

Demonstration Projects And Alternative Personnel Systems

HR Flexibilities and Lessons Learned

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This paper is divided into two parts (Part I: Lessons Learned and Part II: HR Flexibilities) and includes an appendix containing more detail about the nature of evaluating demonstration projects and their results.

Lessons Learned

Part I contains the lessons learned about implementing change to improve Federal human resources management. These lessons are based on the testing of a wide variety of demonstration projects and alternative personnel systems. The lessons are divided into four areas:

- 1) **Primary Lessons Learned:** Drawn from the testing of demonstration projects and alternative personnel systems over twenty years.
- 2) **Lessons on Planning:** Considerations that need to be made before embarking on a change initiative.
- 3) **Lessons on Culture:** The necessary ingredients in preparing for and managing change in the organization.
- 4) **Lessons on Resources:** A compilation of resource issues that need to be addressed up front because organizational efforts take considerable time, labor, funding and resources.

HR Flexibilities

Part II includes the HR flexibilities that have been tested under demonstration projects and alternative personnel systems. It should be noted that demonstration projects and alternative personnel systems are not the only means for testing HR flexibilities. Some continue to be used under special legislative authorities.

Appendix

The Appendix includes fact sheets on individual demonstration projects and alternative personnel systems. Lessons learned are based on both demonstration projects and alternative personnel systems.

Demonstration Projects and Alternative Personnel Systems

Part I

Primary Lessons Learned

❖ Flexibilities Are Effective

The tested flexibilities have shown through evaluation that they are effective human resources management tools. In addition, we believe that some flexibilities, such as performance focused pay and categorical ranking, can have an impact on organizational effectiveness. However, even with the use of effective tools, large-scale organizational change does take time.

❖ Potential for Wider Impact

To get a better return on investment from twenty years of demonstration project evaluation, there should be a method of converting successfully tested alternative systems and flexibilities to permanent programs and for making them available to other agencies, short of separate legislation. The administrative procedures imbedded in the demonstration project authority need to be streamlined to minimize the costly burden placed on agencies interested in testing alternative systems. Reducing the existing notification timeline and removing the hearing requirement will help to streamline the process, while preserving the core parameters for viable testing of demonstration projects.

Lessons on Planning

❖ A Business Case for Change

There should be a solid business case to support an alternative system. In addition, the system must be strategically aligned to support the agency mission and to address the agency's human capital challenges. Mission related performance criteria and clear objectives within a merit system framework are essential. Metrics are used to verify the alignment between alternative systems and the agency mission. Absent a business case, externally driven changes will likely fail.

❖ Diverse Pay Systems Can Create Inter-agency and Intra-agency Challenges

Different pay systems can create challenges in maintaining Governmentwide consistency and equity in pay administration. Inter-agency and intra-agency competition and increased costs are common complaints. Changes can result in unintended consequences. At the employee level, pay setting inconsistencies and hindrances to movement between agencies can be areas of concern. Therefore, it is essential that Departments play a leadership role in planning and managing the implementation of alternative systems. It is also important that OPM establish and maintain Governmentwide standards and basic parameters for pay systems to manage the movement between those systems and the General Schedule.

❖ An Executive Champion Is a Key to Success

An executive champion at the individual agency level is needed to promote, defend and support the initiative. Without a champion, the HR organizational change initiative will end up as just a "flavor of the month" program from HR that produces disappointing results. The executive champion is in a unique position to maintain public focus on the rationale for the change initiative and the bottom-line results.

Lessons on Culture

❖ **A Supportive Culture Is Essential**

Implementing a major system change (e.g., pay banding, pay for performance) is a significant cultural intervention in the organization and its parent agency. It will not succeed unless it is managed as such. The existing culture often determines what will or will not work. A systems change alone will not cure an otherwise unhealthy culture.

❖ **One Size Does Not Fit All**

Alternative systems are tailored to meet unique management expectations and organizational needs. If extended Governmentwide, there should be sufficient flexibility to allow for customization. The usefulness of these authorities can be curtailed by over-regulation or by a “cookie cutter” approach that uses 2 or 3 rigid models or options.

