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HUMAN CAPITAL

Managing Human Capital in the 21st Century

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Managing Human Capital in the 21st Century

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here this morning to contribute to the Subcommittee's discussion on how to improve the federal government's approach to managing its people. The federal government counts some 1,882,000 people as its employees.[1] They comprise a diverse and increasingly knowledge-based workforce, with a broad spectrum of technical and program skills and institutional memory. Federal agencies differ in size and mission, but they share a common reliance on the energies and ingenuity of federal employees. These employees are the government's greatest asset—its human capital.

The landmark federal management reforms of the 1990s signaled the arrival of a new era of accountability for results. These reforms addressed most of the essential—and mutually dependent—elements of the modern performance management model: financial management, information technology management, and results-oriented goal-setting and performance measurement.

The transformation that these reforms entail will not be an easy one, and will require a governmentwide investment of time and resources that should not be underestimated. However, the return on this investment is potentially very great. These reforms, with their focus on accountable, results-oriented management, will allow the federal government to go beyond attempts merely to identify or prevent incidents of waste, fraud, or abuse and, instead, create a government that is better equipped to deliver efficiently, economically, and effectively on its promises to the American people. There will always be zero-tolerance for waste, fraud, and abuse, but the cost of these occurrences is small compared with the larger costs—not just in money, but in public trust—of a government that is not managed well. Once results-oriented performance management systems are effectively implemented, agencies will have the means to demonstrate the real-world effects of their efforts, and taxpayers will be able to judge federal agencies' accomplishments across a range of measures and decide whether they are getting an acceptable return for their tax dollars.

As the federal performance management framework has evolved over the last decade, the government's human capital management has emerged as the missing link. For the performance management principles embodied in the new reforms to produce a more businesslike and results-oriented

[1] The total is for non-postal civilian federal employees as of September 1999. Source: Office of Personnel Management.

government, agencies must recognize the indispensable role of people in this transformation.

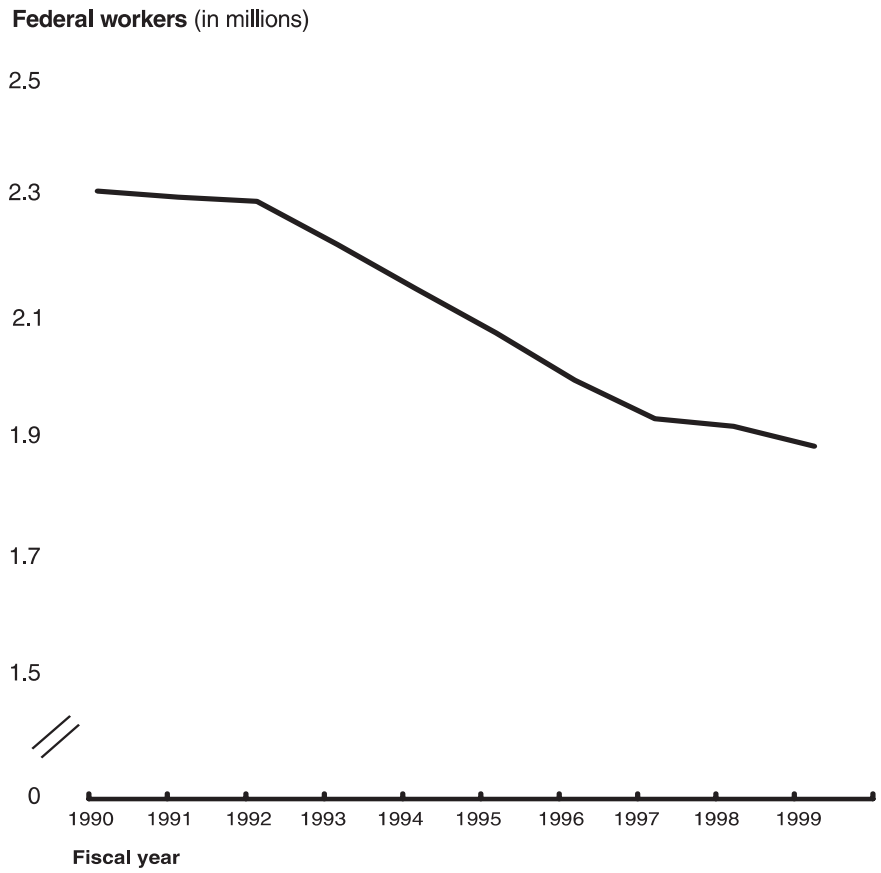
For performance management to succeed, three enablers will be needed: people, process, and technology. All three are important, but the people dimension is the most crucial. Process was addressed by the Chief Financial Officers Act and related financial management legislation, as well as by the Government Performance and Results Act (GPRA). Technology was addressed by the Paperwork Reduction Act and the Clinger-Cohen Act. The people dimension has yet to find the broad conceptual acceptance or political consensus needed for fundamental reform to occur. I am optimistic that as our understanding of the importance of people to effective government grows, a new consensus on human capital will emerge and any needed and appropriate legislative reforms will be accomplished. But I am also strongly convinced that we should not wait for the day when these reforms will arrive. Instead, we can and should take steps to align our human capital management policies and practices with modern performance management principles, within the constraints imposed by current law.

