

**Report to the Senior Executive Council,
Department of Defense**

HUMAN RESOURCES TASK GROUP

Report FY02-1

- **Task 1: Human Capital Transformation**

December 18, 2002

**HUMAN RESOURCES TASK GROUP REPORT
TASK 1**

**Transforming Human Capital Management in the
Defense Department's Civilian Workforce**

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INTRODUCTION

This report represents the recommendations of the Defense Business Practice Implementation Board's (the "Board's") Human Resources Subcommittee for transforming human capital management in the Department of Defense civilian workforce. The report contains our recommendations for applying best practices from the private sector to transform the DoD's civilian workforce into a high-performing organization that supports the military force and the DoD mission.

Scope of Recommendations

We focused our work and recommendations on civilian leadership, defined as those in the Senior Executive Service (SES) and equivalent political appointees in executive levels EX IV - V. We also included perspectives on General Service (GS) grades 12 through 15 because these are the feeder ranks from which the best performing and qualified people are developed for promotion into SES ranks.

The chart below shows the current number of people and current salaries (Washington locality) for GS 12 through SES level 6 and equivalent executive-level positions (DMDC data for month end May 02):

<u>Senior Executive Service</u>		<u>Political Appointees</u>		<u>Salary</u>
Rank	Number	Rank	Number	(Wash. Locality)
ES-6	81	EX-IV	29	\$138,200
ES-5	166	EX-V	1	\$138,200
ES-4	565			\$138,200
ES-3	165			\$137,901
ES-2	135			\$131,881
ES-1	<u>113</u>			\$125,972
Total	1,225		<u>30</u>	

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<u>General Service</u>		<u>Salary</u>
Rank	Number	(Step 10)
GS-15	7,705	\$119,682
GS-14	16,855	\$101,742
GS-13	51,363	\$ 86,095
GS-12	86,762	\$ 72,400

Study Process

The Board's Human Resources Subcommittee had as its direct DoD contact, Dr. David Chu, Under Secretary of Defense for Personnel and Readiness, with Ms. Gail McGinn, Principal Deputy Assistant Secretary for Force Management Policy, as its principal liaison. Ms. McGinn provided all requested background data and arranged numerous briefings for the subcommittee to familiarize us with the current civilian human capital management systems in the U.S. Government and in DoD.

As part of our work, we conducted confidential interviews with 21 members of the SES to obtain personal perspectives of human capital issues within DoD. Those interviewed were carefully selected to represent those whose current performance and potential for future contributions was highly regarded to top civilian and military leadership. A list of those interviewed is contained in Appendix A, and the topics discussed are listed in Appendix B.

Implementation Structure

Following review and approval by the Secretary of Defense and the Senior Executive Council (SEC), the Board recommends that the Secretary assign a specific individual to the collateral duty of Leader, Human Capital Transformation Team, to implement the recommendations in this report. The DBB is highly motivated to provide input into the selection of this individual. Private sector experience with human resource transformation initiatives suggests that the most critical success factors are (1) the focus and abilities of the transformation team leader, and (2) the amount of senior level interest in the transformation effort itself. As a result, the Team Leader must be a driver of change who is both undeterred by entrenched institutional

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thinking and supported by the most senior leaders in the Department including the Secretary of Defense.

The Human Capital Transformation Team Leader should report directly to Dr. Chu. The SEC should oversee this implementation process, meeting as the "Human Capital Review Board," with Dr. David Chu, Dr. Dov S. Zakheim, and Mr. Douglas Feith joining the Review Board as full members during its deliberations.

To assist the Team Leader in this task, Dr. Chu should nominate individuals to serve on the Human Capital Transformation Team, most likely including members from his staff as well as representatives from the military branches and the fourth estate.

These organizational arrangements should remain in effect until the Secretary is satisfied that the implementation is complete and that the transformation has taken hold.

EXECUTIVE SUMMARY

The Quadrennial Defense Review Report (September 30, 2001) calls upon the Defense Department to modernize and transform its civilian force so that it is equally agile, flexible, and innovative as a transformed U.S. military force. To this end, the Defense Business Practice Implementation Board was established to help the Secretary of Defense and the Senior Executive Council (SEC) in the development and implementation of an overarching strategy to improve its business practices, including human resources management.

