



## Testimony

Before the Subcommittee on Military Readiness,  
Committee on Armed Services, and the Subcommittee on  
Civil Service, Committee on Government Reform,  
House of Representatives

For Release on Delivery  
Expected at  
1:00 p.m., EST  
on Thursday  
March 9, 2000

# HUMAN CAPITAL

## Strategic Approach Should Guide DOD Civilian Workforce Management

Statement of Michael Brostek, Associate Director  
Federal Management and Workforce Issues  
General Government Division

and

Barry Holman, Associate Director  
Defense Management Issues  
National Security and International Affairs Division



**G A O**

Accountability \* Integrity \* Reliability

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# Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management

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Chairman Bateman, Chairman Scarborough, and Members of the Subcommittees:

I am pleased to be here today to discuss civilian personnel downsizing in the Department of Defense (DOD) and a framework that could be useful for approaching its human capital management challenges in the future. I understand that concerns about an aging workforce, and a desire to explore its implications for the future, provided an important impetus for this hearing. Today, I want to (1) provide some perspectives on why this is an opportune time to consider human capital management in DOD, and (2) discuss the human capital self-assessment checklist that we have developed to help agency leaders focus on improving management of their most important resource: the people who carry out the agency's mission.

In summary, a number of factors suggest that this is an especially important time for DOD to assess its human capital policies and practices. One overarching reason for assessing these policies and practices is that high-performance organizations in both the public and private sectors have come to recognize that people are an organization's key asset. It is through the talents and dedicated work of staff that missions get accomplished. Therefore, sound management principles call for continually reassessing and adjusting human capital management practices to ensure that such practices are adapted to a dynamic environment.

DOD has undergone a very significant downsizing of its civilian workforce. This downsizing is expected to continue through the first half of this decade, resulting in a total reduction in the civilian workforce of about 43 percent from 1989 levels. In part due to the staffing reductions already made, imbalances appear to be developing in the age distribution of DOD civilian staff. The average age of this staff has been increasing, while the proportion of younger staff, who are the pipeline of future agency talent and leadership, has been dropping.

To cope with downsizing, as well as to become more efficient, DOD also has numerous reform initiatives under way to change the way it does its business. These efforts are expected to continue into the foreseeable future. Of course, changes in business practices can affect the kinds of competencies that staff must have to efficiently and effectively carry out their responsibilities. Developments like these call for a strategic approach to human capital planning. In a broader sense, assessing human capital management policies and practices also is consistent with the management framework that Congress has adopted to focus agencies' attention on managing for results.

To help agencies assess their human capital management policies and practices, we have developed a five-part self-assessment framework we believe can be useful in aligning human capital management with agencies' missions, goals, and other needs and circumstances. Federal agencies—DOD included—can and must define the kind of workforce they will need in the coming years, develop plans for creating that workforce, and follow up with the actions and investments needed so that when the future arrives, the right employees—with the right skills, training, tools, structures, and performance incentives—will be on hand to meet it. The framework, whose parts, of necessity, are interrelated and overlapping, includes:

- Strategic planning
- Organizational alignment
- Leadership
- Talent
- Performance culture

I would like to focus first on why this is an opportune time to assess human capital management in DOD, and then go on to further discuss the framework that we believe would be a useful tool in doing this assessment.

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## The Time Is Right to Assess Human Capital Management

Traditionally, strategic human capital planning has been a weak link in the management of federal departments and agencies. Federal employees account for so large and visible a share of the operating costs of most federal agencies that they have often been viewed through the budgetary lens, and been seen primarily as costs to be cut rather than as assets to be appreciated. But for federal agencies to keep pace with a fast-changing and increasingly demanding environment, a new kind of thinking will be required. The traditional view of employees as mere costs must be supplanted by a strategic approach to managing people—one that recognizes their worth and integrates their management into the strategic and programmatic concerns of every federal department and agency.