There is no time to waste. Changes in the demographics of the federal workforce, in the education and skills required of its workers, and in basic federal employment structures and arrangements are all continuing to unfold. The federal workforce is aging; the baby boomers, with their valuable skills and experience, are drawing nearer to retirement; new employees joining the federal workforce today have different employment options and different career expectations from the generation that preceded them. In response to an increasingly competitive job market, federal agencies will need the tools and flexibilities to attract, hire, and retain top-flight talent. More and more, the work that federal agencies do requires a knowledge-based workforce that is sophisticated in new technologies, flexible, and open to continuous learning. This workforce must be adept both at delivering services directly and at effectively managing the cost and quality of services delivered by third parties on the government's behalf. Agencies' employment structures and working arrangements will also be changing, and the workplace will need to accommodate a greater mix of full-time, part-time, and temporary workers; more contracting-out; less job security; and the possibility of additional government downsizing and realignments.

The downsizing of the past decade has commonly been discussed in terms of the reductions made in the size of the federal workforce. But what happened—or did not happen—as these reductions were being

accomplished is just as significant as the reductions themselves. As shown in figure 1, from fiscal year 1990 to fiscal year 1999, the number of non-postal civilian federal employees fell from about 2.3 million to about 1.9 million.

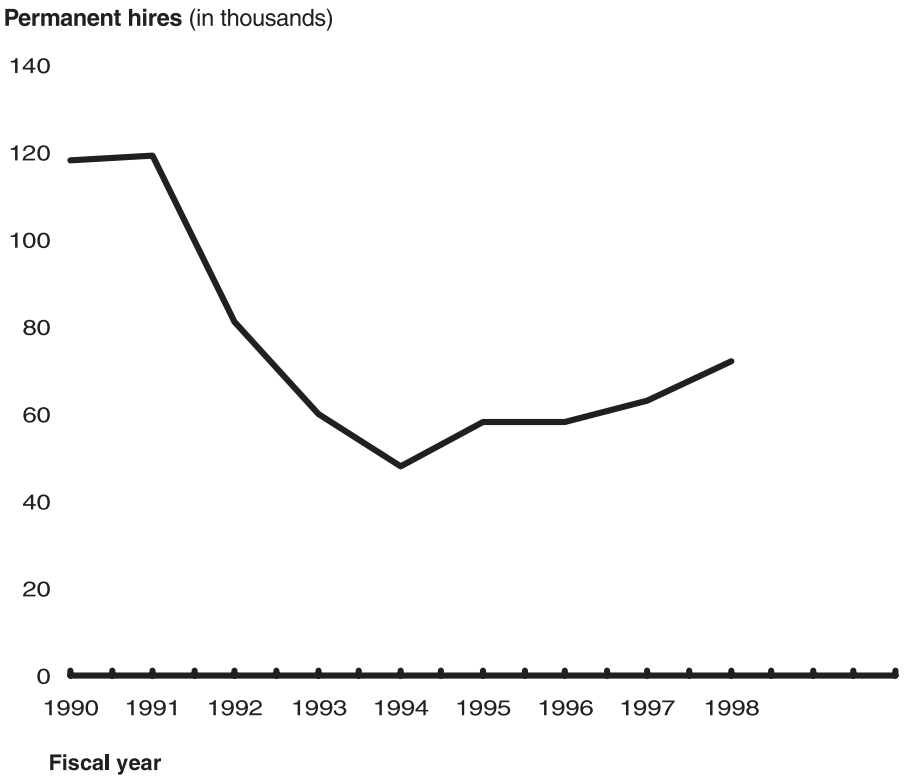
Figure 1: Total Federal Civilian Employment 1990—1999 (excluding the Postal Service)



Source: OPM, Federal Civilian Workforce Statistics, 1990—1999.