❖ **Communication and Training Must Be Priorities**

Ongoing 2-way communication is critical to the effectiveness of alternative systems. Systems such as pay banding need to be explained to employees in plain language so that employees understand how the change impacts them on an individual basis. In addition, initial and ongoing training for managers, employees, and HR specialists is needed to keep the systems viable and operating as designed. Communication is also critical in facilitating understanding of coworkers who may not be covered by the alternative system.

❖ **Employees and Employee Organizations Must Have “Buy-in”**

Alternative systems require employee and employee organization buy-in to be effective. Employees and their representatives should be involved from the beginning. In addition, without early consultation with employee organizations, buy-in will probably not occur. However, involvement and consultation do not guarantee buy-in.

❖ **Successful Tests Focus on Performance, Not Entitlement**

Alternative systems/flexibilities support a performance culture. For example, under pay banding, pay is used strategically to reward high performers while sending a message to poor performers to improve. This helps make a good business case. However, this performance focus will meet resistance from some employees and employee organizations who may focus on fundamental issues, such as adverse impact on retirement credit and loss of step increases.

❖ **Keep It Simple**

Unless the culture thrives on complexity, alternative systems should be simple—easy to understand, easy to implement, and easy to administer.

Lessons on Resources

❖ **Costs Can Be Controlled**

One of the concerns expressed about alternative systems, such as pay banding, is the difficulty or inability to control costs. Although we've learned that pay banding as tested under demonstration projects is not cost neutral, we've also learned that there are policies and tools to limit salary increases. For example, most pay banding projects use defined pay pools as a means to control increases. The China Lake demonstration project's pay bands, which were tracked over a 10-year period, showed a 2 to 3 percent increase in average salary relative to the comparison sites.

However, it must be acknowledged that there will be increased administrative costs to alternative systems. There are costs to changing administrative, human resources and IT support systems. There are also costs associated with systematic evaluation. They should be acknowledged up front and budgeted for.

❖ **Flexibilities Must Be Integrated Into the Agency's HR System**

Flexibilities do not work alone—they influence and impact the entire HR system. As an example, unless there is an adequate performance assessment system, pay for performance will not be successful. The flexibilities should complement and strengthen the entire HR system. In addition, impact on the overall HR system, including IT and HR support services, should be addressed.

❖ **Ongoing Evaluation Is Important**

Ongoing evaluation provides management and employees with information on the effectiveness of alternative systems. In addition, it helps to detect and address unexpected adverse impact. It also provides the basis for considering expansion to other populations and agencies.

Demonstration Projects and Alternative Personnel Systems Part II

HR Flexibilities	
<p>Performance Focused Pay Pay banding is the compensation and classification framework that groups fifteen General Schedule (GS) grades into three, four, five or six broadbands based on career path and occupations. By substituting broadbands for narrow GS grades, pay banding expedites the classification and staffing process.</p> <p>Depending on the design, employees are compensated and rewarded based on performance, contribution, or competencies. Demonstration project evaluations show high performers/contributors are retained because of being rewarded for their performance, while low performers either improve or leave the organization.</p> <p>Management can offer significant pay raises to new hires from the private sector, commensurate with their qualifications and within the salary rate range of the applicable broadband. This flexibility has enhanced the demos' ability to compete with the private sector for high quality candidates, including college graduates.</p> <p>The Administration is considering alternative personnel system legislation that would permit agencies to adopt such programs under OPM oversight.</p>	Navy "China Lake": 1980 – Present
	National Institute of Standards and Technology (NIST): 1988 – Present
	Army Aviation & Missile: 1997 – Present
	Air Force Research Lab: 1997 – Present
	Army Research Lab: 1998 – Present
	Army Engineer R&D Center: 1998 – Present
	Army Medical Research & Materiel Command: 1998 – Present
	Naval Sea Systems Command Warfare Centers: 1998 – Present
	Commerce: 1998 – Present
	Naval Research Lab: 1999 - Present
	DoD Acquisition Workforce: 1999 – Present
	Federal Aviation Administration*: April 2000 – Present
	Bureau of Alcohol, Tobacco and Firearms (law enforcement legislated demo): 1998 – Present
Internal Revenue Service* (chapter 95 of title 5, U.S.C.): 1998 – Present	

APPENDIX

Many of the flexibilities discussed in this paper have been tested and evaluated as part of demonstration projects conducted by OPM under chapter 47 of title, United States Code. Some have also been incorporated into alternative personnel systems, but alternative personnel systems do not require the formal third-party evaluation that is conducted for all demonstration projects. So the demonstration project evaluation provide by far the richest source of in-depth information about how these innovations have actually worked.

