

Testimony

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SMALL BUSINESS
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Steps Taken to Better
Manage Its Human
Capital, but More Needs to
Be Done

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Small Business Administration: Steps Taken to Better Manage Its Human Capital, but More Needs to Be Done

Mr. Chairman and Members of the Committee:

We are pleased to be here to contribute to the Committee's monitoring and oversight of the Small Business Administration (SBA). We will present our observations on SBA's efforts to identify its current and future workforce needs, budget for them, and manage them strategically.¹

Today, we want to make two points about SBA's management of its human capital. First, SBA has developed a shared vision, which includes transitioning its employees from making and servicing loans to primarily reaching out to new markets and overseeing its private-sector partners. Second, SBA has begun to take such steps for better managing its human capital activities as undertaking various workforce planning activities, including developing competency models and related training for some core functions² and realigning and deploying some staff. However, more remains to be done, including

- completing its efforts to identify the knowledge, skills, abilities, and other characteristics its employees will need to perform successfully in SBA's new business environment;
- estimating the number of employees with those skills who will be needed;
- developing a succession plan for senior leaders and reinstating candidate development programs for these leaders; and
- ensuring that employees receive adequate training to perform their jobs well.

SBA is currently developing an overall plan to guide the agency's human capital efforts.

Background

SBA is responsible for several programs to assist small businesses, the largest of which are its loan programs. The manner in which SBA delivers its loan programs has changed significantly during the 1990s. SBA offices used to review the creditworthiness of each loan application and participate in the servicing and liquidation of each loan that went into default. SBA has evolved from directly delivering these types of services to leveraging its resources through public-private partnerships.³ Since 1992,

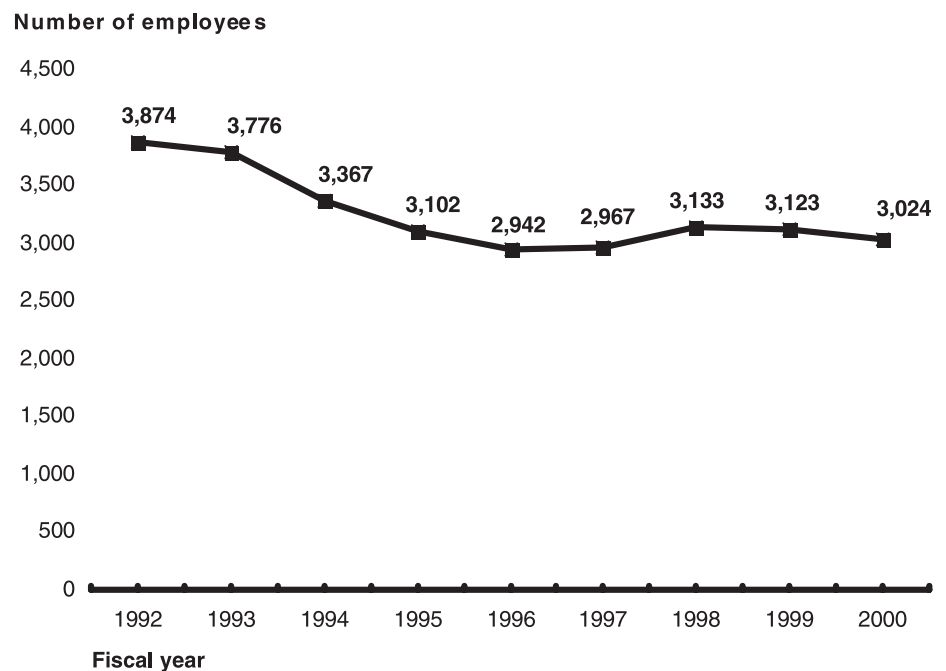
¹These observations are based on interviews with officials from SBA headquarters and field offices and information and documents provided by these officials as we did our work from August 1999 to July 2000.

²Competencies are descriptions of knowledge, skills, and abilities and other characteristics.

³Under a public-private partnership, a contractual arrangement is formed between public- and private-sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service. Such a partnership,

SBA has deliberately placed greater reliance on its private-sector partners. The role of private lenders in approving loans has grown from 14 percent of SBA's loan dollar volume in 1993 to 52 percent in 1997. In 1999, SBA's Administrator stated that the agency estimated that more than 75 percent of its loan volume would occur in programs with very limited up-front credit reviews done by SBA staff. According to the Administrator, however, with the outstanding portfolio and loan approvals more than doubling, this shift of responsibility to the private sector has increased SBA's need to oversee its lending partners to protect the safety and soundness of SBA's financial programs. At the same time, since 1992, the size of SBA's workforce has decreased by more than 20 percent. Figure 1 shows the number of SBA employees for fiscal years 1992 through 2000.

Figure 1: The Number of SBA Employees for Fiscal years 1992 Through 2000



Note: The employee data for years 1992 through 1999 were as of September 30 of each year. The employee data for 2000 were as of February 29, 2000. These numbers exclude the number of employees in the Offices of Inspector General and Disaster Assistance and do not include contract personnel.

Source: SBA Employment Summary, March 15, 2000.

while a contractual arrangement, differs from a typical service contract in that the private-sector partner usually makes a substantial, at-risk, equity investment in the project, and the public sector gains access to new revenue or service delivery capacity without having to pay the private-sector partner.

