



Report to the Secretary of Defense

**SHAPING AND UTILIZING THE
SES CORPS TASK GROUP**

Report FY06-1

- **Recommendations regarding better utilization and overall executive selection, development, performance pay, and retention of the Senior Executive Service (SES) in the Department of Defense.**

Defense Business Board

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SHAPING AND UTILIZING THE SES CORPS

INTRODUCTION

This report contains the results and recommendations of the Defense Business Board (DBB) for shaping and utilizing the Department of Defense's (DoD) Senior Executive Service (SES) Corps. The study was undertaken in the spring of 2006 at the request of the Deputy Secretary of Defense, Mr. Gordon England, with the support of the Under Secretary of Defense (Personnel and Readiness), Dr. David S. Chu, through our liaison the Deputy Under Secretary of Defense (Civilian Personnel Policy), Mrs. Patricia Bradshaw. The Terms of Reference (TOR) creating this DBB Task Group is attached as **Appendix A**.

TASK GROUP

Our study was performed by the DBB's Task Group on human resources, whose members are Mr. Frederic W. Cook, chair, Ms. Madelyn Jennings, Mr. William Phillips, and Dr. Dov Zakheim. We were supported by our DBB staff: Ms. Kelly Van Niman, Executive Director, Ms. Lynne Schneider, Deputy Director and Project Manager, and Mr. Ryan Bates, Staff Assistant.

PROCESS

This study of SES was coordinated and integrated with two other DBB Task Group studies, one on overall DoD governance and the other on fostering a DoD culture of innovation, risk-taking and change. Leadership and coordination was provided by DBB's Chairman, William "Gus" Pagonis. All studies were presented to the full DBB for review and approval at its May 31, 2006, meeting, and briefed to the Under Secretary of Defense for Personnel and Readiness, Dr. David Chu and the Deputy Secretary of Defense, Mr. Gordon England on the same date.

The OUSD P&R has a parallel study of SES underway under the leadership of Mrs. Pat Bradshaw, Deputy Under Secretary of Defense (Civilian Personnel Policy) and Ms. Marilee Fitzgerald. The Task Group

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shared its draft recommendations with, and requested feedback from, OUSD P&R but remained independent when drafting recommendations that were presented to the full Board for deliberation at the May 31st, 2006 DBB meeting (see **Appendix B**).

Insights were solicited from Service Secretaries, through their civilian personnel policy offices, and from the Office of Personnel Management, Ms. Linda M. Springer. We also received the input and advice of Ms. Carol Bonosaro, President of the Senior Executive Association.

Our study team conducted confidential interviews with 17 SES members in DoD and met with four other DoD executives and other individuals outside of DoD including several retired SES members, to obtain valuable input concerning the current SES program, management of SES by the various Services, the current climate among SES members, and suggested themes and directions for change. The SES executives were not chosen randomly, but rather nominated as being those held in high regard for their career performance and with broad perspectives and interests. A list of all those interviewed is contained in **Appendix C**.

To supplement the private sector experiences of our Task Group members, we interviewed executives at GE and IBM to learn how they manage their senior executives. Further, we sought input from Dr. Noel Tichy, Professor of Organizational Behavior and Human Resource Management and Director of the Global Leadership Program at the University of Michigan Graduate School of Business.

Scope of Study

We have elected to focus our study on SES career appointments, disregarding issues and opportunities that may be limited to the other types of SES appointments: non-career, limited term, and limited emergency.

There are currently 1,094 career SES members in DoD, out of 1,248 total SES in DoD and 6,811 in the U.S. Government overall. The DoD's SES Corps, including 117 limited term appointments, is outlined as follows:

| | |
|---------------------|-----|
| U.S. Army..... | 261 |
| U.S. Navy..... | 315 |
| U.S. Air Force..... | 160 |

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| | |
|-------------------------------|------------|
| OSD and Defense Agencies..... | <u>475</u> |
| Total..... | 1,211 |

Eighty percent (80%) are male, 92% are white, the average age is 55, and the average service is 28 years. Expectations are that as many as 40% will be retiring in the next five years and 90% within ten years.

Current SES Program

We began our study by becoming familiar with the current SES performance and pay program and OPM regulations (see **Appendix D**). DoD has received provisional OPM approval to pay salaries to its SES up to \$165,200 a year, the rate for Executive Level II, equivalent to the Under Secretary of Defense for AT&L. The bottom of the pay scale for SES is \$109,800, equivalent to GS 15, step 7 before locality pay (SES executives no longer receive locality pay). SES executives hold protocol rank within DoD equivalent to general or flag officers up to O-9 (Lieutenant General or Vice Admiral).

SES executives are not included in the National Security Personnel System (NSPS), but are subject to a new performance-based pay system under the National Defense Authorization Act, November 24, 2003. The DoD established a new pay-for-performance system for its SES executives in December 2003. The new system subjects SES members to performance management requirements and makes them eligible for merit increases and performance awards (bonuses). There are no longer any general pay increases based on movements in the pay ranges.

EXECUTIVE SUMMARY

Our overall objective for shaping and utilizing the SES Corps is to restore SES to its original mission of providing an executive Corps for the Department of Defense.

Our most important and encompassing action recommendations to achieve this objective are:

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1. Implement an SES general executive career track to parallel the functional career track that now dominates SES and require SES in “general executive” billets to rotate every three-five years
2. Adopt an organizational model for jointly managing the careers of SES executives and general/flag officers, including early identification of GS 12-15 with general management potential and interest (enterprise-wide succession planning)
3. Proactively manage the careers of those SES executives with general management potential with internal development moves and external development opportunities
4. Adopt a performance management program for SES executives built around top-down job objectives tied to overall DoD goals and unit mission, which encourages a culture of change, continuous improvement, risk-taking and innovation, with rewards and advancement tied to performance.
5. Vest the Deputy Secretary of Defense, through the OUSD P&R Civilian Personnel Policy, with the responsibility and resources to oversee and coordinate the management of the SES Corps by the Defense Components.

The remainder of our report expands on these themes and provides specific recommendations for consideration by the Department of Defense.

I. VISION AND THEMES FOR SHAPING AND UTILIZING THE SES CORPS

We believe the SES Corps is an underutilized resource in DoD, and that there are significant opportunities to increase their effectiveness in support of the Department’s transformation of its war-fighting and business capabilities.

The SES was established by the Civil Service Reform Act of 1978 to provide general management opportunities and capabilities for the best-qualified and capable career civil servants. The vision was for SES executives to provide continuity in management for the government’s

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Departments and Agencies underneath the top civilian leaders appointed by the President and, in DoD, senior military officers in command positions.

There has been a natural migration for SES executives from comprising a general executive Corps to becoming deep functional experts, many of whom do not move within their Service or Agency, or even outside the location where they were hired or promoted. Thus, they provide great value as strong number 2s or deputies but do not have the opportunity, or perhaps the interest, in developing into broad general managers with mobile careers. This view of SES was widely held in DoD within and outside the SES ranks.

Without denigrating, and perhaps even enhancing, the value that deep functional SES expertise can bring to their military Services, Defense Agencies and OSD, we aim to articulate and encourage a parallel track for those SES executives with the interest and skill to develop their general management capabilities through career development experiences within and outside their military Service or Defense component.

Our vision is to ***restore the SES to its original mission.***

The 2006 Quadrennial Defense Review calls for continued efforts: to transform the business-side of the Defense Department to match our leaner, less-hierarchical and more agile war-fighting capabilities; to adapt changes in private sector management, technology and business practices to the needs of the defense establishment; to bring horizontal integration and networking to the defense support infrastructure; to become more flexible and less bureaucratic; to foster and reward innovation and risk taking; and to adopt a performance-based culture that fosters and embraces continuous change and improvement. SES executives should be challenged to play an important role in these efforts. In fact, this important role is a requirement for the successful transformation of the Department.

Fulfilling our vision for the SES will enable the Department to meet three important objectives that will increase its effectiveness in meeting the challenges of the 21st century:

1. ***Allow time for the Department's senior civilian and military leadership*** to devote time and resources to governance activities.

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The 2006 QDR chapter on “Reshaping the Defense Enterprise” identifies three categories of roles and responsibilities within DoD: ***governance, management*** and ***work***. Governance activities of the Department’s senior leadership are defined as “setting strategy, prioritizing enterprise efforts, assigning responsibilities and authorities, allocating resources, and communicating a shared vision.” The DoD’s senior leadership needs to free up time for these governance activities by delegating responsibility for execution to those military officers and civilian executives, to include SES, just below them in the hierarchy. This next level becomes the execution management for DoD.

2. Successfully implement performance management and pay-for-performance throughout DoD’s civilian workforce, starting at the top

Performance management leadership starts at the top. The success of the National Security Personnel System (NSPS) depends on SES executives embracing the same concepts of identifying job requirements and objectives that tie to larger organizational goals, evaluating performance based on results and outcomes, and then rewarding civilian employees based strictly on demonstrated performance inherent in NSPS. Then, SES executives should enthusiastically support and administer these for their civilian subordinates.

3. Improve integration of the civilian workforce with the active military forces and reserve components to develop a total force that drives toward successful maintenance of DoD’s mission.

The Department needs to integrate all of its forces, civilian and military. This requires SES executives to take on greater responsibilities in functional and general management roles, to think and act horizontally, to become more innovative and mobile, to become apostles for change and continuous improvement, to assume responsibility for some billets currently held by military officers, and to rise to the challenge of becoming equal partners with the military in shaping and utilizing the total force.

SES executives are now very vertically oriented within their particular military branch, Defense Agency, or even location. In the same way that the military has adopted jointness while preserving each Service’s separate identity and traditions, the SES Corps needs to become more horizontally

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integrated, collaborative and networked, with some functions managed at the OSD level. This will require greater mobility and development opportunities, within and outside of their Service or component, for those SES executives interested and able to take on this broader mandate.

This vision requires (1) selection, training and development of the best qualified and highest potential SES executives for general management responsibilities, and (2) articulation and communication from the top of enterprise-wide goals and objectives. These goals and objectives must cascade throughout the defense establishment, requiring senior SES executives to develop their component and individual goals that tie back to the goals and objectives of the larger entity. Simultaneously, organizations must set measurement metrics, and methods that monitor performance progress, and make adjustments when needed. They must also adopt ways to reward successful performance and deal with failures.

II. ORGANIZATIONAL MODEL FOR MANAGING DOD'S SES CORPS

A common practice has developed whereby each unit or location manages its own SES executives, including identification, promotion, assignment and development. A bias may have developed for SES executives with functional, technical or scientific backgrounds, which has contributed to the narrowness of their utilization and lack of development into general executives.

It may be argued that responsibility for managing the DoD's SES Corps should be centralized within the Office of the Secretary of Defense (OSD). This is the model of many large, global corporations for their senior executives. However, we do not believe this is appropriate for DoD given its Service-based culture and traditions. Rather, we believe the careers of SES executives should be the responsibility of the headquarters of each military branch, with oversight support by OSD P&R CPP. The Marine Corps should manage their SES executives in a similar fashion, under the leadership of the Secretary of the Navy. Specifically, control of SES assignments should move from individual localities to the Service Secretary or Assistant Secretary level, and for top-tier general management positions, to the Secretary of Defense or Deputy Secretary of Defense.

Our specific recommendations are:

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1. Each Defense Component should adopt an organizational model to jointly manage the careers of their SES executives and General or Flag Officers in conjunction with OUSD P&R CPP. This includes:
 - Early identification and development (including rotational assignments) of GS 13-15 with SES potential,
 - Planned development opportunities for SES executives,
 - Joint consideration of general officers or SES for designated billets other than military command,
 - (optional) Internal designation of SES billets as either 0-7, 0-8, or 0-9 equivalent and related salary differentiation
 - Component-wide performance management of SES executives and administration of promotions, merit salary increases, bonus pools and awards based on evaluated individual performance according to a uniform performance appraisal process, and rotational assignments with inter-Service, interagency moves.
2. P&R CPP should provide centralized support to the military Services and Defense Agencies in developing and managing their SES executives by maintaining a single centralized data base of SES skills and aspirations, managing Department-wide executive development programs, and facilitating mobility within and throughout the Department for functional and general management development.