We at GAO use the term “human capital” because—in contrast with traditional terms, such as “personnel” and “human resources”—it focuses on two principles that are critical in a performance management environment. First, people are assets whose value can be enhanced through investment. As the value of people increases, so does the performance capacity of the organization, and therefore its value to clients and other stakeholders. As with any investment, the goal is to maximize value while managing risk. Second, an organization’s human capital approach must be aligned to support its “shared vision”—that is, the

mission, vision for the future, core values, goals, and strategies—by which the organization has defined its direction and its expectations for itself and its people. An organization’s human capital policies and practices should be designed, implemented, and assessed by the standard of how well they help the organization pursue these intents.

These concepts are especially relevant in considering the approaches to managing people at DOD. DOD employs over 700,000 civilians—some 37 percent of all non-postal civilian federal workers. Because DOD is the largest employer of federal employees covered by title 5 of the U.S. Code—the competitive civil service—how DOD approaches human capital management sends important signals about trends and expectations for federal employment across government. More important, the role that DOD’s civilian workforce plays in support of our national security makes DOD’s approach to managing its people a matter of fundamental public interest.

In some ways, DOD’s situation is like that of other federal departments and agencies—they must deal with the myriad of social, economic, and technological changes that have become a constant in our society and our world. These changes inevitably affect the way government entities must do business, and should make departments and agencies acutely aware of how much they rely on their human capital to do the people’s work. Agencies have experienced ever-growing public demands for better and more economical delivery of products and services. In line with these public demands, Secretary Cohen’s Defense Reform Initiative has the objective of achieving a “revolution in business affairs.” Some, if not many, of these reform initiatives will require innovative use of new technologies. This will require not just new hardware and software, but also a workforce with new knowledges and skills. Agencies also face an economy in which the competition for people with the competencies needed to achieve and maintain high performance has become an ever-growing challenge.

Regarding human capital management at DOD, I must note that we have not recently examined DOD’s overall approach to managing its civilian workforce, nor can we speak to human capital programs or innovations that DOD may have recently considered or implemented. Our evaluations and reports on broad DOD civilian workforce issues—specifically, those related to downsizing—have been more limited and narrow in focus in recent years than in the early 1990s. In those years, when DOD was in the initial stages of what turned out to be more than a decade of continuous downsizing, we completed a variety of evaluations broadly focusing on DOD’s management of downsizing and the challenges it faced. Our

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evaluations and reports in recent years have tended to focus more narrowly on selected aspects of downsizing or specific programmatic issues, such as base closures, depot maintenance, and competitive sourcing. Although they do not provide comprehensive treatment or the final word on how DOD has managed its civilian workforce, these reviews nonetheless have served to highlight a variety of human capital issues that can provide some context for today's hearing.

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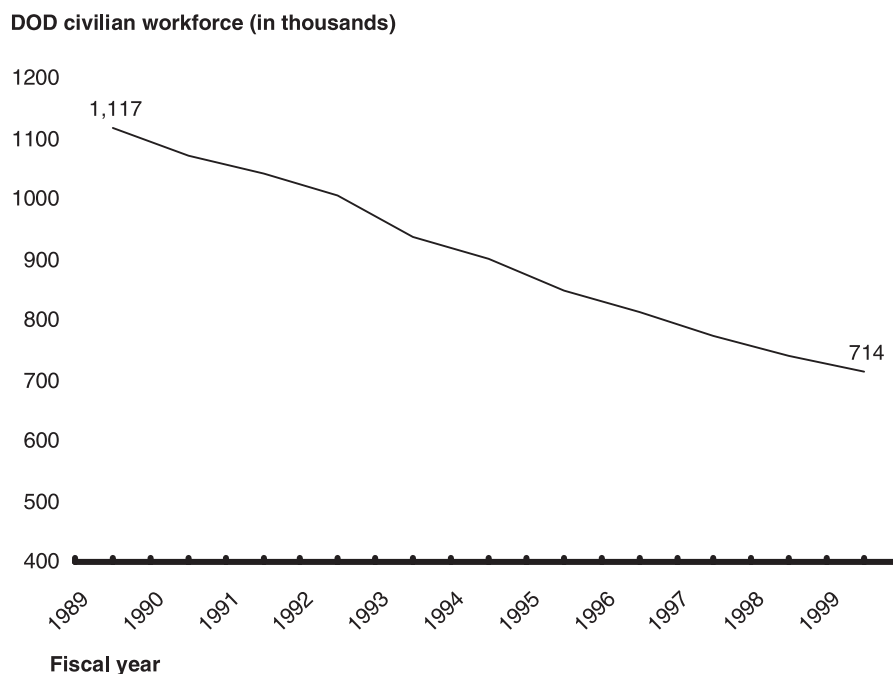
## DOD Downsizing