As of February 2000, SBA had 3,024 employees,⁴ of which 2,326, or 77 percent, were located in field offices, and the remaining 698 were located in headquarters.⁵

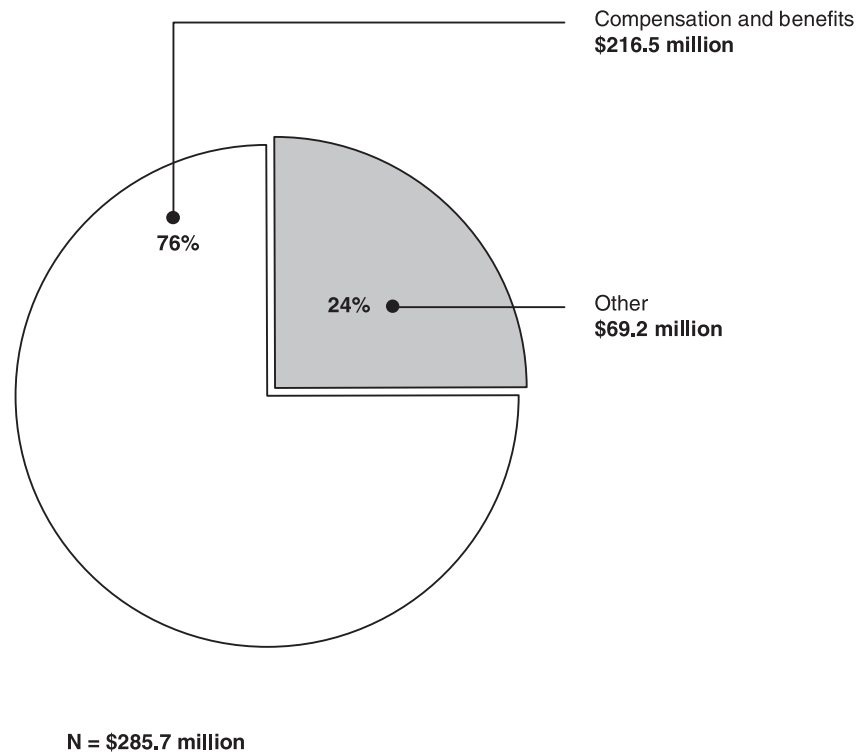
Although the number of SBA staff has been reduced, personnel costs have remained a significant piece of the amount budgeted for SBA's Salaries and Expenses account. Of the \$486.8 million in budget authority in this account in fiscal year 2000, after setting aside funds for various projects specified by Congress, SBA had \$285.7 million in budget authority to manage its operations.⁶ Of this amount, \$216.5 million, or 76 percent, is for employee compensation and benefits, as shown in figure 2.

⁴This number excludes 109 employees in the Office of the Inspector General and 1,147 employees in the Disaster Assistance Program and does not include contract personnel. SBA does not track the number of consultants or contract workers.

⁵SBA's field office structure consists of 70 district offices, 10 regional offices, and 9 loan processing and servicing centers located throughout the United States, Puerto Rico, Guam, and the Pacific Trust territories.

⁶This authority excludes funding for administration of SBA's disaster loan programs and the Office of the Inspector General. In addition, this excludes budget authority for SBA's business and disaster loan credit subsidies, Surety Bond Guarantees Revolving Fund, and Pollution Control Equipment Fund Liquidating Account.

Figure 2: SBA's Fiscal year 2000 Personnel-Related Costs



Source: SBA fiscal year budget data.

In response to demands for improved government services and better stewardship of public resources, the federal government is adopting the principles of performance-based management. Such management systematically integrates thinking about organizational structures, program and service delivery strategies, the use of technology, and human capital practices into decisions about the results the government wants to achieve. As we have reported previously,⁷ there is no single recipe for how an organization should manage its most important asset—its people, or human capital. However, we have identified a number of human capital elements common to high-performance organizations that fall within a five-part framework. The framework and some of its elements are as follows:

- strategic planning, which includes establishing a shared vision—that is, a mission, vision for the future, core values, goals, and strategies—and creating a coherent human capital strategy—that is, a framework of human

⁷ See Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999).

capital policies, programs, and practices specifically designed to steer an organization toward achieving its shared vision;

- organizational alignment, which includes workforce planning—that is, managing the size, composition, and deployment of the workforce;
- leadership, which includes fostering a committed leadership team and providing continuity through succession planning;⁸
- talent, which includes recruiting, hiring, developing, and retaining employees with the skills for mission accomplishment; and
- performance culture, which includes establishing an environment that enables and motivates staff while ensuring accountability and fairness to employees.

SBA Has Developed a Shared Vision

As we have previously reported, high-performance organizations begin by defining what they want to accomplish and what kind of organization they want to be.⁹ They define a shared vision and communicate that shared vision clearly and consistently. An organization's shared vision is to provide the standard for assessing the appropriateness and effectiveness of everything the organization does. An indication that an organization has developed a shared vision is that its strategic plan, annual performance plans, or other guiding documents include a clear and coherent portrayal of that vision.