Also, as shown in figure 2, new permanent hires fell from about 118,000 in fiscal year 1990 to a low of about 48,000 in 1994, before beginning a slow rise to about 71,500 in fiscal year 1998.

Figure 2: Federal Permanent Hires 1990—1998 (excluding the Postal Service)



Note: The number of permanent hires excludes SES permanent hires and represents individuals, not FTEs.

Source: GAO calculations based on OPM data.

In cutting back on the hiring of new staff in order to reduce the number of their employees, agencies also reduced the influx of new people with the new competencies needed to sustain excellence. As you are aware, little data exists on the overall federal expenditures on training, but the anecdotal evidence is that, in trying to save on workforce-related costs, agencies cut back on the training investments needed if their smaller workforces were to make up for institutional losses in skills and experience. An additional concern relates specifically to information technology skills. One of the principal strategies that agencies have used to deliver services with fewer staff has been an increased reliance on information technology. However, the agencies' ability to make the most

of this strategy could be jeopardized by the competitive disadvantage they report facing in hiring and retaining skilled information technology staff. Still another concern involves the contracting out of government services. As the number of federal employees decreases, federal agencies need to ensure that they have the right people on board to manage the cost and ensure the quality of the activities that have been outsourced.

The short- and long-term implications of downsizing for the federal government's human capital will require continuing attention. Our reviews have found, for example, that a lack of adequate strategic and workforce planning during the initial rounds of downsizing by some agencies may have affected their ability to achieve organizational missions.[2] Some agencies reported that downsizing in general led to such negative effects as a loss of institutional memory and an increase in work backlogs. Although we found that agencies' planning for downsizing improved as their downsizing efforts continued, it is by no means clear that the current workforce is adequately balanced to properly execute agencies' missions today, nor that adequate plans are in place to ensure the appropriate balance in the future.

We intend to do more work on the implications of downsizing, but our view today is that the widespread lack of attention to strategic human capital management may be creating a fundamental weakness in federal management, possibly even putting at risk the federal government's ability to efficiently, economically, and effectively deliver products and services to the taxpayers in the future. These shortcomings in the federal government's human capital management systems could well earn them GAO's high-risk designation when the next High Risk Series is issued in 2001.

At present, serious concerns are emerging about the aging of the federal workforce, the rise in retirement eligibilities, and the actions needed to ensure effective succession planning. The size and shape of the workforce, its skills needs and imbalances, and agencies' approaches to managing performance and incentives (e.g., lack of dispersion in ratings)—all need greater attention than they have been given. In this regard, change management is crucial: There is no underestimating the importance of consistent, committed, and persistent leadership in bringing the human capital issue to the forefront of federal management concerns.

[2] Federal Workforce: Payroll and Human Capital Changes During Downsizing (GAO/GGD-99-57, Aug. 13, 1999).

It is clear that federal agency leaders must create an integrated, strategic view of their human capital—and then sustain that attention to create real improvements in the way they manage their people. One of the emerging challenges for new presidential appointees will be to add to their traditional policy portfolios an understanding of the importance of performance management issues—and particularly, human capital issues—to the accomplishment of their agencies' policy and programmatic goals. Through its role in the appointment and confirmation process, the Senate may wish to ensure that future nominees to leadership roles in the executive agencies are committed to sound federal management, and in particular, to ensuring that their agencies recognize and enhance the value of their people.

With these thoughts in mind, I would like to make three points:

- Federal employees should be viewed not as costs to be cut but as assets to be appreciated. Strategic human capital management recognizes that employees are a critical asset for success, and that an organization's human capital policies and practices must be designed, implemented, and assessed by the standard of how well they support the organization's mission and goals.

- The experiences of leading private sector firms underscore these ideas. In studying nine selected private sector organizations known for innovative or effective human capital management, we found that human capital considerations were commonly included at all stages of management, from strategic planning through day-to-day business operations, and that these firms focused on building and maintaining the competencies of their leaders and other employees and on nurturing organizational cultures that involved employees and rewarded them for performance.