III. SELECTION AND HIRING PROCESS

The quality and capabilities of the executive team for any organization starts with the selection and hiring process. This requires a focus beyond just the current SES Corps, to include internal candidate identification and development in the Grades below SES, and proactive outreach to identify talent elsewhere in Federal service and the private sector.

Understanding the skills and capabilities of the SES Corps in relation to the requirements of the roles and actual positions within the Department, is important throughout the selection and hiring process. Ability to match candidates to the right positions enables their professional development, job performance, and ultimately the attainment of the goals for their organization. Selection for SES executive positions in key areas, and the

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continuing development of highest potential executives should be done in the broader context of the Department's needs. Best business practices in large corporations point to senior leadership taking responsibility for a high performing subset of the executive Corps, making sure that they are aligned with the most important positions, and are nurtured – as a corporate asset – for the betterment of the larger organization.

Today, the selection and hiring process is a decentralized process throughout the Department. While the administrative steps may be generally consistent, the selection criteria, candidate sourcing, and position characterization vary widely.

The traditional route to SES is by holding positions in Grades 13-15 and then knowing someone in the SES Corps who decides he/she needs your skills.

Best business practices would suggest a talent bank be identified among the 13-15s and special assignments/internships/task force initiatives be employed to grow their experience and test them in a "trial" situation as to their capability to do more.

As reflected in the section on **Diversity**, outreach will be necessary for the SES group to represent more varied backgrounds needed in the 21st Century. Identifying targets such as corporations whose people have the skills needed, and advertising in segmented media that will reach the targeted candidates, and employing bonuses for successful employee referrals are common tactics.

A common delay in the hiring process is the detailed narrative expected of candidates and the length of time it typically takes to receive the offer. Particularly for those not currently in the government, this dissuades potential candidates from submitting an application in the first place. The process is time-consuming, not user-friendly and out of place in today's world. These practices make the Department non-competitive in the eyes of top-tier candidates. Improvement should be made, at a minimum, by converting to a more simplified electronic process.

Orientation is very important, particularly for people coming to DoD from outside the government. The APEX orientation program (one week in DC;

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one week in the field) has limited slots for SES members and they sometimes have to wait one to two years to be enrolled.

Assigning mentors to new hires should be considered -- on-line mentor programs are currently in fashion in the business world and should be considered. Northrop Grumman has created what are called "communities of practice" -- companywide groups that meet, in person and online, to share information. This idea may have merit within the SES group.

Younger employees bring new concerns when hiring from outside the government. BUSINESS WEEK (April 24, 2006) reports about Ken Dychtwald's new book, WORKFORCE CRISIS, that younger workers are the least satisfied and least engaged. They want respect, independence, self-defined work schedules, and challenging duties with sufficient compensation in pay or time off. To be successful, this suggests a review of current recruiting and hiring practices and resultant modification in the handling of SES new hires.

Our specific recommendations are:

1. Review current selection and hiring processes to ensure outreach to potential hires that are external to DoD. Identify targets such as corporations whose people have the skills needed, advertise in segmented media that will reach targeted candidates, employ bonuses for successful employee referrals.
2. Identify a talent bank among the Grade 13-15s and use special assignments/internships/task force initiatives to test for potential.
3. Assign mentors to new SES executives, including developing on-line (in collaboration with the Services) mentor programs wherein meetings in person and on-line hasten the assimilation process as part of an orientation program (Defense Finance and Accounting Service on-line mentor program may be a model for SES).
4. Ensure that new SES executives receive APEX training within six months of arriving in their new position and provide courses much like the military CAPSTONE Program allowing civilians to integrate with their military counterparts. DoD needs to run courses like APEX

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more frequently so that new SES executives receive the training in a timely and relevant manner.

5. Review and simplify the long narrative required for SES job application.

Diversity Initiatives

The SES Corps is not diverse: 8% are minority and 20% are female. DoD's 21st Century workforce should reflect our society and DoD's mission requirements. This vision would mandate broader skill bases, beyond the traditional EEOC requirement, to include languages, cross-cultural knowledge and ethnic backgrounds. DoD missions in the future will largely involve the Near, Middle, and Far East, Eastern Europe, Africa and China. The DoD should have a compliment of SES executives who not only know foreign languages but also are adept from a multi-cultural standpoint. Diversity is more than race or ethnic background. It is intellectual diversity. DoD needs to extract its diversity requirements from an assessment of its 21st century mission and threats, and then plan accordingly for its future civilian workforce needs.

Best business practices are clear: change will occur only if mandated from the top; measured and reviewed by senior executives frequently; and made part of the job responsibilities and performance assessment of those who manage others. Introduce such practices at DoD, and change will occur.

Our specific recommendations are:

1. DoD should take a broader, requirements-driven approach to developing and selecting new SES executives.
2. DoD should recruit high-potential SES candidates from diverse backgrounds with the required skills set to meet mission requirements:
 - Target recruiting for diversity (e.g., selective women's colleges and other likely campuses and corporate talent sources in cities such as Detroit, which has significant minority populations).

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- Identify diverse high potential Grade 13-15 women and minorities and ensure their development; extend outreach to retiring military personnel.
- Link DoD job opportunities to popular career websites such as CareerBuilder.com and Monster.com.
- Target recruitment of high potential women and minorities from other appropriate agencies such as FEMA and CIA for promotion to SES.

Security Clearance Adjudication

The current security clearance adjudication process simply takes too long. OPM has taken over the security clearance investigation process from the Defense Security Service and contracts out its background checks. DoD is responsible for adjudication of the clearances.

It appears that contracted investigators often do not have a real sense of the nature of the jobs in question, or of the personnel they are investigating. Invariably, re-investigations of officials who have held clearances for many years take longer than those for entry-level officials. Moreover, those officials whose expertise resides in international security affairs (whether policy, technology or any other subject area) are subject to special scrutiny because of the foreign contacts that are the basis of their expertise. Our specific recommendations are:

1. Accelerate the clearance and adjudication processes for SES executives who have had multiple background checks in previous years.
2. Ideally, more investigators should be hired; in the absence of additional hires, priority should be given to SES executives whose jobs are identified as the most critical SES positions.

IV. MANAGEMENT AND MOBILITY

The one constant mentioned in all of our interviews was the lack of mobility among the SES Corps. The culture will need to be one of both field and headquarters appointments being necessary for growth and promotion, as well as, the possibility of assignments in other Services, Agencies and Departments in order to grow a cadre of general executives. Some, maybe many, SES executives would welcome the opportunity of moving between the Services.

Our specific recommendations are:

1. Categorize all SES billets, based on their requirements for success, as either general management billets or functional management billets. Identify core competencies and skills for these positions to better match SES personnel to the billet.
2. Designate all SES general management billets as rotational assignments of 3-5 years maximum (holder does not “own” the billet, but is subject to rotation and mobility).
3. SES Levels: Each Defense Component should be allowed to determine if it wishes to categorize its SES billets into tiers based on relative breadth and scope of position responsibility, reporting level, or general/flag officer equivalency, as has been done by the Air Force and Navy. If so, the level belongs to the position or billet, not the incumbent SES executive.
 - Option 1 - Categorize all SES billets by internal rank as either SES 3 (0-9 equivalent), SES 2 (0-8 equivalent), or SES 1 (0-7) equivalent.
 - Option 2 - No levels.
4. Identify and develop SES executives to facilitate their assumption of senior billets traditionally held by either general/flag officers or political appointees
 - Note this will lead to turnover of SES executives in these general officer positions, consistent with military culture.

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5. Require Deputy Secretary of Defense or Secretary of Defense concurrence in assignments to the most critical senior general management billets, consistent with current practices for senior flag officers.
6. SES executives aspiring to top positions need to gain experience in joint commands before reaching senior leadership positions. SES billets in Combatant Commands should be sourced from all the Services/Agencies, not just the military branch hosting that command. Such positions should be rotational, with minimum three-year tours and maximum five-year tours.
7. DoD should provide transfer allowances for SES executive rotational moves into higher cost areas, e.g., a relocation supplement of 10% of salary, reduced to 6.7%, 3.3% and 0% over three years.
8. Require each Defense Component, in coordination with OUSD P&R CPP, to develop a “Human Resource Development Plan” for their SES Corps.

Military to Civilian Conversions and Inter-Agency Transfers

An important part of managing the **total force** is the current effort sponsored by USD (P&R) that is seeking opportunities to convert military positions to civilian positions. This practice frees military enlisted and officers for war-fighting duties. And, it could be less expensive over the long run given the all-in compensation expense of the military as computed by GAO. Further, the 2006 QDR suggests inter-agency transfers as a means of better coordinating joint-agency responses to national needs, e.g., DoD, State, National Intelligence and Homeland Security.

Our specific recommendations are:

1. Develop general management SES executives to assume appropriate senior billets traditionally held by military officers.

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2. Ask each Defense Component to identify SES office support positions now held by military officers and enlisted that could be filled by civilian counterparts.
3. OUSD P&R CPP should work with OPM to develop a program of inter-agency rotational assignments for SES executives with high general management potential.

V. EXECUTIVE DEVELOPMENT

Succession Planning/Skills

Succession planning for the civilian executive workforce on any consistent basis is non-existent in the Department today. While we learned of individual examples of an organization applying some sort of succession planning process, these were very limited. Furthermore, when succession planning was described to us, the characteristics, expectations and process varied widely. In the face of the potential for significant near-term turnover through retirements, the lack of succession planning in the civilian executive ranks is a major operational risk to the Department.

This situation is in stark contrast to the military process of succession planning. For military officers, the sequence of positions or roles that they need to fill in order to achieve higher rank is usually very clear. That same sequence also enables military leaders to have a clear picture of their leadership pipeline. This military approach is consistent with best corporate business practices.

Corporations that view their executive workforce as a “corporate asset” invest time and energy to assign people to positions that best enable their personal growth and ultimate value to the corporation. Today, there is no central view of the most important SES positions in the Department and the pipeline of individuals who are candidates to fill them.

Our specific recommendations are:

1. The top 200-300 general management SES should be identified and managed as an “enterprise” asset even if they belong to a specific Service or Component.

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2. The DoD should conduct a comprehensive survey of SES executives to gain insight into their skills, competencies, language ability, career aspirations, desired development opportunities, and willingness to be mobile including relocation.
3. Annual people reviews should be presented to the Secretary and Deputy Secretary describing their backgrounds and logical next steps for people with highest potential.
4. Defense Components should identify SES executives with more than five to eight years in a position; determine if they are the best qualified to continue in that position; identify and develop successors; and adopt a two-year succession plan.

Executive Development

We found through our interviews that the concept of “executive development” for the SES Corps within the Department is virtually non-existent. Executive development is under funded, undervalued, and underutilized. Those who participate in development activities are either self-nominated or sent by their organization because they can be spared. This is quite unlike the officer Corps where development opportunities are either mandated or a pre-requisite for advancement, with prioritization given to those with the highest potential.

This must change if the SES Corps is to reach its potential as equal partners with the military in helping the Department achieve mission objectives. The need is most acute in developing the general management capabilities of those with the potential and aspiration to advance to higher levels of responsibility. Our specific recommendations are:

1. Adopt the concept that the 200-300 top-rated SES executives are enterprise assets whose careers are overseen by the Secretary and Deputy Secretary.
2. Instill training and development as a critical part of developing leaders, meant first of all, for those of highest potential.

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3. Training in large part should be “in context” and support skills development necessary to achieve DoD goals - not classroom lectures, e.g., specific tasks are assigned, researched, recommendations are made in teams. This training should be closely coordinated with CPP.
4. Change the mindset within DoD from one that undervalues and under funds SES executive development activities, and where only those that can be “spared” or who “self-select” can attend, to one which is closer to the military model where training and development are essential for advancement and the assumption of greater responsibility.
5. Adapt models that exist among large private and public institutions for managing and developing their executive Corps.
6. GE and IBM models for on-boarding, managing and developing their executives Corps are worthy of emulation. GE and IBM senior executives responsible for executive development are willing to meet with their DoD counterparts to provide in-depth briefings as to their programs and how they integrate into their corporation’s overall culture and strategies. Their strategies are based on several key principles germane to the current environment in the Department:
 - a) The top executives are regarded as corporate assets and not assets of the division or organization from which they became executives. (Referring to recommendation #1 above.)
 - b) Top management takes personal responsibility for the ongoing development of top performers.
 - c) The most senior executives are personally involved in decisions around job assignment, promotion and development of top performing executives.
 - d) All executives are accountable for the development of the next generation of executives. This accountability is reflected in annual performance expectations and evaluations.