SBA has communicated its shared vision in its various strategic planning documents prepared in accordance with the Government Performance and Results Act of 1993 (GPRA).¹⁰ In its performance plans, SBA has broadly defined its vision for the future as “a modernized SBA, increasing opportunities for all small businesses.” SBA's fiscal year 2001 performance plan states that the agency must sharply increase the amount of financial, business development, and procurement assistance for “new markets”—

⁸ Succession planning is a comprehensive, ongoing strategic process that provides for forecasting an organization's executive resource needs; identifying and developing potential SES candidates; and selecting individuals from among a pool of qualified, diverse candidates to meet executive resource needs.

⁹ See GAO/GGD-99-179, September 1999.

¹⁰ GPRA is designed to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance, measure performance, and report on accomplishments. Among individual agencies, effective implementation of performance management, as envisioned in GPRA, hinges on an agency's ability to strategically manage all of its resources—financial, information technology, and people—to carry out its organizational mission and achieve its goals.

that is, minorities, women, veterans, Native Americans, small exporters, and smaller businesses located in low and moderate income urban and rural areas. The fiscal year 2001 plan also states that SBA will need to provide an expedited response to disasters, maintain a high level of disaster loan underwriting quality, and use electronic processes to provide needed credit more quickly, widely, and cost effectively. In addition, as part of an internal management goal, SBA states that it must modernize its operations and that these modernization efforts will need to include (1) changing core functions to include business outreach, marketing, and improved partner relationship management—relying more extensively on outsourcing, privatization, streamlining, and reengineering; (2) improving internal controls and external program oversight; (3) upgrading and modernizing its information systems; (4) using the Internet and e-commerce to become more accessible to more customers when and where they need assistance; and (5) preparing its workforce for the future, especially through training and relocation, to put customers first, use partnerships and technology, and achieve results.

SBA Has Begun Taking Steps to Better Manage Its Human Capital Activities, but More Remains to be Done

As we have previously reported, once an organization has defined and communicated its shared vision, the organization should design a framework of human capital policies, programs, and practices to steer the organization toward achieving that vision.¹¹ An underlying concept of human capital management is that all major aspects of a human capital policy are interrelated and should be integrated into a coherent human capital strategy.

In the past few years as SBA's business approach has been changing, the agency has begun to take steps for better managing its human capital activities, including activities in workforce planning, leadership, talent, and performance culture, to meet this challenge. However, more remains for SBA to do in each of these areas. For example, SBA has not yet fully defined the knowledge, skills, and abilities that its staff will need to carry out its mission with the service delivery strategies it has adopted. SBA also does not know the number of staff with these skills it will need. In addition, SBA may not have the appropriate complement of leaders it will need because it has not performed succession planning or been able to follow through with investments for its leadership candidate development programs. Given SBA's decision to retrain its existing employees, the agency is faced with the challenge of improving on recent survey results concerning whether employees believe they receive adequate training to perform their jobs, and the agency has struggled to fund the training it

¹¹See GAO/GGD-99-179, September 1999.

believes necessary to transition its employees. Finally, although SBA has plans for revising employee performance standards to reflect changes in how it is doing business, the effort cannot be completed until SBA has finished defining the knowledge, skills, and abilities employees will need.

SBA Has Recently Undertaken Some but Not All Needed Workforce Planning Activities

As part of organizational alignment, workforce planning is the process by which an organization plans and manages the size, composition, and deployment of its workforce. Workforce planning involves “getting the right people with the right skills into the right jobs at the right time.” Such planning assists organizations in forecasting future conditions and developing programs and strategies to meet future needs. Previous work has shown that federal agencies have generally not performed workforce planning. Since 1980, we have identified the lack of workforce planning as a long-standing problem among federal agencies.¹² In 1999, the National Academy of Public Administration (NAPA) issued a study that discusses the importance of workforce planning, stating that while most agencies do not practice such planning, some agencies had begun workforce planning programs in the past few years.¹³

Because workforce planning must be done strategically, we and NAPA have stated that workforce planning should be a long-term effort related to an agency’s strategic planning under GPRA. Explicitly linking workforce planning to agency strategic and program plans allows an agency to justify expenditures for human capital in relation to the accomplishment of long-term goals and objectives.¹⁴ Such a linkage requires either a discussion of workforce planning in the agency’s strategic or annual performance plans or a separate workforce planning document linked to the agency’s strategic and program planning. Workforce planning should include (1) an identification of the knowledge, skills, and abilities and other characteristics (i.e., competencies) needed by the future workforce, the competencies of the current workforce, and gaps between the two; (2) the development of a workforce action plan designed to address the gaps; and (3) a monitoring and evaluation of the workforce planning actions taken.

SBA has undertaken various workforce planning activities over the past few years to begin identifying the knowledge, skills, and abilities its employees will need to carry out new or changing functions and to help

¹²See Federal Workforce Planning: Time for Renewed Emphasis (FPCD-81-4, Dec. 30, 1980) and U.S. Department of Agriculture: Need for Improved Workforce Planning (RCED-90-97, Mar. 6, 1990).

¹³See *Building the Workforce of the Future to Achieve Organizational Success*, NAPA, a compendium of focus papers (Washington, D.C.: Dec. 1999).

¹⁴See GAO/GGD-99-179, September 1999.

realign and deploy staff to address its new and changing workforce functions. However, although these activities indicate a human capital focus, SBA has not yet completed its efforts to define the knowledge, skills, and abilities its staff will need in the future or the number of staff that will be needed with those skills in its various offices. As SBA has undertaken workforce planning activities, it has been constrained by cost pressures that largely resulted from higher than planned personnel costs, requiring the agency to take actions to control and limit those costs. SBA has recently hired a contractor, who, according to agency officials, is to integrate ongoing SBA workforce planning activities to help the agency better coordinate these activities and determine the number of staff with specific skills that need to be located in each office.