- Although the civil service system is viewed by many as outdated and in need of reform, there is much that can and should be done today—by individual federal agencies, the Office of Personnel Management (OPM), the Office of Management and Budget (OMB), GAO, and Congress—to improve the way the federal government manages its human capital, even in the absence of any fundamental legislative change.

Human Capital: Investing in People to Achieve Results

Because employees account for so large and visible a share of the operating costs of most federal agencies, the workforce has traditionally been viewed through the budgetary lens. Employees have been seen as costs to be cut rather than as assets to be appreciated. But the environment in which the federal government now operates is changing at

a rapid pace—technology is merely one prominent example—and with these changes, profound questions are emerging about the inherent role of government; the public's expectations for government; and the appropriate missions, strategies, and skills that federal entities must have to meet future demands. With new challenges putting ever-increasing pressures on government, recognizing the importance of people, and making the appropriate investments to enhance their value, will become ever more critical to programmatic success.

We at GAO use the term "human capital" because—in contrast with traditional terms such as personnel and human resource management—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 approaches must be aligned to support 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 and achieve related results.

It is clear that, in many government entities, the transition to performance management—and along with it, to strategic human capital management—will require a cultural transformation. Hierarchical management approaches will need to yield to partnerial approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. And siloed organizations will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Government entities that expect to make the best use of their human capital 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 and a focus on continuous learning and knowledge management—that supports employees in the accomplishment of their organizational missions.

The term "human capital" originated in the field of economics. But both words, "human" and "capital," are equally important to the concept as we apply it. Enhancing the value of employees is a win-win goal for

employers and employees alike. The more an organization recognizes the intrinsic value of each employee, the more it recognizes that this value can be enhanced with nurturing and investment, the more it recognizes that employees vary in their talents and motivations and that a variety of incentive strategies and working arrangements can be created to enhance each employee's contributions to organizational performance, the more likely the organization will be to appreciate the diversity of employee needs and circumstances and to act in ways that make sense in both business and human terms.

Experiences of Private Sector Organizations Demonstrate Human Capital Principles

The Subcommittee—along with a bipartisan group of requesters from both houses of Congress— recently requested that we identify the range of principles that commonly underlie the human capital approaches of private sector organizations regularly cited as leaders in the area of human capital management.[3] To gather this information, we interviewed representatives of nine private sector organizations that have been recognized in the current literature as being innovative or effective in strategically managing their human capital: Federal Express Corp.; IBM Corp.; Marriott International, Inc.; Merck and Co., Inc.; Motorola, Inc.; Sears, Roebuck and Company; Southwest Airlines Co.; Weyerhaeuser Co.; and Xerox Corp., Document Solutions Group.

A set of 10 underlying and interrelated principles emerged from our discussions with representatives of these nine private sector firms (see attachment). It should be mentioned, of course, that fundamental differences exist between the private and federal sectors, and that these differences may raise questions regarding the applicability or transferability of management principles derived from private sector practices.[4] For example, the government, unlike the private sector, does not operate for profit and must carry out responsibilities and functions prescribed by the Constitution or mandated by statute. Further, the federal government's responsibility is not to stockholders but to the public interest. It must continually meet social, political, or even moral expectations that may or may not coincide with economic efficiencies. But notwithstanding these and other challenges facing the leaders of federal agencies, our previous work has shown that many management principles drawn from the private sector are indeed applicable to the

[3] Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000.)

[4] GAO/GGD-00-28.

federal government, and that these principles can be applied advantageously and, in many cases, without changing existing laws.[5]

In summary, the 10 private sector human capital principles we identified can be distilled into three themes: (1) employees must be recognized as crucial to organizational success and their role considered through all stages of strategic planning and day-to-day business management; (2) organizations need to identify the skills and other characteristics needed—among leaders and all other employees—to help achieve success, and make the appropriate investments to hire, develop, and retain people to ensure that these competencies are sustained; and (3) organizations need to nurture an organizational culture that stresses results, accountability, teamwork, and employee involvement and empowerment so that employees will work together to achieve high performance.

