salary schedule. While that process has some flaws, it generally has allowed the federal government to keep pace with increases in the cost of labor in various locations. Those increases would not be measured by occupation and work level. While locality pay increases by occupation would be the ideal, location-specific salary schedules for each of a dozen or more occupations—for each of five work levels—is just too complex, at least for now. The idea is to keep the system relatively simple to start, even if it comes at the expense of some precision.

In theory, a market-based pay system should be bounded only by the limits set by the labor market for a particular family of occupations. However, no matter how scientific and objective that pay-setting process may be, the reality is that the American public and our political system most likely will insist on

some reasonable limits to federal pay. Few elected officials would support salaries in the mid-six-figure range, even if that's the going rate for senior executives and professionals with comparable responsibilities in the private sector.

Accordingly, limitations on federal pay are inevitable, especially for senior executives. Nonetheless, the upper limit for the very top career executives, as well as highly technical non-executives like physicians, attorneys, scientists and engineers, should be to Executive Level I or the pay of the vice president—at least for those newly designated enterprise executives in our proposed Tier 4.²

² The IRS has the authority to set the salary of certain critical pay executives at a level equivalent to the vice president and has used it to bring in experienced private-sector executives. However, most of these individuals still had to take a significant pay cut.

Expecting and Rewarding Excellence



WHAT WE PROPOSE

Make today's performance management system—which is conceptually sound but flawed in execution—more effective in practice by ensuring that supervisors and managers have the skills necessary to make it work. And make it more consequential by limiting base pay raises above the market to employees and managers who exceed performance expectations, subject to appropriate oversight and protections, to ensure that those increases are based strictly on merit.

THE PROBLEM

While the government's current legal and regulatory framework for performance management is sound in theory, it has never realized its full potential in practice. There are a number of reasons for this. For one, agencies do a poor job of describing organizational performance requirements and translating them into meaningful individual and team performance expectations. For another, there are few consequences—positive or negative—when those expectations are not met or when they are exceeded. And to compound these problems, agencies often do not

effectively select, train and hold managers accountable for working with their employees on performance issues.

For the most part, employees and managers view performance management as a paperwork exercise, an annual necessary evil that has little tangible impact on their working lives. An employee's annual performance rating has little bearing on promotion prospects and almost none on pay, even though logic suggests that promotions should be based on how well employees do their jobs. This is contrary to the merit principle that calls for appropriate incentives and recognition to be provided for excellence in performance. But even the relatively meager monetary performance awards that used to come with high performance ratings have been canceled for budget reasons, not the best signal to send an organization's highest performers.

In addition, supervisors often are reluctant to make difficult performance distinctions. On one hand, they fear litigation when they hold poor performers accountable, and on the other, they lack the tools to reward their best performers—and they are not rewarded for doing either. The net result is a ratings distribution where large numbers of employees are rated above average because it's the most expedient way to check the box. There have been a number of efforts to improve performance management,

including Office of Personnel Management’s (OPM) Goals, Engagement, Accountability and Results (GEAR) pilot project, but that initiative suffered from the same flaws in implementation. Thus, much more work remains to be done.

The results of the 2013 Federal Employee Viewpoint Survey bear this out. Large numbers of civil servants believe that high performance is neither recognized nor rewarded, and that poor performers are not held accountable. Some 70 percent of employees surveyed do not believe promotions in their work unit are based on merit. When employees were asked how satisfied they were with the recognition they receive for doing a good job, only 43 percent answered in the affirmative. In addition, only 26 percent of employees agreed with the statement, “In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.” In 2013, less than half a percent of federal employees were terminated.³

THE SOLUTION

Managers and employees will take performance management more seriously if it matters—if managers are rewarded for setting high expectations for their employees and if they have the tools to hold them accountable for meeting those expectations. This will be reinforced if there are consequences associated with performance distinctions, especially for high performance. When employees and those who manage them exceed high expectations, they should be rewarded with base pay increases that exceed the market point, as well as other forms of recognition for their contributions.

This is not to suggest that civil

³ FedScope (fedscope.opm.gov) from the Office of Personnel Management for all full-time, non-seasonal, permanent employees (Sept. 2013) and for termination or removal (fiscal 2013).

servants are motivated by financial incentives. The research is ambiguous in this regard, and anecdotally most would argue that money is not what brings individuals to public service or keeps them there. However, the government’s ability to recruit and retain talent depends at least in part on paying salaries that are competitive. It also depends on its willingness to make and reward performance distinctions, especially with respect to its top performers. While money may not be a primary motivator, it is a differentiator—a way for employees to gauge relative performance equity. Top performers will be discouraged if they see their extraordinary efforts go unrecognized and unrewarded or, worse, treated the same as those whose efforts are perceived as less, all in the name of feel-good fairness. In addition, many top performers will have other options, so if their contributions aren’t recognized and appreciated, they will leave.

HOW IT WOULD WORK PERFORMANCE MANAGEMENT

Good performance management begins with good supervisors and managers. If their performance improves, so too will that of their employees. In a break with long-standing tradition that is largely the product of the General Schedule’s industrial-age rigidity, agencies should stop picking the best technicians for promotion to first-line supervisor. The new classification system we’ve proposed will still let them promote employees who demonstrate superior technical acumen—just not to supervisory or managerial positions.

Instead, the new classification system would enable agencies to identify and promote people into management who actually want to be managers, and who have demonstrated the potential and aptitude to lead.

The one-year probationary pe-

riod for newly promoted supervisors would be continued to ensure that they are able to translate their potential into performance on the job. In addition, a requirement would be added for an affirmative decision to be made at the conclusion of the probationary period that the individual has demonstrated fitness to continue in the supervisory role.

And once an individual has been selected to be a supervisor or manager, agencies should be required to do everything they can to ensure his or her success. This means mandatory training. This training should not just apply to the classroom, but should include coaching and mentoring programs as well.

Annual performance plans also would be required for every supervisor, manager and executive, and include a standard set of level-specific people-management expectations. For example, supervisors, managers and executives would be held accountable for Federal Employee Viewpoint Survey results, especially on those survey items that deal directly with managing performance. This would include holding poorly performing employees accountable and rewarding those that exceed expectations. The eligibility of supervisors and managers for pay increases and bonuses would be tied to their performance ratings. In addition, political appointees would be required to have performance plans, be given training to conduct performance reviews for the career executives that they supervise and be held accountable for meeting their goals.

Hold managers accountable for employee satisfaction and commitment

Improving employee satisfaction does not mean that management officials must worry only about keeping their employees happy—management cannot become a popularity contest, and survey results cannot be linked to a particular appraisal

rating in a formulaic way. Nor does it mean that survey results should be a manager's only measure of merit—obviously, bottom-line results are just as important. However, it does mean that both should be examined by a supervisor or manager's rating chain—especially from one year to the next—by setting expectations at the beginning of a rating cycle and then again at the end, so that progress on these important indices can be gauged in relative terms.