DOD has been in a sustained period of civilian workforce reductions since fiscal year 1989, and additional reductions are expected at least through fiscal year 2005. The issue of an aging workforce and its potential to adversely affect future mission accomplishment is one that has been with DOD since the beginning of its downsizing, and it remains an issue today. Likewise, concerns have existed over time about the overall impact of civilian force reductions on mission accomplishment and readiness.

## Magnitude of Downsizing and Contrasting Approaches to Military and Civilian Reductions

As figure 1 below shows, between fiscal years 1989 and 1999, DOD reduced its civilian workforce by about 400,000 positions, from approximately 1,117,000 to 714,000—a 36-percent reduction.

Figure 1: DOD Civilian Workforce Trends (Fiscal Years 1989 to 1999)



Source: DOD

These reductions have been achieved primarily through base closings and realignments and through attrition facilitated by retirement and separation incentives. Even so, DOD continues to face varying pressures for additional reductions, such as legislative mandates for further headquarters reductions. In addition, DOD will be studying activities that have over 200,000 positions currently held by civilians for potential outsourcing to the private sector under OMB Circular A-76.<sup>1</sup> The Defense Reform Initiative also holds the potential for additional force reductions as business process reengineering and related reforms are implemented, creating uncertainty over how low civilian employment levels are likely to fall within the next several years. Currently, the President's fiscal year 2001 budget request projects additional reductions in DOD's civilian workforce, down to a level of 637,500 by fiscal year 2005—a cumulative reduction of nearly 43 percent from the fiscal year 1989 level.

<sup>1</sup> DOD expects to study activities involving over 200,000 positions for potential outsourcing between fiscal years 1997 and 2005, under its A-76 program. The number of civilian government positions likely to be eliminated remains uncertain. Historically, both federal employees and private sector companies win a large portion of the competed activities. Studies involving only about 8,000 positions were completed as of the end of fiscal year 1999. To the extent that DOD relies on contracting in connection with downsizing, it will be important that its workforce has sufficient capacity to manage the cost and quality of these contracts.

Between 1987 and 1999, the active component military workforce underwent similar large-percentage reductions. However, important differences have existed in DOD's approach to downsizing these respective components—differences that are tied to the unique nature of military force structure and available legislative authorities<sup>2</sup>—which nonetheless can serve to highlight problems that can occur in downsizing that is not done in a balanced manner.

We previously reported on differences in DOD's approaches to managing its uniformed military and civilian-force reductions.<sup>3</sup> Because of the unique nature of the military employment system, the Office of the Secretary of Defense, in managing force reductions for its uniformed military, followed a policy of trying to achieve and maintain a degree of balance between its accessions and losses in order to “shape” its uniformed forces with regard to such matters as rank, specialties, and years of service. The policy implementation included some reductions in accessions and in staff eligible for reenlistment and increases in retirements among those eligible to do so, as well as increased voluntary separations among those with more than 6 years of service. DOD recognized that without this approach, the services could have been faced with skills imbalances, promotion and career stagnation, and a more senior work force with higher personnel costs and many senior persons doing lower level work.

Shaping the force to avoid these problems involved achieving a larger number of mid-career attritions than would be the case if one focused primarily on limiting the accession of staff to achieve end-strength goals. Even so, execution of the military drawdown actually resulted in a greater reliance on restricted accessions than was desirable. As a result, according to a recent DOD report, the portion of its current military workforce with 2-12 years of service is smaller than it has been in the past and poses a greater challenge to the services in maintaining the desired balance and shape of the force in such categories as years of service and rank.<sup>4</sup> The need to achieve a high level of retention among this group is receiving increased attention. Using data from DOD's survey of active duty

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<sup>2</sup> Fundamental differences exist between the military and civilian employment systems. Whereas the military operates a more “closed” system, under which employees are brought in, with few exceptions, at entry levels and progress upward, the civilian system is more “open,” with employees brought on board for either entry level or higher level positions, depending upon agency requirements.