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- e) Development opportunities are open to all executives based on their individual skills and talents and the needs of the organization.
- 7. Identify those with strong functional skills who also have general management potential, and then put them in positions where they can develop their general management skills.
- 8. New York City Leadership Academy and Banff Centre for Leadership may also be models to emulate.
- 9. Utilize current training centers in other regions (military installations) to increase options and opportunities for learning.

VI. PERFORMANCE MANAGEMENT, RATINGS AND REWARDS

The DoD's new pay and performance program for its SES executives provides no entitlement to pay adjustments. The new program, starting in calendar 2006, "replaced a largely 'Pass/Fail' appraisal system where annual increases were expected and not directly tied to performance."

The new performance appraisal system uses individual "performance plans" linked to agency/organization strategic plans. Individual SES executives are evaluated annually against these performance plans and assigned performance scores ranging from 0-100 points. These scores correlate to overall performance ratings on one of five levels: Exceptional Results, Exceeds Expected Results, Achieved Expectations, Minimally Satisfactory, and Unsatisfactory. A minimum performance score of 70 points and a rating of "Achieved Expectations" are required for a salary adjustment or bonus award.

To allocate rewards, SES executives are assigned "Performance Payout Shares" from 1-16, corresponding to the performance rating and score. An algorithm is applied to allocate the pay pools and performance payouts, which may be divided between salary increases and performance bonuses.

We believe this is an excellent pay program on paper. Its effectiveness depends on the rigor of its application and the extent to which performance ratings are not skewed to the top. Financial incentives are only effective if top performers believe that above-average pay increases and bonuses will

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be forthcoming from their achievements. For this to happen only a select portion of the covered population should receive awards, because the pay pools themselves are likely to be limited.

Rewarding top performers also requires that those rated “Achieved Expectations” receive *below average* rewards. This is because there is a natural tendency in high-performing cultures for the number of individuals in the top two rating levels to exceed the number in the bottom two. Thus, it is essential for success to communicate forthrightly that “average” performance will likely result in below-average rewards.

The performance rating nomenclature used in the Department for SES executives may hinder the ability of the Services and components to achieve a reasonable distribution of ratings. The second and third performance ratings are called “Exceeds Expectations” and “Achieved Expectations.” However, the concept of individual performance “expectations” is elastic and does not lend itself to comparisons across individuals. We tend to set performance objectives and expectations based the individual’s ability to achieve them rather than on equal stretch or value to the organization. Thus, two individuals could each be rated as having “achieved expectations”, but have performed quite differently because our expectations for each differed.

Finally, the monetary and non-monetary rewards of SES must be increased and made commensurate with the additional responsibilities, risks and stress associated with the position. Salary compression is a serious concern of many SES executives who were interviewed. The concern over salary compression is exacerbated by the elimination of locality pay for SES, as mentioned earlier. There should be greater incentive and reward for those with talent and potential to go beyond a GS-15 Step 10, and into the SES Corps where they will take on additional responsibilities.

Our specific recommendations are:

1. SES pay ranges should be market based, as is to be the case for NSPS positions. If necessary, DoD should sponsor legislation to waive the current Executive Level II salary cap for SES.
 - This recommendation needs to be approached carefully because of the sensitivities in exceeding the pay of members of Congress.

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Never-the-less, it should be approached forthrightly because there is no market-based reason why the pay of the government's top civilian executives (non-political appointees) should be capped by elected or appointed officials who do not hold office permanently and have other means during non-government careers of gaining income and capital.

2. Consideration should be given to changing the SES performance rating nomenclature to avoid the problem of historical "expectations" and instead to focus on position requirements and performance plan objectives. For example:

| <u>Current</u> | <u>Alternative</u> |
|----------------------------|---------------------------|
| "Exceptional Results" | "Outstanding Performance" |
| "Exceeds Expected Results" | "Met All Objectives" |
| "Achieved Expectations" | "Met Most Objectives" |
| "Minimally Satisfactory" | "Met Some Objectives" |
| "Unsatisfactory" | "Did Not Meet Objectives" |

3. Annual SES performance assessments should be formed around a common evaluation framework that involves substantial input from the executive being evaluated (self-assessment), and identifies development needs, career aspirations and willingness to accept development moves and higher responsibilities.

- An example of the form and process used by GE is included in **Appendix E**.

4. There should be a minimum salary increase of 10-15% for promotion to SES from GS ranks (or top of range if lower).
5. For those Defense Components that tier their SES billets based on the breadth and scope of position, the current SES salary range of \$109,808 to \$165,200 should be subdivided into three internal salary maximums, for example:

SES 3 -- \$165,200
SES 2 -- \$146,800
SES 1 -- \$128,300

Defense Business Board

These caps will prevent the salary progression of those with strong performance, but in positions of lesser responsibility, from reaching the top of the range.

6. Executives promoted from one SES tier to another should receive promotional salary increases reflective of the additional responsibility and risk associated with the position.
 - We suggest minimum promotional increase of 10%, or tier salary maximum, whichever is lower.
7. Executives demoted for performance reasons to a lower tier where they can be more effective should have their salaries reduced at least to the new tier maximum.
8. Executives who voluntarily accept a lower tiered position should have their salary lowered commensurate with the pay associated with that position.
9. DoD should identify low performers among SES executives and give them the option of improving their performance under a specific performance improvement plan, retiring, or moving back to GS-15.
10. Any existing practice of rotating the recipients of performance bonuses should be stopped. Those rated as having "outstanding performance" should be able to receive bonuses in successive years so long as their performance remains outstanding.

VII. MORALE AND MOTIVATION

At the 1998 Professional Development League's annual banquet to honor those awarded the rank of Distinguished Executive, then-Secretary of the Navy, Richard Danzig, said: "...do not maintain the status quo, however great that may be." Rather, he challenged the executives to use everything they have, to take risks until they feel "precariously vulnerable," to unite as a group, and to surge forward as public servants ... and as *leaders* of public servants.

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Our interviews suggest that his words are as pertinent today as in 1998. Here is how some SESers describe their universe:

"We don't have time to do a lot of thinking. We just do."

"Here's the problem. We add projects, but we never eliminate projects."

"We don't stay because of the way we're treated. We stay because of the importance of our work."

"We're like warrant officers. The military and political appointees come and go, but we are the glue that gets things done."

"There are two types of SESers. The up and comers, and the rocks in the river that you learn to navigate around."

"Promotions depend upon whom you know. There's no system and no formal mentor program. It's a case of whom you know."

The culture appears to be divided between the up and comers and the more seasoned group who will be retiring in the next few years. Our impression is that many in the SES Corps relish the importance of their work and mission, but do not feel "inside the loop" in terms of communications, recognition, respect and their level on the totem pole.

Specific actions to improve the motivation and morale of the SES Corps are warranted. SES executives are not only underutilized but also dispirited. One commented that the general sense among SESers is that "we are about to be fixed." Lasting reform will not come from a program to "fix SES" but rather from buy-in and enthusiastic support from opinion leaders among SES executives. Our specific recommendations are:

1. Appoint a team composed of two highly-regarded SES executives from each Service and Defense component to review our recommendations and provide their feedback to the Deputy Secretary of Defense and the Under Secretary of Defense for P&R regarding our themes and recommendations.

Defense Business Board

- They will assess the practicality and worthiness of our recommendations, perhaps add new ones, and help build support and continuity for better shaping and utilizing DoD's SES Corps.
 - This team could go on to become the permanent SES committee advising DoD on SES matters as recommended next.
2. Create and utilize an SES committee, with rotational representation from all military branches and Defense components, to advise senior leadership on SES issues, share information and migrate best practices.
 - Recommend this team meet quarterly at rotating locations.
 3. Treat the SES Corps as a special entity within DoD with enhanced communication from senior civilian leadership that recognizes their potential role as an equal partner with senior military leaders in fulfilling the DoD's mission.
 4. Form a DoD senior executive association (DoD SEA) for recognition, motivation and information sharing.
 - Town hall meetings to include top management, with video hookups.
 - Annual dinner with spouses for rewards and recognition.
 5. Have the Secretary of Defense or Deputy Secretary of Defense take over and make Meritorious Executive Rank awards to DoD's SES executives in annual award dinners, with families, in the Pentagon or D.C. area.

VIII. EARLY RETIREMENT/TERMINATION INITIATIVES AND INCENTIVES

The large numbers of SES executives eligible to retire over the next decade should be viewed not as a problem but an opportunity to shape and better utilize the SES Corps. Our specific recommendations are:

Defense Business Board

1. Proactively manage the retirement bubble by encouraging each Service and component to identify their retirement-eligible SES populations and then:
 - Identify each SES as either “must keep”, “ok to stay” or “ok to go”
 - Seek legislative authority and funding to pay retention incentives to those “must keep” (e.g., \$50,000 for two-year commitment) and retirement incentives for “ok to go” (e.g., two additional years’ service and pay credit toward pension).

IX. IMPLEMENTATION AND ONGOING MANAGEMENT

Our final section describes our recommendations for managing the Department’s SES Corps over time:

1. The OUSD P&R CPP should be vested with responsibility for centralized oversight of SES career management, specifically consideration of (1) inter-Service mobility for functional development opportunities, and (2) facilitating the sourcing of candidates for open general management billets throughout DoD. CPP will develop a framework for delivering this capability.
2. OUSD P&R CPP is a resource partner for the military Services in managing their SES executives. They should provide a framework to the Services and Defense components on how to manage their SES Corps within OPM guidelines.
3. OUSD P&R CPP should support one database for DoD’s SES Corps, with up-to-date resumes for each SES executive, including skills, experience, aspirations, willingness to relocate and assume higher responsibilities, education, performance and awards.
4. DoD should provide the financial support and management resources necessary for the OUSD P&R CPP and their counterparts in the military Services and other Defense components to improve the shape and utilization of their SES Corps.

APPENDIX A
(Terms of Reference)

Defense Business Board

March 3, 2006

MEMORANDUM FOR CHAIRMAN, DEFENSE BUSINESS BOARD (DBB)

SUBJECT: Terms of Reference – DBB Task Group on SES Reform

Request you form a Task Group to assess and make recommendations to the Department of Defense (DoD) to support the Deputy Secretary's interest in identifying how best to shape and utilize the SES corps across the Department. Areas of special interest are: Selection and Hiring Process to include security clearance adjudication, Performance Management, Ratings and Rewards, Executive Development and Succession planning. Creation of a performance-based culture for SES and civilian leadership development will be necessary to support the Department in its on-going transformation as outlined in the latest Quadrennial Defense Review.

The Task Group should deliver actionable recommendations with regard to the following:

- a. A high level assessment of the Department's overall SES program to include historical context, policies, overall climate among the SES corps, concerns and issues from the current SES leadership, policies affecting performance, pay, motivation and barriers to change
- b. Provide best practices recommendations for: organizational model for management of DoD SES corps; leadership selection and diversity initiatives; leadership development and succession planning; inter-agency transfers including military to civilian conversion, update on performance management with regard to ongoing initiatives; incentives and rewards and early retirement/termination initiatives

Mr. Gordon England, Deputy Secretary of Defense will sponsor the Task Group. Ms. Patricia Bradshaw, Deputy Under Secretary of Defense (Civilian Personnel Policy) will be the DoD Liaison and will coordinate with USD P&R and PDUSD P&R. Mr. Fred Cook will be the Task Group Chairman. Ms. Lynne Schneider, Deputy Director of the DBB, will be the Task Group Executive Secretary. The Task Group will present recommendations no later than the May 31st DBB meeting.

