

GAO

Statement

Before the Little Hoover Commission of the State of  
California

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HUMAN CAPITAL

An Organization's People  
Achieve Results and Drive  
Transformation

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G A O

Accountability \* Integrity \* Reliability

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Highlights of a statement before the Little Hoover Commission of the State of California.

## Why GAO Did This Study

In an era of severely constrained fiscal resources, federal, state, and local levels of government are finding they need to undertake a comprehensive review, reassessment, reprioritization, and reengineering of what the government does; how it does business; and in some cases, who does the government's business. Public sector organizations will need to transform their cultures to respond to the governance challenges of the 21st century.

In a knowledge-based environment, people—human capital—are an organization's most valuable asset. Thus, strategic human capital management is the centerpiece of government transformation. Public sector organizations must have the most effective human capital systems to succeed in their transformation efforts.

This statement, based on GAO's prior work for the Congress, discusses the key practices that public sector organizations follow to build the necessary infrastructure to implement their strategic human capital approaches.

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## HUMAN CAPITAL

# An Organization's People Achieve Results and Drive Transformation

## What GAO Found

Organizations need to develop and effectively implement the human capital approaches that best meet their needs, resources, context, and authorities. While these approaches will depend on each organization's specific situation, leading public sector organizations build infrastructures that at a minimum, include the following.

**Conducting strategic workforce planning:** Such planning aligns human capital programs with programmatic goals and develops strategies to acquire, develop, and retain staff to achieve these goals. Moving beyond a "replacement" approach, broad, integrated succession planning and management efforts focus on strengthening both current and future organizational capacity.

**Building the capability to develop and implement human capital systems:** An essential element to acquiring, developing, and retaining a high-quality workforce is effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce. GAO has emphasized that federal agencies should first identify and use the flexibilities already available and seek additional flexibility only when necessary and based on sound business cases.

**Implementing modern, effective, and credible performance management systems:** Effective performance management systems can help drive internal change and achieve external results. Such systems are not merely used for expectation setting and rating processes, but are used to facilitate two-way communication so that discussions about individual and organizational performance are integrated and ongoing. Leading public sector organizations have created a clear linkage—"line of sight"—between individual performance and organizational success.

The current debates surrounding federal human capital reform can help inform the State of California as it considers its own reforms. Moving forward at the federal level, GAO believes it would be both prudent and preferable to employ a governmentwide approach to address the need for human capital authorities that have broad-based application and serious implications for the civil service system. Employing this approach is not intended to delay any individual agency's efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency within the overall civilian workforce. In short, the important changes under way at individual agencies naturally are suggesting that broader, more systematic civil service reform should be seriously considered at the federal level.

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Chairman Alpert, Vice-Chairman Zax, and Members of the Commission:

I am pleased to be here today to discuss the work the GAO has done in recent years on how an organization's people are key to its performance, both today and in the future, in responding to emerging governance challenges. As you know GAO's mission is to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

We live in an era of severely constrained fiscal resources, when difficult and painful decisions must be made. In making these decisions, federal, state, and local levels of government are finding they need to undertake a comprehensive review, reassessment, reprioritization, and reengineering of what the government does; how it does business; and in some cases, who does the government's business. Public sector organizations will need to transform their cultures from

- outputs to results;
- stovepipes to matrixes;
- hierarchical to flatter and more horizontal structures;
- an inward to an external focus on clients, customers, partners, and other stakeholders;
- micromanagement to employee empowerment;
- reactive behavior to proactive approaches;
- avoiding new technologies to embracing and leveraging them;
- hoarding knowledge to sharing knowledge;
- avoiding risk to managing risk;
- protecting "turf" to forming partnerships; and
- adversarial to constructive labor/management relations.

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Clearly, in a knowledge-based environment, people—human capital—are an organization’s most valuable asset. Thus, strategic human capital management is the centerpiece of government transformation and any major change management initiative. Put simply, public sector organizations must have the most effective human capital systems to succeed in their transformation efforts.

The State of California’s Little Hoover Commission recognizes that building a strong workforce is essential to managing the large and complex challenges facing California and that high-quality managers are essential to improving outcomes. The Commission has also reported that while a large number of senior managers are expected to leave in the near future as they reach retirement age, this trend presents an opportunity for California to better understand how to foster a culture to enhance performance, ensure accountability, and position the state for the future.

Our work has shown that organizations need to develop and effectively implement the human capital approaches that best meet their needs, resources, context, and authorities. While these approaches will depend on each organization’s specific situation, our work has shown that leading public sector organizations build infrastructures to implement their strategic human capital approaches. Such an infrastructure includes, at a minimum, (1) a strategic human capital planning process that integrates the agency human capital approaches with program goals, desired outcomes, and mission; (2) the capabilities to effectively develop and implement human capital authorities; and (3) a modern, effective, and credible performance management system that includes a set of institutional safeguards to ensure the fair implementation of that system.

At your request, my statement today will outline the key practices that leading public sector organizations follow to build the necessary infrastructure to marshal, manage, and maintain a workforce that maximizes the performance and to ensure the accountability of the government for the benefit of the American people. My comments are based on previously issued GAO reports that were developed for the Congress in accordance with generally accepted government auditing standards. For further information, I also have attached the “Highlights” pages from the reports that are referenced in this statement (see app. I).

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## Conducting Strategic Workforce Planning

In the wake of extensive downsizing during the early 1990s, done largely without sufficient consideration of the strategic consequences, federal agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Similar to what I understand to be the situation here in California, federal agencies are also facing a growing number of employees who are eligible for retirement, and agencies are finding it difficult to fill certain mission-critical jobs, a situation that could significantly drain agencies' institutional knowledge.

Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals.<sup>1</sup> Existing strategic workforce planning tools and models and our own work suggest that there are certain principles that such a process should address irrespective of the specific agency context in which planning is done, as shown in figure 1.

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**Figure 1: Principles of the Strategic Workforce Planning Process**

- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.
- Develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce strategies.
- Monitor and evaluate the agency's progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic goals.

Source: GAO.

For example, the achievement of the Department of Defense's (DOD) mission depends in large part on the skills and expertise of its civilian workforce. We recently reported that DOD's future strategic workforce

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<sup>1</sup>U.S. General Accounting Office, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003).