The nine firms we visited emphasized that effective human capital management is fundamental to strategic business management. They told us that they have integrated their human capital management with both their strategic planning and day-to-day business management. Further, they stressed the need to measure the effectiveness—including the return on investment—of human capital policies and practices in the context of organizational missions and goals. In general, these organizations explicitly considered and incorporated human capital issues when developing their strategic missions, strategies, and core values, as well as when designing and implementing specific policies and practices. Some of these firms included language on the importance of human capital in their corporate mission statements, included human capital goals in their strategic plans, or adopted core values and management models that incorporate human capital into strategic business management. In addition, they sought to integrate "human resources"—i.e., human capital—professionals into the management team, thereby expanding the role of the "human resources" function beyond the traditional one of providing personnel-related administrative services. When appropriate, the private sector organizations we visited leveraged their internal human capital function with external expertise, supplementing the knowledge and skills on hand by drawing on consultants, professional associations, and other organizations.

[5] Our examination of performance-based human capital management in the private sector dates back to a least 1995, when we sponsored a 2-day symposium of 32 leaders from leading private sector organizations and from governments at the federal, state, and local level as well as from abroad. From these discussions, we came to understand how high-performing organizations value employees as assets and align their "people policies" with mission accomplishment. See Transforming the Civil Service: Building the Workforce of the Future—Results of A GAO-Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995).

The nine private sector organizations also placed great importance on hiring, developing, and retaining people—both leaders and other employees—based on characteristics the organizations identified as essential to achieving their specific missions and goals. They commonly said that organizations need to identify the specific leadership traits needed to promote the achievement of organizational missions and goals, and must ensure that the pool of new leaders who have these traits will be sustained through investments in recruiting, hiring, development, retention, and succession policies and practices. The nine firms commonly pursued a range of training and development opportunities—including establishing "corporate universities"—specifically targeted at assessing, developing, and maintaining the personal qualities needed in their current and future leaders. Similarly, for all employees, these organizations stressed the need to identify the competencies—the knowledge, skills, abilities, and behaviors—needed for high performance, and to build and sustain the talent pool through approaches designed to competitively recruit, hire, develop, and retain employees while recognizing industry and labor market conditions.

Finally, the nine private sector organizations we visited recognized the cultural dimension of human capital management. The representatives of these firms commonly spoke of the importance of communicating a shared vision that all employees, working as one team, can strive to accomplish. They said that their firms used their employee performance management systems, including pay and other meaningful incentives, to create a line-of-sight between the contributions of individual employees and the organization's performance and results. Employees, they said, should be held accountable for the achievement of missions and goals, and employees who meet or exceed clearly defined and transparent standards of high performance should be rewarded. The nine private sector organizations also recognized the importance of supporting and rewarding teams and, specifically, of fostering a culture in which individuals interact, support, and learn from one another as a means of contributing to the high performance of their peers, units, and the organization as a whole. In addition, they commonly stressed the importance of incorporating the first-hand knowledge and insights of employees and employee groups to help create responsive human capital policies and practices, and of empowering employees by making them stakeholders in the development of solutions and new methods of promoting high achievement of organizational missions and goals.

Agencies and Others Need Not Wait to Focus on Human Capital

The kinds of human capital management principles we identified at these nine private sector organizations coincide with—and serve to underscore—observations we made before this Subcommittee last October, when we spoke of a number of strategies and techniques that, we had found, high-performing organizations use to effectively involve and empower employees to improve operational and program performance.[6] These strategies, we said, included (1) fostering a performance-oriented culture, (2) working with unions to develop a consensus on goals and strategies, (3) providing the training that staff need to work effectively, and (4) devolving authority while focusing accountability on results.

There is clearly much that can and should be done—by individual federal agencies, OPM, OMB, GAO, and Congress—to promote these kinds of efforts and improve the management of the government's human capital, even in the absence of any fundamental civil service reform.

Agencies Need to Assess Their Human Capital Approaches

Among individual agencies, for example, effective implementation of performance management, as envisioned by GPRA, hinges on the ability to strategically manage all agency resources—financial, information technology, and people—to achieve organizational missions and goals. However, discussions of how the agencies planned to strategically manage their people were notably absent from many agencies' annual performance plans.[7] A useful first step for many federal agency leaders would be to adopt a human capital focus—to put the spotlight on their human capital approaches in light of their missions, visions for the future, core values, goals, and strategies, in an effort to see whether they are managing their most important assets to their fullest advantage.