SBA Has Developed Competency Models and Related Training for Some but Not All Functions

SBA identified five core functions that it believes are critical to transforming its workforce. These include marketing and outreach, leadership, business development, lender oversight, and procurement. For each of these functions, SBA determined that it needed to develop competency models. Competency modeling, a key part of workforce planning, is systematically identifying the competencies—that is, the knowledge, skills, abilities, and other characteristics—that employees need to successfully perform their jobs. Once identified, competencies can form the basis for hiring new staff with appropriate skill sets, identifying training needs for current staff, establishing performance standards for employees, and for making decisions related to promoting and rewarding staff. As part of this effort, SBA also planned to develop related position descriptions and performance standards. As of June 2000, the agency has developed models and training for two of the five functions.¹⁵

According to SBA officials, the agency worked to develop the marketing and outreach competency model early on, because it was a critical new function into which SBA has been transitioning many of its employees. With the help of a contractor, SBA completed the identification of skills for this competency model in September 1999. SBA defined the role of the marketing and outreach specialist as identifying and locating end-user customers, particularly “new markets;” identifying lenders and resource partners; identifying the needs of, and obtaining feedback from, customers; and providing “best practices” in customer service and satisfaction. SBA identified a training curriculum to assist employees in acquiring the skills to perform this function, consisting of existing SBA training courses and a

¹⁵In addition, we recently reported that SBA had not performed a human capital assessment to identify short- and long-term information technology knowledge and skills requirements. [Information Technology Management: SBA Needs to Establish Policies and Procedures for Key IT Processes](#) (GAO/AIMD-00-170, May 31, 2000).

newly developed marketing and outreach course. An SBA official said that the agency has also recently completed a position description and related performance standards for a marketing and outreach specialist position. Although the official from the Office of Human Resources said SBA has completed a position description for this specialist position, an SBA official in the Office of Field Operations said that only large district offices would likely designate individuals to actually become marketing and outreach specialists. These officials said that most district offices are too small to designate individuals as marketing and outreach specialists and that the more likely scenario would be that marketing and outreach would be just one of several functions for which individuals are responsible.

SBA also contracted for a leadership competency model. According to SBA, to achieve its mission, it must continue to initiate new strategies for achieving a high-performance environment, and one of the strongest influencing factors for a successful transformation is the effectiveness of an organization's leaders. To identify the skills needed by its senior managers, in fiscal year 1999, SBA adopted skills for a leadership competency model developed by a well-known leadership education organization. The agency partnered with this organization to provide a training course to enhance its senior managers' abilities to direct the agency's transformation. In addition, the agency contracted for development of a similar course for its mid-level managers. According to SBA officials, SBA modified the position description of the district director position to incorporate the new skills.

According to SBA officials, the agency does not plan to contract for the development of competency models for the remaining three core functions—business development, lender oversight, and procurement—until at least fiscal year 2001, because of budgetary constraints. SBA's Office of Human Resources estimated that for fiscal year 2000, it needed \$200,000 to develop the business development and lender oversight competency models.¹⁶ When it received no specific funding in its fiscal year 2000 appropriation for development of competency models or transition skills training—that is, competency-based training—SBA decided to defer the development of these two models. A senior SBA official said that SBA does not consider the lack of competency models and competency-based training for these remaining functions a barrier to SBA's workforce transition. SBA officials said that although the functions are new to many of its employees, the agency has long had a core group that performed these functions in each district office. The agency plans to rely on the core

¹⁶The development of the procurement model was scheduled for fiscal year 2001.

SBA Has Taken Measures to Realign and Deploy Staff but Has Not Determined Future Staffing Needs

group staff to provide on-the-job training until formal training can be provided.

Recognizing that in some geographic areas it had too many or too few employees or employees that lacked specific knowledge or skills, SBA contracted for the development of a staffing and resource model to realign and deploy its current district office staff. Using the results of the model, SBA recently initiated a relocation and reassignment program to fill vacancies. However, SBA officials said that the agency has not used the model to project future staffing requirements because it lacks information on the average time it takes to perform certain tasks. As a result, the agency's realignment efforts have been limited to allocating staff to accomplish current workload.

SBA first hired a contractor in 1997 to review its resource usage, develop a baseline staffing model for field offices, and make recommendations so that the agency could better match resources to the agency's strategic planning goals.¹⁷ In August 1998, the contractor provided SBA with a staffing model designed to redistribute staff using fiscal year 1997 workload factors. The contractor made several recommendations, which, he indicated, when used in conjunction with the model, would provide SBA with the basis for equitably distributing staffing in accordance with its workload. One of the recommendations, which the contractor said would provide better information to update the model, was for SBA to establish a method to properly capture the time spent performing various functions in various program areas. SBA officials stated that subsequently, in 1998, the agency established a procedure to collect data on where SBA personnel spend their time by activity. SBA then aggregates the data by office, including headquarters. In 1999, SBA hired the contractor to update the model using fiscal year 1998 data. SBA shared the results of the updated model with its district directors in October 1999.