<sup>3</sup> Defense Force Management: DOD Management of Civilian Force Reductions (GAO/T-NSIAD-92-10, Feb. 20, 1992).

<sup>4</sup> Report on Personnel Retention, prepared by the Office of the Assistant Secretary of Defense for Force Management Policy (Jan. 1999).



personnel, we recently issued a preliminary assessment of factors that influence the retention decisions of service members.<sup>5</sup>

In contrast, DOD's approach to civilian downsizing in the early years relied primarily on voluntary attrition and retirements and varying freezes on hiring authority to achieve force reductions. DOD also used existing authority for early retirements to encourage voluntary separations at activities facing major reductions-in-force. The fiscal year 1993 National Defense Authorization Act authorized a number of transition assistance programs for civilian employees, including financial separation incentives—"buyouts", to induce the voluntary separation of civilian employees.<sup>6</sup> DOD has credited the use of these separation incentives, early retirement authority, and various job placement opportunities for enabling the agency to avoid nearly 200,000 involuntary demotions and separations.

While the tools available to DOD to manage its civilian downsizing helped DOD to mitigate the adverse effects of force reductions, DOD's approach to civilian force reductions was less oriented toward shaping the makeup of the workforce than was the approach it used to manage its military downsizing. Of course, the civilian workforce differs from the military workforce and need not have the same overall shape. However, during our work on the early phases of DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base.<sup>7</sup>

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## An Aging Workforce Has Been a Continuing Concern

An aging workforce and its future impact were matters of concern during the early years of DOD's downsizing and continues to be so today, mitigated in the interim by the use of early retirement authorities and separation incentives to help achieve workforce reductions. Today, the significance of the issue may be more clearly reflected in the growing gap between the percentages of older and younger employees in DOD's civilian workforce.

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<sup>5</sup> Military Personnel: Preliminary Results of DOD's 1999 Survey of Active Duty Members (GAO/T-NSIAD-00-110, Mar. 8, 2000).

<sup>6</sup> Similar separation incentives had previously been authorized to help facilitate force reductions of military personnel.

<sup>7</sup> Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed (GAO/T-NSIAD-92-19, Mar. 18, 1992) and Defense Force Management: Challenges Facing DOD As It Continues to Downsize Its Civilian Work Force (GAO/NSIAD-93-123, Feb. 12, 1993).

