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Chief human capital officers rethink business as usual

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EXECUTIVE SUMMARY

If overseeing the federal workforce were an Olympic event, it would only be fair to judge performance by the degree of difficulty. For chief human capital officers (CHCOs), that degree of difficulty is perhaps higher than ever. Budgets are declining. Workloads are increasing. An aging workforce, increased turnover and outdated or inadequate human resources (HR) systems and policies add additional hurdles, making their jobs more challenging than they have been in decades.

The Partnership for Public Service and Grant Thornton LLP conducted in-depth interviews with 55 CHCOs and other HR leaders on the state of the federal workforce and the challenges facing the federal government. This report is a summary of their views and recommendations for change, based on candid conversations held in the spring of 2012. It is the fourth in a series of similar reports. We found that as challenges increase and issues evolve, CHCOs and their agencies continually work to respond to new rules, regulations and high-level directives, and to seize opportunities to alter programs that aren't working as planned.

The rate of change within the federal government is increasing, not only connected to operational challenges and tightening budgets but also in the people expected to deal with those challenges. More than half of the 53 CHCOs and HR leaders we interviewed five years ago have since left government. And, a majority of the CHCOs who sit on the CHCO Council[1] have served in that position for less than two years. The biggest changes will occur in the post-election period. No matter the outcome, CHCOs anticipate the arrival of many new political appointees. Added to that churn is an almost 25 percent rise in government-wide retirements in the past year, leading to increased turnover of some of the most experienced staff in many agencies, which is always a management challenge.

The HR leaders noting these upcoming changes were not bemoaning their circumstances but assessing reality. They were determined to address these challenges to the best of their ability but acknowledged that success was far from guaranteed. On a positive note, recent successes on the HR front that led to positive change seemed to whet the appetites of many CHCOs for more. Most realized that a political transition, tight budgets and ever-evolving technologies also can offer unique opportunities to transform parts of the federal civil-service system.

The severity of the workforce challenges and how prepared departments and agencies are to handle them varied across departments and agencies, but a general consensus emerged around several issues:

A changing government landscape

- Outsourcing is less likely. HR leaders said the budget situation makes outsourcing less viable than it was during the major downsizing in the 1990s, when federal contractors supplemented the workforce. Instead, agencies will have to enhance the capabilities of federal workers and be more creative in supporting employee development.

- Competition for key talent is increasing. Interviewees agreed that the government must invest in attracting and hiring employees who are the best possible match for the job, especially in mission-critical occupations. Growing competition for top talent, particularly in the science, technology, engineering, math and medical fields has made hiring these employees increasingly difficult. Independent analyses suggest there also are current or looming talent shortfalls in areas such as accounting, finance and procurement. In addition, negative perceptions about government and its workers, changing expectations of younger employees and outdated HR systems can impede recruitment and retention.

1 The 25-member CHCO Council advises and coordinates human resources activities and is composed of the director of the Office of Personnel Management, the deputy director for management of the Office of Management and Budget, the CHCOs of the 15 executive departments and the CHCOs of eight additional agencies designated by the OPM director. CHCOs serve as their agency's chief policy advisor on all human resources management issues. The Council and the CHCO position were enacted into law on November 25, 2002.

Federal HR policies and practices need updating

HR leaders identified several areas where current policies and practices are inadequate or even dysfunctional:

- The federal pay system is out of date, fragmented and inefficient. Although interviewees strongly agreed that the 1949 General Schedule (GS) pay system in place for most federal employees is woefully inadequate, we found a growing sophistication in understanding that changing the federal pay structure is only half the battle. Agency cultures would need to change and managers would have to learn how to operate under a new system. Fewer CHCOs than in previous years said they would abandon the GS system altogether, out of concern that the government is not prepared to design and implement a superior replacement. They also are concerned about pay compression at senior levels of government.

- Performance management is still not as effective as needed. A majority of CHCOs believed a more uniform performance-management approach was needed across agencies, similar in concept to the one recently put in place for the Senior Executive Service (SES). Others still preferred significant flexibility to design their own system or systems. Several CHCOs said the current performance-appraisal process in their agency hampers their ability to instill effective performance management.

- Veterans preference is not working as intended. All CHCOs interviewed supported not only the intent behind statutory preferences for military veterans in the federal hiring process but also the intended outcome: that many qualified veterans are offered government employment. However, nearly half expressed misgivings about the process for providing preference and were concerned about conflicts with other public policy objectives and the original intent of the law.

- Separate HR IT systems and standards are inefficient. Interviews revealed a strong consensus that more standardization of federal HR IT systems would reap benefits. Support for this idea has grown as agency IT budgets have declined. Support also has increased for expanding the "shared services" model, in which one department or agency provides HR services for others.

- OPM and OMB lack understanding of agencies' unique needs. CHCOs rely on two central agencies—the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB)—for guidance and regulation on HR and fiscal management. Although CHCOs generally gave good marks to both, noting improvement at the senior leadership levels, they also said overwhelmingly that both agencies need more employees below the leadership level with agency experience that enables them to understand agency needs and challenges.

Good results realized

In addition to identifying challenges, interviewees recognized that several agency initiatives and larger government-wide efforts have yielded good results. They expressed pride in what has been achieved, given all the belt-tightening, and a desire to preserve and expand gains. Among the successes:

THE CONTINUING CHALLENGES

From the CHCOs' viewpoint, the top workforce management challenges for the federal government are:

Declining budgets. When resources are constrained, there are fewer employees to do the work, limited options for contracting out or investing in technology, and training budgets are under fire.

Higher employee turnover. Government-wide, retirements are up approximately 25 percent from a year ago, indicating that the long-anticipated retirement wave has hit. Turnover may remain high for a while due to the combined impact of an aging workforce, a two-year pay freeze with threats of an extension, rising anti-government sentiment and increasing workloads.

Inadequate succession planning. The inability to replace quickly, or at all, the knowledge and expertise of departing employees exacerbates the impact of those departures. Several CHCOs thought their succession-planning programs were paying off, but most admitted they weren't keeping pace with the organization's needs and that the talent pipeline wasn't sufficient.

Lack of key HR competencies. Gaps in the competencies needed by many HR staffs are a continuing concern, although progress is being made in closing those gaps.

Gaps in agency leadership skills. Many senior leaders may leave within the next two years due to retirement or the election fallout. CHCOs thought that too few mid-level managers and supervisors have the leadership capabilities to fill their shoes.

- Hiring reform is showing progress. Nearly every interviewee was able to explain how he or she had improved the hiring process over the past few years. A plurality graded themselves a solid "B." Progress included reducing the number of days needed to fill a job, and also improving the quality of the people hired. Most agreed the SES hiring process had improved, although those who had tried the "resume only" approach gave it mixed reviews.

- More veterans are being offered jobs. Nearly every CHCO claimed progress on increasing the percentage of veterans hired. A few agencies with a large percentage of jobs requiring advanced degrees and/or specialized skills and knowledge, said that the lack of veterans with the qualifications for those jobs was the main barrier to hiring more veterans.

- Progress has been made on diversity, although more can be done. Interviewees mentioned gains in increasing workforce diversity on gender, race/national origin and people with disabilities. Hispanic representation remains problematic for many, and some CHCOs said they also need to focus on expanding hiring from all age groups.

- Agencies are tackling the issue of HR staff competencies. Increasingly, agencies are collaborating with OPM and the CHCO Council to address the issue of HR staff who lack the skills or competency levels to provide needed support, management advice and assistance.

Metrics and analytics in use

Another trend among CHCOs is toward choosing and defining useful measurements, and analyzing workforce metrics to guide decision making. For example:

- Measuring engagement with the Federal Employee Viewpoint Survey (FEVS). The FEVS results are being used not only by the HR office but by managers and agency leaders, who are asking CHCOs and their staff for help with improving employee satisfaction and engagement.

- Using metrics to drive results. The CHCOs noted that administration or agency leaders who established clear and measurable goals have been particularly effective at driving change and improving workforce management.

RECOMMENDATIONS

The government and the federal workforce are in for tough times. The following recommendations from interviewees may help CHCOs and agency leaders navigate their way through more effectively.