Therefore, as a further source of information supporting the lessons learned and general descriptions of the flexibilities, we have developed this appendix summarizing each of the demonstration projects and their results, as drawn from the project evaluation. Basically, this is the primary source material from which most of the general findings were derived.

A couple of notes of caution are in order. First, each evaluation was tailored to the needs of the organizations involved in the particular demonstration project. The flexibilities were implemented in all cases as part of a series of integrated waivers to title 5, and it is impossible to isolate their specific effects from those of the system within which they were implemented. Second, the mature projects which provide so much of the most well-established information from demonstration projects were all begun in the 1980's -- a time when both the interest in and the capability to measure the impact of HR on mission accomplishment was not as advanced as it is today. While even today, in both public and private sectors, this remains an emerging capability, we are now requiring agencies currently involved in demonstration projects to evaluate the project's impact on organizational effectiveness.

Demonstration Project Evaluations

By law, demonstration projects under 5 U.S.C. 4703 must be evaluated to determine their "impact on improving public management." The goal of the evaluation is to provide the necessary analytical information on the effectiveness of the project in achieving its goals, the applicability of the test for adoption Governmentwide, and whether the project should be modified, terminated, or continued.

Although OPM does not prescribe one evaluation approach, we do require a sound, defensible research design that protects the integrity of the evaluation process and produces reliable and valid results that "measure the impact of the project results in relation to its objectives" (5 CFR 470.317(b)).

Many of our past demonstration projects have used a quasi-experimental design to evaluate the effects of the demonstration. The quasi-experimental approach is one used when it is not possible to control assignment of individuals to the experimental group. Basically, it recognizes that these are not pure lab experiments. The quasi-experimental approach typically incorporates three features: a comparison group, baseline data, and a

longitudinal design including survey and focus group data for the life of the project. We require evaluators to be independent third parties.

Guidance on conducting evaluations is contained in the “Demonstration Project Evaluation Handbook” on our website (<http://www.opm.gov/demos/evlhb.pdf>). As outlined in the Handbook, the current evaluation demonstration projects must measure the impact of the project results in relation to its objectives, including assessing the:

- 1) accuracy of the implementation and operation of the project;
- 2) impact on merit systems principles and prohibited personnel practices;
- 3) impact on veterans preference and diversity; and
- 4) impact on Government Performance and Results Act (GPRA) issues such as organizational effectiveness and productivity and mission accomplishment.

We recognize that demonstration project evaluations require investments in terms of money, time and human capital. This can be very expensive to the agency that funds it. We also know that the measurement of organizational effectiveness vis-à-vis the demonstration projects is relatively new for agencies, but this is imperative in view of GPRA and the new emphasis on effective management of human capital.

Navy "China Lake" Demonstration Project

- STATUS:** (Permanent) Alternative Personnel System
- SITES:** Naval Air Warfare Center, Weapons Division (formerly NWC), China Lake, Point Mugu CA, White Sands, NM; sites within the Space and Naval Systems Command in San Diego, CA, Chesapeake, VA and Charleston, SC, (Formerly Naval Command, Control and Ocean Surveillance Center [formerly NOSC] San Diego, California). Authorized for expansion to successor organization.
- PARTICIPANTS:** Approximately 10,000 GS/GM employees: scientists and engineers, technicians, administrative, technical specialists, and clerical staff
- FEATURES:** Simplified classification system which consolidates GS grades into broader pay bands
Performance-based pay system for all white collar employees
Increased flexibility for starting salaries
- MILESTONES:** 1980 Final project plan published in the *Federal Register*
1980 Project implemented
1984 Congress extends project to 1990, lifts 5000 employee limit
1988 Congress extends project again, to 1995
1994 Project extended indefinitely by Public Law 103-337
1995 Expansion to successor organization (NAVAIR) authorized

RESULTS

This was the first personnel demonstration project under the Civil Service Reform Act of 1978. The purpose was to improve recruitment and retention of high quality workers and "let managers manage" by increasing their control over classification, pay, and other personnel matters. Classification was simplified and delegated to managers. Pay increases within broad pay bands were linked closely to performance ratings. Starting salaries were made flexible.