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plans might not result in workforces that possess the critical skills and competencies needed.<sup>2</sup> Among other things, DOD and the components do not know what competencies their staff need to do their work now and in the future and what type of recruitment, retention, and training and professional development workforce strategies should be developed and implemented to meet future organizational goals. It is questionable whether DOD's implementation of its new personnel reforms will result in maximum effectiveness and value because DOD has not developed comprehensive strategic workforce plans that identify future civilian workforce needs.

Moving beyond a "replacement" approach, which focuses on identifying particular individuals as possible successors for specific top-ranking positions, succession planning and management are particularly important given the demographic realities and transformation challenges agencies face. Leading organizations engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. As part of this approach, these organizations identify, develop, and select successors who are the right people, with the right skills, at the right time for leadership and other key positions. We identified specific succession planning and management practices that agencies in Australia, Canada, New Zealand, and the United Kingdom are implementing that reflect this broader focus on building organizational capacity (see fig. 2).<sup>3</sup>

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<sup>2</sup>U.S. General Accounting Office, *DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed*, [GAO-04-753](#) (Washington, D.C.: June 30, 2004).

<sup>3</sup>U.S. General Accounting Office, *Human Capital: Insights for U.S. Agencies from Other Countries' Succession Planning and Management Initiatives*, [GAO-03-914](#) (Washington, D.C.: Sept. 15, 2003).

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**Figure 2: Selected Practices Used by Agencies in Other Countries to Manage Succession**

- Receive active support of top leadership.
- Link to strategic planning.
- Identify talent from multiple organizational levels, early in careers, or with critical skills.
- Emphasize developmental assignments in addition to formal training.
- Address specific human capital challenges, such as diversity, leadership capacity, and retention.
- Facilitate broader transformation efforts.

Source: GAO.

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## Building the Capability to Develop and Implement Human Capital Systems

For years, many observers have viewed the federal civil service as overregulated and inflexible. At the same time, federal agencies are experiencing pervasive human capital challenges in acquiring and developing staffs to meet current and emerging agency needs. The deliberations over the creation of the new Department of Homeland Security (DHS) underscore the importance of ensuring that agencies have the capabilities needed to effectively achieve their missions and manage their people.

An essential element to acquiring, developing, and retaining high-quality federal employees is agencies' effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce. The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. We have emphasized that in addressing their human capital challenges, federal agencies should first identify and use the flexibilities already available under existing laws and regulations and seek additional flexibilities only when necessary and based on sound business cases.

We reported that federal agencies were often not maximizing their use of the human capital flexibilities already available to them, and we identified key practices that agencies can implement to effectively use such flexibilities, as shown in figure 3.<sup>4</sup>

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<sup>4</sup>U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

**Figure 3: Key Practices for Effective Use of Human Capital Flexibilities**

<p><b>Plan strategically and make targeted investments</b></p>	<ul style="list-style-type: none"> <li>• Obtain agency leadership commitment</li> <li>• Determine agency workforce needs using fact-based analysis</li> <li>• Develop strategies that employ appropriate flexibilities to meet workforce needs</li> <li>• Make appropriate funding available</li> </ul>
<p><b>Ensure stakeholder input in developing policies and procedures</b></p>	<ul style="list-style-type: none"> <li>• Engage the human capital office</li> <li>• Engage agency managers and supervisors</li> <li>• Involve employees and unions</li> <li>• Use input to establish clear, documented, and transparent policies and procedures</li> </ul>
<p><b>Educate managers and employees on the availability and use of flexibilities</b></p>	<ul style="list-style-type: none"> <li>• Train human capital staff</li> <li>• Educate agency managers and supervisors on existence and use of flexibilities</li> <li>• Inform employees of procedures and rights</li> </ul>
<p><b>Streamline and improve administrative processes</b></p>	<ul style="list-style-type: none"> <li>• Ascertain the source of existing requirements</li> <li>• Reevaluate administrative approval processes for greater efficiency</li> <li>• Replicate proven successes of others</li> </ul>
<p><b>Build transparency and accountability into the system</b></p>	<ul style="list-style-type: none"> <li>• Delegate authority to use flexibilities to appropriate levels within the agency</li> <li>• Hold managers and supervisors directly accountable</li> <li>• Apply policies and procedures consistently</li> </ul>
<p><b>Change the organizational culture</b></p>	<ul style="list-style-type: none"> <li>• Ensure involvement of senior human capital managers in key decision-making processes</li> <li>• Encourage greater acceptance of prudent risk taking and organizational change</li> <li>• Recognize differences in individual job performance and competencies</li> </ul>

Source: GAO.

## Implementing Modern, Effective, and Credible Performance Management Systems

To transform their cultures, high-performing organizations have recognized that effective performance management systems can help them drive internal change and achieve external results. Effective performance management systems are not merely used for once- or twice-yearly individual expectation setting and rating processes, but are tools to help the organization manage on a day-to-day basis. These systems are used to achieve results, accelerate change, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing.

Leading public sector organizations both here in the United States and abroad have used their performance management systems to create a clear linkage—“line of sight”—between individual performance and organizational success. Collectively, these key practices can help agencies

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develop and implement modern, effective, and credible performance management systems with adequate safeguards. The key practices include the following.<sup>5</sup>

**1. Align individual performance expectations with organizational goals.** An explicit alignment of daily activities with broader results helps individuals see the connection between their daily activities and organizational goals and encourages individuals to focus on their roles and responsibilities to help achieve those goals. To this end, for example, the Federal Aviation Administration (FAA) was able to show in fiscal year 2000 how the Department of Transportation's strategic goal to promote public health and safety was cascaded through the FAA Administrator's performance expectation to reduce the commercial air carrier fatal accident rate to a program director's performance expectation to develop software to help aircraft maintain safe altitudes in their approach paths.