Oversight to assure transparency, credibility

To ensure the overall credibility of the performance management process, departments and agencies would establish performance review boards modeled after those established by law to oversee administration of the Senior Executive Service performance management system. These review boards also would be established at subordinate levels—for example, at the bureau, major command or even the facility level where it makes sense. The boards would analyze rating patterns by occupation, grade level and demographics in order to assure that they are consistent with organizational performance and merit principles, especially with respect to nondiscrimination and adverse impact. In addition, they would evaluate whether the agency's performance management system is aligned with and supports its mission requirements, and also examine and oversee efforts to improve Federal Employee Viewpoint Survey results.

An agency's review board would not be able to change an individual employee's performance rating after the fact unless it found that that rating was tainted in some way by nonmerit factors. The performance rating process would be completely firewalled from the performance pay process. Employee appraisal ratings would

be locked before performance pay calculations are made, and the review board would be precluded from adjusting them once finalized except in the case of a successful grievance or appeal. However, a review board conceivably could remand ratings for a particular subunit or supervisor on grounds that those ratings are inconsistent with overall organizational results or merit principles.

HOW IT WOULD WORK PERFORMANCE PAY

With a credible performance management system in place, our proposed system would eliminate tenure-based pay increases for managers and employees, and instead make pay progression within a particular salary band based strictly on performance—up to an occupation's market rate for performance that meets expectations, and above that rate only for performance that exceeds expectations. Employees who fail to meet their performance expectations would not be eligible for a base pay increase until their performance improves to satisfactory levels. Employees at the entry/development level would receive set base pay increases as they achieve certain pre-established developmental milestones, at a percentage rate basically comparable to career ladder promotions under today's General Schedule (that is, promotions from GS-5 to GS-7, GS-7 to GS-9, and GS-9 to GS-11), except that performance against developmental standards would replace time in grade as a basis for progression.

Rapid progression to the market rate

When a professional or administrative employee successfully completes a developmental program and graduates from the entry/developmental level, that employee would be placed in the full

performance classification level and receive annual base pay increases of approximately 3 percent (comparable to within-grade increases from Step 1 to Step 4 under today's General Schedule), up to the market rate set for their particular occupation. However, they would receive those increases only if they receive a performance rating of at least "meets expectations."

Employees who receive a rating that exceeds expectations would progress to the full performance market rate even more quickly. Moreover, if the market rate is administratively adjusted upwards as part of the annual pay-setting process, all employees paid at that rate who receive a rating of "meets expectations" or better would see their base pay increased to keep pace with that market rate. Employees who do not meet expectations would not receive an increase unless and until their performance improves, but not retroactively.

High performance for above-market increases

Only those employees whose performance exceeds expectations would receive annual base pay increases above the market rate for their occupation. Those percentage increases would be derived by a mathematical formula, with the amount of an employee's increase calculated based on his or her share of the agency's high-performance pay pool. That pay pool would be agency-wide, as would the share calculation, in order to take advantage of the law of large numbers and ensure relative predictability in performance payouts. This will ensure that high-performing employees across the agency are treated equitably and mitigate the variability associated with small pay pools where demographics and imbalanced ratings distributions can have a disproportionately signifi-

cant impact on share values. And as noted, the entire process would be overseen by an agency performance review board to add even more transparency and credibility.

The mid-point principle

Technically speaking, we are proposing that pay progression within a salary range be based on the mid-point principle—the standard formula used by private industry for placing and progressing individual employees through a particular work level’s salary band or range. The midpoint of that range represents the median market salary for a particular occupation, and under our proposal, an employee entering that salary range below that market rate would receive incremental annual salary increases designed to move that employee to the market rate relatively quickly. For example, it should take no more than three or four years for an employee starting at the range’s minimum salary to get to the market, assuming satisfactory or better performance.

This is not unlike the way the General Schedule works today. Satisfactory employees at a particular General Schedule grade receive a substantial within-grade step increase every year until they reach Step 4 of that pay grade, which is supposed to serve as a market rate for that grade. However, the federal pay system has been broken so long that for professional and administrative jobs, Step 4 no longer bears any relationship whatsoever to the going rate for any particular white-collar occupation in the labor market. Under the revised system, high-performing employees could reach that market rate sooner, but the salaries of those who fail to meet performance expectations would be frozen below the market rate until they demonstrate satisfactory performance. Only employees who exceed their performance expectations would see raises above that market rate.

Under this system, the Office of Management and Budget (OMB)—on the advice of the President’s Management Council (PMC), OPM, and the National Labor-Management Relations Council—would have the administrative discretion to adjust that market point annually with appropriate notice to Congress based on the data from occupational salary surveys for that level of work. They also would take other factors into account in considering such adjustments, such as attrition/retention rates for the occupation, recruit quality and criticality. In this regard, we do not advocate a strict formula approach, but instead rely on the good judgment of the PMC and, ultimately, OMB to make those occupation-based market adjustments.

OMB also could raise or lower the minimum or maximum amount of a particular occupation’s salary range based on market data and other factors. However, unlike today’s pay-setting process, this would not result in an automatic, across-the-board salary increase for everybody in that occupation. Adjustments to the minimum and/or maximum amount of a given salary range would impact only the potential earning power of employees in that occupation. On the other hand, if OMB administratively increases the market rate for a particular occupation, that would result in an automatic salary increase up to that new rate, but only for those employees already at the market rate. And since the overall cost of those automatic adjustments still would have to be managed within an agency’s overall payroll appropriation, there are sufficient checks and balances to warrant such administrative discretion.

Hiring the Best and Brightest



WHAT WE PROPOSE

Level the playing field by giving all agencies the same “excepted” hiring flexibilities that some enjoy—without compromising on core principles like veterans preference and merit-based selection. Charge the Office of Personnel Management (OPM) with leading a government-wide initiative to develop sophisticated, state-of-the-art assessment tools that will identify the very best candidates for the job. Allow agencies to share those “best-qualified” candidates with other agencies, and when they can’t find enough of them using regular procedures like category rating, give them direct-hire authority. Permit former high-performing civil servants to reenter government service more easily. Make better use of entry-level internship programs, and require supervisors, managers and agency leaders to take greater accountability for hiring talent.

THE PROBLEM

The country needs a federal civil service system that enables government to compete successfully for top talent, but the current hiring system often fails to identify and advance the best candidates. While honoring long-held

principles such as merit-based hiring, veterans preference, diversity, nondiscrimination and political independence, the government must fundamentally alter the way it hires for professional and administrative positions.