The civil service system as a whole is still viewed by many as burdensome to managers, unappealing to ambitious recruits, hidebound and outdated, overregulated, and inflexible.[8] But agencies can do much to make the system work better—to empower employees and deliver better products and services to the American people. Certainly, there is no law prohibiting agencies from creating mission and vision statements, from developing strategic planning and performance measurement processes, or from aligning most human capital policies and practices with their organizational missions and core values. Nor are agencies prohibited from

[6] Management Reform: Elements of Successful Improvement Initiatives (GAO/T-GGD-00-26, Oct. 15, 1999).

[7] Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

[8] Civil Service Reform: Changing Times Demand New Approaches (GAO/T-GGD-96-31, Oct. 12, 1995).

establishing performance management systems that assess and reward employee performance in light of organizational goals and values. Federal agencies are free to use teams, including "just-in-time" and "virtual" teams, as a means of focusing the right mix of employee knowledge and skills on the job at hand. They are also free to make continuous learning a guiding principle. And they have a variety of formal and informal actions at their disposal to establish trust, respect, diversity, and fairness in the workplace.

Considerations such as these are the focus of a human capital self-assessment checklist we published as a discussion draft last September.[9] The checklist was based on our examination of laws and regulations, our prior work with leading organizations in the private sector and among governments at the state and local levels as well as from abroad, and drew 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 within and outside government.

We recognize that there is no single recipe for successful human capital management. But we have identified a number of human capital elements and underlying values that are common to high-performance organizations in the public and private sectors. Federal agencies that are seeking to comply with the spirit of performance-based 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.

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

- 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. Each of the questions in the checklist is followed by suggested sources of information or indicators; not every agency will have these sources on hand, and most of the conclusions that users arrive at can be expected to be somewhat subjective. We hope that using the self-assessment checklist will allow federal agencies to quickly determine whether 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 weakness of their human capital performance measures and data systems. Effective performance management requires fact-based decisionmaking; one of the first requirements is relevant and reliable data. And finally, 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.

Self-assessment can be an important first step for agencies in focusing on ways to tap into the potential of their people and promoting the principles that (1) people are assets whose value can be enhanced through investment and (2) any steps agencies take to manage their people should be designed, implemented, and assessed by the standard of how well these steps support the agency's mission and goals. In addition, self-assessment can help agencies develop a clearer understanding of the statutory or regulatory constraints that may hamper 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 facing, and the flexibilities available to, agencies may help them make choices they may not 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.

OPM and OMB Have Potentially Valuable Roles to Play

It is clear that OPM and OMB—the central management agencies with the greatest influence on individual agencies' human capital efforts—have substantial roles to play in promoting and enabling broader application of human capital principles. Much remains to be done, but two recent developments provide hopeful indications that these agencies may be improving their focus on strategic human capital concerns.

OPM has reported that it is developing "a systematic methodology for workforce planning and staff analysis that will provide user agencies with a single, integrated interface to a vast array of tools to facilitate their workforce planning."[10] OPM has reported that these tools will allow agencies to "conduct data and statistical analyses in order to identify occupational and demographic trends; forecast workforce needs; access diversity, education, pay and benefits information; review strategies for succession planning; and link to a library of resources, best practices, literature and websites on strategic planning, recruitment and retention information, etc."[11]

Although we have not formally reviewed OPM's progress in developing its workforce planning model or associated web-based tools, OPM's efforts in this area would appear to be a worthwhile step toward filling a need, identified by agencies, for better guidance and tools from OPM in the workforce planning area. As we stressed more than a decade ago, OPM's leadership role should include working with the agencies to better prepare the government to meet future challenges, attack performance improvement efforts with more vigor, and ensure more effective oversight of the government's key human capital concerns.[12] Today, OPM can potentially contribute greatly to agencies' awareness of strategic human capital principles and their capacity to put them to effective use.

Similarly, OMB's role in setting governmentwide management priorities and defining resource allocations may be central to the adoption of human capital considerations across government. The President's fiscal year 2001 budget has added human capital management to its list of Priority Management Objectives (PMO). The objective, the budget states, is to "Align Federal human resources to support agency goals." It states, "Recognizing that people are critical to achieving results Americans care

[10] Annual Performance Plan—Fiscal Year 2001 (February 2000), p. 90.

[11] Annual Performance Plan—Fiscal Year 2001, p. 90.