This echoes an earlier call by the Defense Science Board Task Force on Human Resources Strategy (February 2000) to develop "[A]n overarching strategic vision...that identifies the kind of capabilities that DoD will need in the future, the best way to provide those capabilities, and the changes in human resources planning and programs that will be required."

In addition, the Office of the Under Secretary of Defense (Personnel and Readiness) set forth in its Civilian Human Resources Strategic Plan (draft March 23, 2002) its vision to "[D]esign, develop and implement HR policies, strategies, systems and tools to ensure a mission-ready civilian workforce that is motivated to excel."

Our report addresses issues within the context of these agreed-upon reform imperatives for the DoD's civilian force. Rather than developing incremental recommendations for improvements to the existing civilian personnel system, we opted for the articulation of an overall vision of what the future civilian force should be, and then developed program recommendations for how to get there.

Our vision is for the DoD to have a civilian management structure and workforce that fully meets the challenges and opportunities of the Quadrennial Defense Review Report:

- Provides outstanding support and leadership for a transformed US military force in achieving the DoD's mission,

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- Matches the capabilities-based military force with a lean, flexible, agile and innovative support structure, and
- Is known and highly regarded throughout the public and private sectors for using world-class management, financial and HR practices to attract and retain a group of outstanding men and women who excel in service to their country.

We believe the DoD should have a leadership corps composed of senior executives, managers, professionals, and political appointees drawn from the best of America's diverse population in terms of character, intelligence, education, experience, energy, motivation, desire to serve, and support of the Defense Department's mission.

To achieve this, we believe the DoD should have a human resource management system for its civilian force that:

- Attracts and retains top quality people in support of the DoD's mission,
- Recognizes and rewards sustained individual performance and contribution,
- Is regarded as a great place to work and develop career skills both within the government and in the private sector,
- Is known and well-regarded for developing young professionals with marketable skills in financial management, computer systems, technology, human resources management, procurement, logistics and leadership,
- Has high standards of integrity, character, tolerance, performance and behavior and enforces those standards objectively and uniformly without regard to rank or position,
- Identifies those positions throughout its management structure which are critical to accomplishing the mission, and insists on having the best-qualified and performing individuals in those mission-critical positions,
- Leads from the top by example and performance, and
- Recognizes, rewards, and promotes based on sustained performance and ability to contribute, not length of service.

Our focus is on the Senior Executive Service (SES) and equivalent executive-level positions, based on the premise that outstanding civilian leadership will lead to significant improvements in the total civilian force over time. The chapters that follow describe the changes we propose making to transform human capital management in the Defense Department civilian force. In summary and by chapter, we propose that the Defense Department:

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1. Evaluate all SES and equivalent positions in terms of their relative importance to accomplishing the DoD's mission, and designate the most critical positions as "turnover" positions (Chapter I).
2. Conduct a performance assessment and talent inventory of existing SES executives and equivalent executive-level employees, and review the placement of the best-qualified and highest-performing individuals in the most important positions (Chapter II).
3. Proactively meet the challenge of imminent retirement eligibility of a large portion of the civilian leadership by (1) identifying those critical to retain and providing them with a retention incentive, (2) identifying those OK to retire and providing them with a retirement incentive, and (3) accelerating the development or hiring of top-quality replacements (Chapter III).
4. Raise the maximum pay level for SES executives while simultaneously raising the standards of performance and definitions of excellence (Chapter IV).
5. Develop a uniform system of performance appraisal for SES executives and a more effective system of identifying and dealing with poor-performing employees (Chapter V).
6. Support P&R's proposals to (1) establish pay banding for GS 5-15, and (2) simplify and expedite the DoD's hiring processes (Chapter VI).
7. Develop merit increase programs for GS 5-15 (replacing the 10-step pay process) and for SES executives (replacing promotional increases for ES levels 1-4) and maintain performance bonus programs (Chapter VII).
8. Create more uniformity in civilian human resources management within DoD by elevating and strengthening the civilian personnel management function within P&R and giving it functional authority over all component HR leaders (Chapter VIII).