For 130 years, a foundational goal of the federal civil service system has been to hire individuals who are the best qualified and the best fit for the jobs to be done. In 1978, Congress codified the basic merit system principle that guides hiring practices in the federal government. It states that “recruitment should be from qualified individuals from appropriate sources in an endeavor to achieve a workforce from all segments of society, and selection and advancement should be determined solely on the basis of relative ability, knowledge and skills after fair and open competition which assures that all receive equal opportunity.” This principle is still valid, but the current federal hiring process does not adequately or fully support its implementation.

Over the years, various laws and process requirements have greatly complicated the federal hiring process. In addition, there have been a growing number of exceptions or special provisions for specific agencies, jobs or situations along with a growing array of procedural safeguards that are to be followed and reported upon. As a result, the federal hiring process over time has become so slow, complex, opaque and imprecise in its ability to

identify the best candidates that it is more likely to impede than facilitate the government's ability to hire well. Recent efforts by the OPM to reduce time to hire have met with some success, but more progress needs to take place.

One consequence of the gradual ossification of the federal hiring system is that it has become the province of the human resources staff and not federal managers, who frequently are insufficiently involved in the process and not held accountable for the outcomes. Past attempts to more fully engage federal managers in the hiring process have had very limited success, in part because managers typically do not have the tools or the resources needed.

Effective, merit-based human resources practices that are standard in well-run private-sector companies are often not available to federal managers. This would include the use of valid assessment tools capable of making meaningful distinctions among large numbers of candidates, and the ability for one part of an organization to select a highly qualified candidate from a list of applicants developed by another part of that organization. While the use of student internships has been shown to be an effective way to assess and hire entry-level talent, this source has become underutilized as some agencies and managers have struggled to cope with a revamped intern hiring process.

A large part of the problem is that both the nature of the hiring process and federal workforce needs have changed dramatically, challenging OPM and agencies to keep pace. While development of valid tests and other applicant assessment tools were originally developed on a centralized basis in the federal government, that authority was delegated to each individual agency in the 1990s. Yet few agencies have the specialized staff expertise or resources needed to develop state-

of-the-art assessment approaches. Additionally, civil service laws governing hiring were written in a pre-Internet era. Today electronic communications have made it possible for individuals to easily apply to a large number of job openings online— even for jobs for which they are minimally qualified. For entry-level jobs suitable for recent college graduates, it is not uncommon for there to be hundreds and sometimes thousands of online applicants for a single position. As a consequence, almost all agencies have resorted to some degree to the use of software tools that use experience and/or proprietary code-word algorithms to screen applicants, opting for efficiency at the expense of more precise candidate evaluation.

Another development that needs to be taken into account is the 2002 law that allowed the use of alternative ranking and selection procedures so that job applicants could be rated in quality categories (for example, qualified, well-qualified, and best-qualified) rather than in numerical order. Under this law, any applicant in the top category is eligible for selection, with the provision that veterans entitled to veterans preference be selected before any nonveterans. This law was a positive development, but it also required each department and agency to develop a robust and valid assessment process that ensured that applicants rated in the top category were well matched to the job to be filled. This presumption has turned out to be problematic.

In May 2012, OPM issued regulations implementing the Pathways Programs authorized by presidential Executive Order 13562. True to its name, Pathways was designed to facilitate the entry of students and recent college graduates into the federal service through internships and Presidential Management Fellowships, and by limiting the applicant pool for some jobs to those

who are recent graduates, without compromising veterans preference. Early feedback from federal agencies, however, is that hiring under the Pathways Program still hasn't solved the problem of effectively and objectively assessing thousands of candidates, particularly among recent graduates.

Another problem centers on some agencies having special hiring advantages that others do not have. The Nuclear Regulatory Commission, Federal Aviation Administration, Consumer Financial Protection Bureau and the CIA, among others, have been granted the right to develop hiring procedures that are different or "excepted" from the normal rules because of the unique nature of their jobs, such as nuclear engineers or high-level financial analysts and economists, or because their conditions of employment require extreme security clearance requirements, dangerous working environments or overseas deployments. However, these positions are not "excepted" from the core merit principals, including merit-based hiring, veterans preference and non-discrimination. Approximately half of all new hires into permanent positions in the executive branch are now made under excepted hiring procedures, creating a system that gives some agencies needed hiring flexibilities while denying it to others.

THE SOLUTION

The federal government's hiring problem isn't a lack of talented candidates. Collectively, agencies get tens of thousands of applications every day from some of the most talented individuals in our country. The problem is identifying the very best of those candidates and matching them to the federal job that maximize their talents and aspirations. The solution is not to change the merit

system principle or to back away from well-established public policy objectives regarding workforce diversity and veterans preference. Rather, the solution is to change existing hiring procedures and practices that do not adequately support, and which even unintentionally impede, adherence to those principles and objectives.

HOW IT WOULD WORK

Build state-of-the-art job applicant assessment systems

There needs to be a concerted, government-wide effort, led by OPM, to develop and use state-of-the-art applicant assessments that go beyond simply looking at the education and/or years of experience of the applicants. Initial priority should be given to assessment tools and practices that can effectively and efficiently screen large numbers of applicants. It ultimately will be more effective for a core set of assessment tools to be developed and validated centrally by OPM with active involvement by other federal departments and agencies. Individual agencies would have the option of adopting these assessment approaches or developing and validating their own. We believe that most federal agencies would opt to use the core assessment tools.

For example, a Partnership for Public Service and PDRI August 2010 report, *The Weakest Link: How Strengthening Assessment Leads to Better Federal Hiring*, notes that job/profile matching technologies offer an opportunity for a quantum leap in connecting applicants with jobs that fit their experience and interests, while also helping agencies get more value from their USAJOBS.gov postings. Demonstrating the viability and the validity of this technology in the federal space could bring substantial benefits to both agency staffing specialists and hiring managers.

Level the playing field regarding statutory hiring requirements

The law should be amended to allow every agency to use, when conditions warrant, the same recruitment flexibilities now available to only some “excepted” agencies or positions.

Federal agencies increasingly are finding that for many occupations, including some of their most mission-critical positions, it is difficult to apply standard rules to evaluate, differentiate and hire top-notch applicants. The federal workplace demands highly technical competencies, as well as hard-to-measure skills such as analytic and critical thinking, and these often require a more flexible approach to assessment, including face-to-face interaction between candidates and government experts who are in the best position to evaluate them. These requirements do not comport with a system that attempts to assess, usually via a computer program, thousands of applicants against the blunt instrument of education and experience. As noted above, that is the reason some agencies have been “excepted” from regular requirements. But their circumstances are no longer unique—they’ve become the norm.