SBA stated that the updated model was based on how SBA previously performed functions and not on how the agency had been changing its business practices. As a result, in January 2000, SBA contracted for the model to be updated using fiscal year 1999 data and to take changed program functions into consideration. The contractor provided the results to SBA in April 2000. This model allows SBA to allocate its existing staffing resources across district offices.

¹⁷A senior SBA official said that the agency plans to contract for similar staffing and resource allocation models for its headquarters program offices and its servicing/processing centers.

According to field office officials, the agency has not used the model to project future staffing requirements because it lacks information on the average time it takes to perform certain tasks. These officials said that SBA plans to contract for a study that would provide the agency with standards for averages on how long it takes to perform such tasks. According to these officials, once this information is available, the agency will be able to use the model to project the number of staff needed to perform functions in the future.

Using the results of the staffing model, adjusted for such factors as the minimum staffing that SBA officials believe is required to have a fully functioning district office, SBA recently initiated a relocation and reassignment program. The program is comprised of three phases—phase I, voluntary relocation; phase II, voluntary relocation with relocation incentives; and phase III, directed or involuntary reassignment. Under phase I, which took place from January to May 2000, SBA advertised vacancies in several district offices and selected 11 employees for transfer. Under phase II, which took place from May to July 2000, according to SBA officials, the agency, with union agreement, advertised vacancies and offered one-time relocation bonuses of 10 percent of salary to employees who would voluntarily transfer to one of the understaffed district offices in fiscal year 2000.¹⁸ An SBA official said the agency selected four employees to transfer under phase II, but only three accepted. Under phase III, which SBA is currently implementing, the agency plans to transfer involuntarily a limited number of employees with required skills from overstaffed offices to offices with critical shortages. SBA officials said that employees who decline to transfer would be subject to termination. According to an SBA official, in accordance with an agreement with its union, the agency will direct the relocation of no more than 11 bargaining-unit employees in fiscal year 2000.¹⁹ SBA stated that the agency's approach of advertising vacancies in phase I and II was a fundamental step in redistributing the workforce before taking further actions, such as management-directed reassignments.

SBA Initiated Measures to Control Personnel Costs

SBA's efforts to transition its workforce have been complicated by the need to control a surge in personnel costs during fiscal year 1999. An agency official said that SBA began hiring many new employees during fiscal year 1998. According to an SBA official, at the beginning of fiscal

¹⁸As an additional incentive, after these volunteers complete 1 year of satisfactory service in the new location, SBA is to grant them a 40-hour time-off award.

¹⁹According to an SBA official, the agency may determine that some non-bargaining-unit employees will need to be directed to transfer. As a result, the total number of employees directed to transfer may exceed the limit of 11 bargaining-unit employees.

year 1999, the compensation and benefit model used to project personnel costs forecasted a budget shortfall by the end of fiscal year 1999 if actions were not taken to bring hiring in line with available funding. However, hiring continued unabated in fiscal year 1999 until January 1999, when SBA had to draw \$5.4 million from reserved funds to cover higher than planned compensation and benefits costs. As a result, SBA could not continue its rate of hiring and still support all of its planned initiatives. Therefore, SBA initiated a hiring freeze, centralized the hiring process, and offered voluntary early retirement to most of its employees. SBA also created a link between hiring decisions and the budget for compensation and benefits and revised the model SBA used to project and manage compensation and benefits costs.

As an immediate measure to control personnel costs, in February 1999, the agency initiated a hiring freeze. At the same time, SBA created a committee to manage hiring for critical vacancies that would be exceptions to the freeze. With the creation of the freeze committee, SBA officials said that the agency centralized its hiring process in headquarters and only hired outside the agency when necessary to fill critical vacancies, such as those for district directors. According to SBA officials, the agency filled 196 positions with external hires between February 1999 and February 2000, because these vacancies could not be filled from within using existing staff resources.²⁰ SBA officials said the agency also used the freeze committee to reassign employees between offices, convert temporary positions to permanent status, and make promotion decisions. Centralizing the hiring process created a logical opportunity for SBA to further realign its workforce. SBA officials agreed that this was an unanticipated benefit of the freeze committee and the centralized approach. According to SBA officials, although the hiring freeze is scheduled to continue through fiscal year 2000, SBA disbanded the freeze committee in February 2000. Nonetheless, the agency's external hiring decisions, as well as its reassignments between field offices, will continue to be centralized in SBA headquarters.²¹ As part of this centralized approach, all external hiring and relocation requests must be certified by

²⁰Of the 196 external hires, SBA reported that only 81 affected the agency's regular operating budget. They reported that the remaining 115 external hires did not affect the regular operating budget. For example, SBA said these hires (1) were funded from sources other than regular SBA funds, such as Small and Disadvantaged Businesses reimbursements, (2) involved existing welfare-to-work positions or disabled veterans, (3) were offset by reductions in current contract employees, or (4) were for staff that would generate income for SBA from sources such as asset sales.

²¹SBA has allowed district directors, with the concurrence of the appropriate regional administrator, to advertise positions at or below the GS-12 level that are open to their district office employees.

the Office of the Chief Financial Officer (CFO) to ensure the availability of funding.