To implement agreed-upon changes, we recommend the appointment of a "Human Capital Transformation Team", reporting to the Under Secretary of Defense for P&R. The work of this task force should be overseen by the

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SEC meeting as a "Human Capital Review Board", with all Under Secretaries of Defense joining the Review Board as full members during its deliberations.

I. POSITION INVENTORY AND TURNOVER POSITIONS

Position Inventory

The Board recommends that the Secretary of Defense direct all Service Secretaries and Defense Agency heads to evaluate all civilian positions currently held by SES executives and equivalent executive-level positions and assign the position to one of three categories:

Mission Critical: Position is critical to accomplishment of DoD's mission

Mission Important: Position is important but not critical to the DoD's mission

Mission Support: Position supports DoD's mission

This evaluation should occur without regard to the performance of the incumbent.

All evaluations should be completed and sent to the head of the Human Capital Transformation Team. The evaluations should be consolidated and submitted to the Secretary and to the SEC for review. They should make any adjustments deemed appropriate in their judgment and return them to the Service Secretaries and Defense Agency heads.

All position evaluations should be held in confidence, subject to need to know, and are not to be available below the Service Secretary/Agency Head level except on authority of Dr. Chu. They should not be subject to Freedom of Information Act disclosure.

Turnover Positions

The Board recommends that mission-critical positions be designated "turnover" positions. Being in a turnover position means the incumbent serves at the discretion of the Service Secretary, Agency head or the SEC.

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The incumbent may be replaced at any time by a better-qualified person, and would normally be expected to turn over the position after 4 years unless extended.

Much as senior military officers are not allowed to keep their fighting commands when others better qualified are available, the mission of the Department and the safety of the nation requires no less of those occupying Mission-Critical positions in the civilian force. To hold otherwise would diminish the importance of those positions to the Defense Department's mission.

II. PERFORMANCE ASSESSMENT AND TALENT INVENTORY

Performance Assessment

The Board recommends that all Service Secretaries and Defense Agency heads be directed to conduct a performance assessment of all civilian employees under their command who are SES executives and equivalent executive-level employees and assign each a performance assessment score ranging from 0 to 4 for each of 5 critical performance factors shown below:

Factor	Performance Assessment Score				
	0 (Poor)	1	2	3	4 (Out.)
1. Sustained individual performance and contribution	_____	_____	_____	_____	_____
2. Importance to retain/ Difficult to replace	_____	_____	_____	_____	_____
3. Expected near-term future contribution	_____	_____	_____	_____	_____
4. Potential for assuming greater responsibilities	_____	_____	_____	_____	_____
5. People management skills (for managers), or	_____	_____	_____	_____	_____
Technical proficiency (for professionals)	_____	_____	_____	_____	_____

These assessments should be performed by the individual's immediate supervisor, with the active input and approval of the second-line supervisor, and with confidential input on Factor 5 from the individual's subordinates.

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Individuals should then be assigned a letter grade based on their aggregate scores as follows:

O -- 16-20; **A** --11-15; **B** -- 6-10; **C** -- 0-5

Personal attention should be applied to this process, exercising care to avoid having mediocre managers give mediocre ratings to talented people under their control.

All assessments should be completed and sent to the leader of Human Capital Transformation Team. The assessments should be consolidated and submitted to the Secretary and to the SEC for review. They should make any adjustments deemed appropriate in their judgment and return them to the addressees.

All position assessments should be held in confidence, subject to need to know. Individuals may be told their letter score and the detail behind it at the discretion of the supervisor. Performance assessments and letter scores should not otherwise be subject to Freedom of Information Act disclosure.

Critical Placement

When the above process is completed, the Board recommends that the Secretary and SEC match the performance assessment scores of individuals (determined pursuant to Chapter I) to the positions they hold. The obvious intention is that the best-qualified and highest-rated individuals should hold the Mission-Critical positions. If they do not, such individuals should be subject to reassignment.