Reform the civil service system. Take advantage of the current climate and the post-election transition to develop, promote and implement changes in recruiting, retaining and rewarding the most capable and productive employees. This includes:

- **Pay and compensation reform.** Rethink the federal job-classification system and develop a new approach for setting federal pay that allows government to cost-effectively compete for talent and to encourage and reward exceptional performance among current employees.
- **Hiring.** Reform and simplify the laws underlying the federal hiring system.
- **Veterans preference.** Update the outmoded veterans preference law.
- **Merit systems protections.** Better balance due process protections by ensuring employees are protected from arbitrary and non-meritorious personnel actions, while providing managers with the tools they need to deal effectively with nonperforming or underperforming employees.

Stay the course on initiatives that are achieving results. Resist the temptation to save resources by backing away from initiatives and improvement efforts that are achieving results, such as the investment in hiring-process improvements and leadership development. Instead, reduce costs through innovation and collaboration.

Improve succession planning. Most federal agencies need to update and improve their succession plans and arrange for knowledge transfer and continuity of operations. OPM could assist by identifying agencies with good succession-planning efforts underway and creating opportunities for agencies to share approaches with others. Plan now for political transition, no matter who is in office on Jan. 20, 2013.

Increase standardization of HR IT and use of shared services. The government can no longer afford to have individual agencies develop and maintain all their own unique systems. Several CHCOs noted they would welcome increased leadership from both OPM and OMB on this issue.

Use available data and metrics. Agencies should continue and expand their use of data to engage employees, increase transparency and accountability, enhance performance management, and hold employees and managers accountable.

My challenge is making sure we have the next cadre of leadership ready to step up. We know we're losing some folks but with the budget probably won't be able to recruit as much. I suspect that number will go way down because of the budget, and we're not bringing as many people in.

—Agency CHCO

INTRODUCTION

The Partnership for Public Service and Grant Thornton LLP conducted the fourth installment in a series of surveys of chief human capital officers (CHCOs) to gauge their opinions as talent managers during this time of budget constraints and political transition. CHCOs hold unique and difficult jobs focused on hiring, training, developing, engaging and retaining the federal government's top talent, and their viewpoints matter. More than anyone else, they are expected to have their finger on the pulse of the current and future federal workforce.

The federal environment is different now than it was two years ago, and vastly different from when we conducted our first survey in 2007. Five years ago, our broad look at the state of federal talent management revealed the growing importance senior leadership placed on human capital issues as agencies recognized the need to bring in and retain top talent. The report was a jumping-off point, establishing the baseline for CHCOs' opinions about their needs and challenges. A second report, published in December 2008, highlighted CHCOs' advice to the incoming Obama administration. We followed up with a third report in 2010 called, "Closing the Gap: Seven Obstacles to a First-Class Federal Workforce," which focused on the key management and human capital issues facing the CHCOs and the recommendations on a range of important reforms, including federal hiring and improving the competencies of managers and HR staff.

In 2012, in the midst of another election cycle, we asked CHCOs to advise the next administration and Congress on how to make lasting improvements to the federal civil service. We asked broadly about the major human capital challenges facing agencies and about specific initiatives on workforce composition, compensation and about how to engage and retain top talent.

A vast majority of the interviews with 55 CHCOs and human capital leaders were conducted in April and May 2012. Those we surveyed were career civil servants and political appointees from all major departments and many small and independent agencies. To enhance openness and honesty, interviews were not for attribution.

All interviews were conducted by John Palguta, vice president for policy at the Partnership and a retired member of the SES with more than 30 years of experience in federal government human resource management and policy. Other professionals from the Partnership and Grant Thornton attended interviews, recorded and analyzed responses and contributed to this report.

Each CHCO was asked 10 open-ended discussion questions and eight closed-ended questions (see Appendix C) on the human capital issues they face. This format allows for individual CHCOs to shape the discussion and paint a candid picture of the successes and challenges specific agencies face. All analysis or interpretation contained in this report is based on information collected during our interviews, and all direct quotes are those of survey participants we did not identify by name.

CHCOs make progress, despite constraints

CHCOs, like many other government employees, have had to become more resourceful and strategic as they face the challenges associated with financial and staffing constraints. They and their staff are expected to work closely with agency managers, from top leaders to first-level supervisors, and assist them in meeting their workforce management challenges. Our interviews made clear that CHCOs understand that doing their jobs effectively has a direct impact on how well agencies accomplish their mission.

At the same time, resource constraints and the changing environment hamper their agencies' ability to deal with myriad difficulties they face, such as being unable to replace some of the highly experienced people who leave, leading to heavier workloads and wider skills gaps.

CHCOs are learning to cope with what they have, working creatively to find ways to get the job done.

Hiring the right people has become more important than ever, especially when many employees end up doing the job of two. CHCOs are focusing on helping their hiring managers make savvy choices when recruiting and selecting candidates, and understand that workforce planning is vital during a time of major cutbacks and limited resources.

We found that despite the bumpy road, CHCOs are focused on helping their agencies carry out their missions with the current workforce while working to hire the best new employees they can, and are committed to ensuring that the government's human capital needs are met.

CONFRONTING CHALLENGES IN THE FEDERAL WORKFORCE

CHALLENGE ONE

Declining budgets

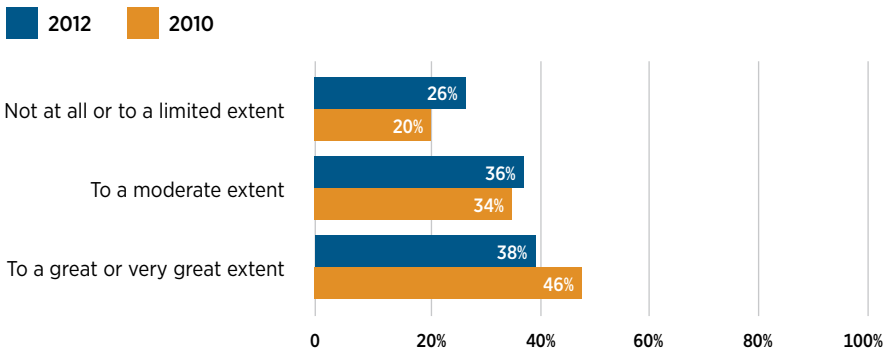
Tight budgets and the budget process itself remain major concerns for CHCOs. A number of them talked about the frustrations of agency employees who have had their pay frozen, their value questioned publicly, their workload increased and their resources diminished. All of this can take a toll on service delivery, CHCOs said. In addition, the uncertainty in the annual budget process has an impact on agencies' missions. Managers often don't know whether or not new staff can be hired for programmatic areas or how many people can be brought on board when a budget is not passed until the fiscal year is already well underway, making effective planning close to impossible.

Jobs in mission-critical science, technology, engineering, mathematics and medical professions, known as STEMM jobs, are of particular concern to CHCOs. Significant hiring delays, or in some cases, lack of funding to fill vacant positions, can have an obvious impact on mission. Yet, federal agencies still are expected to find ways to be more efficient and effective. One CHCO noted:

"Federal agencies learn to do more with less. Then you get to that wall...and people start going through the wall or flattening their forehead [against it]," said one participant. "We're pushing people to meet standards as if we have all our resources, and we're begrudging [people] techniques to help the poor soul who's about to go off the deep end."

Some CHCOs said they struggle to carry out their roles with the resources they have. This year, 26 percent of CHCOs said they do not have the resources they need to do their jobs effectively, up 6 percentage points from 2010. Given the significant workforce reductions in some agencies, it may be surprising

To what extent do you have the resources you need to be an effective CHCO or HR leader?