The Commission has appropriately focused its attention on the state's supervisors and managers. Leading public sector organizations understand that they need leaders who lead the way in transforming their agencies' cultures and are held accountable for results, drive continuous improvement, and stimulate and support efforts to integrate human capital approaches with organizational goals and related transformation issues. At the federal level, we recently concluded that the Departments of Education and Health and Human Services (HHS) and the National Aeronautics and Space Administration (NASA) need to continue to make substantial progress in using their senior executive performance management systems to strengthen the linkage between senior executive performance and organizational success.<sup>6</sup> For example, based on our survey of career senior executives, we found that generally less than half of the senior executives at these agencies believe that their agencies are fully using their performance management systems as a tool to manage the organization or to achieve organizational goals.

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<sup>5</sup>U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

<sup>6</sup>U.S. General Accounting Office, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, [GAO-04-614](#) (Washington, D.C.: May 26, 2004).

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**2. Connect performance expectations to crosscutting goals.** As public sector organizations shift their focus of accountability from outputs to results, they have recognized that the activities needed to achieve those results often transcend specific organizational boundaries. Consequently, organizations that focus on collaboration, interaction, and teamwork across organizational boundaries are increasingly critical to achieve results. In this regard, the Veterans Health Administration's—the direct provider of health care to veterans—Veterans Integrated Service Network (VISN) headquartered in Cincinnati implemented performance agreements in 2000 for the “care line” directors, such as primary care or mental health directors, that included improvement goals related to that care line for the entire VISN. To progress toward these goals, the mental health care line director had to work collaboratively with the corresponding mental health care line managers at each of the four medical centers to establish consensus among VISN officials and external stakeholders on the strategic direction for the services provided by the mental health care line across the VISN, among other things.

**3. Provide and routinely use performance information to track organizational priorities.** High-performing organizations provide objective performance information to individuals to show progress in achieving organizational results and other priorities and help them manage during the year, identify performance gaps, and pinpoint improvement opportunities. Disaggregating performance information in a useful format also helps individuals track their performance against organizational goals and compare their performance to that of other individuals and the organization. For example, the Bureau of Land Management's (BLM) Web-based data system, called the Director's Tracking System, collects and makes available on a real-time basis data on each senior executive's progress in his or her state office towards BLM's organizational priorities, such as the wild horse and burro adoption program, and the resources expended on each priority.

At the federal level, a recent governmentwide survey of managers showed that using performance information has increased from 76 percent in 1997 to 89 percent in 2003, a statistically significant difference.<sup>7</sup> However, while about 60 percent of managers reported in 2003 they used performance

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<sup>7</sup>U.S. General Accounting Office, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004).

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information to a great or very great extent for setting individual job expectations for staff or rewarding staff, these responses are not significantly different from those reported in 1997.

**4. Require follow-up actions to address organizational priorities.**

High-performing organizations require individuals to take follow-up actions based on performance information available to them. By requiring and tracking such follow-up actions on performance gaps, these organizations underscore the importance of holding individuals accountable for making progress on their priorities.

For example, the Federal Highway Administration required senior executives to use 360-degree feedback instruments to solicit employees' views on their leadership skills in 2001. The senior executives were to identify action items based on the feedback and incorporate them into their individual performance plans for the next fiscal year. While the 360-degree feedback instrument was intended for developmental purposes to help senior executives identify areas for improvement and was not included in the executives' performance evaluations, executives were held accountable for taking some action on the 360-degree feedback results and responding to the concerns of their peers, customers, and subordinates.

At the federal level, our recent survey at Education, HHS, and NASA showed that less than three-quarters of the senior executives reported that they took follow-up actions on areas of improvement to a very great or great extent. Of these senior executives who took action, less than two-thirds felt they were recognized through their performance management systems for such actions to a very great or great extent.<sup>8</sup>

**5. Use competencies to provide a fuller assessment of performance.**

High-performing organizations use competencies as a key part of evaluating individual contributions to organizational results. Competencies define the skills and supporting behaviors that individuals are expected to demonstrate to carry out their work effectively and can provide a fuller picture of an individual's performance. Core competencies applied organizationwide can help reinforce employee behaviors and actions that support the organization's mission, goals, and values and can provide a consistent message to employees about how they are expected to achieve results.

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<sup>8</sup>GAO-04-614.

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For example, we reported that DOD’s Civilian Acquisition Personnel Demonstration Project, which covers units of the Air Force, Army, Navy and Marine Corps, among others, evaluates employees against one set of “factors,” which are applied to all employees.<sup>9</sup> These factors are (1) problem solving, (2) teamwork/cooperation, (3) customer relations, (4) leadership/supervision, (5) communication, and (6) resource management. All factors must be used and cannot be supplemented.

**6. Link pay to individual and organizational performance.** High-performing organizations seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. At the same time, these organizations recognize that valid, reliable, and transparent performance management systems with reasonable safeguards for employees are the precondition to such an approach.

There is a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and to better link pay to individual and organizational performance. As you may be aware, GAO strongly supports the need to expand pay for performance in the federal government. Nevertheless, how it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful. High-performing organizations continuously review and revise their performance management systems to achieve results, accelerate change, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing.

Several federal agencies have experimented with new pay for performance systems through personnel demonstration projects.<sup>10</sup> We reported on the approaches selected demonstration projects have taken in designing and implementing their pay for performance systems. Overall, these demonstration projects show an understanding that linking pay to performance is very much a work in progress at the federal level.

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<sup>9</sup>U.S. General Accounting Office, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, [GAO-04-83](#) (Washington, D.C.: Jan. 23, 2004).

<sup>10</sup>[GAO-04-83](#).

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**7. Make meaningful distinctions in performance.** Effective performance management systems seek to achieve three key objectives to help make meaningful distinctions in performance: (1) they strive to provide candid and constructive feedback to help individuals maximize their contributions and potential in understanding and realizing the goals and objectives of the organization; (2) they seek to provide management with the objective and fact-based information it needs to reward top performers; and (3) they provide the necessary information and documentation to deal with poor performers.

At the federal level, governmentwide data suggest that more work is needed to improve the distribution of ratings and bonuses among senior executives. Federal agencies rated about 75 percent of senior executives at the highest levels their systems permitted, and approximately 49 percent of senior executives received bonuses in fiscal year 2002, the most current year for which data are available.