Based on successful results, the project was extended indefinitely in 1994 by P.L. 103-337. In 1995, Navy was given authority to expand the project throughout the successor organization, the Naval Air Systems Command (NAVAIR). In addition, Congress allowed the Department of Defense science and technology labs to test demonstration projects modeled after the China Lake project.

OPM conducted the project evaluation and published 14 evaluation reports. The project was successful in improving personnel management at the two demonstration labs. Simplified delegated job classification based on generic standards has drastically reduced the time for classification actions and reduced conflict between personnel and managers.

Perceived supervisory authority over classification, pay and hiring increased, as did employee satisfaction with pay and performance management; more than 70 percent of employees were supportive of the demonstration project.

There has been an improvement in the recruitment and retention of high performers and an increased turnover of low performers. The Navy demo labs have been able to compete effectively in the market for high quality employees because recruits know that they will be paid based on their performance. Managers are given the flexibility to use pay strategically by rewarding their top performers which sends a message that performance is rewarded in the organization.

Over the first 10 years of banding, average salaries in the demonstration project increased two to three percent more than in the comparison group. However, Navy has been successful in balancing higher starting salaries with slower pay progression to keep average salary increases within the 2-3 percent range over time. Average pay progression during the first five years was slower than under the GS system, where employees tend to start with lower salaries but move up quickly due to annual promotions.

Supervisors also find the system relatively easy to use, particularly the pay bands. They report devoting less time to position classification and no longer finding it as adversarial.

Salary progression through the broad pay bands depends directly on performance. The original five-level performance rating system was changed in 1990 to a two-level system. The performance link was retained by rating employees on a 100-point scale, with more highly rated employees receiving larger salary increases. The evaluation data show that this system has succeeded over time in reducing the correlation between an individual's tenure and pay. Meanwhile, performance ratings have become a strong predictor of pay. Survey data show as well that employees perceive a strong pay-performance linkage. Average salaries have increased significantly under this system. For example, average salaries at NIST were about 10 percent higher than comparable GS salaries after 8 years. However, this represented a conscious decision by NIST management to establish a more competitive pay posture relative to the private sector.

Department of Agriculture

- STATUS:** (Permanent) Alternative Personnel System
- SITES:** The Forest Service (FS) and the Agricultural Research Service (ARS)
- PARTICIPANTS:** Up to 5,000 new hires – including GS, GM, and FWS positions
- FEATURES:** Streamlined examining process using quality groupings in place of numerical ratings and "rule of three"
Decentralized determination of shortage category (precursor to delegated case examining)
Recruitment incentives including bonuses and relocation expenses (precursor to the FEPCA provisions)
Extended probationary period for research scientists
- MILESTONES:**
- | | |
|------------------|--|
| July 1990 | Project implemented |
| May 1995 | Project extended for evaluation purposes until June 1998 |
| September 1996 | Project expanded to include term appointments |
| October 21, 1998 | Made permanent in FS and ARS via P.L. 105-277 |

RESULTS

The purpose of this demonstration project was to test a flexible and responsive staffing system that would permit managers to attain a quality workforce reflective of society.

This was the first demonstration project testing a comprehensive simplification of the hiring system for both white-collar and blue-collar Federal employees. A key flexibility of this project was "categorical ranking." Under this process, applicants meeting minimum qualification standards are placed in one of two groups (quality and eligible) on the basis of their education, experience, and ability. All candidates in the quality group are available for selection, with preference within the group given to veterans. Over 200 ARS and FS sites have implemented the system.

For the first 5 years, Pennsylvania State University evaluated the demonstration project. The National Agricultural Statistics Service conducted the evaluation for the 3-year extension period. OPM reviewed and approved both evaluations.

The evaluation for the initial 5-year period showed that the number of candidates per job announcement increased, more candidates were referred to managers for selection, hiring speed increased, and there was greater satisfaction with the hiring process. There was no adverse impact on the number of women, minorities, or disabled hired, and more veterans were hired in ARS (16.3 percent at the demonstration sites vs. 9.5 percent at the

comparison sites) and slightly more veterans hired in FS (18.9 percent at the demonstration project sites versus 16.7 percent at the comparison sites).