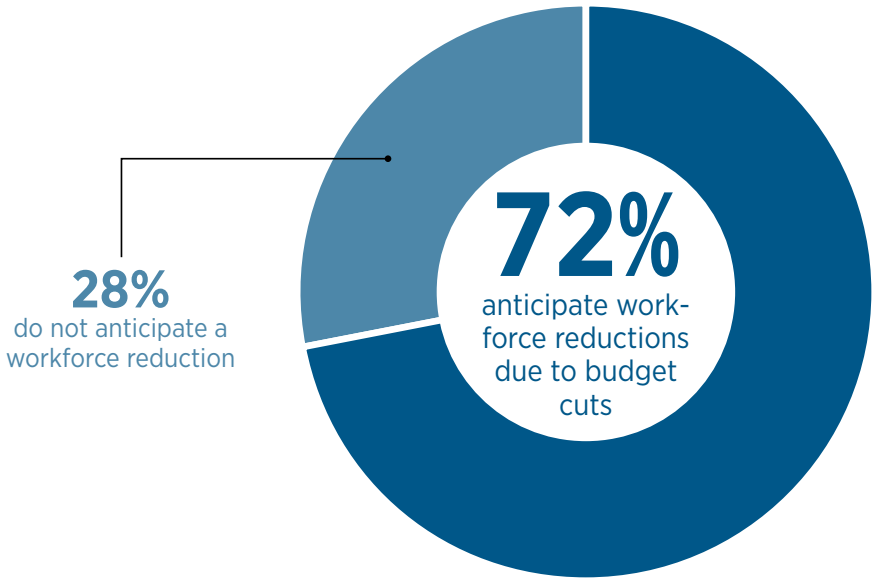


to some observers that the gap is not greater.

Nearly four in 10 interviewees said they have what they need to be effective at their jobs to a "great" or "very great extent" (an 8 percentage point drop from 2010) and more than a third (36 percent) said they have what they need to a "moderate extent." Essentially, CHCOs seem to be learning how to cope with their situation and are mindful that the budget climate is not going to improve anytime soon.

CHCOs also seemed to grasp the fiscal realities and what they are up against. A plurality said budget pressures will lead to a smaller workforce at their agency. Fully 72 percent of the interviewees said they anticipate workforce reductions stemming from budget cuts. This expectation reflects the recruiting and retention challenges agencies face and the concerns they have about the future. Some of the smaller agencies unlikely to sustain major budget cuts were less concerned and 28 percent said they do not anticipate a workforce reduction "at all" or only to a "limited extent."

Do CHCOs anticipate workforce reductions due to budget cuts?



CHALLENGE TWO

Higher employee turnover

The issue of an aging workforce tipped the scales when it came to the number of CHCOs pinpointing their top problem. The fact that more people are eligible for retirement, combined with salary freezes and increased workloads, means more people in leadership and other critical positions will be leaving and taking a great deal of institutional knowledge with them, interviewees said.[2]

This daunting prospect has most CHCOs wondering where the next group of leaders and managers will come from. Many of them voiced concerns about the number of senior executives retiring. Some agencies face the staggering reality that half their SES employees either are eligible to retire now or in the next two years. "Good people with solid reputations are retired or are retiring," said one CHCO. "It's not about numbers, it's about quality."

Another concern is the potential change in how government calculates retirement benefits from the "high-three" system, in which employees' retirement benefits are calculated using the average salary of their three highest-paid years, to a "high-five" calculation, under which the benefit is almost always lower. Under either approach, a pay freeze has a dampening effect on retirement benefits, and some retirement-eligible employees are choosing not to delay retirement. CHCOs worry about a large wave of retirements by people who might otherwise have stayed longer and would have been available to groom their successor. "There seems to be a solid wave where the numbers are creeping up," said an interviewee. "We're not currently in a position to deal with those losses."

It's not clear how to fix the retirement dilemma but some CHCOs recommended focusing on developing incentives to entice retirement-eligible employees to remain, so agencies have more time to bring new talent on board and allow for knowledge transfer. Phased retirement plans, which allow employees to move to a part-time schedule without a reduction in eventual retirement benefits, is one popular incentive.

2 For example, in fiscal 2011 more than 122,000 employees in permanent federal jobs left government. More than half of them, 63,134, left via retirement. http://fedscope.gov.

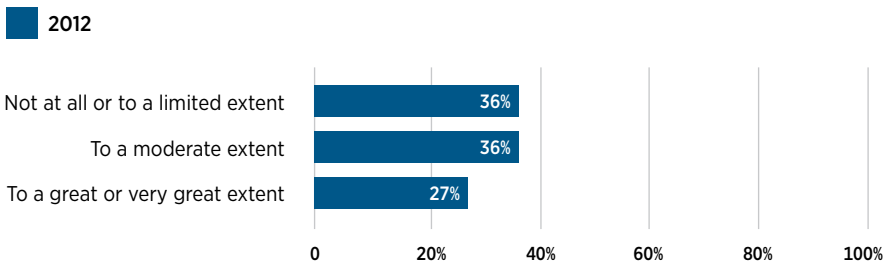
CHALLENGE THREE

Inadequate succession planning

CHCOs said they understood their agencies' worries over retirement and turnover issues and reported that they are trying to improve their succession-planning process, but that it is difficult to plan effectively in the current environment, when there are unknowns regarding staff needs and budgets. A number of CHCOs expressed concern about losing out on the "wisdom transfer," as one interviewee put it, and many CHCOs are concerned about how well mid-level supervisors have been trained for their positions so they can skillfully "supervise as supervisors." CHCOs said there is more of a premium set for people who have the needed technical skills or subject matter expertise than for those with leadership ability. Even at agencies with top-notch succession programs, one CHCO acknowledged that agencies can't replace institutionalized knowledge or leadership skills overnight. Training, shadowing and mentoring are vital for creating the next generation of leaders and managers, but most CHCOs are not seeing enough of any of those.

Only 27 percent of interviewees said their agency's succession-planning process was preparing an adequate pool of qualified candidates for future needs either to a "great" or "very great extent." Only one interviewee said their succession-planning efforts were preparing a pool

To what extent is your agency's succession-planning process preparing an adequate pool of qualified candidates for future needs?