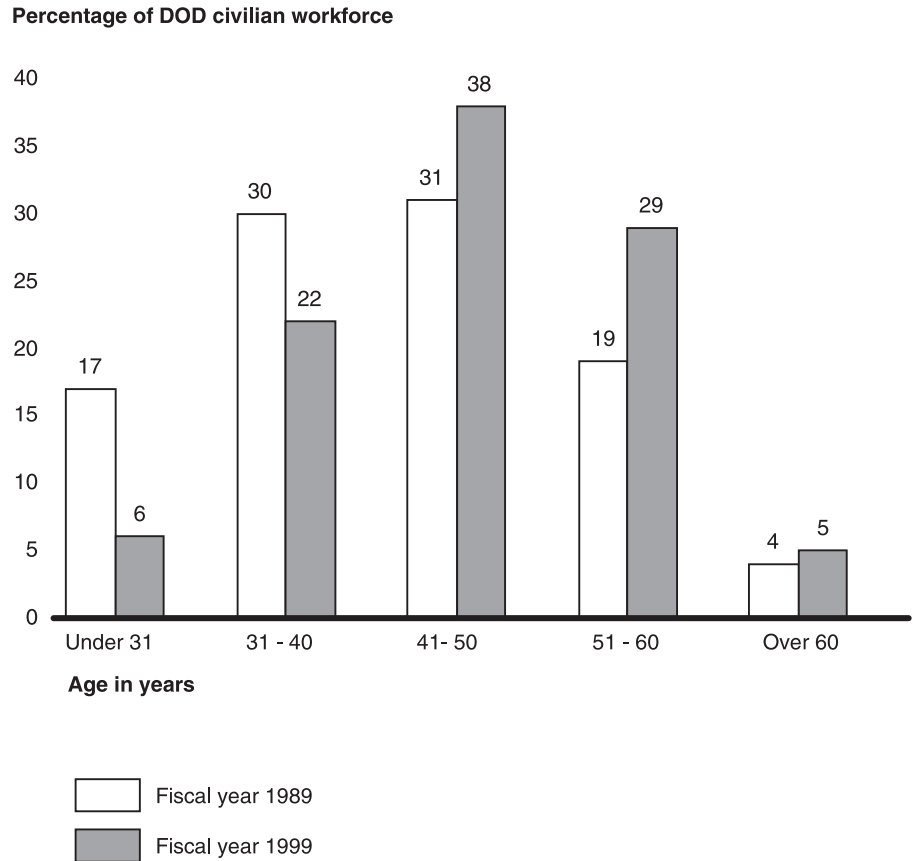
In our work in the early 1990s, we noted various concerns among service officials about the aging of the civilian workforce and its long-term impact. Concerns existed that the workforce was aging and that, with continuing restrictions in place, the average age would continue to increase. DOD data show that the average age and years of service of a civilian DOD employee increased significantly from 1989 to 1999. The average civilian employee was 41.6 years old with 13.4 years of service in fiscal year 1989, figures that increased to 45.7 years of age with 17.6 years of service by fiscal year 1999.<sup>8</sup> The use of early retirement authorities and separation incentives in recent years helped to slow this trend somewhat, but it nevertheless continues. To be sure, average age and years of service vary by location. In Army depots, for example, officials report that a majority of employees are 50 years of age or older, with most eligible to retire within a few years.

In contrast to the growth in the percentage of older employees in DOD's civilian workforce, the percentage of younger employees is falling, as shown in figure 2.

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<sup>8</sup> At the request of the House Government Reform Committee, Subcommittee on Civil Service, we are currently analyzing the retirement trends for mission critical employees in major federal agencies, including DOD.

Figure 2: DOD Civilian Workforce by Age (Fiscal Years 1989 and 1999)



Source: DOD

We previously reported that, from fiscal year 1987 through fiscal year 1992, the percentage of DOD’s permanent full-time civilian work force under age 31 had dropped from 18 to 13 percent. More recent DOD-wide data indicate that as of September 1999, only 6.4 percent of DOD’s civilian workforce were under age 31. We cannot say what the appropriate balance between younger and older employees should be, but the continuing shrinkage in the number of younger employees could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements.

**Impact of Downsizing on Mission Performance and Readiness**

The issue of the impact of civilian downsizing on mission performance and readiness is one that we have encountered from time to time in our DOD reviews in recent years.

In 1996, based on a request from the Chairman of the Military Readiness Subcommittee, we examined civilian downsizing across DOD to assess whether it had affected readiness and functions at military installations, and whether the Office of the Secretary of Defense and the services had comprehensive strategies for managing civilian downsizing. Air Force, Marine Corps, and Navy officials said that civilian downsizing was not a cause for concern with regard to readiness, although some officials noted some limited adverse effects in some nonmission-critical areas.<sup>9</sup> Army officials, however, painted a mixed picture of the impact of downsizing, indicating that it had to be carefully managed to minimize the effects on unit readiness. Army officials told us that civilian downsizing had not adversely affected military readiness and units' abilities to train at the installations we visited, despite some indications that soldiers had at times been assigned to civilian functions that were understaffed. These officials told us that they had prioritized staffing for functions that were critical to maintaining combat capabilities. Army officials indicated at that time that downsizing had had a more detrimental impact on functions such as public works and repair and maintenance of Army installations. We encountered similar views in a more recent review of the Army Materiel Command.<sup>10</sup> Command officials, who expressed concern that greater adverse effects loom on the horizon, had difficulty quantifying the magnitude of likely effects.

Apart from these readiness issues, Air Force, Army, and Navy installation officials expressed concerns about the effects of civilian downsizing on the morale of the civilian workforce. Officials cited limited career and promotion opportunities, job insecurity, and longer working hours as examples of factors adversely affecting workforce morale.