Talent Inventory

To provide an additional perspective on this performance assessment and an independent verification of the DoD's civilian leadership talent, the Board recommends that the Human Capital Transformation Team solicit proposals from major search firms to assess the skills, marketability and retention risk of key civilian SES executives who have a performance assessment rating of A or better.

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This process, if undertaken, should be coordinated with the internal performance assessments described above, and the results combined for SEC review and approval by the Secretary of Defense.

III. RETIREMENT/RECRUITMENT ACTIONS

A large portion of the Department's civilian force is now or will become eligible to retire within the next few years. Rather than viewing this as a problem, the Board looks upon it as a challenge and an opportunity to accelerate the process of transforming human capital management in the DoD's civilian force.

Retirement Actions

Building off the performance assessments developed pursuant to Chapter II, the Board recommends that the Secretary direct all Service Secretaries and Agency heads to evaluate all those in GS grade 15 through SES 6 who are currently eligible to retire, or should become so within two years, and assign them to one of three categories:

- (1) **Critical to Retain** (unique skill, high performer, important position, difficult to replace);
- (2) **Important** (but not critical) **to Retain**; or
- (3) **OK to Retire**.

Next, the Secretary should require all Service Secretaries and Agency heads to identify replacements, promotables, and those with high potential who could be ready to assume greater responsibilities in a short time. Each retirement-eligible individual should have a backup.

Then, the Human Capital Transformation Team should develop a program of: (1) incentives to retire early for those designated OK to go and where qualified replacements are ready; (2) a retention incentive program for those critical to retain; and (3) an accelerated development program for those nearly ready to advance.

The *retirement incentive* for those designated "OK to Retire" could be 2 years additional service and age toward pension, in exchange for which the person would agree to a release from liability and waiver of right to sue. Retirement for those encouraged to retire early should be done with grace and honor for the service they have rendered.

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The *retention incentive* for those designated as retirement eligible but “Critical to Retain” could be \$25,000-\$50,000 paid at end of 2 years if still employed.

The Secretary of Defense should seize the initiative on this issue, and not just let events unfold. DoD should retain the best and phase out the rest.

Expedited Recruitment

During the process of identifying potential replacements for positions whose incumbents are retirement eligible, it is unlikely that the Department of Defense will be able to fill all openings from within. Where this is the case, the Department of Defense must launch an expedited recruitment effort from the outside, particularly for positions designated as Mission Critical or Mission Important.

To further this effort, the Board recommends that the Secretary direct Dr. Chu to establish a Talent Acquisition Section under his or Mr. Abell's direct supervision, staffed by the best available search executives from the private sector under SES Limited Term appointments. This section should provide advice and assistance to the Service Secretaries and agency heads in recruiting executives from the private sector to fill important positions where an equally qualified internal candidate is not available.

While this Section is being formed and staffed, the Human Capital Transformation Team should work with Dr. Chu, the Service Secretaries and Agency heads and with OPM to develop an expedited hiring program for review by the SEC and for the Defense Secretary's approval. This includes web-based review and parallel processing. The Secretary should require the Talent Acquisition Section to be up and running by December 31, 2002.

Finally, the Board recommends that the Human Capital Transformation Team inventory all current programs to hire and develop talented graduates (mentoring, Presidential interns, etc.) and consider fast-track recruitment and development for potential future DoD leaders, such as was recently announced by the Health and Human Services Agency, and the Department of Labor.

IV. SES COMPENSATION LEVELS

Present compensation levels are inadequate to attract and retain the most talented and best performing members of the SES. The gap between what they can earn in service to their country and employment in the private sector is too great a sacrifice for them and their families. And there is too much compression between what they earn and those below them to reward them for the higher demands and career risk they undertake in accepting higher-level positions. This compression exists because the pay of Congressmen and women caps the pay of the civilian force, which is a political matter.

Low pay levels and compression impede DoD's ability to hire directly from the private sector into senior positions and to motivate and retain those whom are essential to achieve the Department's transformational objectives. No high-performing private organization aspiring to upgrade its management talent would permit such a situation to exist; neither should DoD. It is time to break this linkage in government in general and in the Defense Department in particular.