Accordingly, the flexibility associated with today’s excepted hiring authority should be available to all agencies, under appropriate circumstances, to fill their professional and administrative jobs, particularly at the entry level. And just as the agencies currently excepted from normal hiring rules must still comply with merit principles, veterans preference and the prohibition against nondiscrimination, so too would those who would be encompassed by this expanded flexibility. It is time to rationalize what has become a dizzying array of literally dozens of individual excepted hiring authorities.

Expand the role and accountability of federal managers and leaders

Federal managers and leaders should bear the ultimate responsibility for ensuring their agency is attracting, assessing and selecting highly qualified and motivated individuals. What managers should not be held accountable for, however, is getting the job done with a broken system. It’s no wonder that managers have become detached from and disenchanted with a system that relies on the impersonal, formulaic processing of mass applications to produce a list of candidates who may be best qualified only in a procedural sense.

When reexamining the mechanics of the federal hiring process, particular consideration should be given to changes that will enable federal managers to be involved in a more productive way in meeting the responsibilities for recruiting and selecting highly qualified, motivated and productive employees. Better assessment tools, for example, could help managers in their decision-making. Agency leadership also should ensure that managers should have specific responsibilities for recruiting top talent, especially for hard-to-fill, mission-critical occupations, and this should be a specific part of each manager’s performance standards where it makes sense. This is the case for a few federal organizations, but it should be common to all in the federal enterprise.

Create cross-agency best-qualified applicant pools

Another common-sense opportunity to create enterprise-wide efficiencies for the federal government involves reducing the number of times an applicant has to apply for and undergo an assessment for similar jobs. For example, establishing a national best-qualified applicant pool for a major occupation or specialty

such as financial management or information technology could give agencies the option to hire individuals from that list in lieu of doing an individual search. This would be especially effective for entry-level jobs, where qualification requirements are more general and the number of applicants can be in the thousands. Thus, if a candidate applies for and makes the best-qualified list for a senior budget analyst position but isn't selected, the application and other assessment materials could be deposited, with the candidate's consent, in a central, searchable database administered by OPM. The policies and assessment standards used to create that applicant pool could be established by OPM or by another lead agency willing and able to accept that responsibility.

For those more specialized, mid-level and senior positions that may not be suited for candidates pulled from a government-wide roster, agencies also should be authorized to share best-qualified candidates with one another. Currently, federal agencies do not have the legal authority to do so, even for hard-to-fill jobs. For example, an agency may invest in an extensive recruitment and screening process to identify several highly qualified candidates for its chief financial officer or chief information officer position, but it can hire only one of them. Why require another agency with a comparable position—not to mention the highly qualified candidates who weren't selected in the first place—to start the process all over again? That's inefficient and can lead to the loss of highly qualified candidates.

Absent a specific statutory authorization, OPM should explore alternative methods for applicant sharing among agencies, perhaps by encouraging formal joint staffing agreements between agencies that commit them to recruit, assess and share highly qualified candidates for comparable jobs. They also could in-

clude an intent-to-share notice in job announcements to alert potential applicants that unless they opt out, applying for a job in one agency could result in their being referred to another agency with a similar need.

Amend the criteria that must be met before a direct-hire authority can be approved

Current law and regulation should be amended to allow direct-hire authority to be granted when there is a shortage of "highly qualified" candidates, as opposed to a shortage of those who are just "basically qualified." Under current law, OPM can give direct-hire authority—literally, the ability to hire on the spot—to a federal agency so long as it can show that it is faced with a critical hiring need or if it can show a severe shortage of candidates. OPM has interpreted the latter requirement as meaning a severe shortage of minimally qualified candidates. This is an inadequate standard: It is almost impossible to show a shortage of candidates who can meet minimum qualification requirements. But does the government really want minimally qualified candidates to meet its most pressing needs? By amending the current law and regulation to allow the use of direct hiring authority when there is a demonstrated shortage of highly qualified candidates, federal agencies would be able to focus on both the quality and the quantity of the individuals being considered.

Allow agencies to rehire former federal employees to any position for which they qualify

Currently, former federal employees who have held a career or career-conditional position may be noncompetitively reinstated to a position within the federal government, but only to a job that is at or below the grade level they last held in the federal government. What that means is that if an employee left government

and gained several years of valuable, higher-level experience outside of government, the individual still may not be considered for reinstatement at a level above that last held in the government. For example, a junior software programmer who leaves as a GS-7 and goes on to become a lead programmer for Google can be reinstated only as a GS-7, even though he or she may qualify at a much higher level. It is in the interest of the government and the public to allow agencies to have the option to reinstate former federal employees to positions at any level for which they qualify. In effect, these individuals should be given a passport for reentry into government that recognizes and rewards their added experience.

Expand the role and use of internships in the federal government

The role and use of internships in the federal government should be reexamined and expanded. Observing the quality of an intern's work provides an opportunity for an excellent assessment of the individual's fitness for permanent federal employment. Allowing a federal agency to noncompetitively convert promising interns to permanent federal employment after they have amassed a certain number of work hours and they have demonstrated their potential to be a highly successful employee simply makes sense. Some recent changes under the Pathways Programs developed by OPM have been a move in the right direction, especially for college students potentially interested in permanent federal employment after graduation.

However, there still are restrictions on the conversion to permanent employment for interns who work in the federal agency but who are paid by a third party under contract to government. Those restrictions should be modified or removed. Similarly, agencies also

should have the option to convert to permanent employment unpaid interns engaged in substantive work for the government. Finally, federal agencies should be encouraged to place greater emphasis on the use of internships and conversions from internships as part of the planned pipeline of talent into government.

Expand the use of stipends, scholarships and ROTC-like programs

The federal government already has demonstrated the value of scholarships in attracting talent that might otherwise be unavailable. The Scholarship for Service program, for example, is increasing and strengthening the ranks of federal information assurance professionals protecting the government's critical information infrastructure. The Reserve Officers' Training Corps (ROTC) has long provided competitive, merit-based scholarships covering all or part of college tuition in return for an obligation of active military service after graduation.

Approximately 30 percent of all active-duty officers in the Department of Defense commissioned in 2010 came through an ROTC program, and based on that experience, Congress authorized an ROTC-like program as a way to recruit talented civilian professionals for the intelligence community. Although the intelligence community has never exercised that authority, it could serve as a model. The use of such scholarship programs to attract and recruit highly talented individuals into mission-critical occupations—especially for occupations for which there is a projected shortage of highly qualified candidates—should be expanded.

Accountability and Workplace Justice



WHAT WE PROPOSE

Create a unified dispute resolution process for all individual employee complaints and appeals that will preserve due process rights and speed decision-making in a way that serves the interests of managers and employees alike.

THE PROBLEM

The current federal process for dealing with employee complaints and appeals is fundamentally flawed and does not adequately serve the needs of either managers or employees. Federal employees have access to multiple and sometimes overlapping dispute resolution forums on a wide range of issues and it can routinely take over a year or more to receive a final answer, confusing both managers and employees and delaying resolution.