With regard to comprehensive strategies for managing downsizing, our 1996 report noted that the services were employing common strategies for implementing and mitigating the effects of civilian personnel reductions. Among those strategies were an emphasis on consolidating and streamlining functions, use of improved business practices, and contracting out certain functions. However, we found that the services did not have a long-term road map to guide decisions about preparing the civilian workforce to meet future mission requirements.

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<sup>9</sup> Civilian Downsizing: Unit Readiness Not Adversely Affected, but Future Reductions a Concern (GAO/NSIAD-96-143BR, Apr. 22, 1996).

<sup>10</sup> Quadrennial Defense Review: Status of Efforts to Implement Personnel Reductions in the Army Materiel Command (GAO/NSIAD-99-123, Mar. 31, 1999).

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## Need for a Human Capital Self Assessment

Considering the enormous changes that the federal workforce has undergone and continues to undergo, and the external pressures and demands that virtually all federal departments and agencies are experiencing, taking a strategic view of human capital becomes ever more crucial to organizational results. If they expect to make the best use of their human capital, DOD and other government entities will need to build a solid foundation in strategic planning and organizational alignment, leadership and succession planning, recruiting and training the best possible talent, and establishing a performance culture—including appropriate performance measures and rewards—that steers employees toward the accomplishment of their organizational missions.

During the 1990s, Congress created a broad-based framework of reform for the way federal agencies are to be run. Financial management, information technology management, and results-oriented goal-setting and performance measurement were all addressed in fundamental legislative measures. But human capital reform has yet to gain the conceptual acceptance or political consensus needed for fundamental reform to occur. Yet even in the absence of legislative measures, federal departments and agencies—DOD included—can take practical steps to improve their approaches to managing their people. It is noteworthy that, for the first time, the President’s fiscal year 2001 budget includes a Priority Management Objective to “align Federal human resources to support agency goals.” At GAO, we have recently given increased attention to human capital needs across the federal government and begun developing approaches to help agencies improve their human capital management. One step we have taken is to develop a human capital self-assessment checklist that federal agency leaders can use to focus on valuing employees and on aligning their “people policies” to support organizational missions and goals.

Human Capital: A Self-Assessment Checklist for Agency Leaders is based on our examination of current laws and regulations and on our work with leading organizations in the private sector and among governments at the state and local levels as well as from abroad.<sup>11</sup> It also draws on values widely applied by the Malcolm Baldrige National Quality Award Program and the President’s Quality Award Program, in addition to comments from officials from various federal agencies and from human capital experts both within and outside of government.

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<sup>11</sup> Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999).

The checklist was designed to help agency leaders quickly scan their agencies' human capital policies and programs and determine whether they have addressed the areas necessary for the workforce to be managed for results—that is, in a way that supports the organization's shared vision for itself and its future. The Government Performance and Results Act (GPRA) envisioned that agencies would need to strategically manage all their resources—financial, information technology, and people—to achieve their organizational missions and goals. Our human capital checklist provides a means for agency leaders to put the spotlight on their management of human capital in light of these strategic concerns. The checklist is not a set of performance criteria or measures; instead, it is a framework or “line of inquiry” for federal agency leaders to follow in examining their agencies' human capital approaches and determining if they make sense in light of their organizations' missions, goals, and other needs and circumstances.

There is no single recipe for successful human capital management. However, the checklist is based on a number of human capital elements and underlying values that we have determined are common to high-performance organizations in the public and private sectors.<sup>12</sup> Federal agencies that are seeking to comply with the spirit of results-oriented management can use the self-assessment checklist to scan their human capital systems to see whether these elements have been addressed. The questions in the checklist follow a five-part framework—recognizing, of course, that all five parts are, of necessity, interrelated and overlapping:

Strategic planning: Establish the agency's mission, vision for the future, core values, goals, and strategies.

Organizational alignment: Integrate human capital strategies with the agency's core business practices.

Leadership: Foster a committed leadership team and provide reasonable continuity through succession planning.

Talent: Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment.

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<sup>12</sup> GAO/GGD-99-179. Also, see Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995) and Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000).