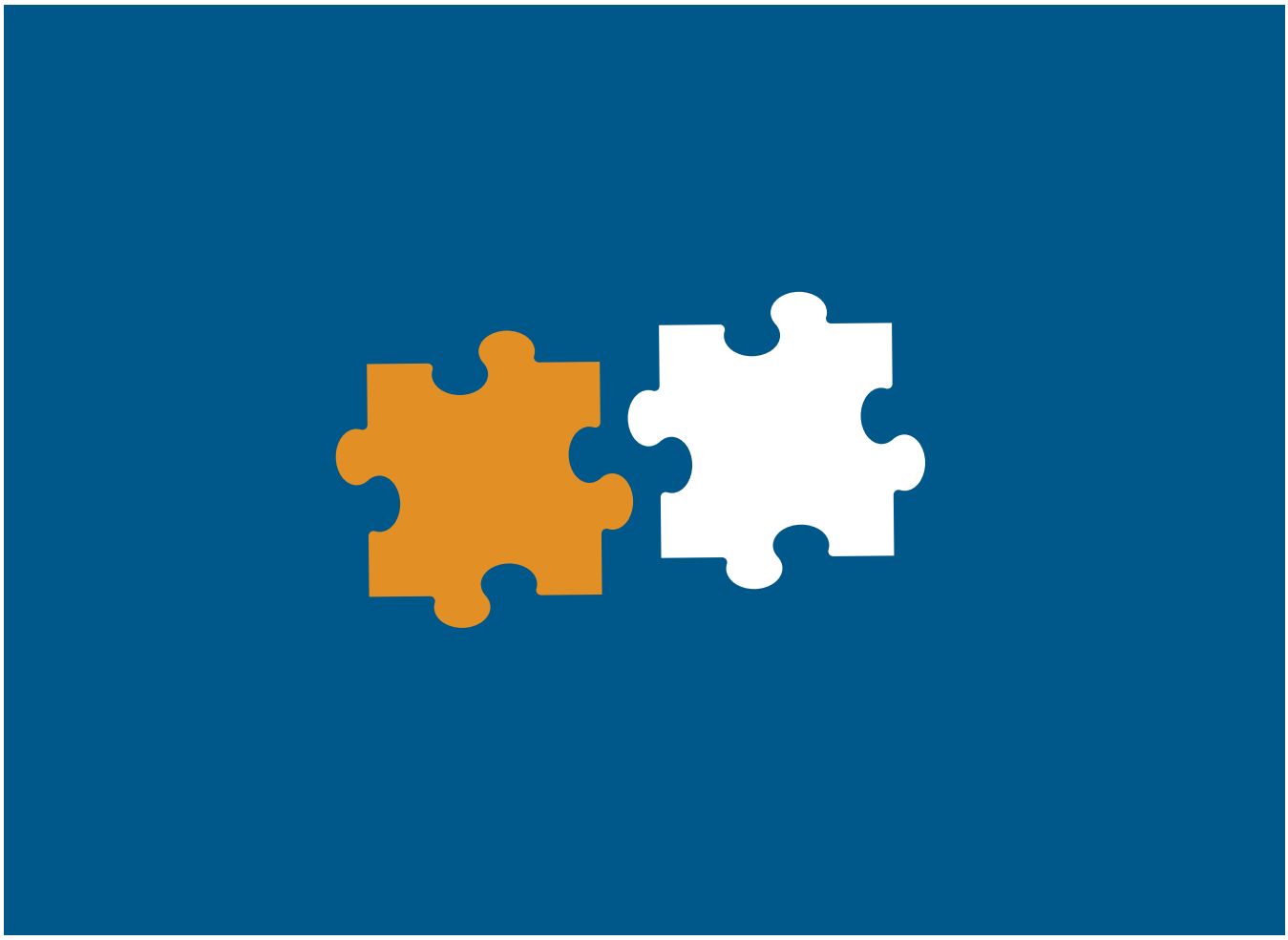


of qualified candidates to a "very great extent" on a five-point scale. A 72 percent majority felt they had a moderate or less-than-adequate succession-planning process. Taking a more corporate or private-sector approach to succession planning may be helpful for agencies moving forward and could prove to be effective for long-term planning, said CHCOs, who commented that private-sector employers are more likely to ask their employees about their plans for the future for the company's planning purposes.

Recognizing the need for creating talent pipelines and promoting government service as an attractive option, President Obama signed Executive Order 13562, entitled "Recruiting and Hiring Students and Recent Graduates," which took effect Jul. 10, 2012, creating the Pathways Programs.

The three programs are: the Internship Program for current students; the Recent Graduates Program, for those who received degrees within two years of finishing their coursework; and the reinvigorated Presidential Management Fellows (PMF) Program, for people who obtained an advanced degree—graduate or professional—within the preceding two years.

The final language of the administration's Pathways Programs policy was released to agencies during our interview process. The 60 percent of CHCOs who had not seen the final language generally told us it was too early to tell how useful it would be, or were mildly skeptical about it. The 40 percent of CHCOs who had seen the final language held markedly different views. They were more optimistic that the programs could be useful for bringing in new talent. In any case, most CHCOs said they believe the regulations are a positive step. They also agreed it is important to develop and track metrics to judge the programs' success rates and to gather data on the characteristics of the applicants who apply and are hired. One CHCO said agencies "need more than warm bodies," noting they need the right people to fill specific programmatic needs and help fulfill agency missions.

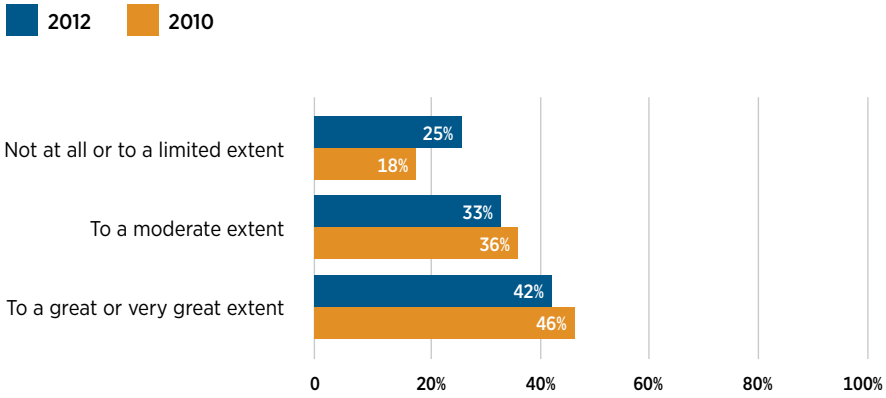


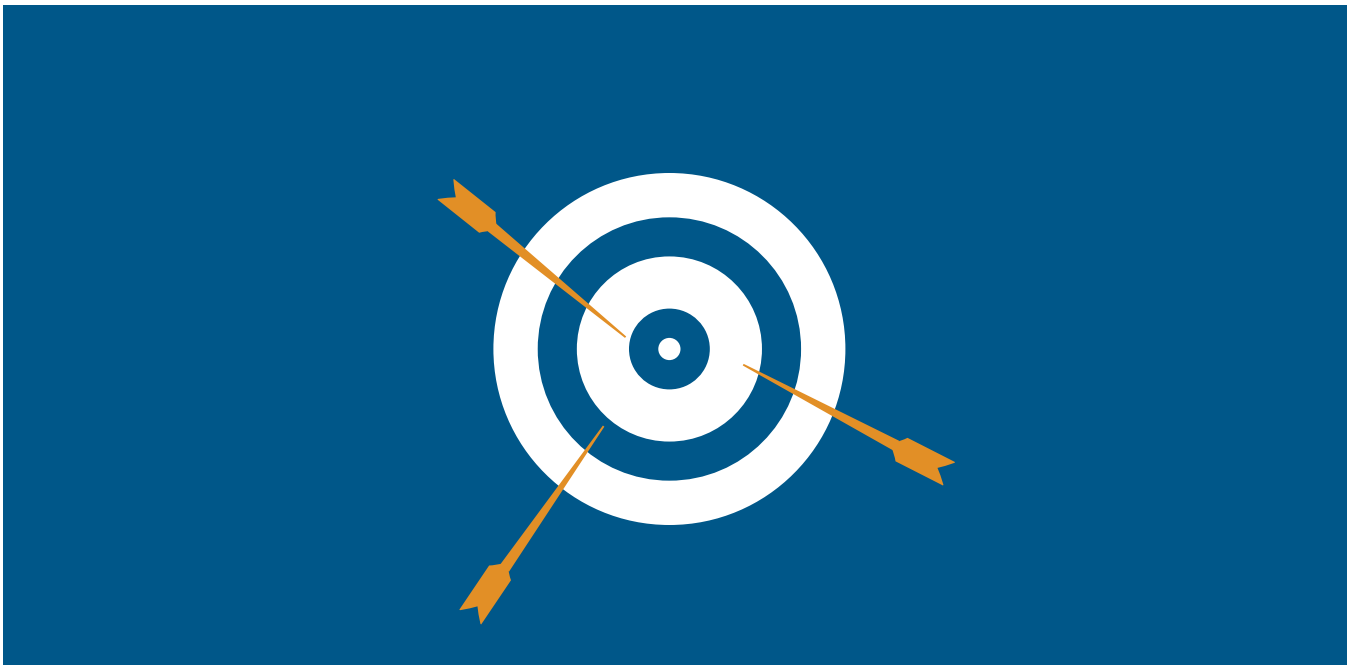
CHALLENGE FOUR

Lack of key competencies

When asked how agency leadership viewed its HR staff, a plurality (42 percent) of CHCOs said they and their staff were viewed as a trusted business advisor to a "great" or "very great extent," down from two years ago (46 percent). However, 25 percent said "not at all" or to a "limited extent," up 8 percentage points from two years ago, a significant shift. The percentage of CHCOs who said leadership viewed them as a trusted advisor to a "moderate extent" (33 percent) was down 3 percentage points over that same time period.

To what extent is your HR staff viewed by your agency leadership as a trusted business advisor (versus a transaction manager)?