The Board believes there are two ways in which compression at top SES levels can be relieved and the most talented and best performing members of the SES receive significant, but deserved, pay increases:

- a. Position and Performance Premium Pay, or
- b. Government-wide increases in pay maximums for SES (ES 1-6)

Either alternative likely requires legislative action. The first alternative might be more easily obtained because it is DoD-specific. The second alternative is the better long-run alternative government-wide because it relieves the statutory cap on SES salaries and linkage to congressional salaries.

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Position and Performance Premium Pay

The Board proposes that those assigned to Mission Critical and Mission Important positions receive a premium on their base pay related to their individual performance assessment as follows:

<u>Position Premium</u>		
Position Category		
Performance Assessment	Mission Important	Mission Critical
	O	A
Performance Assessment	25 %	50 %
	0 %	25 %

This premium would be paid so long as the individual held his/her position and maintained their high performance rating.

Government-Wide Increases in Pay Maximums

Alternatively, the Board recommends that the Department implement a large step-change in compensation at the senior levels, not incremental cost-of-living changes as proposed in current legislation. The Secretary should direct Dr. Chu and the General Counsel's office to take the steps necessary, working with OPM and OMB, to achieve the following compensation levels for SES:

	Current	Wash. Locality	Proposed
ES-6	\$130,000	\$138,200	\$225,000
ES-5	130,000	138,200	210,000
ES-4	129,800	138,200	195,000
ES-3	123,700	137,901	180,000
ES-2	118,300	131,881	165,000
ES-1	113,000	125,972	150,000

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The Board sees no reason to continue location adjustments for SES and executive-level employees. It confuses the system and is not common in the private sector except for hardship posts. Thus, the proposed levels should be DoD CONUS wide.

It is not justifiable, nor does the Board recommend to pay these higher levels without simultaneously raising the Defense Department's standards of performance and definitions of excellence.

There are presently no ranges or steps for SES and equivalent executive-level positions, although we understand SES may progress from ES-1 to ES-4 based on merit, not increased responsibility. All in the same rank are paid the same based on locality. Increases only come when the structure is changed. The Board recommends that ten-step length-of-service adjustment is not migrated from the General Schedule into SES. All pay changes should be based on sustained performance and contribution.

Once the Department has authority to pay the higher amounts, ranges should be established for each level, bounded at the bottom by current pay levels and at the top by the new pay amounts.

Individuals should be assigned a pay level within the range based on their performance assessment (Chapter V. - Performance Management). Some may go immediately to the top; some may receive no change in pay.

It should be the Secretary's goal to have these new pay ranges in effect, and initial pay adjustments for SES and equivalent executive-level employees approved for implementation, by October 1, 2003, or sooner if possible.

Once established, the system should be maintained as described in Chapter VII (Merit Pay and Bonuses).

V. PERFORMANCE MANAGEMENT

A modern performance-based human capital management program requires an on-going performance management process to help talented employees improve their performance and align their contributions to the Department's mission.

Performance Appraisal

The Department currently does not have a uniform method of managing and appraising the performance of its SES executives. The Board recommends the development and implementation of such a program by the end of 2002, superseding programs in place among component organizations.

Working within OPM guidelines and resources, the Human Capital Transformation Team should develop this program for SEC review and the Secretary's approval. The Secretary should leave it to the professionals to develop the most appropriate program for DoD's needs, but it should encompass the following elements and characteristics:

1. Applicable to SES and equivalent executive-level employees.
2. Performed at least annually (sooner for transfers).
3. Includes the five performance assessment factors identified in Chapter I.
4. Considers critical position objectives agreed upon at the start of the year between the supervisor and the individual, aligned with mission objectives, and performance against those objectives at year-end.
5. Does not use forced ranking or quotas.
6. Are the primary responsibility and an important management responsibility of each person's supervisor.
7. Incorporates elements of self-appraisal.