When it comes to poor performance or misconduct, private-sector companies dismiss or seek to rehabilitate an employee based on whether it serves a legitimate business interest to do so. In the case of the federal government, it has long been recognized that partisan politics could influence the decision to remove a career federal employee. To protect the public's interest in a federal workforce that must operate in a neutral and competent manner, due process protections—for both conduct and

performance-based adverse actions—were enacted to ensure that any decision to remove a federal employee would be for just and sufficient cause.

For managers, the process of removing or disciplining an employee is daunting in terms of the time and effort required, and often discourages managers from taking appropriate actions. They are not properly trained in handling these situations and often lack the will and the top-level support to act because of the concern about the personal toll and disruptive impact it may have on the work unit.

For employees who have been terminated, face disciplinary action or have some other appealable dispute, it can take many months or well over a year to achieve resolution. This system leaves employees in limbo and is demoralizing for the large majority of workers who are performing well. The 2013 federal employee survey data show only one-fourth of employees believe managers in their work units take appropriate steps to deal with poor performers.

One major aspect of the problem lies in the ability of employees to use multiple avenues for contesting an adverse decision, a system that facilitates delays and is ripe for possible abuse.

Employees have a menu of choices. These include filing a grievance under a negotiated procedure if the employee is part of a bargaining unit and, if the union agrees,

can go to an arbitration hearing and an appeal to the Federal Labor Relations Authority (FLRA); filing an appeal with the Merit Systems Protection Board (MSPB), which normally includes an evidentiary hearing, administrative review by the full board and judicial review by the U.S. Court of Appeals for the Federal Circuit; and if an employee is a member of a protected class, filing a discrimination complaint, which starts with an internal agency investigation but can go to the Equal Employment Opportunity Commission (EEOC) and the courts. Individual employees who believe they are the victim of a prohibited personnel practice or retaliation for otherwise lawful whistleblowing can have their cases investigated by the Office of Special Counsel (OSC). In addition, an employee can pursue a matter in multiple forums concurrently. For example, an employee can raise allegations of discrimination and/or retaliation in any one of these forums. A mixed case can bounce back and forth between the MSPB, the EEOC, and, eventually, the courts for an extended period of time.

The two most heavily used channels are the MSPB and the EEOC. Most appeals filed with the MSPB in fiscal 2012 were decided in less than 120 days unless a second-level review was requested.⁴ This second review added an average of 245 days to the process, meaning that full resolution can take on average about a year.

If an employee alleges that discrimination is involved in a performance-related dispute, a discrimination complaint can be filed with the EEOC. In fiscal 2011 the average processing time for an investigation of an EEOC complaint was 183 days. If, after the investigation, an employee requested a decision on the merits of the case by an

administrative law judge, the average processing time was another 378 days. So, the filing of a complaint of discrimination within the agency to a final decision by the EEOC can take an average of 561 days, or more than 18 months—and often much longer. In fiscal 2011 there were 16,974 complaints filed with the EEOC, and findings of discrimination were reported in 222 cases—or about 1 percent.⁵

THE SOLUTION

Greater accountability and workplace justice can be achieved by establishing a one-stop-shop that would simplify the employee complaint and appeal processes and expedite final resolution of these cases to the benefit of both agency managers and employees.

Our proposal would leave due process rights and protections intact, including the right to advanced notice of a proposed adverse action, the right to see the evidence upon which that action is based, the right to reply to and contest the charges contained in that notice and the right to a final decision made by an official other than the one proposing the action.

Administrative appeals of agency decisions to remove or discipline federal employees that are currently filed with the MSPB and/or the EEOC would now be handled by a single adjudicatory body, a reconstituted MSPB, with the exception of cases that have been brought to the OSC.

The MSPB is best positioned to expertly handle cases now brought to the EEOC and has an excellent track record of expeditiously and fairly dealing with employee disputes. The revamped board would investigate and render decisions on all em-

ployee disputes involving discipline or termination and ensure that due process rights are maintained. Further, there should be limited judicial review of an appeals authority in a single venue: the U.S. Court of Appeals for the Federal Circuit.

Negotiated grievance and arbitration procedures would be left intact for unionized employees, but an arbitration decision, including but not limited to a decision involving an adverse or performance-based action, would be appealable to the MSPB.

HOW IT WOULD WORK

Employees would file their complaint or appeal either through the negotiated grievance procedure if applicable or the reconstituted MSPB, but not both. If an appeal contains a formal complaint of discrimination or raises an allegation of discrimination in connection with some other management action, the case would fall under the jurisdiction of the MSPB, not the EEOC as is the case today.

The new MSPB would have increased resources and be empowered to investigate disputes and hold evidentiary hearings only if necessary, and would be required to render a final administrative decision within 120 days, a standard met today by the board in the cases it handles.

Individual employees who believe they are victims of an unfair labor practice (today filed with the FLRA) would also have recourse, only to the reconstituted MSPB. Alleged instances of a prohibited personnel practice or retaliation for otherwise lawful whistleblowing would continue to be investigated and handled by the OSC.

Thus, for the vast majority of employee-management disputes, there would no longer be an opportunity for an employee to file complaints and appeals before multiple agencies and thereby delay final res-

4 U.S. Merit Systems Protection Board, *Annual Performance Report (FY 2012) and Plan (FY 2013 (Final) – FY 2014 (Proposed))* (Washington, D.C., April 10, 2013), 13, <http://1.usa.gov/1mhFxn7> (accessed 19 March 2014).

5 U.S. Equal Employment Opportunity Commission, *Annual Report on the Federal Work Force Part I: EEO Complaints Processing (Fiscal Year 2011)* (Washington, D.C., 2011), iii and II-3, <http://1.usa.gov/1f17nAt> (accessed 19 March 2014).

olution. There would be one comprehensive bite of the apple. The relatively small number of highly specialized, multiparty and institutional disputes such as class action complaints of illegal discrimination, negotiability disputes between labor and management, and petitions for a union representation election would remain with EEOC or FLRA, respectively.

Streamlined adjudication system will speed decision-making

Employees with legitimate grievances against their agency, as well as managers who act in good faith to hold employees accountable will benefit from this simplified system. They need only file and prove or defend their case once, no matter how many corollary allegations may be at issue.

A single appeals authority and a single judicial venue for appeals would provide due process external to the agency and would reduce forum-shopping, delays and inconsistencies in rulings.

In addition, this approach would save money. Not only will merging the federal employee complaint process eliminate significant redundancy—today each agency has its own budget and personnel operation, case management system, administrative infrastructure and geographic footprint—but it would also provide employees with a single adjudicatory system that resolves complaints and appeals far more quickly and with greater finality.