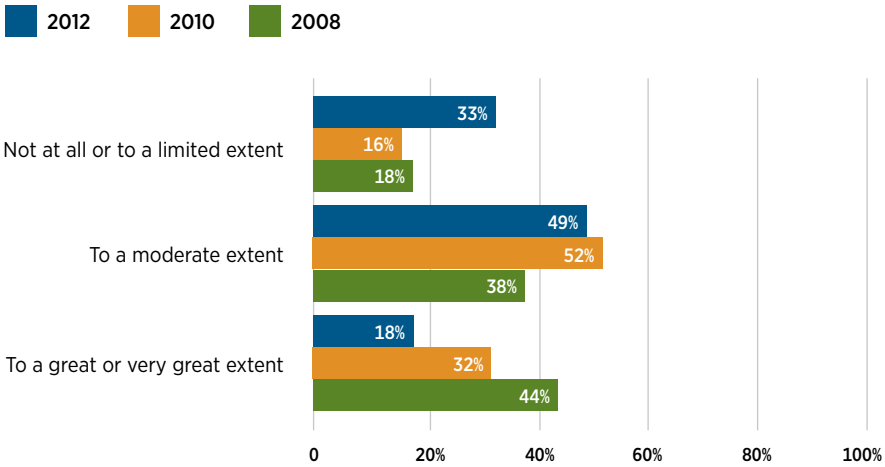
CHALLENGE FIVE

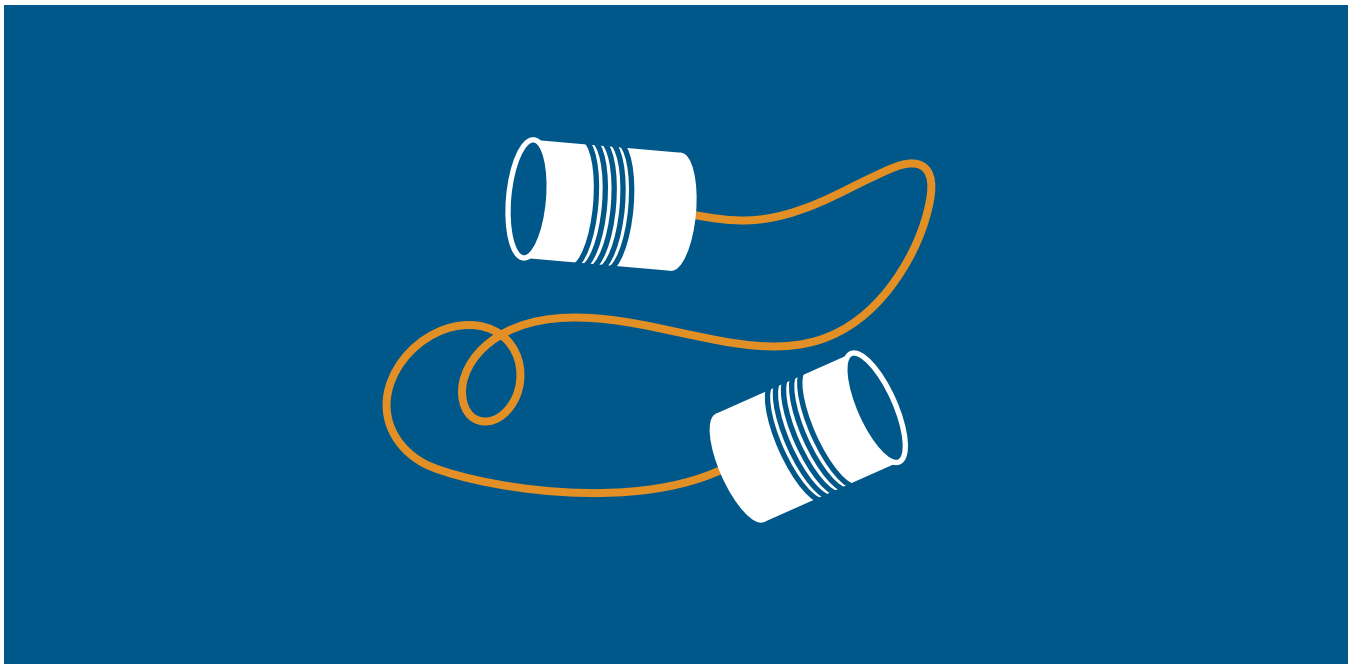
Gaps in agency leadership skills

Since managers and supervisors are an important factor in retaining top talent, many interviewees said they would like to see more direct input from managers at the beginning of the hiring process, and have program managers more involved in ensuring candidates have the right skills and understand the duties of the job they're seeking.

Only 18 percent of CHCOs interviewed in 2012 felt to a "great" or "very great extent" that their agency's non-HR managers and supervisors had the managerial and supervisory competencies needed to be successful. This alarming statistic represents a 14-point decline from 2010 and 26-point drop since 2008. The percentage believing that managers and supervisors had these competencies "not at all" or to a "limited extent," jumped to 33 percent in 2012, an increase of 15 points from 2008.

To what extent do your managers and supervisors (i.e. line and operations, not HR) have the managerial and supervisory competencies (i.e., the soft skills) they need to be successful?





CHALLENGE SIX

Job satisfaction and communication issues

CHCOs are paying careful attention to employee attitudes, including their commitment to their jobs in these difficult times, and how communication can help bolster that commitment. Most interviewees said they support the FEVS survey and see progress in how agencies use the scores, but a few voiced complaints. Participants expressed concern over the amount of time that elapsed between when the FEVS was conducted and when the results were available. A number of interviewees were unhappy with the amount of time they had to implement changes in response to one survey before it was time to administer a new one, since there is a statutory requirement for an annual survey.

The changing work environment is also seen as having an impact. "We're not convinced the survey is helpful," said a CHCO. "If you're pushing performance as hard as we are, and the administration has frozen everyone's pay, it's pretty difficult for people not to take it out on us with the survey."

For many months, the public service also has taken hits from the media and been used during political debates, placing public employees in an unfavorable light. This reportedly has hurt agencies' ability to attract and retain top talent. CHCOs, acutely aware of the problem, are trying to increase communication within and outside their agencies to let employees know how important their jobs are. One interviewee noted his office was working hard to inform the public about the good work of his agency and its importance, hoping the public and Congress would "embrace the value of federal employees."

"It's hard when all [federal employees] hear is how terrible they are. The federal workforce feels undervalued as a result of this external discourse."

Several CHCOs said increased communication and collaboration around the FEVS results and action planning are making a difference. "We're making it clear...that culture change is everyone's responsibility," one said. A few CHCOs mentioned the challenges that come with a large workforce and having employees dispersed geographically, but agreed that a focus on better internal communication appears to be paying off. One said, "[We're] a big agency, and it takes time, but we're trying to work on messaging with employees. We had some improvement right out of the box and I think it shows our communication strategy is working."

Better communication with the public and potential employees came up throughout our interviews on hiring initiatives such as diversity, Pathways Programs and USAJOBS. "It's part of a framing issue. We should be the employer of choice," said one interviewee.

RETHINKING FEDERAL HR POLICIES AND PRACTICES

Federal General Schedule system/pay issues

Nearly all CHCOs agreed that the current 1949-era GS pay and job-classification system is outdated and doesn't meet the needs of a dynamic and changing 21st-century workforce. While this is not a new sentiment, it has been difficult to come up with an effective alternative that can be applied government-wide. Since 1981, a number of federal agencies and organizations have been allowed to implement alternative pay systems, either on a trial basis or permanently. The preferred alternative, by far, has been a pay system using a smaller number of broader pay bands in place of the GS system's 15 grade levels. A pay-banded system allows for more flexibility on starting salaries and in how an employee progresses. In any case, a supervisor's judgment of an employee's performance over the preceding year often has more influence in determining the size of any annual pay adjustment (the so-called "pay for performance").

In our last three CHCO reports, a clear consensus arose that the GS pay system should be abolished and that the federal government should adopt a government-wide, pay-banded system. This time, however, we found a growing understanding that simply changing the pay structure would not solve all the problems. This is due partly to the fact that several interviewees worked under or managed a pay-banded system in a previous federal position or are doing so now, and they understood that effectively managing any pay system is difficult. Although a new system may be a necessary ingredient for a more rational approach to federal pay, it is not sufficient on its own to guarantee good results. While most interviewees supported abolishment of the GS system, a few voiced resistance, fearing the government could end up with something worse.

The majority of CHCOs still support pay reform, but many caution that implementation of any new pay system would need significant upfront investment and managers must be prepared to manage it well. And, they need to be supported in their efforts. The recent discontinuation of the Department of Defense's National Security Personnel System was cited by CHCOs as one reason to proceed with caution.

The CHCOs also agreed about much of what they consider to be wrong with the current GS pay and classification system, including that it is not market based and therefore does not align with pay-setting practices in private industry. The demand for qualified applicants for jobs in science, technology, engineering, math and medicine far exceeds the supply, leaving agencies at a severe disadvantage if they cannot pay competitively when trying to bring in and retain top talent.

> "It is difficult to attract and retain the good talent when it takes nine years to get from step one to step six. The manner in which we advance pay doesn't work for the new workforce and it needs to change."