According to SBA officials, the agency knew that it had to reduce staff by about 150 positions in fiscal year 2000 to stay within budget even after the staff reductions achieved through the hiring freeze. SBA officials also recognized that not all of their employees would be willing or able to be trained for new or changed functions. As a result, in April 1999, the Office of Personnel Management (OPM) granted SBA's request for authority to offer early retirement to its employees.²² The authority, which was initially granted through the end of fiscal year 1999, provided most SBA employees who were employed continuously since February 1999, an opportunity to retire if they met the age and service requirements for voluntary early retirement.²³ SBA's offer to its employees did not exclude any offices affected by the funding shortfall, in spite of the fact that they would potentially lose and have to replace employees in some hard-to-fill or critical positions. In October 1999, SBA received authority to extend the voluntary early retirement offer through the end of fiscal year 2000.²⁴ In March 2000, SBA amended its earlier retirement offer to state that requests from interested senior executives and district directors would be evaluated individually, based on the interests of the agency. According to SBA, the agency felt it needed to manage the potential loss of key managers. At the same time, SBA also excluded the agency's loan servicing centers from the early retirement offer because, according to SBA, the agency found that it had a difficult time filling positions in those offices as a result of the first voluntary early retirement offer. According to SBA officials, the agency had processed 41 requests for early retirement in fiscal year 1999; as of April 2000, it had processed 18 additional requests; and it anticipates processing 30 additional requests before the authority expires at the end of fiscal year 2000.

As an additional measure, SBA's CFO hired an outside consulting firm to review SBA's model for projecting and tracking compensation and benefit costs and to suggest changes that would improve the agency's ability to project, monitor, and control these costs. According to the consulting firm,

²²The initial authority provided by OPM excluded the Offices of Inspector General and Disaster Assistance Program because they are under different funding. Subsequently, later in April 1999, OPM amended SBA's authority to include loan servicing employees in the Disaster Assistance Program in the early retirement offer because of an anticipated gradual reduction of funding in that program.

²³The age and service requirements for early retirement are age 50 with at least 20 years of service or any age with at least 25 years of service.

²⁴The authority excluded the Offices of Inspector General and Disaster Assistance.

SBA's existing model for projecting these costs was complicated (i.e., not easily interpreted or understood by senior management and budget staff) and produced frequently changing projections of SBA's annual requirements. In addition, the model did not permit users to vary assumptions about the costs of new hires and separations projected for each month.

On the basis of a recommendation by the consultant, later in fiscal year 1999, SBA implemented an improved model, which more closely tracked additions to and separations from the workforce and used more timely and accurate payroll data to project costs to the end of the fiscal year. According to SBA officials, the revised model provides better projections of compensation and benefits costs. This, combined with greater centralized control over hiring, makes it more likely that other agency priorities, including hiring and training, can be accomplished within budget.

SBA Has Recently Contracted for a Workforce Plan

SBA recognizes that it has not completed all of the needed workforce planning elements. The agency also recognizes that it did not have the capability to carry out all of the tasks associated with workforce planning in-house. As a result, the agency hired a contractor to perform needed workforce planning activities and to develop a plan.

According to a senior-level SBA official, until fiscal year 2000, SBA's workforce planning efforts did not follow a single model and were not contained in a single planning document. Instead, an official in the Office of Human Resources performed workforce planning on an "as-needed" basis. In addition, several offices within the agency—including the Offices of Government Contracting and Minority Enterprise Development and Capital Access—were undertaking their own workforce transformation efforts that were not coordinated with agencywide transformation efforts.

In February 1999, SBA assigned responsibility for coordinating its workforce transition activities to the Associate Deputy Administrator for Management and Administration. The Associate Deputy Administrator said that she visited other agencies, such as the Internal Revenue Service and the Department of Housing and Urban Development, to see how they were doing long-range workforce planning. The Associate Deputy Administrator also said that SBA initially thought that it could perform the needed workforce planning activities, including skills assessments and position descriptions, in-house. However, the Associate Deputy Administrator added that SBA was not documenting how positions were changing, such as how loan processing was changing as a result of asset sales. She

realized that the agency did not have the expertise in-house to pull together its workforce planning activities into an agencywide plan. As a result, according to the Associate Deputy Administrator, in March 2000, SBA hired a contractor to assist with the agency's workforce transformation.

According to the contractor, he is to identify, among other things, the "as is" and "to be" steps in the transformation process, highlight where "resource balancing" will have to occur, and develop a workforce transformation plan that is to guide the agency's activities. According to SBA officials, the plan is to integrate the various workforce planning activities SBA has already initiated, such as the staffing and resource model, with other needed actions, including an inventory of employee skills. The contractor said that as part of his effort he will describe where SBA is currently, where it is going, the steps necessary for getting there, the resources required, and a schedule for achieving results. As of June 2000, the contractor said that he has been focusing on SBA headquarters offices. The contractor estimated that the workforce transformation plan will be completed by October 2000. However, SBA officials said that they anticipate the agency's workforce transformation will be completed in 2003.

SBA Has Not Identified Its Future Leadership Needs

We have been on record since 1980 about the importance of succession planning as a good management practice for any workforce planning effort.²⁵ Recently, we reported that although we have not reviewed agencies' succession planning efforts lately, available evidence suggests that formal succession planning for members of the senior executive service (SES) is not universally being done.²⁶ SBA has recognized the importance of developing its leadership, as evidenced by its attention to developing a leadership competency model and providing its senior management with training on how to manage change. In addition, as discussed previously, to manage a potential loss of its leaders, in March 2000, SBA amended its voluntary early retirement offer by stating that it would evaluate requests for early retirement by its senior executives and district directors individually, based on the interests of the agency. However, the agency has not performed succession planning to determine whether it will have the continuity of leadership required to achieve its vision or followed through with appropriate investments to fund its

²⁵See FPCD-81-4, December 30, 1980, and *Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges* (GAO/GGD-89-19, Jan. 19, 1989).