**8. Involve employees and stakeholders to gain ownership of performance management systems.** High-performing organizations have found that actively involving employees and stakeholders when developing or refining results-oriented performance management systems and providing frequent training on the systems helps improve employees' understanding and ownership of the organizational goals and objectives. As this is one of the single most important safeguards that they can put in place, these leading organizations consulted a wide range of employees and stakeholders early in the process, obtained direct feedback from them, and engaged employee unions or associations.

For example, we reported that DHS, as part of developing a new human capital system, sought employee feedback on the development of the human capital system through many mechanisms: a Core Design team composed of members from multiple DHS components; town hall meetings and focus groups held in 10 cities across the country; field teams of frontline managers to provide insight about the department's human capital challenges; and an e-mail mailbox for employee comments.<sup>11</sup> Activity updates to proposed human capital changes were provided in weekly newsletters. The communication between decision makers and staff was

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<sup>11</sup>U.S. General Accounting Office, *Human Capital: DHS Personnel System Design Effort Provides for Collaboration and Employee Participation*, [GAO-03-1099](#) (Washington, D.C.: Sept. 30, 2003).

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continued following the regulations through newsletters, the DHS intranet, and town hall meetings. Subsequently, we found that sustained and committed leadership is required for communicating with employees and their representatives about the new system and providing opportunities for feedback.<sup>12</sup>

**9. Maintain continuity during transitions.** The experience of successful cultural transformations in large public and private organizations suggests that it can often take 5 to 7 years until such initiatives are fully implemented and cultures are transformed substantially. Because this time frame can easily outlast the tenures of political appointees, high-performing organizations recognize that they need to reinforce accountability for organizational goals during times of leadership transition through the use of performance agreements as part of their performance management systems.

We have reported that federal agencies have used results-oriented performance agreements to help maintain a consistent focus on a set of broad programmatic priorities.<sup>13</sup> Such agreements can be used to clearly and concisely outline top leadership priorities during a given year and thereby serve as a convenient vehicle for new leadership to identify and maintain focus on the most pressing issues confronting the organization as it transforms. We found that selected agencies were in the initial phases of implementing performance agreements beyond the senior political and career executive levels and are exploring how far and how best to cascade them.

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## Next Steps in Human Capital Reform

The current debates surrounding federal human capital reform can help inform the State of California as it considers reforms recommended by the California Performance Review. The broad human capital authorities that the Congress provided to DHS when it created the agency and to DOD were clearly important to helping these agencies meet current needs and prepare for the future. Nonetheless, these actions have significant, precedent-setting implications for the rest of the federal government. We are fast

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<sup>12</sup>U.S. General Accounting Office, *Human Capital: DHS Faces Challenges In Implementing Its New Personnel System*, [GAO-04-790](#) (Washington, D.C.: June 18, 2004).

<sup>13</sup>U.S. General Accounting Office, *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements*, [GAO-01-115](#) (Washington, D.C.: Oct. 30, 2000).

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approaching the point where “standard governmentwide” human capital policies and processes are neither standard nor governmentwide. We believe that federal human capital reform should avoid further fragmentation within the civil service, ensure reasonable consistency within the overall civilian workforce, and help maintain a reasonably level playing field among federal agencies in competing for talent. Moving forward at the federal level, we believe it would be both prudent and preferable to employ a governmentwide approach to address the need for human capital authorities that have broad-based application and serious implications for the civil service system. Employing this approach is not intended to delay any individual agency’s efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency within the overall civilian workforce. In short, the important changes under way at individual agencies naturally suggest that broader, more systematic civil service reform should be seriously considered at the federal level.

Chairman Alpert and Members of the Commission, this concludes my prepared statement. I would be pleased to answer any questions you may have.

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## Contacts and Acknowledgments

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# “Highlights” from Selected GAO Human Capital Reports



Highlights of [GAO-03-669](#), a report to congressional requesters

**Why GAO Did This Study**

The Comptroller General convened a forum in September 2002 to identify useful practices and lessons learned from major private and public sector mergers, acquisitions, and organizational transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security merge its various originating components into a unified department. There was general agreement on a number of key practices found at the center of successful mergers, acquisitions, and transformations. In this report, we identify the specific implementation steps for the key practices raised at the forum with illustrative private and public sector examples.

To identify these implementation steps and examples, we relied primarily on interviews with selected forum participants and other experts about their experiences implementing mergers, acquisitions, and transformations and also conducted a literature review.

[www.gao.gov/cgi-bin/getrpt?GAO-03-669](http://www.gao.gov/cgi-bin/getrpt?GAO-03-669)

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm, (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov).

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## RESULTS-ORIENTED CULTURES

### Implementation Steps to Assist Mergers and Organizational Transformations

#### What GAO Found

At the center of any serious change management initiative are the people. Thus, the key to a successful merger and transformation is to recognize the “people” element and implement strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes. Building on the lessons learned from the experiences of large private and public sector organizations, these key practices and implementation steps can help agencies transform their cultures so that they can be more results oriented, customer focused, and collaborative in nature.

#### Key Practices and Implementation Steps for Mergers and Organizational Transformations

Practice	Implementation Step
Ensure top leadership drives the transformation.	<ul style="list-style-type: none"> <li>Define and articulate a succinct and compelling reason for change.</li> <li>Balance continued delivery of services with merger and transformation activities.</li> </ul>
Establish a coherent mission and integrated strategic goals to guide the transformation.	<ul style="list-style-type: none"> <li>Adopt leading practices for results-oriented strategic planning and reporting.</li> </ul>
Focus on a key set of principles and priorities at the outset of the transformation.	<ul style="list-style-type: none"> <li>Embed core values in every aspect of the organization to reinforce the new culture.</li> </ul>
Set implementation goals and a timeline to build momentum and show progress from day one.	<ul style="list-style-type: none"> <li>Make public implementation goals and timeline.</li> <li>Seek and monitor employee attitudes and take appropriate follow-up actions.</li> <li>Identify cultural features of merging organizations to increase understanding of former work environments.</li> <li>Attract and retain key talent.</li> <li>Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.</li> </ul>
Dedicate an implementation team to manage the transformation process.	<ul style="list-style-type: none"> <li>Establish networks to support implementation team.</li> <li>Select high-performing team members.</li> </ul>
Use the performance management system to define responsibility and assure accountability for change.	<ul style="list-style-type: none"> <li>Adopt leading practices to implement effective performance management systems with adequate safeguards.</li> </ul>
Establish a communication strategy to create shared expectations and report related progress.	<ul style="list-style-type: none"> <li>Communicate early and often to build trust.</li> <li>Ensure consistency of message.</li> <li>Encourage two-way communication.</li> <li>Provide information to meet specific needs of employees.</li> </ul>
Involve employees to obtain their ideas and gain their ownership for the transformation.	<ul style="list-style-type: none"> <li>Use employee teams.</li> <li>Involve employees in planning and sharing performance information.</li> <li>Incorporate employee feedback into new policies and procedures.</li> <li>Delegate authority to appropriate organizational levels.</li> </ul>
Build a world-class organization.	<ul style="list-style-type: none"> <li>Adopt leading practices to build a world-class organization.</li> </ul>

Source: GAO

February 2004



Highlights of GAO-04-343SP.