Another CHCO concern is that arbitrary pay caps in government have resulted in pay compression at the top. Senior executives' pay can be close to, or even below, that of some subordinates. CHCOs, many of whom are at or close to the pay cap, reported that a declining percentage of their agency's high-potential employees aspire to the SES, since the increased responsibilities and the added demands do not come with a significant compensation increase. A clear majority of the CHCOs said they believe it is time to tackle the pay reform beast. One CHCO said, "It is difficult to attract and retain the good talent when it takes nine years to get from step one to step six. The manner in which we advance pay doesn't work for the new workforce and it needs to change."

Performance management

The current performance management system is not achieving its intended outcomes, according to nearly every CHCO we interviewed. While most CHCOs reported that their formal performance management system did a decent or better job of aligning organizational goals and individual employee performance standards than before, there continued to be weak links: managers not as involved as they should be; lack of uniformity in performance-appraisal systems across agencies; and the fact that it remains difficult to reward high performers and discipline poor performers. Several CHCOs said they would like to see a common framework that would eliminate or cut down on the number of different systems. Some agencies have multiple systems within their various components. Describing what it takes to navigate through the different systems one CHCO said, "It's like moving in tar."

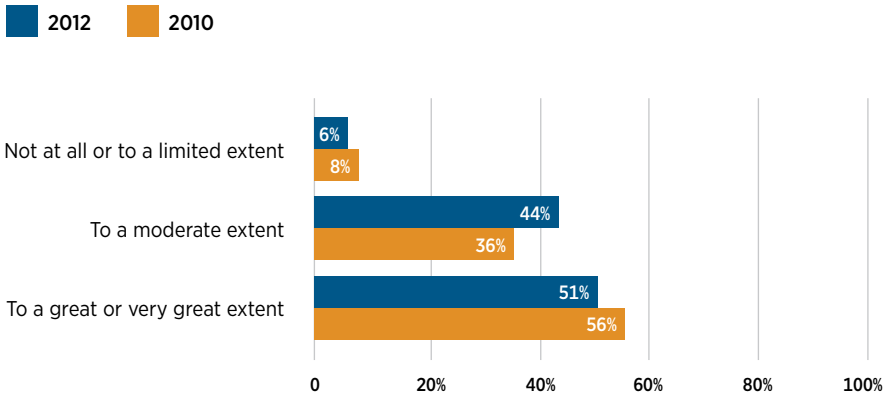
Other frustrations were evident. "I can't discipline managers," one interviewee said. "My lowest-paid SES is one of my best, and I can't give him a raise because the administration won't let me. My highest-paid SES doesn't do the work." In order to achieve goals more effectively, CHCOs said they need to be able to place the most-talented employees in mission-critical positions and would like additional flexibility to remove those who are ineffective at their jobs.

The difficulty dealing with poor performers topped CHCOs' list of performance management problems, and some interviewees offered stark examples of their frustrations. "If someone comes in and fails a drug test, I can't immediately terminate them. In business you can, here you can't." More typically, the CHCOs reported, their managers believe that myriad due process requirements and multiple appeal channels are full of obstacles that block managers from dealing properly with employees who are not doing their jobs. "If you don't do good work, it's very hard for me to do something about it," a survey participant said. Other interviewees, however, were adamant that non-performers can be held accountable and even removed from service if their manager is willing to "bite the bullet" and do what is necessary.

A majority of CHCOs surveyed agreed that a lack of good performance-management practices and tools was hampering their ability to achieve agency goals as effectively as possible. They acknowledged that their agencies need more effective ways to measure employee performance, but also said there was little consensus within or across agencies on how best to do so. Some felt that a compensation system with more emphasis on performance was a large part of the answer.

CHCOs offered many ideas for other structural changes. Several felt

To what extent does your agency do a good job of aligning organizational goals and individual employee performance standards?



that standardizing a performance-rating system across agencies would be a useful first step to integrating it more fully into a new compensation system that gives more weight to performance. Ideas for a standard performance rating system ranged from a mandated pass/fail system to a four- or five-tier system.

Interviewees were slightly less positive than they were in 2010 when it came to matching individual employee performance to the broader organizational goals, but almost all felt that they were doing an adequate job, at minimum. Slightly more than half (51 percent) of CHCOs said that their agency aligned goals to standards to a "great" or "very great" extent, down 5 percent from two years ago. Another 44 percent said that their agencies did so to a "moderate extent." Only 6 percent answered "not at all" or "to a limited extent."

Veterans preference

All of the interviewees said that they not only support the intent behind statutory preferences for military veterans in federal hiring but also the outcome of ensuring that many qualified veterans are offered government employment. However, more than one-third volunteered misgivings about the process for providing that preference. They noted that it sometimes runs contrary to other public policy goals and legal obligations. For example, some CHCOs noted that veterans preference clashes with diversity hiring goals, since most veterans are white males. One CHCO said, "There's less than 10 percent of vets who are women... we're all trying to get them."

CHCOs also said that the preferences established in law (title 5 USC, Section 3309) were written in the context of an examination process that no longer exists for the most part. Several interviewees shared their concern that one unintended outcome is that non-veterans essentially are excluded from consideration for some entry-level jobs, regardless of their overall qualifications or their qualifications relative to veterans who are hired.

Shared services and increased standardization of HR IT systems

Compared to prior years, more CHCOs interviewed during 2012 believed increased standardization of federal HR IT systems would provide benefits. They also expressed support for expanding a "shared services" model, in which one federal department or agency provides HR services for other agencies. A vocal minority, however, were satisfied with their non-standard system and were not interested in changing. However, that minority viewpoint has declined in strength, due partly to the impact of current or anticipated budget reductions.

An increased percentage of CHCOs expressed concern with the number of HR IT systems, which can hinder data sharing and is not cost effective. Most agencies develop and update their own systems and many reportedly are out of date. But it has become increasingly difficult to get staff and funds for updating them. One CHCO estimated that it can cost a large agency about $100 million to refresh its HR systems, in addition to the significant time required of a large team of employees to do the work.

The shared-services model has been around for some time but it is gaining increased traction because it can be a cost-efficient way to support needed activities. One successful variation on this model for the federal HR workforce is an "HR University" initiative (HRU.gov) that provides a common platform for sharing information about professional-development programs and activities. The site is a joint venture coordinated by OPM and the CHCO Council.

What grade (A through F) would you give your agency's progress on hiring reform?

MAKING HEADWAY AND BUILDING ON SUCCESS

Hiring reform and initiatives improving

The administration's comprehensive hiring-reform initiative, addressing the challenges of recruiting and hiring the top talent into federal government jobs, has several components meant to smooth the process and reduce the time it takes for agencies to hire new employees. Most CHCOs believe their agency is doing well in meeting these initiatives. A majority (59 percent) gave themselves a B on their progress. However, 15 percent gave themselves a grade in the A range (A- to A+) and slightly less than one in four (24 percent) put themselves in the C range. Only one respondent assigned a D grade, but noted that the organization had higher standards than most.

When asked about specific hiring-reform initiatives and whether or not they were headed in the right direction, and what changes should be made, most CHCOs said that diversity initiatives, veterans hiring initiatives and Pathways Programs were advancing on a good course. They gave mixed reviews to the SES initiatives but generally thought they were headed in the right direction. They also thought the USAJOBS website was improving after the rocky start at the time when OPM assumed control from the commercial vendor that supported the site.

Leadership skills rated highly

The CHCOs we interviewed said senior leaders have the skills they need to do their jobs effectively. Nearly seven in 10 (69 percent) CHCOs felt to a "great" or "very great extent" that their organization's senior leaders had the skills to lead effectively in a time of transition, highlighting the importance of training for managers and supervisors as they prepare to move into leadership positions.