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8. Provides safeguards to protect talented individuals from being wrongly appraised by poor or biased managers by:
 - providing for input, review and approval of the assessment by the supervisor's boss and any person assigned mentoring responsibilities, and
 - communicating the appraisal results to the person and providing for appeal if the individual feels wrongly treated.
9. Provides for confidential input from subordinates as to the individual's managerial abilities, behavior, integrity and character (180 degree review).
10. Results in a summary assessment (i.e., **O**, **A**, **B**, or **C**) that can be put into a confidential centralized data bank, with access limited to those having a need to know.

Individuals should have a right to know the results of their appraisal but not the right to know the appraisal results of others. No summary analyses should be compiled or available by protected classes of employees. Performance appraisal results should be confidential and not subject to FOIA disclosure.

Terminating Poor-Performing Employees

Performance-based organizations are constantly upgrading their human capital. High-performing and talented individuals want to belong to organizations that have high standards of performance and are staffed by people whose capabilities they respect and admire. Tolerating poor performers and allowing good people to be managed by poor bosses saps an organization's strength and effectiveness over time, and is a major cause of attrition of talented people.

The Board recommends that the DoD develop a more effective process for identifying poor-performing employees, informing them of their need for improvement, and then either helping them meet job requirements, moving them to another more suitable position, or separating them in a fair manner, with transition assistance to other employment or to retirement.

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The first step in dealing with poor performers is not hiring them in the first place through better applicant screening, capabilities and motivational testing, and background checking. The second step is a more rigorous evaluation of performance during the probationary period, separating those where there is not confidence of future success at this point.

Under the existing system of employment, individuals have rights not to be terminated without due process safeguards. But, in an organization charged with protecting the nation's interests and safety, no individual has the right to be maintained in his or her position. Therefore, no individual with a performance assessment rating of B or C should be retained in a Mission-Critical position, and no individual rated C should be retained in a Mission-Important position (see Chapters I and II).

Individuals rated C should be subject to action to separate them from service if they cannot improve their performance. They should be subject to assignment to support positions where they can make a positive contribution. SES executives should be subject to revision to GS 15. Those separated from service should continue to have due process safeguards available to them. Alternatively, they should be offered transition assistance in the form of continued pay and benefits in exchange for releasing the Department from liability and waiving their right to sue over employment-related matters. Transition assistance could be 2 weeks' pay and benefits continuance per year of service for those ineligible to retire (maximum 1 year). For those eligible to retire, this transition benefit should be net of pension payments.

VI. PAY BANDING AND STAFFING -- GS 5-15

The Board supports the directional recommendations of Dr. Chu's task force on DoD Human Resources Best Practices to extend successful demonstration projects throughout the DoD's civilian force.

Pay Banding

Pay banding involves the collapsing of multiple job grades into single pay bands by career groups. This should provide the Department greater flexibility in transferring people and developing them for greater responsibilities.

The Board also supports the recommendation to replace the 10-step length-of-service pay increases with merit increases based on performance and contribution. This approach is consistent with the overall strategy of transforming the Department's civilian force to a performance-based culture that values and rewards leadership and human capital as the critical determinant of mission success.

Details of program structure and implementation should be worked out between Dr. Chu's Human Resources Best Practices Task Force and the Human Capital Transformation Team, with input and advice from the Defense Business Practice Implementation Board's Human Resources Subcommittee and OPM.

Once final GS pay banding structure and process recommendations are reviewed by the SEC and approved by the Secretary, an exemption may be needed from Title 5 authority to implement the program. DoD should work toward obtaining this authority by January 1, 2003.

Staffing

The Board also supports the Human Capital Best Practices Task Force with regards to recommendations for simplified and expedited staffing. Specifically, the Board favors the proposals to:

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- Have OPM delegate examining authority to DoD for all positions, eliminate the “rule of three;”
- Expand the probationary period for career appointments to 3 years;
- Provide for modified term appointments for up to 5 years, with 1-year extension (max. 6 years);
- Provide for noncompetitive temporary appointments for 1 year, with 1-year extension (max. 2 years);
- Add on-the-spot hiring authority for hard to fill jobs and emergency needs;
- Expand our scholastic achievement authority;
- Eliminate the time-in-grade requirement for promotions; and
- Adopt other staffing flexibilities now being developed.