Investing in Leadership



WHAT WE PROPOSE

Build long-term management focus by creating a single, four-tier senior executive service with increased responsibility and pay, with the top tier and top pay reserved for those who will be given high priority, multi-agency missions and functions. Reevaluate the role and use of political appointees by reserving certain key management positions for career executives and by reducing the overall number of political appointees.

THE PROBLEM

The government has struggled to sustain high levels of effective leadership. The 2013 *Best Places to Work in the Federal Government*[®] rankings, for example, found that only 38.5 percent of employees government-wide answered in the affirmative when asked whether senior leaders generate high levels of motivation and commitment in the workforce, while just 49 percent have a high level of respect for their organizations' senior leaders. Leadership has consistently been one of the lowest rated workplace categories in the *Best Places to Work* analysis.

By design, the top leadership in the federal government is transitory, with political appointees serving for relatively short periods of time. This makes having a high-caliber, sustained career leadership corps all the more imperative, yet the current system falls short of building senior executives who are accountable for the management and the long-term health of our government.

What is in short supply are career senior executives who have varied job experiences within and outside of government and who are seen, see themselves and are managed as, leaders with responsibilities that encompass not only the success of their individual organizations, but also the success of the federal enterprise as a whole.

The career leadership has become agency-centric, with most executives staying in the same organization for their entire careers, never gaining an outside perspective and lacking the managerial experience needed to handle complex, multi-agency and government-wide challenges.

Recent data, for example, show that 92 percent of Senior Executive Service (SES) members have been promoted from within government, 81 percent come from the same agency they had been working in prior to joining the leadership ranks, and only 8 percent have moved to a different agency once in the SES.

This agency-centered focus is reinforced by the fact that senior career leaders at some law enforcement, defense intelligence and other organizations are part of separate agency executive systems, creating obstacles to moving to positions in other agencies operating under the SES.

The narrow agency outlook throughout the government runs contrary to the intent of the 1978 Civil Service Reform Act that created the SES. The law envisioned a unified federal career executive corps whose members would have a broad perspective of government and the ability to serve in different agencies as needed and to bring leadership and collaboration skills, expertise and strategic thinking to a wide range of issues.

In addition to lacking a government-wide orientation and broad experience at different agencies or outside of government, many executives are selected and promoted typically for technical expertise rather than executive or managerial excellence and people skills. This needs to change.

Career executives are the individuals who help set the leadership tone in the departments and agencies and they are the ones best positioned to provide long-term management focus across the government. It is imperative that a new civil service system invest in building career leaders who can play these critical roles.

THE SOLUTION

To provide a long-range perspective for agency operations and continuity in management and leadership, there are certain senior government positions which could logically be filled by nonpartisan career executives instead of political appointees.

Our proposal would strengthen the career executive workforce, in part by creating enterprise executives at the top level who would be experienced and capable of assuming some of the management positions now held by political appointees, and who could be deployed throughout the government based on need.

At the same time, it is important to create greater unity in the senior executive corps. The current system includes multiple, separate senior executive services that should be replaced by a single, four-tier system that would better prepare accomplished career civil servants for high-level agency management positions and produce leaders capable of being assigned to government's most important projects.

Entry into the executive corps would require the capability to lead complex organizations or operations. Successful candidates could demonstrate this ability in various ways, including, but not limited to, actual on-the-job experience in multiple agencies, functions or sectors. Once in the SES, opportunities would be available for executives in the first three tiers to have diverse experiences in different agencies and jobs. However, there will be some SES positions where mobility may not make sense. The top tier however, would be reserved for specially developed and deployable enterprise executives who have demonstrated a very high level of expertise in managing multiple organizations or sectors. At this level, performance expectations and standards would explicitly take into account the need for executives

to possess a broader perspective and to have the ability to create relationships and collaborative networks across organizational boundaries.

HOW IT WOULD WORK

The challenges facing the federal government are increasingly complex and cut across agencies, levels of government and sectors. It is critical to expand the field of experience expected of career executives so they can bring new thinking and a broader, enterprise-wide perspective to their leadership roles. Building that perspective will require that incentives, including pay, be aligned with these needs. Executives at the top level (Tier 4), for example, not only would have to demonstrate the ability to manage the larger federal enterprise, but they also would be paid for the effort and the results.

The new federal senior executive system would encompass all current senior service systems and career senior executives including, to the extent feasible, those federal organizations that currently operate parallel systems for their senior executives, such as the several defense intelligence agencies, the Transportation Security Administration, the FBI, the Drug Enforcement Administration and the Federal Aviation Administration. The executive corps still would preserve some agency-specific variations but allow for an executive interchange between systems in order for the government to more easily tap into a richer leadership talent pool for challenging assignments. The purpose would be to have top career leaders from all agencies available as a government-wide resource, not just as individual agency assets. Current differences in executive compensation among federal agencies, such as the higher salaries paid by the financial regulatory agencies, would need to be dealt with to minimize disincentives for mobility.

Reevaluate the use of political appointments

C-suite positions, such as chief financial officers, chief human capital officers, chief information officers and the chief acquisition officers, should be filled by career rather than political appointees for renewable terms of six years to ensure continuity between administrations.