### Why GAO Convened This Forum

As we face the challenges of the 21st century, the federal government must strive to build high-performing organizations. Nothing less than a fundamental transformation in the people, processes, technology, and environment used by federal agencies to address public goals will be necessary to address public needs. In high-performing organizations, management controls, processes, practices, and systems are adopted that are consistent with prevailing best practices and contribute to concrete organizational results. Ultimately, however, the federal government needs to change its culture to become more results-oriented, client- and customer-focused, and collaborative in nature.

On November 6, 2003, GAO hosted a forum to discuss what it means for a federal agency to be high-performing in an environment where results and outcomes are increasingly accomplished through partnerships that cut across different levels of government and different sectors of the economy. The forum included discussions of the metrics, means, and mechanisms that a federal agency should use to optimize its influence and contribution to nationally important results and outcomes. The forum included representatives of the public, not-for-profit, and for-profit sectors as well as academia who are knowledgeable of what it takes for organizations to become high-performing.

[www.gao.gov/cgi-bin/getrpt?GAO-04-343SP](http://www.gao.gov/cgi-bin/getrpt?GAO-04-343SP).

To view the full product click on the link above. For more information, contact J. Christopher Mihm, Managing Director, Strategic Issues on (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov).

## HIGHLIGHTS OF A GAO FORUM

### High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment

#### What Participants Said

There was broad agreement among participants at the forum on the key characteristics and capabilities of high-performing organizations, which comprise four themes as follows:

- **A clear, well-articulated, and compelling mission.** High-performing organizations have a clear, well-articulated, and compelling mission, the strategic goals to achieve it, and a performance management system that aligns with these goals to show employees how their performance can contribute to overall organizational results.
- **Strategic use of partnerships.** Since the federal government is increasingly reliant on partners to achieve its outcomes, becoming a high-performing organization requires that federal agencies effectively manage relationships with other organizations outside of their direct control.
- **Focus on needs of clients and customers.** Serving the needs of clients and customers involves identifying their needs, striving to meet them, measuring performance, and publicly reporting on progress to help assure appropriate transparency and accountability.
- **Strategic management of people.** Most high-performing organizations have strong, charismatic, visionary, and sustained leadership, the capability to identify what skills and competencies the employees and the organization need, and other key characteristics including effective recruiting, comprehensive training and development, retention of high-performing employees, and a streamlined hiring process.

During the forum, the Comptroller General offered several options that the Congress, the executive branch, and others could pursue to facilitate transformation and to achieve high performance in the federal government. Several of the participants provided their views and experiences with these options. These options included:

- establishing a governmentwide transformation fund where federal agencies could apply for funds to make short-term targeted investments, based on a well-developed business case;
- employing the Chief Operating Officer concept or establishing a related senior management position, such as a Principal Under Secretary for Management and/or Chief Administrative Officer, to provide long-term attention and focus on management issues and transformational change at selected federal agencies; and
- examining certain federal budget reforms, such as a biennial budget process, which could encourage the Congress and federal agencies to focus on long-range issues and possibly provide more time for oversight of existing government programs, policies, functions, and activities.

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports

December 2003



Highlights of GAO-04-39, a report to congressional requesters

**Why GAO Did This Study**

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. Effective results-oriented management of the government’s most valued resource—its people—is at the heart of this transition.

This report is part of a large body of GAO work examining issues in strategic human capital management. Based on GAO’s reports and testimonies, review of studies by leading workforce planning organizations, and interviews with officials from the Office of Personnel Management and other federal agencies, this report describes the key principles of strategic workforce planning and provides illustrative examples of these principles drawn from selected agencies’ strategic workforce planning experiences.

[www.gao.gov/cgi-bin/getrpt?GAO-04-39](http://www.gao.gov/cgi-bin/getrpt?GAO-04-39).

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

**HUMAN CAPITAL**

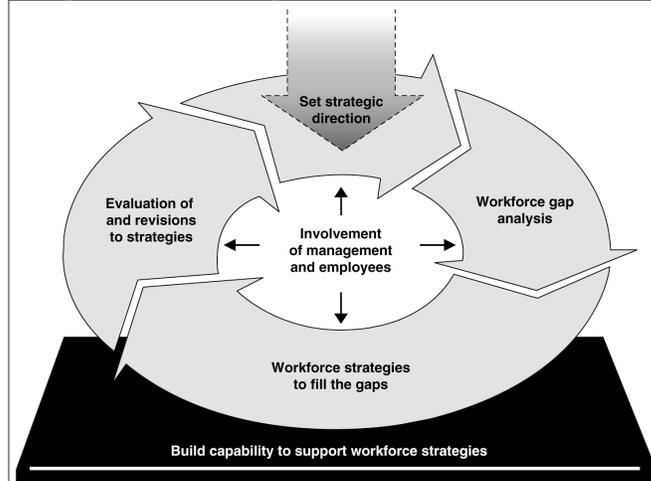
**Key Principles for Effective Strategic Workforce Planning**

**What GAO Found**

Strategic workforce planning addresses two critical needs: (1) aligning an organization’s human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. While agencies’ approaches to workforce planning will vary, GAO identified five key principles that strategic workforce planning should address irrespective of the context in which the planning is done:

- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.
- Develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce planning strategies.
- Monitor and evaluate the agency’s progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic results.