Implementation of these proposals is a high priority to enable the Defense Department to deal with the retirement issue (Chapter III) and transforming the civilian force to a capabilities-based model.

VII. MERIT PAY AND PERFORMANCE BONUSES

Merit Salary Increases

Approval of the pay banding program for GS 5-15 and new pay levels for SES 1-6 and equivalent executive-level positions should create the opportunity to differentiate individual pay increases by performance and contribution rather than by length of service and structural adjustments.

Recommendations for base pay changes should be made by supervisors annually based on the outcomes of the Department-wide performance evaluation process (see Chapter V), subject to budgetary constraints, merit increase guidelines, and an approval process to build support for the fairness of the evaluations and pay actions.

While the process might vary slightly between GS, SES, and equivalent executive-level positions, the principles should be the same.

Performance Bonuses

The current system of discretionary performance bonuses for SES executives in DoD provides for a pool of up to 10 percent of basic pay to be allocated to no more than 50 percent to 60 percent (component discretion) of the SES population being rated. Bonuses may range from 7 percent to 18 percent of basic pay in OSD. Supervisors evaluate their SES populations and send written performance highlights, along with a recommendation for bonus tier, to component Performance Review Boards composed of SES members and General/Flag officers who make final recommendations for the Service Secretaries and Defense Agency heads.

The SES executives we interviewed expressed general satisfaction with the performance bonus system as it affects them and their subordinates. Consequently, the Board has no specific recommendations for change. However, we suggest that the Human Capital Transformation Team review the current performance bonus system and develop any recommendations for review by Dr. Chu and the SEC and approval by the Secretary.

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Presidential Rank Awards

In addition, the Board fully supports the recognition and rewards currently available to the highest performing SES executives through Presidential Rank Awards. We suggest the Secretary request the President's permission to bring the Meritorious Rank Awards (5 percent of SES can receive 20 percent of basic pay) under his direct control as a way of increasing his direct involvement in recognizing and rewarding high performing SES executives. This would leave the Distinguished Rank Awards (1 percent of SES can receive 35 percent of basic pay) to be awarded by the President.

VIII. STRUCTURE AND ACCOUNTABILITY

During the course of the interviews it was revealed that there is no overall central focus for civilian human resources management within DoD for centralized career management and development for SES executives. This allows inconsistencies to develop in the treatment of SES executives across Service branches and Defense Agencies that have created perceptions of inequity. Most see no career opportunities outside their current service branch or Defense Agency. Seemingly, the Service branches do a more effective job of managing their SES resources, particularly the USAF which jointly manages their SES executives and general officers.

Nonetheless, many of the highest performing SES executives believe the SES resource is undervalued within the Defense Department. There is an expressed interest in a centralized function for SES personnel management within DoD.

Consequently, the Board recommends that the civilian personnel management function be elevated and strengthened within the P&R organization by appointing a new head of Civilian Human Capital Management, responsible for overall DoD civilian personnel policy and programs, and giving this position functional authority over all Component HR heads.

APPENDIX A - LIST OF SES EXECUTIVES INTERVIEWED

Beyland, Timothy, Air Force Program Executive Officer for Services,
Office of the Assistant Secretary of the Air Force for Acquisition

Boutelle, JoAnn, Deputy Chief Financial Officer (OSD)

Browning, Mimi, Director of Information management, DISC4 (Army)

College, Craig, Assistant Deputy Chief of Staff for Programs, J8 (Army)

Commons, Gladys, Principal Deputy Assistant Secretary of the Navy
(FM&C)

Corsi, Robert, Deputy Administrative Assistant to the Secretary of the Air
Force

Hudson, J.B., Administrative Assistant to the Secretary of the Army

Lacey, Mary, Technical Director, Naval Surface Warfare Center

Lamb, Chris, Acting Deputy Assistant Secretary of Defense Resources &
Plans (OSD)

McGinn, Gail, Principal Deputy Assistant Secretary of Defense Personnel
& Readiness (OSD)

Myers, Margaret, Principal Deputy, Office of the Deputy Chief
Information Officer (OSD)