[12] Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19, Jan. 19, 1989).

about, the Administration will undertake a strategic approach to human resources management." The budget states that OPM is to complete the design of its prototype workforce planning model; "work with agencies to ensure labor-management initiatives to empower executives, line managers, and especially employees to improve customer service and get mission results;" encourage agencies to make better use of the flexibilities available to them; and where necessary, submit legislative proposals "consistent with these human resource management strategies."

It is too early to tell whether the steps regarding human capital management outlined in the President's budget will lead to greater attention to human capital concerns or real improvements in the way the federal workforce is managed. But the fact that these considerations have been formally recognized as a management priority is an encouraging sign, and creates a clear opportunity to make real progress in the human capital area. The next thing needed from OMB—and from OPM—is a sustained commitment to making this progress a reality.

GAO Plans to Contribute to Human Capital Improvement Efforts

At GAO, we hope to encourage and facilitate the adoption throughout government of a greater human capital focus, as well as of other performance management principles, and to "lead by example." Right now, we are making our own human capital a top priority. Among other things, we are pursuing far-reaching strategic planning and organizational alignment efforts, weaving our core values into all our key decisionmaking, assessing our human capital systems from top to bottom for their alignment with our organizational mission and vision, inventorying our institutional skills and using a matrix management approach to our work, focussing on succession planning, reinvigorating our recruiting and mentoring programs, redesigning our training curriculum, reengineering our employee performance appraisal and reward system, and relying on an unprecedented supply of employee suggestions and feedback data from across the agency. All these activities reflect a fundamental decision that we have made to focus not just on living for today, but on preparing for tomorrow by investing in our people. With these investments of resources in our human capital programs, we are hoping to enhance the value of our people and, in turn, the value of GAO to Congress and all Americans. We are also hoping to demonstrate that other federal agencies, if they put their minds to it and are willing to make the appropriate investments, can do much to improve the way they manage their people.

In addition, we hope to provide conceptual frameworks and practical tools to help agencies make substantial improvements in their human capital management policies and practices. The human capital self-assessment

checklist is one of our first efforts in this area. We will use the self-assessment checklist to promote a governmentwide human capital focus, in part through constructive engagement with the agencies. Through our audit and evaluation work and outreach efforts, we hope to learn more about the day-to-day challenges that agencies face and to develop more rigorous, widely adaptable methodologies for human capital assessment. Sounder methodologies will allow agencies to make a more workable and compelling business case for their human capital investments. We also hope to identify and share with agencies best practices in human capital drawn from the private sector and from governments at all levels and abroad. By doing so, we hope to better enable agencies to develop human capital approaches tailored to their own needs and circumstances. In addition, we intend to put agencies' human capital efforts into perspective by noting the progress they have made as well as the challenges they have encountered.

Another way in which we intend to contribute is by providing sound and reliable data gathering to help inform a consensus on what governmentwide human capital reforms may be needed. One thing we can do is help bring to light common barriers that agencies have identified as standing in the way of their changeover to performance management principles. It is becoming increasingly clear that the system for federal employment must provide agencies with sufficient flexibilities to tailor their human capital approaches to their missions, goals, strategies, and other circumstances—while ensuring, meanwhile, that adequate safeguards are in place to prevent abuses. We intend to give a higher priority to studying the structure and underlying assumptions of the civil service, including the roles and responsibilities of the central personnel agencies, and the effective balance between flexibility and accountability. Drawing on the human capital self-assessments we hope that agencies will perform, and on the work we at GAO pursue at Congress' behest, we hope to identify common themes and experiences across the range of federal employers. The more commonalities and shared perceptions we can identify, the more likely it may be that we can reach a consensus on reform.

The Congressional Role is Paramount

The leadership role of Congress is critical, of course, if governmentwide improvements in human capital management are to occur. Congress plays a central role in management improvement efforts throughout the executive branch through its legislative and oversight functions. Through the creation over the past decade of the performance management framework, spearheaded by the Senate Governmental Affairs Committee and the House Government Reform Committee, Congress has, in effect,

been the institutional champion for improving the management of the federal government. On an agency-specific basis as well, support from Congress has been crucial to instituting and sustaining management reforms, such as those at the Internal Revenue Service, the General Services Administration, and elsewhere across the federal government.