**Strategic Workforce Planning Process**



Source: GAO.

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports

September 2003



Highlights of GAO-03-914, a report to congressional requesters

### Why GAO Did This Study

Leading public organizations here and abroad recognize that a more strategic approach to human capital management is essential for change initiatives that are intended to transform their cultures. To that end, organizations are looking for ways to identify and develop the leaders, managers, and workforce necessary to face the array of challenges that will confront government in the 21<sup>st</sup> century. GAO conducted this study to identify how agencies in four countries—Australia, Canada, New Zealand, and the United Kingdom—are adopting a more strategic approach to managing the succession of senior executives and other public sector employees with critical skills. These agencies’ experiences may provide insights to executive branch agencies as they undertake their own succession planning and management initiatives.

GAO identified the examples described in this report through discussions with officials from central human capital agencies, national audit offices, and agencies in Australia, Canada, New Zealand, and the United Kingdom, and a screening survey sent to senior human capital officials at selected agencies.

[www.gao.gov/cgi-bin/getrpt?GAO-03-914](http://www.gao.gov/cgi-bin/getrpt?GAO-03-914).

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov).

## HUMAN CAPITAL

### Insights for U.S. Agencies from Other Countries’ Succession Planning and Management Initiatives

#### What GAO Found

Leading organizations engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. As part of this approach, these organizations identify, develop, and select their human capital to ensure that successors are the right people, with the right skills, at the right time for leadership and other key positions. To this end, agencies in Australia, Canada, New Zealand, and the United Kingdom are implementing succession planning and management initiatives that are designed to protect and enhance organizational capacity. Collectively, these agencies’ initiatives demonstrated the practices shown below.

#### Selected Practices Used by Agencies in Other Countries to Manage Succession

- **Receive active support of top leadership.** Top leadership actively participates in, regularly uses, and ensures the needed financial and staff resources for key succession planning and management initiatives. For example, New Zealand’s State Services Commissioner developed, with the assistance of a group of six agency chief executives who met regularly over a period of 2 years, a new governmentwide senior leadership and management development strategy.
- **Link to strategic planning.** To focus on both current and future needs and to provide leaders with a broader perspective, the Royal Canadian Mounted Police’s succession planning and management initiative figures prominently in the agency’s multiyear human capital plan and provides top leaders with an agencywide perspective when making decisions.
- **Identify talent from multiple organizational levels, early in careers, or with critical skills.** For example, the United Kingdom’s Fast Stream program specifically targets high-potential individuals early in their civil service careers as well as those recently graduated from college with the aim of providing them with experiences and training linked to strengthening specific competencies required for admission to the Senior Civil Service.
- **Emphasize developmental assignments in addition to formal training.** Initiatives emphasize developmental assignments in addition to formal training to strengthen high-potential employees’ skills and broaden their experience. For example, Canada’s Accelerated Executive Development Program temporarily assigns executives to work in unfamiliar roles or subject areas, and in different agencies.
- **Address specific human capital challenges, such as diversity, leadership capacity, and retention.** For example, the United Kingdom created a centralized program that targets minorities with the potential to join the Senior Civil Service. To help retain high-potential employees, Canada’s Office of the Auditor General provides comprehensive developmental opportunities.
- **Facilitate broader transformation efforts.** To find individuals to champion recent changes in how it delivers services and interacts with stakeholders, the Family Court of Australia identifies and prepares future leaders who will have the skills and experiences to help the organization successfully adapt to agency transformation.

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
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United States General Accounting Office

December 2002



HUMAN CAPITAL  
Effective Use of Flexibilities Can Assist  
Agencies in Managing Their Workforces

Highlights of GAO-03-2, a report to the Senate Committee on Governmental Affairs and to its Subcommittees on International Security, Proliferation, and Federal Services and on Oversight of Government Management, Restructuring, and the District of Columbia

**Why GAO Did This Study**

An essential element to acquiring, developing, and retaining high-quality federal employees is agencies' effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce.

Congressional requesters asked GAO to provide information on agency and union officials' views about the most effective human capital flexibilities, additional flexibilities needed, and whether additional flexibilities could be implemented while also protecting employees' rights. GAO was also asked to identify key practices for effective use of flexibilities.

GAO interviewed the human resources directors of the federal government's 24 largest departments and agencies, and representatives of 4 national organizations representing federal employees and managers. GAO further focused its efforts on 7 federal agencies—Department of the Air Force, General Services Administration, Internal Revenue Service, International Trade Administration, U.S. Mint, State Department, and Veterans Benefits Administration—interviewing more than 200 managers, supervisors, human resources officials, and union representatives in headquarters and field locations.

**What GAO Found**

**Agency and union officials' views on human capital flexibilities.**

*Most effective flexibilities.* Existing flexibilities that are most effective in managing the workforce are work-life programs, such as alternative work schedules, child care assistance, and transit subsidies; monetary recruitment and retention incentives, such as recruitment bonuses and retention allowances; special hiring authorities, such as student employment and outstanding scholar programs; and incentive awards for notable job performance and contributions, such as cash and time-off awards.

*Additional flexibilities needed.* Additional flexibilities that would be helpful in managing the workforce include more flexible pay approaches to compensate federal employees, greater flexibility to streamline and improve the federal hiring process, increased flexibility in addressing employees' poor job performance, additional workforce restructuring options, and expanded flexibility in acquiring and retaining temporary employees.

*Protection of employee rights.* Managers, supervisors, and human resources officials generally believed that additional human capital flexibilities could be implemented in their agencies while also protecting employees' rights. Union representatives, however, gave mixed views ranging from the opinion that additional flexibilities could be implemented while still protecting employee rights to concerns that managers would abuse their authority.

**Key practices for effective use of human capital flexibilities.** GAO identified six key practices for the effective use of human capital flexibilities. These practices are (1) planning strategically and making targeted investments, (2) ensuring stakeholder input in developing policies and procedures, (3) educating managers and employees on the availability and use of flexibilities, (4) streamlining administrative processes, (5) building transparency and accountability into the system, and (6) changing the organizational culture.