(Signed _____)
Gordon England

APPENDIX B

(Task Group Final Report- May 31, 2006)



DEFENSE BUSINESS BOARD

Task Group on Shaping and Utilizing the SES Corps

May 2006



DBB Task Group

Frederic Cook (Task Group Chairman)

Madelyn Jennings (DBB Member)

William Phillips (DBB Member)

Dov Zakheim (DBB Member)

Kelly Van Niman (Executive Director)

Lynne Schneider (Deputy Director)

Ryan Bates (Staff Assistant)

DoD Sponsors

Honorable Mr. Gordon England (Deputy Secretary of Defense)

Dr. David S. C. Chu (Under Secretary of Defense, Personnel and Readiness)

DoD Liaison

Patricia Bradshaw (Deputy Under Secretary of Defense for Civilian Personnel Policy)



TERMS OF REFERENCE

1. Provide a high-level assessment of the Department's overall SES program, to include:
 - SES Historical Context
 - SES Policies
 - Overall SES Climate
 - Concerns and Issues of Current SES Leadership
 - Policies Affecting Pay, Performance, and Motivation
 - Barriers to Change



TERMS OF REFERENCE

2. Deliver Best Practices Recommendations for:
 - SES Organization Management Model
 - Leadership Selection and Diversity Initiatives
 - Executive Development and Succession Planning
 - Career mobility, including Inter-agency Transfers
 - Improved Performance Management



STUDY PROCESS

- Conducted Department-wide interviews to obtain input concerning the current SES program, management of the SES by the Services, the current climate among SES members, and suggested themes and directions for change. These interviews included the following:
 - Seventeen (17) confidential discussions with SES members from Army, Navy, Air Force, OSD and one Defense Agency; and
 - Meeting with the Director of OPM, Linda Springer.
- Private sector and academic participants included:
 - Carol Bonosaro, President of the Senior Executive Association;
 - Executives at GE and IBM; and
 - Dr. Noel Tichy, Professor of Organizational Behavior and Human Resource Management and Director of the Global Leadership Program at the University of Michigan Graduate School of Business.



VISION:

RESTORE THE SES TO ITS ORIGINAL MISSION OF PROVIDING AN EXECUTIVE CORPS FOR THE DEPARTMENT OF DEFENSE

- Fulfilling its vision for the SES will enable the Department to meet three important objectives that will increase its effectiveness in meeting the challenges of the 21st Century:
 1. Allow for the Department's senior civilian and military leadership to devote time and resources to governance activities.
 2. Successfully implement performance management and pay-for-performance throughout DoD's civilian workforce, starting at the top.
 3. Improve integration of the civilian workforce with the active military forces and reserve components.



ORGANIZATIONAL MODEL

Restore DoD's SES corps to its original mission of providing an executive corps for DoD.

DoD should provide financial support and management resources necessary for OUSD(P&R) and CPP and counterparts in the military Services and other defense Components to prove the shape and utilization of their SES Corps.

RECOMMENDED GUIDELINES FOR OUSD/P&R/CPP

1. Provide a framework to the components on how to manage their SES Corps within OPM's guidelines – direct development of Human Resource Plan
2. Develop a program with joint command and inter-service rotational assignments for SES executives with high general management potential.
3. Support one database for DoD's SES Corps, with up-to-date resumes for each SES executive, including skills, experience, aspirations, willingness to relocate and assume higher responsibilities, education, performance and awards.



ORGANIZATIONAL MODEL cont.

OUSD/P&R GUIDELINES TO COMPONENTS

1. Categorize all SES billets as either General or Functional management billets.
 - General Management billets will be subject to rotation every 3-5 years
2. SES Levels: Each Defense Component should determine if it wishes to categorize its SES billets into tiers based on relative breadth and scope of position responsibility, reporting level, or general/flag officer equivalency
 - Option 1 - Categorize all SES billets by internal rank as either SES 3, SES 2, or SES 1
 - Option 2 – No levels.
3. Each Defense Component should adopt an organizational for jointly managing their SES Corps and General or Flag Officers.
 - Require DepSecDef or SecDef concurrence in assignments to the most critical senior general management billets, consistent with current practices for senior flag officers.
4. Annual SES performance assessments:
 - Should be formed around a common evaluation framework that involves substantial input from the executive being evaluated Identify development needs, career aspirations and willingness to accept development moves and higher responsibilities.



EXECUTIVE SELECTION AND HIRING

DOD should simplify the selection and hiring process for SES-level employees while providing multi-faceted career opportunities and training to its high-potentials and SES levels.

1. Identify high-potential SES candidates from diverse backgrounds with the required skill sets for mission requirements.
2. Review selection and hiring processes to ensure outreach to potential hires external to DoD.
 - Simplify and shorten the SES job application process - OPM guideline of 60 days.
3. Enhance information available in Defense Manpower Data Center (DMDC) to create usable talent bank of GS 13-15s.
4. Assure that new SES executives get APEX training within six months of arriving in their new position and provide courses much like the military CAPSTONE Program allowing civilians to integrate with their military counterparts.
5. Assign mentors to new SES executives, as appropriate - On-line mentor programs are currently a best practice in the business world and should be considered.
6. Accelerate clearance adjudication process for SES executives whose jobs are identified as key critical positions and who have had multiple background checks in previous years



EXECUTIVE DEVELOPMENT

Senior Executives must have broad management experience and reflect the nation's intellectually diverse workforce, and have core competencies required by our evolving missions and collaborative roles within the interagency process.

1. High potentials should be targeted for training and development.
2. Training should support skills development necessary to achieve DoD goals and utilize current training centers in other regions (military installations) to increase options and opportunities for learning.
3. Provide general management training to personnel with strong functional skills and place them in positions where they can broaden their general management skills.



EXECUTIVE MORALE AND MOTIVATION

SES Corps should be treated as a special entity and recognized as a potential “equal partner” with senior military leaders in fulfilling DoD’s mission.

1. Create and utilize an SES committee to advise senior DoD leadership on SES issues, and to share information and best practices
2. Form a DoD senior executive association (DoD SEA) for recognition, motivation and information sharing.
3. Have SecDef or DepSecDef make Meritorious Executive Rank awards in annual award dinners, with families, in the Pentagon or DC area.



EXECUTIVE PERFORMANCE, PAY & INCENTIVES

Senior Executives should be provided market-based pay and incentives commensurate with the complexity and responsibility of their position and supporting achievement of overall DOD goals.

1. SES pay ranges should be market based, as is to be the case for NSPS positions.
2. Develop job classification standards for SES to facilitate mobility among Services with commensurate pay.
3. Annual SES performance assessments should utilize a common framework.
4. Any existing practice of rotating the recipients of performance bonuses should be stopped. Those rated as having “outstanding performance” should be able to receive bonuses in successive years so long as their performance remains outstanding.
5. Executives who voluntarily accept a position of lower responsibility should have their salary lowered commensurate with pay associated with that position.
6. DoD should identify low performers among SES executives and give them the option of improving their performance under a specific performance improvement plan, retiring, or moving back to GS 15.



EXECUTIVE RETIREMENT/EARLY-OUT INCENTIVES

Separation of employees through retirement, attrition or poor performance should be managed so that DOD can prepare for their replacement and maintain an innovative, agile and efficient civilian workforce.

1. Proactively manage the retirement bubble by encouraging each Service and component to identify their retirement-eligible SES populations:
 1. Assess SES population to determine if they are the best qualified to continue in position.
 2. Identify SES executives eligible to retire.
 3. Identify and develop successors.
 4. Adopt a two-year succession plan.
2. Utilize current legislative authority and funding to pay retention incentives to those “must keep” (e.g., \$50,000 for two-year commitment) and retirement incentives for “ok to go” (e.g., two additional years’ service and pay credit toward pension).



SUMMARY

- DOD should restore its SES corps to its original mission.
- DOD should simplify the selection and hiring process for SES-level employees while providing multi-faceted career opportunities and training to its high-potentials and SES levels.
- Senior Executives must have broad management experience and reflect the nation's intellectually diverse workforce, and have core competencies required by our evolving missions and collaborative roles within the interagency process.
- SES Corps should be treated as a special entity and recognized as a potential “equal partner” with senior military leaders in fulfilling DoD's mission.
- Senior Executives should be provided market-based pay and incentives commensurate with the complexity and responsibility of their position and supporting achievement of overall DOD goals.
- Separation of employees through retirement, attrition or poor performance should be managed so that DOD can prepare for their replacement and maintain an innovative, agile and efficient civilian workforce.



NEXT STEPS

- DOD should conduct a comprehensive survey of its SES corps to gain insight into their skills, competencies, language ability, career aspirations, desired development opportunities, and mobility (i.e. willingness to change location, support warfighters overseas).
- Direct existing SES Task Force under OUSD/CPP to review the recommendations of the DBB and provide their feedback to the DepSecDef, OUSD/P&R and the DBB.

APPENDIX C

(List of Background Interviews)

Defense Business Board

| NAME | TITLE | AGENCY | Location |
|---------------------|--|---------------|------------------------------|
| Corsi, Robert | Deputy Administrative Assistant, The Administrative Assistant to the Secretary, United States Department of the Air Force | Air Force | Pentagon |
| Dominguez, Mike | Assistant Secretary of the Air Force for Manpower and Reserve Affairs | Air Force | Pentagon |
| Hartley, Rich | Deputy Assistant Secretary for Cost and Economics, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller | Air Force | Pentagon |
| Miller, Kenneth | Special Assistant to the Secretary of the Air Force for Acquisition Governance and Transparency | Air Force | Pentagon |
| Thomas, Marilyn | Director, Budget Investment, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller | Air Force | Pentagon |
| Crain, William | Director, Capabilities Integration, Prioritization and Analysis Directorate | Army | Pentagon |
| Fahey, Kevin | Program Executive Officer (PEO) Ground Combat Systems (GCS) | Army | Warren, MI |
| Jefferis, Vicky | Deputy Chief of Staff, G8 | Army | Fort McPherson, GA |
| Morrison, Walter F. | Deputy Director, US Army Engineer Research and Development Center | Army | Pentagon |
| Nenninger, Gary | AMCOM G3 (Operations)- US Army Aviation and Missile Command | Army | Redstone Arsenal, AL |
| Gaddy, Zach | Director, DFAS | DFAS | Arlington, VA (Crystal City) |
| Dundaro, Rachael | Director, Executive Personnel Division | Navy | Pentagon |
| College, Craig | Chairman of the Defense Business Initiatives Council Executive Directors | OSD | Pentagon |
| Frederickson, Fred | Director, Policy and Strategy, Office of the Deputy UnderSecretary for Intelligence | OSD | Pentagon |
| Koehle, Chris | Deputy Director, Personnel and Security, WHS | OSD | Pentagon |
| McGinn, Gail | Deputy Under Secretary of Defense for Plans | OSD | Pentagon |
| Bayer, Michael | Independent Consultant | Other | Arlington, VA |

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| | | | |
|----------------------|---|-------|-----------------|
| Bonosaro, Carol | President, Senior Executive Association | Other | Washington D.C. |
| Springer, Linda | Director, OPM | Other | Washington D.C. |
| Von Bernewitz, Carla | Consultant, Scitor | Other | Arlington, VA |

APPENDIX D
(SES Background Paper)

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GENERAL INFORMATION ABOUT THE SES

BACKGROUND/ORIGINS: The Senior Executive Service (SES) was established by the Civil Service Reform Act (CSRA) of 1978. CSRA envisioned a senior executive corps with solid executive expertise, public service values, and a broad perspective of government. In addition, executives would be held accountable for their performance. The SES was designed to overcome some key issues:

- There was no effective, government-wide system for selecting, preparing, paying, and managing the government's top managers.
- Minimal attention was given to an executive's managerial skills and expertise. Individuals were placed in positions responsible for managing billion-dollar Federal programs and for supervising thousands of employees with little or no managerial experience.
- Agencies had limited authority to appoint or reassign executives to meet mission and program changes. The rank-in-position system limited rotation and reassignment opportunities for career employees and prevented the best use of executive talent.
- Many of the top career positions were held by individuals who entered the government at junior levels and spent their entire careers in the Federal service, many in the same agency or agency component. Executives needed to broaden their perspectives and view their responsibilities in the context of the larger corporate and public policy interests of the government.

The goal today is to maintain a proper balance between an agency's need for flexibility and OPM's responsibility to preserve the government-wide interests of a corporate, merit-based executive service.