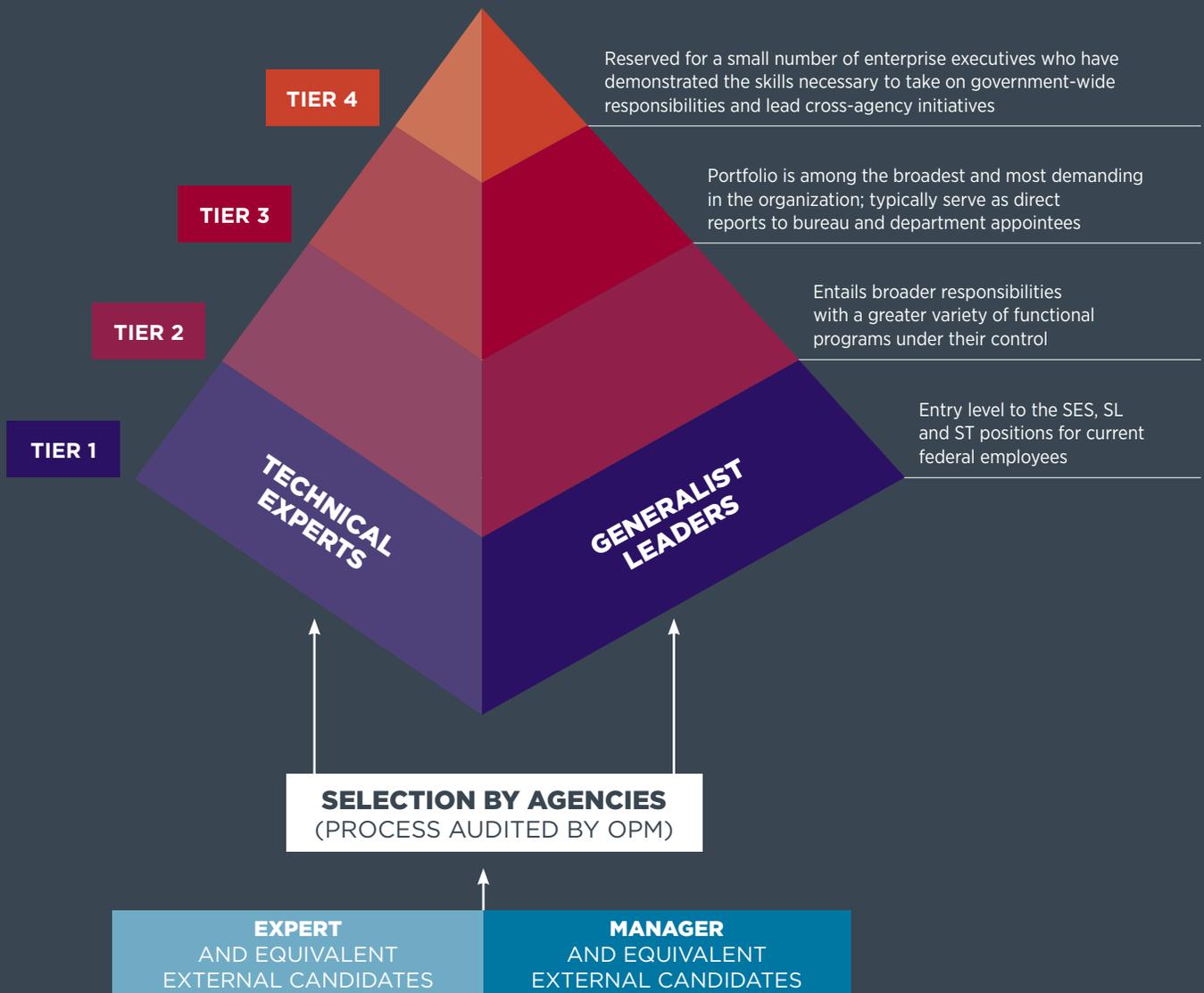
The number of political appointees has grown substantially over time and now stands at more than 4,000.⁶ In reevaluating the role played by political appointees, this number should be reduced. There also should be a 10 percent cap placed on non-career SES members at each agency to ensure that no agency becomes a repository for political favors and to promote better selection of individuals whose skills match agency missions. Currently, the percentage of political non-career members of the SES is limited by law to 10 percent government-wide, but individual agencies can and do exceed this percentage.

New senior executive system will have four levels

The revamped federal executive service would consist of four levels, with entry requiring possession of the current five Executive Core Qualifications. In addition, candidates should possess the capability to work effectively across organizational and functional boundaries. This would help ensure that agencies select new executives who already have varied experiences and outlooks. To meet the new requirement, for example, rotational assignments could be incorporated into individual career development plans. Agency executive resource boards should be responsible for identifying developmental opportunities in

⁶ U.S. House of Representatives, *United States Government Policy and Supporting Positions* (Washington, D.C.: U.S. Government Printing Office, 2012), 200, <http://1.usa.gov/1dqLqGi> (accessed 19 March 2014).

A NEW SES CLASSIFICATION SYSTEM



cooperation with the Office of Personnel Management (OPM).

Agencies would be delegated the authority to certify that their selected SES candidates in Tiers 1 through 3 possess the Executive Core Qualifications rather than relying on the current OPM-run Qualifications Review Board that now must approve those chosen for executive positions. OPM would review hiring

decisions annually to ensure agencies are acting appropriately.

Each of the four tiers would include separate tracks for both technical and managerial experts. This would allow agencies to promote skilled professionals for their technical value and not force them to become something they're not—supervisors and managers.

As executives are promoted

from Tier 1 through Tier 3, they would be expected to take on increased responsibilities, have the potential to receive higher salaries and gain wider experience. Executives hired from outside government would be eligible for entry into any of the four tiers as long as they meet the qualifications.

TIER 1

THE FOUNDATION OF THE SES PYRAMID

Tier 1 typically would be the entry level to the SES for current federal employees. Individuals would be promoted competitively upon a determination that they meet the executive competencies and have the requisite breadth as well as depth of experience. Individuals who are or who currently could qualify under the current senior leader (SL) or senior technical expert (ST) designation also would be qualified to hold a position at the Tier 1 level. The Tier 1 responsibilities would be smaller in scope than Tier 2 and would report to senior executives at a higher tier. Pay for Tier 1 executives and technical experts would be capped at Level III of the federal Executive Schedule.⁷

TIER 2

EXECUTIVES WITH INCREASED RESPONSIBILITIES

Compared with Tier 1, Tier 2 executives would have broader responsibilities with a greater variety of functional programs under their control. They frequently would have one or more Tier 1 executives under their supervision. Pay for Tier 2 executives and technical experts would be capped at a level that is at a midpoint between Level III and Level II of the federal Executive Schedule.

TIER 3

EXECUTIVES WITH INCREASED MOBILITY EXPECTATIONS AND SCOPE

Compared with the first two tiers, the portfolio of a Tier 3 executive or technical expert would be among the broadest and most demanding in the organization. Typically they would be direct reports to bureau and department appointees, or in some cases occupy those positions.

⁷ See Appendix Two for the salary levels under the federal Executive Schedule as of Dec. 23, 2013.

Pay for Tier 3 executives and technical experts would be capped at Level II of the federal Executive Schedule.

TIER 4

THE ENTERPRISE EXECUTIVES

The top tier would be reserved for a small number of enterprise executives who have demonstrated the skills necessary to take on government-wide responsibilities and lead cross-agency initiatives. There would be special provisions for the management of this cadre of senior leaders and world-class technical experts as described below. Tier 4 pay would be capped at the vice president's salary or, at minimum, Level I of the federal Executive Schedule.

The enterprise executives would be required to have worked at different agencies and perhaps undertaken rotations within their own organizations during their time in the executive service, or worked at other levels of government or in the private sector. They would need to display strong managerial and collaborative skills, an ability to lead across organizational boundaries, to lead without formal authority, to build and leverage inter-organizational networks to exercise influence, and to facilitate interagency collaboration through a shared sense of mission.

A primary role for these new Tier 4 enterprise executives would be to fulfill the leadership needs for the cross-agency priority goals required by the Government Performance and Results Modernization Act of 2010. This was discussed in detail in our August 2013 report, *Building the Enterprise: Nine Strategies for a More Integrated, Effective Government*.