The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. Congress recently debated the extent of personnel flexibilities that should be granted to the new Department of Homeland Security. While this decision was important to how the department will operate, how personnel flexibilities are implemented is equally important.

The full report, including GAO's objectives, scope, methodology, and analysis is available at [www.gao.gov/cgi-bin/getrpt?GAO-03-2](http://www.gao.gov/cgi-bin/getrpt?GAO-03-2). For additional information about the report, contact J. Christopher Mihm at (202) 512-6806 or by e-mail at [mihmj@gao.gov](mailto:mihmj@gao.gov).



Highlights of GAO-03-488, a report to congressional requesters

### Why GAO Did This Study

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. High-performing organizations have found that to successfully transform themselves, they must often fundamentally change their cultures so that they are more results-oriented, customer-focused, and collaborative in nature. To foster such cultures, these organizations recognize that an effective performance management system can be a strategic tool to drive internal change and achieve desired results.

Based on previously issued reports on public sector organizations' approaches to reinforce individual accountability for results, GAO identified key practices that federal agencies can consider as they develop modern, effective, and credible performance management systems.

[www.gao.gov/cgi-bin/getrpt?GAO-03-488](http://www.gao.gov/cgi-bin/getrpt?GAO-03-488).

To view the full report, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov).

March 2003

## RESULTS-ORIENTED CULTURES

### Creating a Clear Linkage between Individual Performance and Organizational Success

#### What GAO Found

Public sector organizations both in the United States and abroad have implemented a selected, generally consistent set of key practices for effective performance management that collectively create a clear linkage—“line of sight”—between individual performance and organizational success. These key practices include the following.

- 1. Align individual performance expectations with organizational goals.** An explicit alignment helps individuals see the connection between their daily activities and organizational goals.
- 2. Connect performance expectations to crosscutting goals.** Placing an emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.
- 3. Provide and routinely use performance information to track organizational priorities.** Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.
- 4. Require follow-up actions to address organizational priorities.** By requiring and tracking follow-up actions on performance gaps, organizations underscore the importance of holding individuals accountable for making progress on their priorities.
- 5. Use competencies to provide a fuller assessment of performance.** Competencies define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.
- 6. Link pay to individual and organizational performance.** Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable, and transparent performance management systems with adequate safeguards.
- 7. Make meaningful distinctions in performance.** Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to reward top performers and deal with poor performers.
- 8. Involve employees and stakeholders to gain ownership of performance management systems.** Early and direct involvement helps increase employees' and stakeholders' understanding and ownership of the system and belief in its fairness.
- 9. Maintain continuity during transitions.** Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

United States General Accounting Office

**Appendix I**  
**“Highlights” from Selected GAO Human**  
**Capital Reports**

May 2004



Highlights of GAO-04-614, a report to congressional requesters

**HUMAN CAPITAL**

**Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results**

**Why GAO Did This Study**

Congress and the administration have established a new performance-based pay system for members of the Senior Executive Service (SES) that is designed to provide a clear and direct linkage between SES performance and pay. Also, GAO previously reported that significant opportunities exist for agencies to hold the SES accountable for improving organizational results.

GAO assessed how well selected agencies are creating linkages between SES performance and organizational success by applying nine key practices GAO previously identified for effective performance management. GAO selected the Department of Education, the Department of Health and Human Services (HHS), and the National Aeronautics and Space Administration (NASA).

**What GAO Recommends**

GAO makes specific recommendations to the agencies to reinforce the key practices through their SES performance management systems. NASA concurred with the recommendations, and HHS provided no comments. Education described specific actions it plans to take to revise its system, which are generally consistent with our recommendations. However, GAO disagrees that Education has already implemented or does not need to implement two of the recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-614](http://www.gao.gov/cgi-bin/getrpt?GAO-04-614).

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

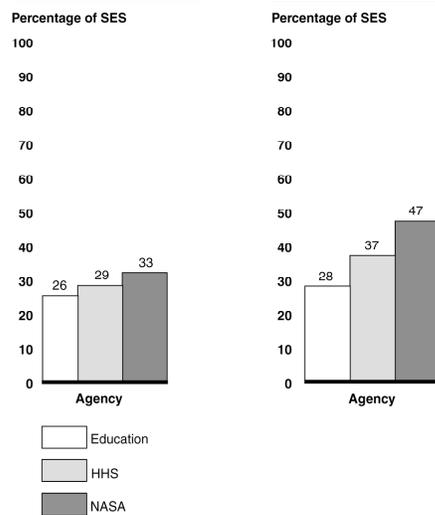
**What GAO Found**

Senior executives need to lead the way to transform their agencies' cultures to be more results-oriented, customer focused, and collaborative in nature. Performance management systems can help manage and direct this process. While Education, HHS, and NASA have undertaken important and valuable efforts to link their career SES performance management systems to their organizations' success, there are opportunities to use their systems more strategically. For example, as indicated below by the executives themselves, the agencies can better use their performance management systems as a tool to manage the organization or to achieve organizational goals.

As Congress and the administration are reforming SES pay to better link pay to performance, valid, reliable, and transparent performance management systems with reasonable safeguards are critical. Information on the experiences and knowledge of these agencies should provide valuable insights to other agencies as they seek to drive internal change and achieve external results.

**Percentage of Senior Executives Responding to a “Very Great” or “Great” Extent on Their Agencies’ Overall Use of Their SES Performance Management Systems**

Your agency's SES performance management system is used as a tool to manage the organization.      Your agency's SES performance management system is used in achieving organizational goals.



Source: GAO.

United States General Accounting Office



## RESULTS-ORIENTED CULTURES Using Balanced Expectations to Manage Senior Executive Performance

Highlights of [GAO-02-966](#), a report to Subcommittees on International Security, Proliferation, and Federal Services and on Oversight of Government Management, Restructuring, and the District of Columbia, Senate Committee on Governmental Affairs

### Why GAO Did This Study

Effective performance management systems link individual performance to organizational goals. In October 2000, the Office of Personnel Management amended regulations to require agencies to link senior executive performance with organizational goals; to appraise executive performance by balancing organizational results with customer satisfaction, employee perspective, and other areas; and to use performance results as a basis for pay, awards, and other personnel decisions. Agencies were to establish these performance management systems by their 2001 senior executive performance appraisal cycles.