²⁶See *Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning* (GAO/GGD-00-113BR, May 12, 2000).

leadership candidate development programs. SBA officials have stated that the agency must do more to identify and develop future leaders.

According to SBA officials, as of March 2000, the agency did not have a succession plan that included an analysis of attrition rates, retirement eligibility, and retirement rates for its senior managers. Such a plan would help SBA ensure that it had a well-prepared, qualified, and diverse group of people available to fill SES positions. An agency official said that he recognized that SBA had not focused its leadership development programs and succession planning, as it needed to. Our analysis of the workforce data provided by SBA shows that, as of March 2000, 24 percent of SBA's senior executives were eligible for regular retirement, and 39 percent were eligible for early retirement through fiscal year 2000. These percentages are lower than those for the average regular and early retirement rates for senior executives.²⁷ Our analysis of the SBA data also showed that 39 percent of the district directors were eligible for regular and 35 percent for early retirement through fiscal year 2000.²⁸ Not all of SBA's senior managers who are eligible to retire by the end of fiscal year 2000 will do so. However, a number of managers will retire, and it is important for SBA to be ready to replace them with well-prepared candidates.

When asked about succession planning, agency officials said that SBA has candidate development programs that collectively encompass all levels of employees within the agency, and are designed to prepare employees to move into any level of the organization. These officials said, however, that programs for SBA's SES and district directors had not been used since 1995 because of budget constraints. The officials anticipated that, budget permitting, the agency would begin recruiting for these programs in fiscal year 2001.

SBA's Training Efforts May Not be Meeting Its Needs

As we have previously reported, a high-performance organization must identify the best approach for filling its needs for talented employees and follow up with appropriate investments to ensure that it has the best possible workforce.²⁹ As discussed previously, SBA's approach to filling its talent needs is primarily to identify the competencies needed to perform its core functions, retrain existing employees, and limit hiring to fill critical

²⁷Using projected fiscal year 2000 data for 14 selected agencies, 37 percent of career SES members were eligible for regular retirement, and 41 percent were eligible for early retirement. See GAO/GGD-00-113BR, May 12, 2000.

²⁸The district director percentage includes a small number of employees cited in the senior executive calculation because 8 of SBA's 70 district offices have district directors who are in the SES.

²⁹See GAO/GGD-99-179, September 1999.

gaps in skills where existing staff are not available or do not have the right skills.

Retraining existing employees to perform different functions is key to SBA's strategy for transforming its current workforce to support the new business practices that SBA has adopted. Recent survey results indicate, however, that a smaller percentage of SBA employees reported that they had received the training they needed to perform their jobs than did federal employees governmentwide. SBA has struggled to allocate funds that it considers sufficient for providing training to its workforce and has undertaken various measures to provide as much training as possible within available resources.

In both 1998 and 1999, a smaller percentage of SBA staff indicated that they had received the training they need to perform their jobs than did federal employees governmentwide. In 1998 and 1999, 46 percent and 39 percent, respectively, of SBA's employees responded favorably when asked on a National Partnership for Reinventing Government's (NPR) survey whether they received the training they needed to perform their jobs.³⁰ SBA's response rates to that question were below the response rates of 54 and 53 percent of employees who responded favorably governmentwide for those years, respectively. In fact, the 1999 survey results indicate that of the 14 departments and 8 independent agencies responding to the survey, SBA had the lowest published percentage of employees who responded favorably to this question.³¹

To address the low ratings, the Administrator plans to designate a specific pool of money in SBA's fiscal years 2001 through 2003 centralized training budgets for each district office and to have district directors prioritize training on the basis of employee needs. According to SBA's Administrator, the low ratings are in direct relationship to the lack of funding available to support the changing functions of SBA.

³⁰In 1998 and 1999, SBA was one of over 40 government agencies that participated in the NPR survey. One purpose of the 1998 survey was to create a baseline for measuring selected reinvention initiatives. In addition, both the 1998 and 1999 surveys were to (1) assess and benchmark organizational change on key items, with the 1999 survey comparing its data to the 1998 survey's baseline data, (2) build on OPM's Performance America database, and (3) support collection of a set of balanced measures for federal agencies.

³¹For the 14 departments, the published NPR survey results for 1999 provide aggregated statistics for several components. It is possible that at least one of these components could have had a lower response to this question, but that response was included in the average for its respective department. Favorable SBA employee responses to other 1999 NPR survey questions were much higher, such as one on whether managers communicate the organization's mission, vision, and skills to which 67 percent of SBA respondents agreed or strongly agreed.