Diversity on the right track

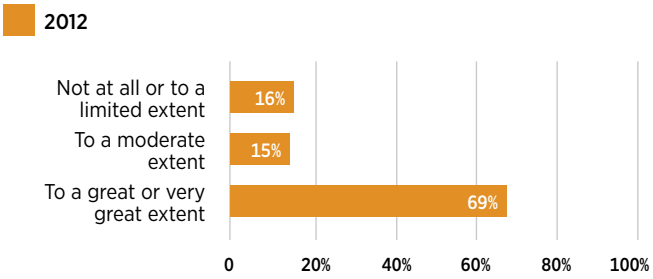
Nearly everyone we spoke with said the administration's emphasis on maintaining and increasing diversity—including hiring people with disabilities—was on the right track with no mid-course corrections needed, and that it was helpful for diversity to be a government-wide goal. Some said they were having trouble meeting goals for certain groups, primarily Hispanics, but continue to try to achieve their objectives within the current framework. As previously noted, there was some concern that the manner in which veterans preference is currently being applied can work against diversity goals.

Senior Executive Service moving in the right direction

The overall consensus is that SES initiatives are also moving in the right direction and agencies are building on success, although there were mixed reviews on resume-based hiring. Some find it cumbersome and inefficient, while others find it useful. Some CHCOs questioned the resume-based hiring pilot in which applicants for SES positions could apply by submitting only a resume instead of the standard practice of asking applicants to write essays on how they meet each of the Executive Core Qualifications. Some CHCOs reported that the amount of time being spent on assessing the resume-only applicants was substantially in excess of the time required under the previous approach. The resume-based approach reportedly worked best when the applicant pool was limited (fewer than 50 applicants).

Most interviewees supported the goal of having senior executives and those who aspire to the SES work in more than one agency or one functional area, believing that this mobility enhances their development and their working relationships. However, several offered the caveat that employees should not be required to engage in "mobility for mobility's sake."

To what extent do your agency's senior leaders have the skills they need to lead effectively in a time of transition?



USING METRICS AND ANALYTICS

CHCOs across the board recognized the importance of using workforce analytics to examine agency data, and to have the technology to generate such data effectively. Greater standardization of HR IT systems also was seen as one way to ensure that workforce data would be comparable across agencies. Many also recognized the need for data analytics to be used as a predictive tool, particularly in the areas of retirement and succession planning. Some CHCOs expressed concern that when workforce data is compiled and reported by an organization outside the agency, typically OPM or OMB, resulting data and reports are not being used, or even well understood, by the agencies generating the information.

CHCOs also discussed their agencies' experiences using employee survey data, particularly the annual FEVS conducted by OPM, to develop and assess actions and initiatives intended to engage their employees better. While several CHCOs complained about what they saw as an excessive time lag between the administration of the survey by OPM and when they receive the data, they did find the data useful.

Measuring employee satisfaction and engagement

Employees' satisfaction with leadership and management and their level of engagement are viewed by CHCOs as important aspects of federal employee retention. If employees are committed to their agency's mission, have respect for their leadership and are engaged in their jobs, they are more likely to perform well. When asked the extent to which agencies were able to engage and retain their top talent, 61 percent of CHCOs said agencies are able to do this to a "great" or "very great extent." Nearly four in 10 (39 percent) said they are able to do so only to a "moderate" or "limited extent."

CHCOs understand the importance of employee satisfaction and commitment levels, and the advantage of determining how those factors relate to recruitment and retention. As noted, one of the key assessment tools leaders and agency stakeholders use is the FEVS.[3]

The survey, which was conducted biennially in its first eight years, became an annual requirement in 2004, highlighting its importance as a gauge for employee attitudes about their workplace. In the 2011 budget, agencies were required for the first time to submit plans to improve employee satisfaction[4] and in 2012, also for the first time, OPM invited almost all permanent, full- and part-time federal employees to participate.[5]

The responsibility for understanding and improving on results commonly falls to the agency CHCO or HR leaders. We asked CHCOs about their experience with the FEVS and what specific actions they took in the past year after viewing their agency's results. We found that CHCOs, by and large, are actively utilizing the results in a variety of ways. For example, many are looking at lowest scores and setting a performance-management goal of making improvements. A few said they take important findings directly to the secretaries and deputy secretaries, seeking perspectives on how to improve in specific areas.

3 The Partnership for Public Service uses the FEVS results as the basis for the *Best Places to Work in the Federal Government®* rankings. For full data analysis and methodological information, see http://bestplacestowork.org.

4 U.S. Office of Personnel Management, Memorandum for Heads of Executive Department and Agencies, from John Berry, June 18, 2009. http://www.chcoc.gov/Transmittals/TransmittalDetails.aspx?TransmittalId=2328

5 U.S. Office of Personnel Management, Memorandum for Heads of Executive Department and Agencies, from John Berry, January 20, 2012. http://www.chcoc.gov/transmittals/TransmittalDetails.aspx?TransmittalID=4573

Leaders/Supervisors

Many CHCO survey respondents said their agency's top leaders are invested in FEVS results, and in at least one case, a CHCO said the agency head is having a big impact on survey results by being "genuinely" well-liked by employees. Another agency developed detailed strategies to engage supervisors in change efforts and reported it was well received. "We implemented after-action forums that were available to 9,000 supervisors. Bring your individual reports and we help you craft a project timeline. By a certain date, you should have set up this, handled contentious issues, etc." Other agencies encouraged conversations about performance, and started the conversation from the top down. "We pushed the notion of clarity and performance expectations," said a participant who added that HR also pressed for "healthy discussions" between supervisors and employees, and organizationally. The agency's scores improved, although those who pushed initially for the discussions thought the agency was going "to get grief for doing this. But it worked well."

Engagement and accountability

The FEVS study has changed the ways leaders are engaging their employees and it has increased their attempts to do so. Some agencies say they are conducting follow-up focus groups among their staff or reaching out directly to employees on specific findings, asking how their workplace can be improved. A CHCO from a large agency said they approach FEVS action planning like any other strategic goal—as an opportunity to increase collaboration and information sharing. "We really engage all of our HR leaders [across the agency]." Another commonly shared strategy is to create an employee committee to focus on survey results. Improvement "hinges on taking the results and [creating initiatives]. The inter-component workgroup allows us to focus attention and develop short- and long-term goals."

The bottom line is that CHCOs are holding themselves and their leaders accountable for improving aspects of their agency that have left employees dissatisfied. Several agencies credited regular data discussions, check-ins or pulse surveys with having an impact. "We took our lowest scores and provided milestones and metrics," said one CHCO, referring to a monthly analytical report to the secretary. "We've analyzed below the agency level and it's been very effective." Some agencies are looking to use "natural competition" to see where leaders are going to do a good job within their agency. Another large agency required action plans of all HR directors, negotiating to have year-long plans with goals to raise scores. "We're asking, 'What are you going to do?' and we'll see how it comes out," said an interviewee.

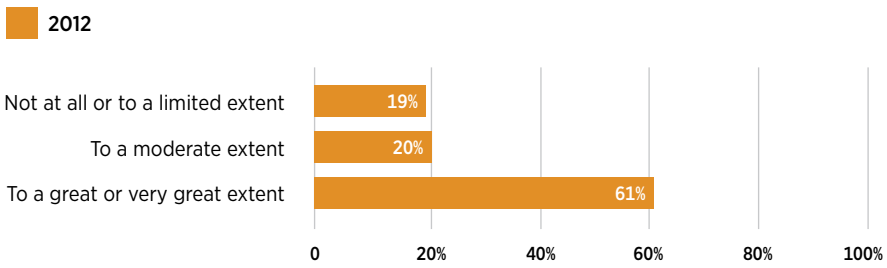
Actionable results: teleworking and career development

CHCOs say they have implemented real change in workforce policies and focus in some specific areas where FEVS results are tied to employees' changing needs. Many interviewees targeted specific areas that could drive change. Emphasizing career development and workforce innovation, such as teleworking, were two prominent possibilities suggested.

"We focused on leadership development and communication skills training," said one respondent. As a direct result of feedback from the FEVS survey, "We expanded the availability of training," another interviewee said. In addition to developing their skills, employees also want to be able to envision their future in the organization. A few respondents mentioned working on career path options. One realized that many employees are concerned about career growth and direction so the agency created a tool to allow employees to map out possibilities for themselves. "It democratizes the career path. Everyone understands what it takes to move up."

Another CHCO said, "Our strategy is to focus on innovation as our guiding principle. We want a mobile and agile workforce. We have rolled out a 'work from anywhere' task." One agency CHCO underscored the importance of a nimble workforce through telework and said it's making a difference. "We revised our telework policy. We've come a long way and have really pushed."