As noted in the 2013 report, this law requires that the Office of Management and Budget (OMB) appoint leaders to head the teams for the administration's cross-agency goals, which over time could be expanded

to include many more missions and administrative functions. The enterprise executives would be appointed as cross-agency goal leaders or serve as deputy goal leaders. They also could be assigned to manage other major initiatives involving multiple agencies outside the framework of the government performance law.

Enterprise executives will be selected by a new enterprise review board

These elite enterprise executives would be selected for the top tier by a newly created Enterprise Executive Resources Board (EERB) that would operate under the purview of the President's Management Council (PMC). The board would deploy the enterprise executives to specific cross-agency missions and functions, and monitor and evaluate their performance. Those chosen for the top executive level would compete for prestigious enterprise leadership positions.

The enterprise board would be chaired by the OMB deputy director for management and consist of members of the PMC, the OPM director and some of government's most respected former career executives. Enterprise executives drawn from career SES ranks, as well as those selected from outside government, would serve five-year term appointments, be compensated up to the vice president's salary or at a minimum Level I of the federal Executive Schedule and have performance contracts with the PMC. At the conclusion of their terms, enterprise executives with career SES status could remain in their current enterprise executive positions, be assigned to other such positions or returned to Tier 3 career SES positions in their home agencies.

IMPLEMENTATION

Designing a better civil service system is only the start of the change process that our government desperately needs to undertake. The more daunting hurdle is implementing it effectively, and it is critical that this challenge be understood and accounted for in the design process.

We have seen well-designed laws fail to meet expectations because of poor planning and execution. We do not offer a full implementation blueprint in this document, but recommend that the changes begin with the following principles:

- There must be an overarching government strategy that includes input from top federal leadership, unions, career managers and other stakeholders. There also needs to be constant communication among the participants and information technology support. The President's Management Council (PMC) should drive this strategy with the support of designated Tier 4 enterprise executives and teams of career executives and employees who can help drive the change effort across the government. In addition, deputy secretaries and chief operating officers should assemble teams of executives in their agencies to oversee a full change management effort and communicate to their organizations.
- There need to be clear objectives and metrics to hold the PMC, the enterprise executives and individual agency heads accountable. The Office of Personnel Management (OPM) will need the resources and staff to work with the PMC on the overall strategy and to write regulations that will support any legislative reforms. The implementation process should be subject to major milestone reviews so that individual agencies do not proceed until they are ready for execution.
- The strategy and implementation plan should allow agencies to carry out the changes at different paces, depending on their readiness and other factors. For example, performance-sensitive pay can be effective only if an agency has an effective performance management system in place. Moving on the one phase without the other would be a recipe for failure. However, each agency should develop an implementation plan with key phases and milestones clearly mapped, so that the PMC can ensure all agencies are making progress and can communicate at which point all agencies should be operating under the new civil service system.
- Every major change brings speed bumps and turbulence. The law and implementation plan should be flexible enough to allow for adjustments, and OMB and OPM should be given sufficient administrative authority to make those adjustments without requiring legislation, but subject to congressional oversight

and approval. In an institution as complicated as government, there will be clear successes and instances when problems arise, and help will need to be provided to agencies that struggle. OPM will need the capacity and knowledge to be able to provide that technical assistance.

- Stakeholder groups, including unions, management associations, congressional staff, veterans organizations and civil rights groups, will need to be engaged to inform both the government-wide strategy and agency-specific plans.
- In implementing the pay reforms, there must be a presumption that current employees will not suffer a loss of pay as a result of implementation. For example, if employees are found to be paid at a salary above market rates for their occupation, they would retain their pay until the market caught up.

While we have attempted to offer a balanced, comprehensive plan, this package could be legislated piecemeal and implemented incrementally. However, we caution that many elements are interrelated, and it is important to understand and take into account those relationships. For example, it would be very difficult to alter the pay-setting elements as we propose without also addressing the job classification system.

With action urgently needed, we see this proposal as a way to ignite a serious and long overdue dialogue with Congress, the White House, employee unions, veterans groups, universities, the business community and others to begin addressing many of the fundamental flaws in the civil service system. The goal is to create an environment that supports the federal workforce, that will lead to better government performance and that will gain the trust and respect of the American public.

APPENDIX ONE

FEDERAL AGENCIES WITH THEIR OWN COMPENSATION SYSTEMS

According to a GAO report, Congress has granted 10 federal financial regulatory agencies the flexibility to establish their own compensation systems so they can recruit and retain employees critical to their organizational missions, placing them at an advantage over other federal entities in the hunt for talent.⁸ The agencies are the Commodity Futures Trading Commission, the Farm Credit Administration, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Board of Governors of the Federal Reserve System, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Federal Housing Enterprise Oversight, the Office of Thrift Supervision and the Securities and Exchange Commission (SEC).

In addition, a number of other agencies have been given the authority to establish their own pay systems for selected occupations, including law enforcement agencies, the Department of Defense, the CIA, the Internal Revenue Service, the National Institute of Standards and Technology, the Patent and Trademark Office, the Federal Aviation Administration and the Department of Veterans Affairs. For more information on pay flexibilities, see the Office of Personnel Management's Human Resources Flexibilities and Authorities in the Federal Government.⁹

8 U.S. Government Accountability Office, *Financial Regulators: Agencies Have Implemented Key Performance Management Practices, but Opportunities for Improvement Exist* (Washington, D.C., June 2007), 1-2, <http://1.usa.gov/1dpYNft> (accessed 19 March 2014).

9 U.S. Office of Personnel Management, *Human Resources Flexibilities and Authorities in the Federal Government* (Washington, D.C., Aug. 2013), 41-51, <http://1.usa.gov/1gAUBEa> (accessed 19 March 2014).

APPENDIX TWO

EXECUTIVE ORDER 13655 ADJUSTMENTS OF CERTAIN RATES OF PAY THE WHITE HOUSE, DECEMBER 23, 2013

SCHEDULE 5—EXECUTIVE SCHEDULE

Effective on the first day of the first applicable pay period beginning on or after January 1, 2014

Level I	\$201,700
Level II	\$181,500
Level III	\$167,000
Level IV	\$157,100
Level V	\$147,200

SCHEDULE 6—VICE PRESIDENT AND MEMBERS OF CONGRESS

Effective on the first day of the first applicable pay period beginning on or after January 1, 2014

Vice President	\$233,000
Senators	\$174,000
Members of the House of Representatives	\$174,000
President pro tempore of the Senate	\$193,400
Majority leader and minority leader of the Senate	\$193,400
Majority leader and minority leader of the House of Representatives	\$193,400
Speaker of the House of Representatives	\$223,500

APPENDIX THREE

SPECIAL THANKS

The individuals listed below generously offered their input regarding the federal civil service system. We greatly appreciate their time, effort and insights. The contents of this report do not necessarily reflect the views of those who provided their advice and counsel.

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