KEY GOALS OF THE SES:

- Improve the executive management of the government.
- Select and develop a cadre of highly competent senior executives with leadership and managerial expertise.
- Hold executives accountable for individual and organizational performance.
- Base pay, retention, and tenure on performance.
- Provide for an executive system that is guided by the public interest and free from improper political interference.

COVERAGE: The SES covers managerial, supervisory, and policy positions above GS-15 (including Executive Schedule IV or V or equivalent positions) that are not filled by Presidential appointment with Senate confirmation.

STRUCTURE OF THE SES: There are two types of SES positions: General and Career Reserved. A General position may be filled by a career, non-career, or limited

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appointee. The same General position may be filled by a career appointee at one time and by a non-career or limited appointee at another time. However, a Career Reserved position must always be filled by a career appointee.

- **Criteria for Career Reserved positions:** Career Reserved positions involve day-to-day operations, without responsibility for or substantial involvement in the determination or public advocacy of the major policies of the Administration or agency.

SES APPOINTMENTS: There are four types of SES appointments: career, non-career, limited term, and limited emergency.

- **Career:** Competitive selection requirements and entitlements; no time limit.
- **Non-career:** No competitive selection requirements; no entitlements; no time limit.
- **Limited Term:** Non-renewable appointment for up to 3 years for time-limited, project-type work.
- **Limited Emergency:** Non-renewable appointment for up to 18 months to meet a bona-fide, unanticipated, urgent need.

EXECUTIVE RESOURCES ALLOCATIONS

STATUTORY REQUIREMENTS: [5 U.S.C. 3133]:

- Each agency examines its SES position requirements and submits a written request to OPM for a specific number of SES positions for a 2-year period.
- OPM allocates SES, Senior Level (SL) and Scientific/Professional (ST) spaces to each agency on a biennial basis, after analyzing agency needs and consulting with the Office of Management and Budget.
- There is no statutory "cap" on total SES allocations.

AGENCY FLEXIBILITY: Agencies have authority to establish and/or abolish positions and to reassign career executives to deal with variations in program and mission requirements. Agencies are responsible for their executive resources planning and utilization.

OPM ASSISTANCE: OPM can help agencies deal with unanticipated needs

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IMPACT OF ALLOCATIONS ON NON-CAREER AND LIMITED APPOINTMENTS:

There are statutory limits on the numbers of SES non-career and limited appointments.

- Total SES non-career appointees *government-wide* cannot exceed 10% of SES allocations.
- Total SES non-career appointees in an agency cannot exceed 25 % of that agency's allocation.

ESTABLISHING SES POSITIONS

Functional criteria: A position meets the SES functional criteria if its incumbent engages in any of these activities:

- Directs the work of an organizational unit;
- Is held accountable for the success of one or more specific programs or projects;
- Monitors progress toward organizational goals and periodically evaluates and makes appropriate adjustments to such goals;
- Supervises the work of employees (other than personal assistants); or
- Otherwise exercises important policy-making, policy-determining, or other executive functions.

APPLYING THE SES CRITERIA: The SES was intended to be a corps of senior executives, not technical experts.

SCIENTIFIC/PROFESSIONAL POSITIONS

The Scientific/Professional (ST) system covers non-executive positions classified above the GS-15 level that involve performance of high-level research and development in the physical, biological, medical, or engineering sciences, or a closely-related field. All ST positions are in the competitive service.

EXECUTIVE CORE QUALIFICATIONS

The law requires that the executive qualifications of each new career appointee to the Senior Executive Service (SES) be certified by an independent Qualifications Review

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Board based on criteria established by the Office of Personnel Management. The Executive Core Qualifications (ECQs) describe the leadership skills needed to succeed in the SES; they also reinforce the concept of an "SES corporate culture."

This concept holds that the Government needs executives who can provide strategic leadership and whose commitment to public policy and administration transcends their commitment to a specific agency mission or an individual profession. Executives with a "corporate" view of Government share values that are grounded in the fundamental Government ideals of the Constitution: they embrace the dynamics of American Democracy, an approach to governance that provides a continuing vehicle for change within the Federal Government.

OPM has identified five fundamental executive qualifications. The ECQs were designed to assess executive experience and potential—not technical expertise.

ECQ 1- LEADING CHANGE: This core qualification encompasses the ability to develop and implement an organizational vision that integrates key national and program goals, priorities, values, and other factors. Inherent to this ECQ is the ability to balance change and continuity; to continually strive to improve customer service and program performance within the basic government framework; to create a work environment that encourages creative thinking; and to maintain focus, intensity and persistence, even under adversity.

Key Characteristics:

1. Exercising leadership and motivating managers to incorporate vision, strategic planning, and elements of quality management into the full range of the organization's activities; encouraging creative thinking and innovation; influencing others toward a spirit of service; designing and implementing new or cutting-edge programs/processes.
2. Identifying and integrating key issues affecting the organization, including political, economic, social, technological, and administrative factors.
3. Understanding the roles and relationships of the components of the national policy making and implementation process, including the President, political appointees, Congress, the judiciary, state and local governments, and interest groups; formulating effective strategies to balance those interests consistent with the business of the organization.
4. Being open to change and new information; tolerating ambiguity; adapting behavior and work methods in response to new information, changing conditions, or unexpected obstacles; adjusting rapidly to new situations warranting attention and resolution.
5. Displaying a high level of initiative, effort, and commitment to public service; being proactive and achievement-oriented; being self-motivated; pursuing self-development; seeking feedback from others and opportunities to master new knowledge.

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6. Dealing effectively with pressure; maintaining focus and intensity and remaining persistent, even under adversity; recovering quickly from setbacks.

Underlying Competencies:

Continual Learning
Creativity/Innovation
External Awareness
Flexibility
Resilience
Service Motivation
Strategic Thinking
Vision

ECQ 2- LEADING PEOPLE: This core qualification involves the ability to design and implement strategies that maximize employee potential and foster high ethical standards in meeting the organization's vision, mission, and goals.

Key Characteristics:

1. Providing leadership in setting the work force's expected performance levels commensurate with the organization's strategic objectives; inspiring, motivating, and guiding others toward goal accomplishment; empowering people by sharing power and authority.
2. Promoting quality through effective use of the organization's performance management system (e.g., establishing performance standards, appraising staff accomplishments using the developed standards, and taking action to reward, counsel, and remove employees, as appropriate).
3. Valuing cultural diversity and other differences; fostering an environment in which people who are culturally diverse can work together cooperatively and effectively in achieving organizational goals.
4. Assessing employees' unique developmental needs and providing developmental opportunities that maximize employees' capabilities and contribute to the achievement of organizational goals; developing leadership in others through coaching and mentoring.
5. Fostering commitment, team spirit, pride, trust, and group identity; taking steps to prevent situations that could result in unpleasant confrontations.
6. Resolving conflicts in a positive and constructive manner. This includes promoting labor/management partnerships and dealing effectively with employee relations matters, attending to morale and organizational climate issues, handling administrative, labor management, and EEO issues, and taking disciplinary actions when other means have not been successful.

Underlying Competencies:

1. Continual Learning

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2. Creativity/Innovation
3. Leveraging Diversity
4. Integrity/Honesty
5. Team Building

ECQ 3- RESULTS DRIVEN: This core qualification stresses accountability and continuous improvement. It includes the ability to make timely and effective decisions and produce results through strategic planning and the implementation and evaluation of programs and policies.

Key Characteristics:

1. Understanding and appropriately applying procedures, requirements, regulations, and policies related to specialized expertise; understanding linkage between administrative competencies and mission needs; keeping current on issues, practices, and procedures in technical areas.
2. Stressing results by formulating strategic program plans that assess policy/program feasibility and include realistic short- and long-term goals and objectives.
3. Exercising good judgment in structuring and organizing work and setting priorities; balancing the interests of clients and readily readjusting priorities to respond to customer demands.
4. Anticipating and identifying, diagnosing, and consulting on potential or actual problem areas relating to program implementation and goal achievement; selecting from alternative courses of corrective action; taking action from developed contingency plans.
5. Setting program standards; holding self and others accountable for achieving these standards; acting decisively to modify standards to promote customer service and/or the quality of programs and policies.
6. Identifying opportunities to develop and market new products and services within or outside of the organization; taking risks to pursue a recognized benefit or advantage.

Underlying Competencies:

1. Accountability
2. Customer Service
3. Decisiveness
4. Entrepreneurship
5. Problem Solving
6. Technical Credibility

ECQ 4- BUSINESS ACUMEN: This core qualification involves the ability to acquire and administer human, financial, material, and information resources in a manner that instills public trust and accomplishes the organization's mission, and the ability to use new

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technology to enhance decision making.

Key Characteristics:

1. Assessing current and future staffing needs based on organizational goals and budget realities; applying merit principles to develop, select, and manage a diverse work force.
2. Overseeing the allocation of financial resources; identifying cost-effective approaches; establishing and assuring the use of internal controls for financial systems.
3. Managing the budgetary process, including preparing and justifying a budget and operating the budget under organizational and congressional procedures; understanding the marketing expertise necessary to ensure appropriate funding levels.
4. Overseeing procurement and contracting procedures and processes.
5. Integrating and coordinating logistical operations.
6. Ensuring the efficient and cost-effective development and utilization of management information systems and other technological resources that meet the organization's needs; understanding the impact of technological changes on the organization.

Underlying Competencies:

1. Financial Management
2. Human Resources Management
3. Technology Management

ECQ 5- BUILDING COALITIONS/COMMUNICATIONS: This core qualification involves the ability to explain, advocate, and express facts and ideas in a convincing manner and to negotiate with individuals and groups internally and externally. It also involves the ability to develop an expansive professional network with other organizations and to identify the internal and external politics that impact the work of the organization.

Key Characteristics:

1. Representing and speaking for the organizational unit and its work (e.g., presenting, explaining, selling, defining, and negotiating) to those within and outside the office (e.g., agency heads and other government executives, corporate executives, Office of Management and Budget officials, congressional members and staff, the media, and clientele and professional groups); making clear and convincing oral presentations to individuals and groups; listening effectively and clarifying information; facilitating an open exchange of ideas.
2. Establishing and maintaining working relationships with internal organizational units (e.g., other program areas and staff support functions); approaching each problem situation with a clear perception of organizational and political reality;

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using contacts to build and strengthen internal support bases; getting understanding and support from higher level management.

3. Developing and enhancing alliances with external groups (e.g., other agencies or firms, state and local governments, Congress, and clientele groups); engaging in cross-functional activities; finding common ground with a widening range of stakeholders.
4. Working in groups and teams; conducting briefings and other meetings; gaining cooperation from others to obtain information and accomplish goals; facilitating win-win situations.
5. Considering and responding appropriately to the needs, feelings, and capabilities of different people in different situations; being tactful and treating others with respect.
6. Seeing that reports, memoranda, and other documents reflect the position and work of the organization in a clear, convincing, and organized manner.

Underlying Competencies:

1. Influencing/Negotiating
2. Interpersonal Skill
3. Oral Communication
4. Partnering
5. Political Savvy
6. Written Communication

QUALIFICATIONS REVIEW BOARDS

OPM convenes Qualifications Review Boards (QRBs) to provide an independent peer review of candidates proposed for initial career appointment to the SES. The candidate cannot be appointed to the SES until the QRB certifies his/her executive qualifications.

QRB MEMBERSHIP: OPM draws on SES members to serve on QRBs and to advice on QRB policy and procedures. The Board normally consists of three SES members, each from a different agency. A majority of Board members must be SES career appointees. QRB members cannot review candidates from their own agencies.

CERTIFICATION: OPM administers the QRBs, which meet every Tuesday and Friday. A QRB reviews each case and either approves or disapproves the candidate's executive qualifications.

SES CAREER APPOINTMENTS

SES career appointments are made without time limitation and provide certain job protections and benefits that are not conferred on SES non-career or limited appointees.

- Agencies must follow competitive merit staffing requirements for the initial career appointment to the SES or for appointment to a formal SES Candidate Development Program.
- Agencies may noncompetitively reassign or transfer a current SES career appointee.
- Agencies may noncompetitively reinstate a former career SES member who has completed SES probation and left the SES under circumstances that did not make the individual ineligible for reinstatement.
- Agencies may noncompetitively appoint a SES CDP graduate who has been certified by a Qualifications Review Board if the SES CDP was advertised at least to all civil service appointees.