Significantly, survey data showed that managers were overwhelmingly in agreement that the categorical ranking process provided a better pool of candidates from which to make a selection. Managers were very positive on every other dimension of the demonstration project process, including their ability to recruit high quality individuals and to evaluate the retention of employees within the expanded 3-year probationary period.

The management survey confirmed that managers strongly supported the continuation of the process and believed that it improved their ability to be responsive to local recruitment needs, while allowing them to hire a high quality workforce and meet diversity goals. The demonstration project was made permanent in the FS and ARS in October 1997 by Public Law 105-277.

Department of Commerce

STATUS: Active

SITES: **Office of Technology Policy**, Washington, D.C.
Bureau of Economic Analysis, Washington, D.C.
National Telecommunications and Information Administration,
Boulder, CO
National Oceanic and Atmospheric Administration, Boulder, CO;
Miami, FL; Silver Spring, MD; San Diego, CA; Norfolk, VA; Seattle, WA;
Triangle Park, NC; Oak Ridge, TN; Las Vegas, NV; Idaho Falls, ID; Hilo,
HI; Barrow, AK; Pago Pago, American Samoa; South Pole, Antarctica;
Norman, OK.
National Environmental Satellite, Data, and Information Service,
Asheville, NC; Suitland, MD; Fairbanks, AK.
National Marine Fisheries Service, Silver Spring, MD; Gloucester, MA;
St. Petersburg, FL; Long Beach, CA; Juneau, AK.

PARTICIPANTS: 2,645 employees in above bureaus

FEATURES: Pay-for-performance in a pay banding framework; supervisory pay differential; simplified recruiting, classification and examining process, extended probationary period for research scientists.

MILESTONES: May 2, 1997 Proposed project plan published in the *Federal Register*
December 24, 1997 Final project plan published in the *Federal Register*
March 29, 1998 Project implemented

RESULTS

The purpose of the Commerce demonstration project is to strengthen the contribution of human resources management in helping to achieve the missions of specific operating units of the Department of Commerce. The Commerce demonstration project replicates the features first tested in the National Institute of Standards & Technology (NIST) demonstration project as described in above mentioned features. Based on its success, the NIST project was made permanent by Congress in 1996 (Pub.L. 104-113). The Commerce demonstration project seeks to determine whether the same interventions tested at NIST can be successfully implemented at other organizations within Commerce that employ different occupational groups.

The Commerce demonstration project was implemented on March 29, 1998 and is intended to last five years (March, 2003). A Baseline/Implementation Report was published June, 2000. The evaluation is being conducted by Booz-Allen & Hamilton. Forty-two interviews were conducted with demonstration project employees and 32 focus

groups were conducted with comparison group employees. Focus groups included managers, employees, and diverse groups representing various locations and organizations. The implementation survey collected data from over 1,400 demonstration and comparison group employees. Objective personnel data was collected. The data from this first report will serve as a baseline in future evaluation covering the life of the project.

While it is too early to assess the success of the project against long-term outcomes, the evaluation data show some very important information that can help the organization monitor and address early. For example, it is clear that feedback, communication and training are key elements of ensuring smooth implementation. Both demonstration and comparison groups want more feedback and greater depths of discussion related to their work performance. Employees agreed that their supervisors were too busy to provide a greater level of attention to their performance appraisal.

Based on survey results, employees agreed that pay bands provide a tool whereby Commerce can be more competitive with other agencies and private sector. Supervisors agreed more frequently that their pay system is more flexible than did the comparison group participants. Managers believe that the flexibility in setting pay helps their organization establish competitive starting salaries. They believe that this has already made a difference to their organizations. The ability to start a highly qualified candidate at a higher rate than would have been allowed under the old system has increased the likelihood of hiring a sought-after candidate.

Information from different data sources indicate that the demonstration project has not had a disparate impact on minorities, women and veterans.

Analysis of objective data indicates that high-rated employees are indeed receiving higher pay raises and bonuses under the new system. This positive relationship indicates that as performance increases, so does salary percent received. These results provide evidence that the pay band structure provides the flexibility to reward high performers with financial gains.