Similarly, Congress can now turn its attention to the importance of human capital management in helping the reforms of the past decade truly make a difference in the economy, efficiency, and effectiveness with which agencies deliver products and services to the American people. In its oversight of agencies' management improvement efforts, Congress can target for special attention agencies' efforts, if any, to strategically manage their human capital for results. For agencies that request legislative exceptions from current civil service laws or regulations, Congress can require that agencies "make their case" based on rational and fact-based analyses of their needs, the constraints under which they presently operate, and the flexibilities available to them. Further, through the appointment and confirmation process, the Senate has an added opportunity to make clear its commitment to sound federal management and, in particular, human capital management, and to explore what prospective nominees plan to do to ensure that their agencies recognize and enhance the value of their people.

Eventually, Congress may need to consider the extent to which traditional "civil service" approaches—the structures, oversight mechanisms, rules, and constraints—support the needs of a government that is now adopting performance management principles. Ultimately, legislative reform in the human capital area may need to be considered in order to address the missing link in the performance management portfolio. In the meantime, however, agencies need to take a more strategic and integrated approach in the human capital area and maximize their efforts within the context of current law. Congress can help ensure that they do that.

Summary

In summary, Mr. Chairman, designing, implementing, and maintaining effective human capital strategies will be critical to achieving the goals of maximizing the performance and ensuring the accountability of the federal government. Working in a new performance management environment in which federal agencies are held accountable for delivering on their promises to the taxpayers, the importance of the "people dimension" in government becomes more vivid every day. In this regard, leading private sector organizations have some lessons to teach us, but it will be the federal government's job to fashion human capital systems that work, in government, for the American people.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

Contact and Acknowledgements

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Key Human Capital Principles From Nine Private Sector Organizations

Each of the nine private sector organizations in our review implemented human capital strategies and practices that were designed to directly support the achievement of their specific missions, strategic goals, and core values.[1] Although human capital management alone cannot ensure high performance, proper attention to human capital is a fundamental building block for achieving an organization's mission and goals. On the basis of the information they provided, we identified 10 underlying and interrelated principles of human capital management that are common to the nine organizations:

1. Treat human capital management as being fundamental to strategic business management. Integrate human capital considerations when identifying the mission, strategic goals, and core values of the organization as well as when designing and implementing operational policies and practices.

2. Integrate human capital functional staff into management teams. Include human capital leaders as full members of the top management team rather than isolating them to provide after-the-fact support. Expand the strategic role of human capital staff beyond that of providing traditional personnel administration services.

3. Leverage the internal human capital function with external expertise. Supplement internal human capital staff's knowledge and skills by seeking outside expertise from consultants, professional associations, and other organizations, as needed.

4. Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals. Identify the leadership traits needed to achieve high performance of mission and goals, and build and sustain the organization's pool of leaders through recruiting, hiring, development, retention, and succession policies and practices targeted at producing leaders with the identified characteristics.

5. Communicate a shared vision that all employees, working as one team, can strive to accomplish. Promote a common understanding of the mission, strategic goals, and core values that all employees are directed to work as a team to achieve. Create a line-of-sight between individual contributions and the organization's performance and results.

[1] Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000).

6. Hire, develop, and retain employees according to competencies. Identify the competencies—knowledge, skills, abilities, and behaviors—needed to achieve high performance of mission and goals, and build and sustain the organization's talent pool through recruiting, hiring, development, and retention policies and practices targeted at building and sustaining those competencies.

7. Use performance management systems, including pay and other meaningful incentives, to link performance to results. Provide incentives and hold employees accountable for contributing to the achievement of mission and goals. Reward those employees who meet or exceed clearly defined and transparent standards of high performance.

8. Support and reward teams to achieve high performance. Foster a culture in which individuals interact and support and learn from each other as a means of contributing to the high performance of their peers, units, and the organization as a whole. Bring together the right people with the right competencies to achieve high performance as a result, rather than in spite, of the organizational structure.

9. Integrate employee input into the design and implementation of human capital policies and practices. Incorporate the first-hand knowledge and insights of employees and employee groups to develop responsive human capital policies and practices. Empower employees by making them stakeholders in the development of solutions and new methods of promoting and achieving high performance of organizational missions and goals.

10. Measure the effectiveness of human capital policies and practices. Evaluate and make fact-based decisions on whether human capital policies and practices support high performance of mission and goals. Identify the performance return on human capital investments.

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