MERIT STAFFING REQUIREMENTS: Each agency head appoints one or more Executive Resources Boards (ERBs) to conduct the merit staffing process for career appointments. ERBs review the executive qualifications of each eligible candidate and make recommendations to the appointing official concerning the candidates.

- **Recruitment:** Agencies must announce SES vacancies that will be filled by initial career appointment to at least all Federal civil service employees.
- **Rating and ranking:** All eligible candidates are rated and ranked on the basis of their knowledge, skills, and abilities and other job related factors, as reflected in the position's qualifications standard. The ERB may delegate rating and ranking, but must certify the resulting list of Best Qualified candidates to the appointing official.

APPEALS: There is no appeal right on actions taken by the ERB, the QRB, or the appointing official.

SES PROBATION: An individual's initial career appointment becomes final only after he/she has successfully completed a 1-year probationary period.

SES NON-CAREER APPOINTMENTS

APPOINTMENT AFTER OPM AUTHORIZATION: Agencies may make SES non-career appointments to General (not Career Reserved) SES positions. Agencies must obtain a non-career appointment authorization from OPM and approval from the White House Office of Presidential Personnel for each appointment.

REASSIGNMENT WITHIN AN AGENCY: An agency may reassign a non-career appointee to another General SES position for which he/she qualifies, after obtaining approval from OPM and the Office of Presidential Personnel.

TRANSFER TO ANOTHER AGENCY: A non-career appointee can be transferred to a General SES position in another agency, with approval from OPM and the Office of Presidential Personnel.

REMOVAL: Non-career appointees can be removed at any time, with a 1-day advance written notice that shows the effective date of the removal.

SUSPENSION: The law does not specify procedures for suspending non-career appointees for disciplinary reasons.

SES LIMITED APPOINTMENTS

Agencies may use two types of SES limited appointments to address short-term staffing needs at the senior executive level.

- **Limited emergency appointments:** Up to 18 months, to meet bona-fide, unanticipated, urgent needs.
- **Limited term appointments:** Up to 3 years, to positions that will expire in 3 years or less. Generally, these appointments are used for project-type positions or for positions established to facilitate transition between Administrations.

Limited appointments are not renewable.

SES CAREER REASSIGNMENTS AND TRANSFERS

REASSIGNMENTS: An agency can reassign a career SES member to any SES position in the agency for which he/she is qualified.

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Failure to accept a directed reassignment subjects the individual to removal under adverse action procedures.

- ***Moratorium on involuntary reassignments:*** Career appointees cannot be reassigned *involuntarily* within 120 days of the appointment of a new agency head.

TRANSFERS: A career appointee may be transferred to another agency to a SES position for which he/she is qualified, with the consent of the appointee and the gaining agency.

TRANSFER OF FUNCTION: A career appointee is entitled to accompany his/her function if the appointee would otherwise be removed from the SES. Executives are subject to removal under adverse action procedures if they fail to accompany a transferred function.

SES DETAILS

Details are a management tool for dealing with short-term staffing needs.

CONDITIONS: SES members may be detailed to other SES positions or to non-SES positions, generally in increments of 120 days.

120-DAY MORATORIUM

The Civil Service Reform Act of 1978 established a "get acquainted period" during top management transitions. This is a time for new Presidential appointees and non-career appointees to get to know their senior career executives and their skills and expertise.

PRESIDENTIAL (AND CERTAIN OTHER) APPOINTMENTS OF SES CAREER MEMBERS

SES career members who are appointed by the President with Senate confirmation to certain positions outside the SES can elect to retain certain SES career benefits while serving in those appointments.

REINSTATEMENT IN THE SES: An SES career appointee who receives a Presidential appointment (with or without Senate confirmation) is entitled to be reinstated to the SES after the Presidential appointment ends.

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SES PAY

The National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136, November 24, 2003) established a new performance-based pay system for members of the Senior Executive Service effective on the first day of the first applicable pay period beginning on or after January 1, 2004 (January 11, 2004 for most employees).

The former six levels of SES pay established under 5 U.S.C. 5382 (i.e., ES-1 through ES-6) were abolished and replaced by an open pay range. In addition, locality pay is no longer extended to SES members. Under the new pay system, a SES member's rate of basic pay, upon conversion, is the base salary plus the locality pay in effect on the day prior to the conversion. The new SES pay range has a minimum rate of basic pay equal to 120 percent of the rate of GS-15, step 1, and the maximum rate of basic pay is equal to the rate for Executive Schedule III. However, for an agency certified under 5 U.S.C. 5307(d) as having a performance appraisal system which, as designed and applied, makes meaningful distinctions based on relative performance, the maximum rate of basic pay will be the rate for Executive Schedule II. **The Office of Personnel Management provisionally certified the DoD's Pay and Performance Appraisal System on December 20, 2005 for calendar year 2006. Therefore, the DoD has authority to set the maximum rate of basic pay up to \$165,200.**

Reference: Rates of Pay for the Executive Schedule (EX)

EFFECTIVE JANUARY 2006

| | |
|-----------|------------|
| Level I | \$ 183,500 |
| Level II | 165,200 |
| Level III | 152,000 |
| Level IV | 143,000 |
| Level V | 133,900 |

(See the President's Pay Agent Memorandum of December 17, 2003, at <http://www.opm.gov/oca/compmemo/2003/extmemo.asp> for details)

RATES OF BASIC PAY FOR SES MEMBERS:

| | Minimum | Maximum |
|--|------------------|------------------|
| Agencies with a Certified SES Performance Appraisal System | \$109,808 | \$165,200 |
| Agencies without a Certified SES Performance Appraisal System | \$109,808 | \$152,000 |

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Pay for a new hire is normally set within the range not to exceed EX level III (\$152,000). However, with the DoD's certified system, it may be set not to exceed EX level II (\$165,200). Rates of basic pay above the rate for Level III of the Executive Schedule but less than or equal to the rate for Level II of the Executive Schedule generally are reserved for those newly appointed senior executives who possess superior leadership or other competencies, as determined by the agency as part of its strategic human capital plan. In setting a new SES's rate of basic pay, the following must be considered: nature and quality of executive's experience, pay history, qualifications, job responsibilities, and performance expectations. Two DoD components have additional considerations. The Air Force and Navy have tiered their positions based upon the breadth and scope of a position. Each has established 3 tiers. For each tier, there is a specified pay range. Consequently, the appropriate pay at each appropriate tier is used in pay setting when a new SES member is brought into the Air Force or Navy.

PAY FLEXIBILITIES: Agencies have discretionary authority to provide additional compensation to meet recruitment, relocation, and retention needs.

- **Recruitment and relocation bonuses:** Agencies may pay, as a lump sum, *recruitment bonuses* for new appointees and *relocation bonuses* for current employees who are moving to a different commuting area of up to 25 percent of basic pay, when they would encounter difficulty in filling the position in the absence of a bonus. To receive these bonuses, an employee must sign an agreement to complete a period of service with the agency of at least 6 months in the case of a recruitment bonus. These payments are not considered a part of basic pay.
- **Retention payments:** Agencies may pay a *retention allowance* (paid bi-weekly) of up to 25 percent of basic pay to an employee in the following circumstances: the employee has unusually high or unique qualifications and the agency has a special need for the employee's services, making it essential to retain the employee; and the agency determines that without the allowance the employee would be likely to leave the Federal government, whether or not other employment is planned. These payments are not considered a part of basic pay.
- **Other flexibilities:** Agencies may also pay pre-employment interview expenses and travel and moving costs for new appointees. Agencies may advance pay for new appointees up to 2 pay periods (unless the appointee is the agency head). SES members are also covered by the special pay provisions for law enforcement officers and physician comparability allowances.

PERFORMANCE MANAGEMENT

One of the goals of the SES is to hold executives accountable for their individual and organizational performance. Using a performance management program that is results-driven and linked with the agency's strategic planning initiatives is an effective means of achieving this goal.

PAY FOR PERFORMANCE: The National Defense Authorization Act for Fiscal Year 2004 established a new performance-based system for SES members. The new system established Executive Schedule III as the base salary limit for all SES members. However, an agency certified under 5 U.S.C. 5307(d) as having a performance appraisal system which makes meaningful distinctions based on relative performance, can pay their executives up to Executive Schedule II.

PERFORMANCE MANAGEMENT SYSTEMS: Chapter 43 of title 5, United States Code, provides for performance management for the Senior Executive Service (SES), planning and communicating performance expectations, identifying performance elements and the requirements against which performance will be assessed, monitoring performance, appraising and rating performance, and using performance results as a basis for pay, awards, and other personnel decisions. The law requires that systems have at least three summary rating levels: unsatisfactory, minimally satisfactory, and fully successful. The DoD assesses five levels of performance which include: Exceptional Results, Exceeds Expected Results, Achieved Expectations; Minimally Satisfactory, and Unsatisfactory. Agencies establish performance management systems that hold senior executives accountable for their individual and organizational performance in order to improve the overall performance of Government by:

1. Expecting excellence in senior executive performance;
2. Linking performance management with the results-oriented goals of the Government Performance and Results Act of 1993;
3. Setting and communicating individual and organizational goals and expectations;
4. Systematically appraising senior executive performance using measures that balance organizational results with customer, employee, or other perspectives; and
5. Using performance results as a basis for pay, awards, development, retention, removal and other personnel decisions.

Adjustments in basic pay for a current DoD executive must meet one of the following criteria:

1. Executives who have demonstrated exceptionally meritorious accomplishments;
2. Executives who are reassigned to positions with substantially greater scope and responsibility; or
3. Executives who are assigned to positions critical to the agency mission.

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The aggregate of all pay (e.g., salary, retention allowance, overtime) may not exceed the annual rate of basic pay payable for Level I of the Executive Schedule (\$212,100) under a certified performance management system. The Authorizing Official (generally the head of a DoD Component) must approve requests for increases above the EX III level. SES members have no entitlement to an adjustment in pay. A member's pay should not be adjusted simply because he or she has been paid at a particular level for a specified period of time. Determinations for pay increases should be based on individual performance, contribution to the agency's performance, or both as determined by a rigorous performance management system. The Office of the Secretary of Defense (OSD) Components and Defense Agencies may consider any unique skills, qualifications or competencies that the individual possesses and their significance to the agency's mission, as well as the individual's current responsibilities.

In order for an SES member to receive an increase in the rate of basic pay, the following criteria must be met:

1. A final performance rating of Achieved Expectations or higher for the performance appraisal cycle immediately prior to the proposed pay increase; or
2. In the case of a new appointee, a determination that the SES member is performing at least at the Achieved Expectations level; and
3. Has not received an increase in pay within the previous 12 months, unless requesting a pay increase under one of the exception provisions contained in title 5 Code of Federal Regulations, Subpart D, section 534.404 and DoD Subchapter 920.

SENIOR EXECUTIVE PERFORMANCE PLANS: Each SES member (including career, non-career, and limited appointees) must have an individual performance plan that outlines goals and expectations for the appraisal period. These plans may be modified during the appraisal period, if there are changes in agency or organizational priorities (e.g., available resources).

- **Consultation:** Supervisors develop plans in consultation with their executives.
- **Performance elements:** The plan identifies performance elements (the goals or work to be done) and designates which are critical and those of such importance that unsatisfactory performance on the elements would result in unsatisfactory performance in the position. The elements must reflect both individual and organizational performance.
- **Performance requirements:** The plan identifies performance requirements (accomplishment expectations) for each element.

APPRAISING PERFORMANCE: SES appointees must be given an annual summary rating at least once a year. The agency sets a minimum appraisal period (at least 90 days) that an executive must serve under his/her performance plan before being rated.

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The agency can end the appraisal period any time after the minimum period if there is an adequate basis on which to rate an executive's performance.