To what extent is your agency able to engage and retain its top talent?



RECOMMENDATIONS

The government and the federal workforce are in for tough times. Increased demands upon federal workers, reduced resources, increased turnover and dwindling public support for the workforce will make the job of government leaders more difficult. The following recommendations can help CHCOs navigate in a time of adversity:

Reform the civil service.
The administration and Congress should take advantage of the current climate and post-election transition to develop, promote and implement changes to the fundamentals of the federal civil service. This includes:

- **Pay and compensation reform.** Reform would include not only developing a new approach to federal pay-setting but also rethinking the federal job-classification system. Any pay reform efforts should take into consideration alternative approaches for rewarding exceptional performance and ensure that the federal government is able to compete for and retain the talent it needs as cost-effectively as possible.
- **Reform of the laws underlying the federal hiring system.** Further major improvement to the federal hiring system will require a re-examination of the underlying civil service law. For example, the original concept of the "excepted service" and the "competitive service" and the differences between how jobs are filled under each has been muddled beyond comprehension, is poorly understood and outdated. Any re-examination of the statutory framework should include an evaluation of how well any change will improve the government's ability to attract, assess and hire some of the best talent available, in a way that is consistent with the merit system principles.
- **Update veterans preference.** The current method for using veterans preference is outmoded, a holdover from when there was a single written test for hiring many federal employees. Laws and regulations should be amended to ensure the intent of Congress is still being met in an atmosphere that is vastly different from what existed at the time veterans preference laws were enacted.
- **Merit system protections.** There continues to be interest in revisiting how employee due process is provided, to ensure that federal employees are protected from arbitrary and non-meritorious personnel actions. At the same time, managers trying to address the small percentage of non-performing or under-performing employees need to be supported.

Stay the course on initiatives that are achieving results.
In a time of growing demands and declining resources, it will be tempting to back away from initiatives and improvement efforts that consume scarce resources. Resist the temptation because:

- The health of the federal HR profession remains fragile but a downward slide may have been arrested and prospects for continued rehabilitation remain. It is important to continue to invest in improving the HR workforce so staff is better equipped to assist agency leaders in their efforts to attract, hire, develop, motivate and retain a highly qualified and productive workforce overall.

- The potentially tremendous return on the investment in leadership development could be lost if it is de-emphasized. Instead, seek to reduce costs through innovative and collaborative approaches to leadership growth and development. That would include efforts, with OPM's assistance, to provide professional growth and mobility through cross-agency assignments or multi-agency-funded and shared-development efforts.

- Agencies should continue to use workforce data consistently to inform agency decision making in these difficult times. This should include continuing to use survey data to engage employees better, increase transparency and accountability, enhance performance management and hold employees and managers accountable.

Improve succession planning.
With the stakes higher than ever, and increased turnover in government practically assured, most federal agencies need to update and improve their succession plans to ensure knowledge transfer and continuity of operations. OPM could assist by identifying agencies with good succession-planning efforts underway and creating opportunities for agencies to share these approaches. As part of its oversight responsibilities, Congress should review agency succession-planning efforts and outcomes.

Agencies also need to prepare now for a political transition, regardless of who is in office on Jan. 20, 2013.

Increase standardization of HR IT and use of shared services.
Budget pressures have diminished some agencies' opposition to administration efforts to increase standardization of HR IT systems to save resources and improve data collection and sharing. The same is true for expanding a shared-services concept under which a small number of agencies provide selected HR services to others. Many agencies are realizing they can no longer afford to develop and maintain all their own unique systems at an effective level. Several CHCOs noted they would welcome increased leadership from both OPM and OMB on this issue.

CONCLUSION

Budget constraints provide uncertainty for the federal government but that doesn't mean that senior government leaders can stop working to attract and hire highly qualified employees for mission-critical jobs, or halt efforts to develop, retain and engage current staff. Performing these activities efficiently and effectively is challenging in the best of times. Against the backdrop of a two-year pay freeze, negative public perceptions of government, increasing workloads, escalating retirements and outdated or ineffective HR policies and systems, the challenges could be overwhelming.

Within each federal department and agency, the CHCO and other key HR staff are charged with helping agency leadership deal with their myriad workforce issues and challenges. Our interviews with 55 of these HR leaders were revealing, reinforcing the fact that the federal government is not a monolith. The severity of the challenges, their impact on the organization and the ability to respond varied significantly among the agencies represented.

Organizational differences aside, the agencies had many HR and management issues in common. CHCOs were willing to confront and find ways to deal with many of the challenges they face. They were realistic about the fact that they cannot simply continue to do business as usual and expect to be successful, given the current operating environment. Most of those interviewed had a clear vision of the changes they needed to make, or were in the process of making, to help their agencies. Many had similar ideas and suggestions for changes that Congress or the administration could make to help. Many interviewees were concerned, however, that changes may not occur quickly enough to prevent disruptions to programs, services or benefits provided by their organizations. One way or another, all of the HR leaders we met with were bracing for change, but remain uncertain just how much they will have to undergo.

APPENDIX A
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Department of Commerce
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Chief Financial Officer and Assistant Secretary for Administration and Chief Human Capital Officer

Department of Defense
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Department of Health and Human Services
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APPENDIX C

2012 SURVEY QUESTIONNAIRE

Discussion questions

1. In general, what are the major human capital challenges your agency faces today?
2. If the next administration and/or Congress wishes to make a lasting improvement to the federal civil service, what two or three specific actions or initiatives would you advise they take?
3. What are the initiatives in the federal HR arena in which your advice to the next administration or Congress is to "stay the course" or make no changes?
4. If a major reform of the federal compensation and classification system is put on the table, what are your recommendations for change in this area (e.g., what should reform look like)?
5. Being as specific as you can, are there ways in which OPM and OMB can carry out their responsibilities more effectively?
6. For each of the following programs or initiatives in which changes are currently being made, please indicate if 1) They are headed in the right direction, or not and 2) Would you propose any changes or mid-course corrections?
    a. The Senior Executive Service (resume based hiring, emphasis on mobility, common performance management framework)
    b. Diversity Initiatives
    c. Veterans Hiring Initiatives
    d. Pathways Program
    e. USAJOBS
7. The President's 2013 Budget Request identifies "Improving the Federal Workforce" as one of the administration's management priorities, recognizing the need for an engaged, well-prepared, well-trained workforce with the right skills to accomplish today's government missions. What changes, if any, do you foresee in each of the following areas within your agency:
    a. Workforce composition, e.g., occupation and/or grade level mix, size of the workforce, etc.
    b. Level of education required for new hires
    c. Policies and practices for dealing with employee performance
    d. Developing and using workforce analytics
    e. Strengthening labor-management relations
    f. Other?
8. What impact, if any, will the cross agency performance (CAP) goal related to closing skills gaps have on your work or your agency? (http://goals.performance.gov/goals_2013)
9. What grade (A through F) would you give to your agency's progress on hiring reform? Is there additional progress that needs to be made?
10. What actions, if any, did you take as a result of your agency's FEVS survey results in the past year? If a number of actions were taken, what were the top one or two in terms of impact?
11. Finally, before we end with a few close-ended questions, is there anything else we should know or any other issues we should focus on?

Closed-ended questions

On a scale of 1–5, please use the scale below to answer the "To what extent" questions.

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

To what extent...

1. ...do you have the resources you need to be an effective CHCO or HR leader?

   1 2 3 4 5

2. ...is your agency able to engage and retain its top talent?

   1 2 3 4 5

3. ...do you anticipate that budget pressures will result in a need for a reduction in the current size of your workforce?

   1 2 3 4 5

4. ...does your agency do a good job of aligning organizational goals and individual employee performance standards?

   1 2 3 4 5

5. ...is your HR staff viewed by your agency leadership as a trusted business advisor (versus a transaction manager)?

   1 2 3 4 5

6. ...is your agency's succession planning process preparing an adequate pool of qualified candidates for future needs?

   1 2 3 4 5

7. ...do your managers and supervisors (i.e., line and operations, not HR) have the managerial and supervisory competencies (i.e., the soft skills) they need to be successful?

   1 2 3 4 5

8. ...do your agency's senior leaders have the leadership skills they need to lead effectively in a time of transition?

   1 2 3 4 5

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