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CONGRESSIONAL TESTIMONY

Providing Performance-Based Flexibilities to Improve Recruitment in Government

Testimony Before the House Committee on Government Reform
Subcommittee on Civil Service and Agency Organization
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Madame Chairman, members of the subcommittee, I appreciate the opportunity to be here this morning. The Performance Institute—a private think tank that focuses on reforming government through the principles of performance, accountability, transparency and competition—has extensive expertise in the area of federal human resources management. Last year, the Institute surveyed all major federal agencies to catalogue best practices in recruitment in government and published in a report in April 2002 entitled "*Strategic Recruitment for Government: 10 Innovative Practices for Designing, Implementing, and Measuring Recruitment Initiatives in Government*."

As noted in our report, the federal government has a human capital crisis on its hands, and it's not merely an issue of recruitment or retention. It's a crisis of getting the right people, with the right skills, in the right position, at the right time, to perform the right function, with the right compensation, and to be reviewed by the right employee performance evaluation. That's a LOT of rights to get right.

No matter how it's spun, the reality is that more than half of all federal employees are now or will in the next five years be eligible to retire. It's even worse in the Senior Executive Service—the senior leader-managers in the federal government. Seventy percent of the SES is now or will soon be eligible to retire. With the bad economy giving the federal government a temporary reprieve, agencies must sharpen their human capital tools NOW to get ready for the anticipated exodus of talent—and battle for talent—when the economy fully recovers.

This committee has shown exemplary leadership on these issues. Today, this committee is considering legislation (HR 1601 and S129) to provide federal agencies more flexibility in setting pay rates for employees, providing bonuses for recruitment and retention, and improving the management of training. The proposed legislation has noble and worthy objectives. However, it only addresses two of the 10 innovative practices outlined in our report.

While legislation need not address all 10 (indeed for many of the 10 practices, legislative action is not required) we would like to propose refinements to the proposed legislation being considered today.

- **Emphasize Performance, Not Across-the-Board Pay Increases**: The federal government has a big problem when employees talk about "THE" pay increase rather than "MY" pay increase. By relying too much on GS pay scales rather than setting pay on individual levels based on performance, there is little opportunity to place a value on individual contribution to agency success. Although the current language allows managers to reward employee performance with more pay, it overlooks the need for a more mature system of performance-based pay. At the very least, in exchange for bonuses, a system for measuring individual performance should be integrated into the provisions for granting those bonuses, thereby requiring results-based goals and milestones. The Committee could also look to the Human Capital Performance Fund as an example. I encourage you to support the President's new proposal for a $300 million Human Capital Performance Fund and work to ensure it survives the appropriations process this year.

- **Consider Waiting for Completion of Existing Flexibility Studies:** Overall, it might not be the best time for Congress to act on changing the federal pay system. The federal government is already modeling pay system transformation at the departments of Defense and Homeland Security. Incredible lessons will be learned from the DOD and DHS overhauls and Congress may want to wait a year to learn from them.

- **Consider Alternatives to GS System:** The proposed legislation only provides flexibility within the existing General Schedule system of pay grades. Many (including the Performance Institute) argue that a one-size-fits-all system with rigid pay grades is not conducive to winning the war for talent. For example, using the legislative flexibility noted above, the Department of Defense wants to abandon the General Schedule in favor of universal pay-banding, and it wants to give managers the ability to hire candidates on the spot for hard-to-fill positions. The same is true for the Department of Homeland Security, where an entirely new personnel system that covers hiring, pay classification, labor relations, employee evaluations, disciplinary action and appeals – a brand-new system will soon be unveiled.

- **Consider Market-Based Pay Formulas**: The legislation would allow OPM to increase pay for specific categories of employees. Overall, it is important to note that the pay is not the only ingredient for successful recruitment in government. Moreover, merely raising pay grades can increase government costs without a clear return-on-investment. It's worth pointing out here that the employee recruitment and retention battles we're going to face aren't going to be with the private sector, but primarily with non-profits and associations. They can offer a "serve-your-community" role similar to the lure that draws people to the civil service (and offer them money, better hours and perhaps a better commute). The legislation could improve on the existing pay evaluations by articulating a clearer "market-based" approach for OPM to use that focuses more on non-profit pay comparisons rather than private-sector ones.

- **Improve the Linkage to Strategic Human Capital Plans:** Absent from the current language is a mandate for formalized human capital planning. Think of a tree for a moment – the flexibilities being granted and the money being authorized here are like branches, but without a trunk. They serve no greater purpose and benefit only

themselves. The trunk is the human capital plan – it's what brings all of an agency's human capital activities together and keeps agencies moving in one direction.

- **Require a Commitment for Lump-Sum Bonuses**: It is curious that the bills require a length-of-service contract be signed for lump-sum bonuses, but not for bonuses paid in biweekly installments. It seems that ANY breakaway from the current pay grades should be lassoed with a contract.

We offer the comments above as suggestions for improving legislation—which we believe can greatly assist federal agencies in winning the war for talent.

Should you decide to try to integrate any of our recommendations into the legislation, I and the director of The Performance Institute's Center for Human Capital Strategy, Tara Shuert, stand ready to help you and your staff. We look forward to supporting the committee's efforts to improve workforce management in government.

Thank you for your time.

The Performance Institute *is a private think tank seeking to improve government performance through the principles of competition, accountability, performance and transparency. The Institute serves as the nation's leading authority and repository on performance-based management practices for government. Its mission is to identify, study and disseminate the leading management innovations pioneered by "best-in-class" organizations.*

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