- **Progress review:** Supervisors must monitor each senior executive's performance during the appraisal period and give him/her feedback on progress in meeting performance goals and expectations. The supervisor must hold at least one progress review with the executive during the appraisal period.
- **Initial summary rating:** The supervisor rates each critical performance element, derives an overall summary rating, and discusses the initial rating with the executive.
- **Higher level review:** The agency system must provide an opportunity for a higher level review of the supervisor's initial summary rating, which occurs before the rating is forwarded to the Performance Review Board.
- **Performance Review Board action:** Agencies must establish Performance Review Boards (PRB) to make recommendations to the appointing official on the performance of executives, including recommendations on performance ratings and bonuses. A PRB helps to assure consistency and objectivity in appraising executive performance.
 - Each PRB has three or more members appointed by the agency head. A PRB can include all types of Federal executives (e.g., non-career appointees, military officers, and career appointees) from within and outside the agency, preferably at the SES or equivalent level. Non-federal employees may also serve (e.g., retirees or university personnel). However, when appraising career appointees or recommending performance awards for career appointees, more than one-half of the PRB membership must be SES career appointees.
- **Annual summary rating:** The annual summary rating is the official rating of record assigned by the appointing official, after considering the PRB's recommendations. There is no appeal of the annual summary rating. A career appointee who is removed from the SES as a result of the performance rating may request an informal hearing before the Merit Systems Protection Board. However, the MSPB has no authority to take official action as a result of the hearing.

USING APPRAISAL AND RATING INFORMATION: The annual summary rating and the appraisal information on which it is based should be used as a basis for making decisions on pay adjustments, performance awards, removals, and reduction in force. Performance should also be a factor in assessing a senior executive's need for continuing development. In the DoD, there is a standard 100 point scoring system, which determines recommended shares and adjectival ratings. The rating official selects the recommended number of shares from the performance payout share column of the Share Conversion Chart that corresponds to the employee's preliminary score

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(see below). A standard algorithm is used to calculate the pay pools and performance pay outs. The pay out may be divided between basic pay increases and bonuses¹.

| Share Conversion Chart | | |
|--------------------------|----------|---------------------------------|
| Performance Rating | Score | Performance Payout Shares |
| Exceptional Results | 95 – 100 | 11, 12 13, 14, 15, or 16 shares |
| Exceeds Expected Results | 86 – 94 | 7, 8, 9 or 10 shares |
| Achieved Expectations | 70 – 85 | 1, 2, 3, 4, 5 or 6 shares |
| Minimally Satisfactory | 51 – 69 | 0 shares |
| Unsatisfactory | 0 – 50 | 0 shares |

AWARDS AND OTHER RECOGNITION

The law authorizes agencies to grant special recognition, awards, and incentive payments to SES members to help attract, retain, recognize, reward, and motivate highly competent executives. These payments and forms of recognition include: performance awards (bonuses); Presidential Rank Awards; and other forms of recognition. By law, only career appointees are eligible for rank and performance awards.

- *Presidential rank awards and performance awards (bonuses).*
- *Other forms of recognition* are available to recognize a single, significant act or service that may have occurred in a day, a month, or any other specified time frame and is not tied to overall performance.

PRESIDENTIAL RANK AWARDS: There are two types of rank awards to recognize SES career appointees who have demonstrated exceptional performance over an extended period of time. The *Distinguished Executive* rank, which the President confers for "sustained extraordinary accomplishment" to no more than 1 percent of the career SES government-wide, includes a lump-sum payment of 35 percent of base pay, a distinctive gold pin, and a framed certificate signed by the President. The *Meritorious Executive* rank, which the President gives for "sustained accomplishment" to no more than 5 percent of the career SES government-wide, includes a lump-sum payment of 20 percent of base pay, a distinctive silver pin, and a framed certificate signed by the President.

- **Restrictions:** The recipient of either a Distinguished or Meritorious Executive rank

¹ Pursuant title 5 United States Code, Section 5384 an executive's performance bonus may not be less than 5 percent nor more than 20 percent of the executive's basic pay.

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award may not receive the same award during the following 4 fiscal years. However, there is no restriction on receiving one rank award and then the other at a closer interval, nor is there a requirement that an individual receive a Meritorious Executive rank before receiving a Distinguished Executive rank. There are no restrictions on receiving both a rank award and a performance award during the same calendar year.

- ***Nomination and selection procedures:*** OPM issues an annual call for rank award nominations, which includes the criteria and deadline for submitting nominations. The OPM Director reviews agency nominations and recommends candidates to the President. Review boards, composed of private citizens, assist the Director in identifying candidates. OPM also conducts an inquiry to verify the qualifications of nominees that the boards recommend for the Distinguished Executive rank. The President makes the final selections from the nominees recommended by the OPM Director.
- ***Payment:*** Rank awards are paid in a lump sum, and are subject to the Executive Schedule I ceiling on total compensation (\$183,500 for 2006). However, SES members in an agency that has a certified executive performance appraisal system (DoD has a PROVISIONAL) have a higher aggregate compensation limit; the limit is equivalent to the Vice President's salary. Rank awards are not subject to retirement, health benefits, or life insurance deductions, nor included in the "high three" average pay computation for retirement benefits or in basic pay for thrift savings plan computation. Payments are subject to income tax withholding and to FICA tax withholding if the individual is in FERS or CSRS Offset

PERFORMANCE AWARDS: Agencies may give performance awards (bonuses) to career appointees to recognize and reward excellence over a 1-year performance appraisal cycle. To be eligible, individuals must have received at least a fully successful rating.

- ***Award pool:*** The law provides two methods for configuring the award pool: bonuses paid cannot exceed the greater of 10% of the aggregate basic pay for the agency's career SES appointees for the year before bonuses are paid, or 20% of the average annual rates of basic pay to career SES appointees in the year bonuses are paid. (Note: the latter equation produces a larger pool only if the agency has one career SES appointee.)
- ***Individual award amounts:*** Performance awards must be at least 5% but no more than 20% of basic pay as of the end of the performance appraisal period. An individual may not voluntarily agree to accept a bonus of less than 5%.
- ***Award determinations:*** The agency head determines who receives a performance bonus and the amount of the award, after considering recommendations from the agency's Performance Review Board (PRB). When making bonus

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recommendations, the PRB must be composed of a majority of career SES members.

- **Payment procedures:** Bonuses are paid in a lump sum. Payments are not subject to retirement, health benefits, or life insurance deductions, and they are not included in the "high-three" average pay computation for retirement benefits or in basic pay for thrift savings plan computations. Payments are subject to income tax withholding, and are subject to FICA tax withholding if the individual is in FERS or CSRS Offset. Bonuses are subject to the Executive Schedule I ceiling on total compensation for a calendar year. However, SES members in an agency with a certified executive performance appraisal system (see Performance Management section of this publication) have a higher aggregate compensation limit; the limit is equivalent to the Vice President's salary.

OTHER FORMS OF RECOGNITION: Agencies may grant cash, honorary, or informal recognition awards to SES members, individually or as a member of a group, to recognize a suggestion, an invention, superior accomplishment, productivity gain, or other personal effort that contributes to the efficiency, economy, or other improvement of Government operations, or achieves a significant reduction in paperwork. Agencies may also recognize a special act or service in the public interest in connection with official employment.

- **Restrictions on cash awards for non-career appointees:** There is a statutory prohibition on granting awards to senior politically-appointed officers during the Presidential election period (between June 1 of a Presidential election year and the following January 20). This prohibition applies to Schedule C appointees and SES members who are not career appointees.

REMOVALS FROM THE SES FOR POOR PERFORMANCE

Agency managers can take a performance-based action after the career appointee has: received a performance plan; been given a progress review; served the minimum appraisal period; and been rated on his/her performance.

RATING REQUIREMENTS:

- Each career appointee must be given an individual performance plan with performance elements (work to be done or goals) and performance requirements (performance expectations). Plans must be developed in consultation with the appointee.
- Appraisal periods are generally 1 year, but they can be as short as 90 days.

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- The supervisor must conduct at least one progress review with the executive during the rating period.
- The supervisor makes the initial summary rating, to which the appointee may respond.
- If the rating is unsatisfactory, the agency has two options: remove the individual from the SES, or reassign or transfer him/her to another SES position. If the executive is retained in the SES, the agency should provide assistance in improving performance. There is no requirement for a formal performance improvement plan, as there is for positions at GS-15 and below.

REMOVAL REQUIREMENTS:

- The appointee is given a 30-day written notice before the removal from the SES.
- If eligible, the individual may elect discontinued service retirement.
- Performance removals cannot be appealed, but the individual can request an informal hearing before MSPB.
- A performance removal is subject to the 120-day moratorium, unless it is based on an unsatisfactory rating given before the appointment of the new agency head or non-career appointee that triggered the moratorium.

PLACEMENT AT GS-15: Following removal from the SES, the individual is entitled to placement in a non-SES position at GS-15 or above, for which he/she is qualified, with saved base pay. If there is no vacant position, the agency must create one.

RECERTIFICATION

The Ethics Reform Act of 1989 established triennial SES recertification "to ensure that the performance of career appointees demonstrates the excellence needed to meet the goals of the SES." Every 3 years, agencies determined whether their career SES members had performed satisfactorily over that time period. Recertification was conducted in 1991, 1994, 1997, and 2000.

The Homeland Security Act of 2002 repealed SES recertification.

CONTINUING LEARNING

Ongoing development of current and potential executives is critical to their effective performance as leaders in an environment of constant change and advancing technology, as well as to enhancing organizational achievement. There are many ways to provide training and development opportunities for executives, including formal and informal training experiences, seminars, forums, and mobility assignments. OPM offers orientation programs for newly-appointed SES members as well as development opportunities at three residential training centers.

SES BRIEFINGS: Several times a year, OPM sponsors 2-day orientation programs for new career and non-career SES appointees. Participants are briefed about their role as senior executives and given introductory information about the SES. Key Administration officials and others provide insights and information on current domestic and foreign policy issues and initiatives, as well as advice about working with Congress.

RESIDENTIAL PROGRAMS: OPM manages three interagency residential training and development centers for current and future executives and managers: the Federal Executive Institute (FEI) and two Management Development Centers (MDCs).

- ***Federal Executive Institute (FEI):*** FEI is a residential learning facility that helps SES members and high-performing GS-15s (or equivalents in other pay systems) develop broad corporate viewpoints, understand their Constitutional roles, and enhance essential skills. “Leadership for a Democratic Society” is a 4-week program that brings together executives from 25-30 domestic and defense agencies for a unique learning experience. The objective is to help agencies develop their career executive corps, linking individual development to improved agency performance. The “Center for Executive Leadership” offers shorter programs (2 to 5 days) with a special emphasis on team building and organizational growth. The Center also offers single-agency consulting and training tailored to specific agency needs.
- ***Management Development Centers (MDCs):*** OPM has Management Development Centers in Shepherdstown, WV, and Aurora, CO. The Centers offer residential training courses in management and public policy. The core management curriculum addresses the competencies Federal managers need at the full performance level. In addition, the Centers offer courses that support employees as they transition from manager to executive.

SES CANDIDATE DEVELOPMENT PROGRAMS (CDPs): These programs are designed to develop pools of qualified candidates for the SES. Agencies have the authority to establish formal CDPs, but OPM must approve programs before they are conducted for the first time. All programs must include: at least 80 hours of interagency training that addresses the Executive Core Qualifications and includes individuals from outside the candidate’s agency; at least 4 months of developmental assignments outside the candidate’s position of record; an Individual Development Plan; and a SES mentor.

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At this time, the DoD does not have a formal CDP Program. Established programs are in place including the Defense Leadership and Management Program and the Executive Leadership Development Program. Although each program is intended to "groom" future DoD executives, neither develops an formalized pool of qualified SES candidates as neither are OPM- recognized as a Candidate Development Program.

FALLBACK RIGHTS

A career SES appointee is entitled to be placed ("fallback") in a position outside the SES, with saved base pay, when removed from the SES under certain circumstances.

AGENCY RESPONSIBILITY FOR PLACEMENT: It is the agency's responsibility to place the employee in an appropriate position within the agency.

- **RIF situations:** A reduction in force (RIF) often affects both SES and non-SES positions and personnel, and it may be difficult to find a position outside the SES in which to place an SES member. Even so, the agency is required by law to place the individual in a continuing position at GS-15 or above.
- **Abolished agencies:** If an agency is being abolished (without a transfer of function) and an employee is being removed from the SES within 3 months of the effective date of the abolishment, the employee is *not* entitled to placement in an agency position outside the SES (since there are no continuing positions).