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Performance culture: Enable and motivate performance while ensuring accountability and fairness for all employees.

The self-assessment checklist is a simple diagnostic tool for agency leaders, rather than a methodologically rigorous evaluation. It is meant simply to capture senior leaders' informed views of their agencies' human capital policies and practices. We hope that using the self-assessment checklist will allow federal agencies to quickly determine if their approach to human capital supports their vision of who they are and what they want to accomplish, and to identify those aspects of their "people policies" that are in particular need of attention. In addition, even the most rudimentary review by agencies of their human capital systems should help them pinpoint the strengths and weaknesses of their human capital performance measures and data systems. Effective performance management requires fact-based decisionmaking, one of the first requirements of which is relevant and reliable data. Further, we at GAO are hoping that, by using the self-assessment checklist as a first step, agencies will begin a more comprehensive and ongoing evaluation of their human capital systems in the coming years.

One other benefit of self-assessment can be to help agencies develop a clearer understanding of the statutory or regulatory constraints that may exist on their ability to innovate, but equally important, the flexibilities that may be available to them. Over the past several years, some agencies have chafed under the constraints of title 5 and sought exceptions from civil service rules. A clearer understanding of the constraints imposed on and flexibilities available to the agencies may help them make choices they may not now be aware are possible. Further, if enough agencies do human capital self-assessments and identify systemic barriers to more effective human capital management, then the emerging portrait of the barriers that may exist across government could help build a consensus for specific civil service reforms.

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**Strategic Planning:  
Establish the Agency's  
Mission, Vision for the  
Future, Core Values, Goals,  
and Strategies**

High-performance organizations begin by defining what they want to accomplish and what kind of organization they want to be. They define a shared vision—mission, vision for the future, core values, goals, and strategies—and communicate that shared vision clearly, constantly, and consistently. The agency's shared vision provides the standard for assessing the appropriateness and effectiveness of everything the agency does. In the area of human capital, for example, the agency should develop strategies to enhance the value of its employees and focus their efforts on the agency's shared vision. The effect should be in the best collective interests of employer and employees alike: the agency's capacity to

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achieve its shared vision will increase, while its employees will benefit from the incentives—tangible and intangible—of working for a high-performance organization.

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**Organizational Alignment:  
Integrate Human Capital  
Strategies With the Agency’s  
Core Business Practices**

High performance organizations choose the best strategies for integrating their organizational components, activities, core processes, and resources to support mission accomplishment. Likewise, high-performance agencies align their human capital systems—from the organizational level down to that of individual employees—with their strategic and program planning. This requires workforce planning that is explicitly linked to the agency’s shared vision. A key question to ask is whether the agency has an explicit workforce planning strategy to identify its current and future human capital needs, including the size of its workforce. Aligning human capital systems with strategic and program planning also requires that what has traditionally been called the “personnel” or “human resources” (HR) function be an integral part of the top management team. Human capital professionals must have the knowledge and skills to provide effective mission support and to participate as partners with line managers and staff in developing and implementing human capital approaches. Further, line managers who may be given greater decisionmaking authority in the human capital area must be sufficiently prepared and trained to be accountable for their decisions.

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**Leadership: Foster a  
Committed Leadership  
Team and Provide  
Reasonable Continuity  
Through Succession  
Planning**

A committed senior leadership team is essential to fostering an agency’s shared vision, aligning organizational components so that the agency can best pursue this vision, and building a commitment to the vision at all levels of the organization. To become a high-performance organization, an agency needs senior leaders who, through their consistent, committed, and persistent leadership, are drivers of continuous improvement, and whose styles and substance are in accord with the way the agency sees its mission and its own character. To create a workforce that shares this vision and is aware of the contribution that each employee can and must make toward achieving it, the agency’s senior leaders must work as a team to convey a clear and consistent portrayal of this vision throughout the organization through their words and deeds and the example they set. Political appointees and career managers may bring differing values to the team, but both must work at building mutual understanding and trust and at committing themselves to a shared set of goals for their agency. These goals can take years to achieve, and so the agency must have a succession planning strategy that helps ensure a sustained commitment and continuity of leadership even as individual leaders arrive or depart. This strategy should include an effective approach to “growing leaders”—identifying employees with leadership promise and providing them with a variety of



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professional development and learning opportunities designed to pass along the values and competencies that the agency has identified as important in its leaders.