Miller, Frank, National Security Council

Miller, Ken, Assistant Deputy Chief of Naval Operations (Warfare
Requirements and Programs)

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Nemetz, Robert, Principal Deputy for Acquisition Resources & Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OSD)

O'Neal, Susan, Assistant Chief of Staff for Installations and Logistics, Headquarters US Air Force

Prine, Robert, Deputy Assistant Commander, Research and Engineering, PAX River

Scott, Earl J., Deputy Auditor General of the Air Force, SAF/AG

Spruill, Nancy, Director Acquisition Resources and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics

Stewart, J. Daniel, Executive Director of Air Force Materiel Command, Wright Patterson Air Force Base

Tabler, Diana, Chief of Staff, Office of the Assistant Secretary of Defense, Health Affairs

Thompson, Bill, Director for Administration, Defense Intelligence Agency

APPENDIX B - INTERVIEW PROCESS AND TOPICS

Purpose

Provide insight into the critical factors influencing the DoD's ability to attract and retain critical civilian employees, help shape our recommendations, and provide support for obtaining approval and implementation.

Process and Ground rules

Confidential interviews with selected DoD SES and other high-level executives conducted one-on-one in the individual's office with a member of the DBB's Human Resources Committee on July 18. All interview responses will be held in strictest confidence, but a list of those interviewed, along with a summary of responses, will be included in our work product. There will be no feedback of interview results to those interviewed.

Name of Person Interviewed _____

Interviewer _____ Date _____

DoD As A Place to Work

1. Does the DoD provide challenging and rewarding opportunities for the most talented of its key employees?

Manpower Planning and Placement

2. Does the DoD have an adequate number of effective professional, managers and executives to fulfill its mission during the next 10 years?

3. Does the DoD typically have the best-qualified individuals in the most important of its leadership positions?

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4. Is advancement in DoD based principally on who has the best qualifications?
5. What is your perspective on the DoD's "retirement bulge?"
6. What is your view of the DoD's hiring practices?

Compensation and Benefits Opportunities

7. Is the DoD's compensation system effective in attracting and retaining talented employees?
8. Are pay levels for senior positions in the DoD adequate to attract and retain the caliber of individuals necessary to fulfill its mission?
9. Is there enough flexibility in the DoD's pay systems to adequately differentiate the compensation of the highest performers from others?
10. Does the DoD's compensation system reward high performers with better compensation?
11. Do you view the pay and benefits program at the DoD as a positive factor in your employment situation?

Evaluation and Recognition of Performance and Potential

12. Does the performance appraisal process used in your area adequately measure differences in individual performance and contribution at your level?
13. Are you satisfied with the way your superior evaluates your performance and potential?
14. Do you think performance evaluations of executives and managers should consider the opinions of their subordinates?

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15. Does the DoD's compensation system differentiate rewards and recognition based upon evaluations of performance and potential?

Turnover

16. Are those who leave DoD employment generally the poorest performing employees?

17. Does the DoD adequately identify its poorest performing members and either help them improve or separate them in a fair manner?

Advancement Opportunities

18. In your view, are promotions typically based on performance and potential rather than length of service?

19. Do you believe those who have the greatest potential for advancement are typically identified and given development opportunities?

20. Do you believe you have been identified as a high-performing individual within the DoD with great potential for the future?

Comparisons to Private Employers

21. Have you worked in the private sector? Where/when?

22. Do management personnel in DoD compare favorably with those in high-performing private companies?

23. Is employment experience in DoD highly regarded by private employers?

24. Are the DoD's performance standards for its key employees similar to successful private companies?

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Comparisons to Military Leadership

25. Are those in leadership positions in the DoD civilian force as effective as the senior military officers with whom they work and are compared?

Open Ended Questions

26. In your view, what are the most important things the DoD could do to attract and retain a high-caliber civilian workforce?

27. What is the most important thing the DoD could do to develop a more performance-based culture?

28. If you were to leave DoD for employment in the private sector, what would the most likely reason be?

29. How would you compare employment in DoD with other federal agencies?

30. Do you have other suggestions or comments?

Thank you for your cooperation and help.