Department of Defense Civilian Acquisition Workforce

STATUS:	Active
PARTICIPANTS:	Approximately 5,000 employees
LOCATIONS:	Numerous locations throughout the United States and overseas
FEATURES:	First demonstration project to cover a workforce rather than an organizational entity. Features of this project include a contribution-based compensation system, broad banding, hiring and appointment authorities
MILESTONES:	March 24, 1998 Proposed project plan published in the <i>Federal Register</i> January 8, 1999 Final project plan published in the <i>Federal Register</i> February 8, 1999 Phased implementation began; expect completion of phased implementation in October, 1999.

Results

The purpose of the DoD Civilian Acquisition Workforce Personnel demonstration project is to demonstrate that a flexible and responsive personnel system will enhance DoD's ability to attract, motivate and retain a high quality acquisition workforce. This project is unique because it is the first demonstration project that covers an occupational workforce, rather than an organizational entity. It covers DoD civilian employees directly involved in acquisition. This project was proposed in DoD's Fiscal Year 1996 authorizing legislation. A process action team, which included representatives of all branches of the services, the Office of the Secretary of Defense, and the Office of Personnel Management, worked cooperatively to design this project and continue to collaborate in the project's implementation.

The first DoD Civilian Acquisition Workforce Personnel demonstration project evaluation report provides baseline and implementation data. A priority for the Acquisition Team is continuing the development of organizational performance measures tied to the mission in support of the demonstration project and its evaluation. We strongly support and applaud their efforts in this area. Cubic Applications is conducting the evaluation for Acquisition.

A feature of the contribution based pay system allows managers to financially reward employees who contribute substantially more than expected, based on their current salary. Based on the data, higher contributors are being rewarded more highly than others.

The evaluation plan calls for continued examination of the impact of the demonstration project on demographic groups, including minorities, women and veterans. Baseline data has been collected for both the workforce and survey databases that will allow long-term analyses of any demographic impact. Equity studies are being conducted after each annual pay out and subsequently the results of those analyses will be available as part of the overall evaluation of the project.

DoD Laboratory Demonstration Program

STATUS:	Active
SITES:	Various Defense science and technology labs across the country
PARTICIPANTS:	23,844 GS/GM employees at the Air Force Research Laboratory; Naval Sea Systems Command Warfare Centers; Army Medical Research and Materiel Command; Army Research Laboratory; Army Engineer Research & Development Center; Naval Research Laboratory; and Army Aviation and Missile Research, Development, and Engineering Center: scientists, engineers, technicians, clerks, administrative staff, etc.
MAJOR FEATURES:	Pay banding pay systems Simplified job classification Pay-for-performance or contribution-based pay Streamlined recruitment and staffing Enhanced training and development Modified reduction-in-force Extended probation period
MILESTONES:	1995 Special DoD Lab Demo Authority established by Congress March 1997 First individual project implemented (Air Force Labs) September 1999 Most recent project implemented (Naval Research Lab)

RESULTS

The Department of Defense's Science and Technology Reinvention Laboratory program was authorized by the National Defense Authorization Act for FY 96, for the general purpose of expanding to other DoD laboratory facilities the flexibilities found in the original Navy (China Lake) demonstration project. Its stated objectives are to (1) improve the effectiveness of DoD laboratories through a more flexible, responsive personnel system; (2) increase line management authority over human resources management; (3) recruit, develop, motivate, and retain a high quality workforce; and (4) adjust workforce levels to meet strategic program and organizational needs.

To achieve these ends, individual labs have customized and otherwise built upon the China Lake system of pay banding with pay-for-performance to include other system enhancements. Of particular interest is the contribution-based pay system at two of the labs. This system links an employee's salary directly to the employee's contribution to achieving the organization's mission. Thus, annual pay increases are determined in a way that brings an individual's overall salary more closely in line with his or her contribution.

Because the individual projects are only 2 to 4 years old, the project evaluation is still ongoing. Results so far indicate that the demonstration system is perceived by employees as more flexible and responsive than the traditional title 5 system. Managers are reporting increased authority over human resources management and have been given new tools to recruit and retain a high quality workforce. Although the very competitive labor market has made it difficult to draw conclusions about the project's effectiveness, initial results suggest that the flexibilities in use can have a real impact on improving the effectiveness of the human resources management at the labs as they had at China Lake.