SBA regularly provides for training costs within its annual operating budget. However, in the President's fiscal year 2000 budget, SBA requested \$3 million for training to enhance the skills of employees in performing the new core functions, such as marketing and outreach and lender oversight. This money was not appropriated. Therefore, according to SBA officials, as part of its internal budget process for fiscal year 2000, SBA's Office of Human Resources requested that SBA provide \$3 million for such training out of the annual operating budget that was appropriated. The agency allocated \$1.25 million to cover all of the agency's training needs for fiscal year 2000. SBA's Office of Human Resources planned to use about 95 percent of this amount to fund transition skills training, with the remaining 5 percent allocated to mandatory training. In March 2000, the Office of Human Resources requested that SBA provide an additional \$700,000 for transition skills training and \$500,000 for other training. SBA provided \$300,000 to pay for the development of its workforce transformation plan, \$250,000 for training in the district offices,³² and \$48,000 for other training. The development of competency models for two core functions—lender oversight and business development—and the development and delivery of transition skills training remained unfunded.

In order to cope with the resources available for training, SBA has been pursuing several strategies. For instance, according to SBA officials, the agency has encouraged its managers to use their office budgets to fund specific training for their staff. Among the methods some SBA district offices are using to train employees in needed skills specific to those offices is cross-training them in more than one functional area. For example, according to SBA headquarters officials, the district director of the Miami office cross-trained employees in marketing and outreach, lender oversight, and international trade skills. SBA officials in the Dallas/Ft. Worth district office told us that they began cross-training employees in about 1997. These officials also said that they use lunchtime seminars to assist their employees to develop their computer skills. In addition, Dallas district officials said that they created a local group in 1998 to help improve employees' oral communication skills. They said that improving such skills would allow SBA staff "to move from pushing paper to doing marketing and outreach to the public." According to a senior SBA official, by having district directors discuss their cross-training efforts in such forums as its quarterly field management meetings, the Administrator has communicated her expectation that SBA should cross-train employees. Finally, SBA is using employees currently knowledgeable about such

³²The district offices must present a proposal for how they plan to spend these funds before these funds are made available to them.

functions as lender oversight to train others who need to acquire or update their skills in these areas.

SBA Has Taken Some Steps to Align Its Performance Culture With Its Vision

As we have previously reported,³³ high-performance organizations foster a work environment in which people are enabled and motivated to perform according to the mission, goals, and strategies by which the organization has defined its shared vision. For example, such organizations align employee performance expectations with the organization's mission and hold employees accountable for achieving organization objectives.

Under SBA's performance management system for SES employees, SBA evaluates senior executives in terms of their contribution to the goals of the agency and uses the results of performance appraisals as a basis for adjusting base pay, training, rewarding, reassigning, retaining, and removing senior executives.³⁴ According to SBA's SES performance management plan, the Administrator sets the goals and priorities and establishes a framework for specifying measurement criteria for objectives. Specifically, each senior executive's performance objectives, such as the implementation of a specific program, are linked to at least one of SBA's program goals and supporting objectives.

SBA's performance appraisal systems for lower level employees can help reinforce the agency's focus on achieving improved performance. In this regard, as SBA moves forward with defining the knowledge, skills, and abilities its employees will need to perform well in the future, agency officials have recognized that they will need to reconsider whether current performance appraisal standards and measures will need to be modified to better capture these altered skill requirements.

Another contribution to its fostering a performance culture has been SBA's improved relations with its union. According to SBA and union officials, in August 1999, the agency and the union signed a new contract that placed emphasis on promoting a cooperative relationship between the parties and moving away from an adversarial negotiating relationship. According to an agency official, labor and management worked together using interest-based negotiations to find areas of mutual concern and interest before focusing on disagreements. According to SBA and union officials, since the signing of the contract, the agency and the union have operated in full partnership to help ensure the success of the workforce transformation.

³³See GAO/GGD-99-179, September 1999.

³⁴ Performance Management: Aligning Employee Performance With Agency Goals at Six Results Act Pilots (GAO/GGD-98-162, Sept. 4, 1998).

For example, these officials said that union representatives have been involved in the development of the competency models, the workforce transformation, and the agency's relocation and reassignment program.

In summary, Mr. Chairman, designing, implementing, and maintaining effective human capital strategies will be critical for agencies to maximize their performance. Agencies need a strategic approach to managing their human capital activities to ensure that they give the management of their most important asset—their employees—the high priority they deserve. This is especially important in light of limited budgets. SBA, for example, which is a fairly small agency with a limited budget, has undertaken a number of initiatives for better managing its human capital activities, including developing competency models and related training for some core functions and realigning and deploying some staff. However, these initiatives were not centrally coordinated until recently, and SBA is just developing an overall plan to guide the agency's human capital efforts. The human capital initiatives SBA has undertaken, while useful, are incomplete. Consequently, the success of the agency's attempt to redesign its business processes and transform its workforce is potentially at risk. For example, the agency has not finished identifying the knowledge, skills, abilities, and other characteristics that its staff will need to perform the core functions SBA has identified as key to its new business processes. In addition, SBA's lack of succession planning could endanger the leadership continuity, institutional knowledge, and expertise that are critical for the successful transformation of the agency's workforce. Further, a smaller percentage of SBA staff report that they have been adequately trained for their jobs than staff in the federal government generally or any other agency responding to recent surveys. While we recognize that SBA currently has plans to develop a workforce transformation plan by October 2000, the full implementation of such a plan could be several years away. Sustained attention to these issues thus will be important as SBA continues to implement its new business processes and realign its human capital policies and practices to support those new processes.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Committee may have.

Contacts and Acknowledgment

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