Because they implemented a set of balanced expectations prior to the Office of Personnel Management requirement, GAO studied the Bureau of Land Management's, Federal Highway Administration's, Internal Revenue Service's, and Veterans Benefits Administration's use of balanced expectations to manage senior executive performance in order to identify initial approaches that may be helpful to other agencies in holding senior executives accountable for results.

### What GAO Found

The agencies GAO reviewed developed an initial set of balanced expectations for senior executives to address in their individual performance plans. GAO found that these agencies are in the early stages of using a set of balanced expectations to appraise senior executive performance and there are significant opportunities to strengthen their efforts as they move forward in holding executives accountable for results. Specifically, more progress is needed in explicitly linking executive expectations for performance to organizational goals. In addition, while these agencies address partnering with customers and other stakeholders, greater emphasis should be placed in fostering the collaboration within and across organizational boundaries to achieve results. Successful organizations understand that they must often change their culture to successfully transform themselves, and such change starts with top leadership. Senior executive performance expectations to lead and facilitate change could be a critical element as agencies transform themselves. The agencies generally agreed with these conclusions, as well as the selected initial implementation approaches GAO identified, as shown below.

#### Selected Initial Implementation Approaches to Manage Senior Executive Performance that May Be Helpful to Other Agencies

**Provide Useful Data.** The agencies disaggregated data from agencywide customer and employee surveys. In addition, the Bureau of Land Management and Veterans Benefits Administration provide senior executives with objective data through real-time data systems so that executives can track their individual progress against organizational goals.

**Require Follow-up Action.** The Internal Revenue Service requires senior executives to develop action plans to follow up on customer and employee issues identified through agencywide surveys. The Federal Highway Administration requires executives to use 360-degree feedback instruments to solicit employee views on their leadership skills and then incorporate action items into their performance plans for the next fiscal year.

**Make Meaningful Distinctions in Performance.** The agencies are working at making distinctions in senior executive performance. To recognize varying levels of significance and complexity among executive performance, the Internal Revenue Service established an executive compensation plan that assigns executives to bonus levels with corresponding bonus ranges based on levels of responsibilities and commitments.

This is a test for developing highlights for a GAO report. The full report, including GAO's objectives, scope, methodology, and analysis is available at [www.gao.gov/cgi-bin/getrpt?GAO-02-966](http://www.gao.gov/cgi-bin/getrpt?GAO-02-966). For additional information about the report, contact J. Christopher Mihm on (202) 512-6806. To provide comments on this test highlights, contact Keith Fultz (202-512-3200) or email [HighlightsTest@gao.gov](mailto:HighlightsTest@gao.gov).

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports



Highlights of GAO-04-83, a report to congressional requesters

### Why GAO Did This Study

There is a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and to better link pay to individual and organizational performance. Federal agencies have been experimenting with pay for performance through the Office of Personnel Management’s (OPM) personnel demonstration projects.

GAO identified the approaches that selected personnel demonstration projects have taken to implement their pay for performance systems. These projects include: the Navy Demonstration Project at China Lake (China Lake), the National Institute of Standards and Technology (NIST), the Department of Commerce (DOC), the Naval Research Laboratory (NRL), the Naval Sea Systems Command Warfare Centers (NAVSEA) at Dahlgren and Newport, and the Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo). We selected these demonstration projects based on factors such as status of the project and makeup of employee groups covered.

We provided drafts of this report to officials in the Department of Defense (DOD) and DOC for their review and comment. DOD provided written comments concurring with our report. DOC provided minor technical clarifications and updated information. We provided a draft of the report to the Director of OPM for her information.

[www.gao.gov/cgi-bin/getrpt?GAO-04-83](http://www.gao.gov/cgi-bin/getrpt?GAO-04-83).

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

January 2004

## HUMAN CAPITAL

### Implementing Pay for Performance at Selected Personnel Demonstration Projects

#### What GAO Found

The demonstration projects took a variety of approaches to designing and implementing their pay for performance systems to meet the unique needs of their cultures and organizational structures, as shown in the table below.

#### Demonstration Project Approaches to Implementing Pay for Performance

##### Using competencies to evaluate employee performance.

High-performing organizations use validated core competencies as a key part of evaluating individual contributions to organizational results. To this end, AcqDemo and NRL use core competencies for all positions. Other demonstration projects, such as NIST, DOC, and China Lake, use competencies based on the individual employee’s position.

##### Translating employee performance ratings into pay increases and awards.

Some projects, such as China Lake and NAVSEA’s Newport division, established predetermined pay increases, awards, or both depending on a given performance rating, while others, such as DOC and NIST, delegated the flexibility to individual pay pools to determine how ratings would translate into performance pay increases, awards, or both. The demonstration projects made some distinctions among employees’ performance.

##### Considering current salary in making performance-based pay decisions.

Several of the demonstration projects, such as AcqDemo and NRL, consider an employee’s current salary when making performance pay increases and award decisions to make a better match between an employee’s compensation and contribution to the organization.

##### Managing costs of the pay for performance system.

According to officials, salaries, training, and automation and data systems were the major cost drivers of implementing their pay for performance systems. The demonstration projects used a number of approaches to manage the costs.

##### Providing information to employees about the results of performance appraisal and pay decisions.

To ensure fairness and safeguard against abuse, performance-based pay programs should have adequate safeguards, including reasonable transparency in connection with the results of the performance management process. To this end, several of the demonstration projects publish information, such as the average performance rating, performance pay increase, and award.

Source: GAO.

GAO strongly supports the need to expand pay for performance in the federal government. How it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful. High-performing organizations continuously review and revise their performance management systems. These demonstration projects show an understanding that how to better link pay to performance is very much a work in progress at the federal level. Additional work is needed to strengthen efforts to ensure that performance management systems are tools to help them manage on a day-to-day basis. In particular, there are opportunities to use organizationwide competencies to evaluate employee performance that reinforce behaviors and actions that support the organization’s mission, translate employee performance so that managers make meaningful distinctions between top and poor performers with objective and fact-based information, and provide information to employees about the results of the performance appraisals and pay decisions to ensure reasonable transparency and appropriate accountability mechanisms are in place.

United States General Accounting Office

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