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**Talent: Recruit, Hire, Develop, and Retain Employees With the Skills for Mission Accomplishment**

A high-performance organization demands a dynamic, results-oriented workforce with the talents, multidisciplinary knowledge, and up-to-date skills to enhance the agency's value to its clients and ensure that it is equipped to achieve its mission. Because mission requirements, client demands, technologies, and other environmental influences change rapidly, a performance-based agency must continually monitor its talent needs. It must be alert to the changing characteristics of the labor market. It must identify the best strategies for filling its talent needs through recruiting and hiring, and follow-up with the appropriate investments to develop and retain the best possible workforce. Its compensation and benefits programs, workplace facilities, and work/family arrangements should be viewed from the perspective of how well they help the agency compete for and retain the best talent available, and then get the best mission performance from that talent. In addition, this talent must be continuously developed through education, training, and opportunities for continued growth. The agency must match the right people to the right jobs and, in the face of finite resources, be prepared to employ matrix management principles, maintaining the flexibility to redeploy its human capital and realigning structures and work processes to maximize economy, efficiency, and effectiveness. Structures and work arrangements must be fashioned to avoid "stovepiping" (or "siloeing") and draw upon the strengths of the various organizational components. Cross-functional teams, including "just-in-time teams" and "virtual teams" whose members may not work in the same physical location, can be used as a flexible means of focusing talent on specific tasks.

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**Performance Culture: Enable and Motivate Performance While Ensuring Accountability and Fairness for All Employees**

High-performance organizations foster a work environment in which people are enabled and motivated to contribute to continuous learning and improvement and mission accomplishment, and which provides both accountability and fairness for all employees. A high-performance agency's approach to its workforce is inclusive and draws on the strengths of employees at all levels and of all backgrounds. It maintains a workplace in which honest two-way communications and fairness are a hallmark, perceptions of unfairness are minimized, and workplace disputes are resolved by fair and efficient means. High-performance organizations also have a holistic view of employees as key stakeholders, realizing that a variety of services, facilities, activities, and opportunities can be meaningful to employees and enhance their loyalty and commitment. A commitment to continuous learning and improvement can not only help an

agency respond to change, but also anticipate change, create new opportunities for itself, and pursue a shared vision that is ambitious and achievable. Incentives are particularly important in steering the workforce; they must be results-oriented, client-based, realistic, and subject to balanced measures that reveal the multiple dimensions of performance. Incentives should be part of a performance management system under which employees' performance expectations are aligned with the agency's mission, and in which personal accountability for performance is reinforced by both rewards and consequences. Because agencies are increasingly technology-driven and knowledge-based, high performing agencies ensure that their employees have the right information technology resources to do their work and to gather and share information.

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## Summary

Messrs. Chairmen, amidst the variety of emerging demands and rapid changes within and outside government, federal agencies need to take an integrated, strategic view of their human capital, understanding that all the facets of federal management reform ultimately share a common denominator: they rely on federal employees to make them a reality. At the DOD, as at all federal departments and agencies, managers will need to define their organizational missions, goals, and other needs and circumstances, and work to ensure that their "people policies" are designed, implemented, and assessed by the standard of how well they support these intents. Self-assessment can be a useful first step toward improving the alignment of human capital management with strategic planning and core business practices. In this regard, DOD and other federal entities may find our self-assessment checklist a useful tool. Our hope is that self-assessment will be just the beginning of agencies' ongoing efforts to better manage their people for results.

Messrs. Chairmen, this concludes my prepared statement. We would be pleased to answer any questions you or other Members of the Subcommittees may have.

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## Contacts and acknowledgement

For further contacts regarding this testimony, please contact Michael Brostek at (202) 512-8676 or Barry Holman at 512-8412. Individuals making key contributions to this testimony included Stephen Altman, Jennifer S. Cruise, David S. Epstein, Thomas C. Fox, Anthony P. Lofaro, and James R. Reifsnyder.

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