ADVERSE ACTIONS

SES appointees may be removed from the Federal service or suspended for more than 14 days for misconduct, neglect of duty, malfeasance, failure to accept a directed reassignment, or failure to accompany a position in a transfer of function.

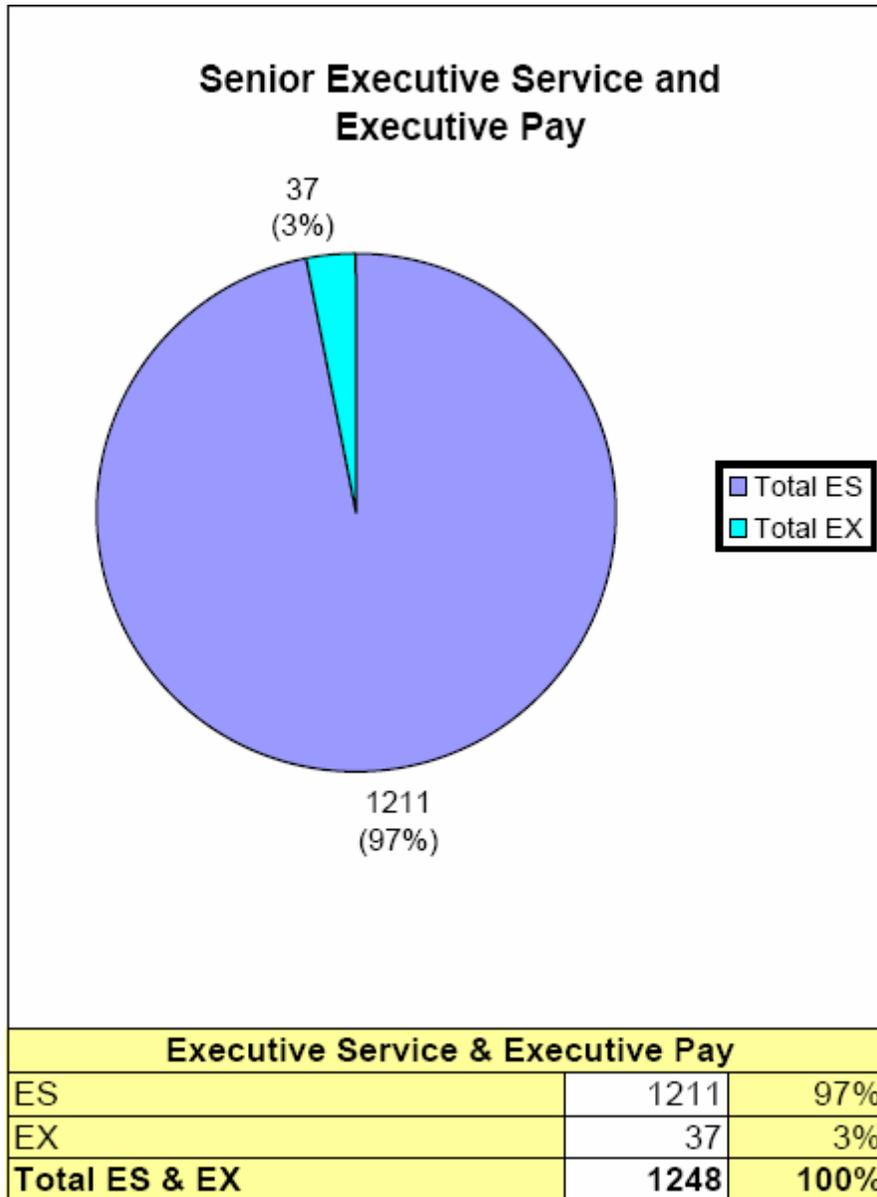
DISCIPLINARY REMOVAL V. UNACCEPTABLE PERFORMANCE: An agency may find it difficult at times to distinguish between unacceptable performance and misconduct, neglect of duty, or malfeasance. Each may result in the appointee's failure to carry out significant duties and responsibilities of the position. Unacceptable performance generally results from the appointee's inability to perform due to a lack of managerial competence or technical knowledge. Misconduct, neglect of duty, and malfeasance, on the other hand, denote intentional wrongdoing on the part of the appointee.

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Senior Executive Service and Executive Pay Statistics

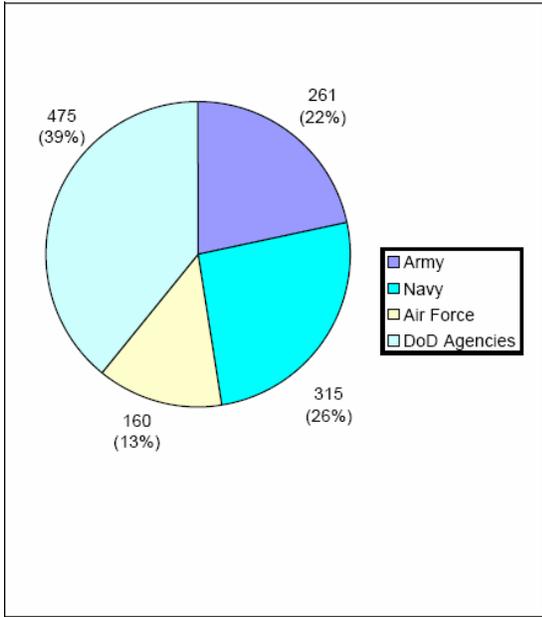
Data Current as of February, 2006 (Source: Civilian Personnel Management Service)

Total Executive Force

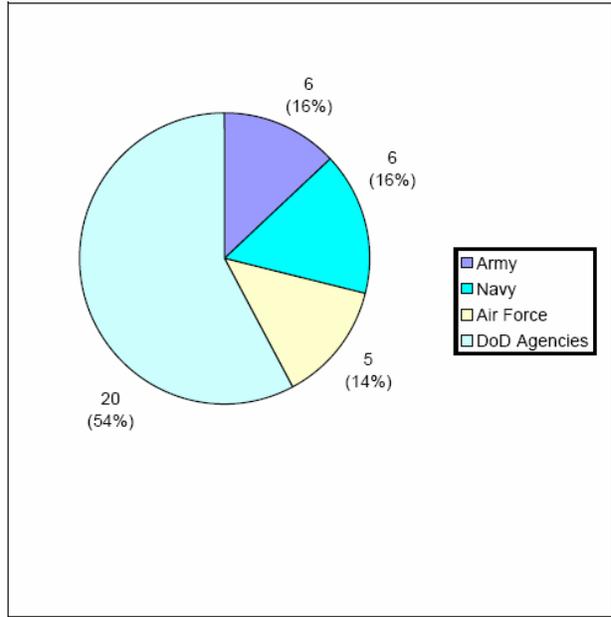


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DOD Executives by Component



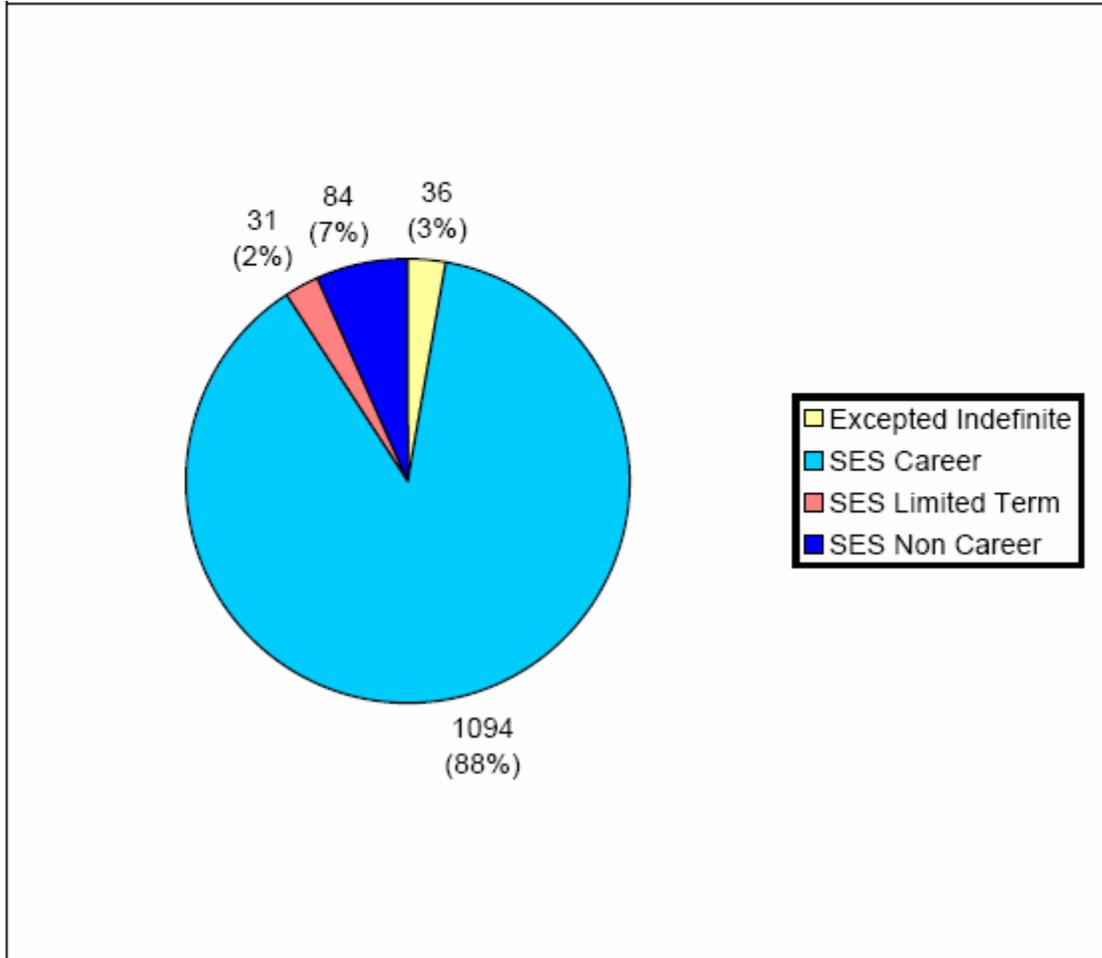
| Senior Executive Service | | |
|--------------------------|-------------|-------------|
| Army | 261 | 22% |
| Navy | 315 | 26% |
| Air Force | 160 | 13% |
| DoD Agencies | 475 | 39% |
| Total | 1211 | 100% |



| Executive Pay | | |
|---------------|-----------|-------------|
| Army | 6 | 16% |
| Navy | 6 | 16% |
| Air Force | 5 | 14% |
| DoD Agencies | 20 | 54% |
| Total | 37 | 100% |

Defense Business Board

DoD Executives by Appointment Type



| DoD Executives by Appointment Type | | |
|------------------------------------|-------------|-------------|
| Competitive Career | *1 | 0% |
| Excepted Appointment NTE | *1 | 0% |
| Excepted Indefinite | 36 | 3% |
| Indefinite Appointment | *1 | 0% |
| SES Career | 1094 | 88% |
| SES Limited Term | 31 | 2% |
| SES Non Career | 84 | 7% |
| Total | 1248 | 100% |

APPENDIX E
(GE Executive Performance Appraisal Form)

Defense Business Board

Education

| University/College | Degree | Major | Grad Yr. | Location |
|--------------------|--------|-------|----------|----------|
|--------------------|--------|-------|----------|----------|

| Pre-University/High School | Grad Yr. | Location |
|----------------------------|----------|----------|
|----------------------------|----------|----------|

Corporate Training, Languages

| Core Leadership Training | Leadership Programs | Languages |
|--------------------------|---------------------|-----------|
|--------------------------|---------------------|-----------|

Corporate Audit Staff

Other Training

Other Qualifications

Defense Business Board

Employment History

| From | To | Job Title | Function | Business Band |
|----------|----|-----------|----------|----------------|
| Business | | Manager | Location | Corporate Band |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Defense Business Board

Accomplishments

Strengths

Development Needs and Plans

Career Interests

Are you willing to relocate inside your present country?

Are you willing to relocate outside your present country?

Defense Business Board

Manager Assessment

Contributions/Performance Trend

Strengths

Development Needs and Plans

Career Interests
