

# Strategy Research Project

## NATIONAL SECURITY PERSONNEL SYSTEM: SUCCESSFULLY DESIGNED FOR FAILURE

BY

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USAWC STRATEGY RESEARCH PROJECT

**NATIONAL SECURITY PERSONNEL SYSTEM: SUCCESSFULLY DESIGNED FOR  
FAILURE**

by

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## ABSTRACT

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This strategic research project compared characteristics of organizations where pay for performance concepts worked well over time with that of the Department of Defense (DoD) National Security Personnel System (NSPS) to identify whether those same characteristics were present in today's federal environment. The results of the comparison of characteristics was complimented with empirical frameworks of (a) the history of DoD pay for performance concepts, specifically the Civil Service Reform Act, (b) employee perceptions of NSPS, and (c) other considerations as further legitimacy to the ideology that NSPS is successfully designed for failure. The literature review confirmed that a DoD cultural shift should occur to enact success of a civilian pay for performance system. Replicating the NSPS theory with cultural diversity and action includes (a) championing from the top, (b) improving current foundations of the pay pool funds, (c) replacing five-tiered rating scales with three-tiered rating scales, (d) prescribing simple and consistent pay increases for *role models* that are 2.5 times higher than the average *valued performer*, (e) instituting faster promotions, higher

bonus awards, and quality recognition of *role models*, and (f) affording leadership resources to conduct swift and certain poor performer terminations.

## NATIONAL SECURITY PERSONNEL SYSTEM: SUCCESSFULLY DESIGNED FOR FAILURE

In a reconfigured Total Force, a new balance of skills must be coupled with greater accessibility to people so that the right forces are available at the right time. Both uniformed and civilian personnel must be readily available to joint commanders.

—Donald Rumsfeld<sup>1</sup>

Focus is on mission, strive is toward results, performance is nothing less than extraordinary<sup>2</sup> – these are the phrases associated with the intended effect of the design and implementation of the Department of Defense’s (DoD) National Security Personnel System (NSPS). Senior strategic decisions<sup>3</sup> and the most recent approved legislation<sup>4</sup> provided DoD leadership with greater flexibility in hiring, firing, reassigning, evaluating, compensating, and disciplining federal civilian employees in an effort to positively influence a civilian employment culture shift in which individual performance and contributions to mission are acknowledged and rewarded. While an inspiring venture, DoD entities, and specifically the U.S. Army environment, do not exercise organizational characteristics conducive to a fair civilian pay for performance environment that “fosters cooperation and trust”<sup>5</sup>. Nor does the NSPS inspire a paradigm shift toward (a) personal accountability, (b) participation in increasing deployments, (c) supporting global natural disasters, and (d) enhancing the joint spectrum of operations.

The following discussion uses the U.S. Army environment as its baseline and provides an empirical framework of (a) organizational characteristics where pay for performance has worked over time, (b) a review of the history of DoD pay for performance concepts, specifically the Civil Service Reform Act (CSRA) of 1978, (c) employee perceptions of the competence of the practices of NSPS, and (d) other

considerations that are facilitating the NSPS' successful design for failure. An examination of the characteristics of organizations where pay for performance has worked successfully over time<sup>6</sup> illustrated cultural discrepancies in relation to emulating the same successes in a U.S. Army environment. A review of the history of pay for performance concepts, and specifically the CSRA of 1978, the first comprehensive law since 1883, exemplified the fulfillment of the campaign promises of then U.S. President Jimmy Carter, but did little to align merit practice with theory. Instead, the CSRA raised concerns about poor job performance, protection of federal employees who 'blew the whistle' on government misconduct and fraud<sup>7</sup>, and "added a thick layer of civilian political appointees to the upper ranks of federal agencies"<sup>8</sup>. A review of surveys provides a brief indication of the employee perceptions of the success of the NSPS system in affected DoD and U.S. Army environments.

Other considerations reviewed include leadership training models and cultivating pools of high-potential employees, and the general culture of the U.S. Army environment. The combined review confirms that until the U.S. Army candidly experiences a culture shift in effectively aligning human resource and pay for performance practices with the theory of NSPS, the intended results will continue to be nothing more than cynical conversations in organizational grapevines.

### Organizational Characteristics of Pay for Performance Success

Pay for performance concepts have been used for centuries<sup>9</sup> and range from the traditional merit pay systems to stock options and more<sup>10</sup>. The Babylonian King Hammurabi, who reigned from 1795 to 1750 BC, used a code of rights to pay

tradesmen with food based on their performance or output – this piece rate plan is one of the earliest recorded forms of performance incentives<sup>11</sup>.

The Parker Pen Company and the Atwood Vacuum Machine Company reported increased organizational effectiveness, at least 50% of the time, when using the “Scanlon Plan” of compensation<sup>12</sup>. The Scanlon Plan is a common sharing practice of organizational challenges, goals, ideas, and economic gains between leadership and employees. The monetary payouts of the Scanlon Plan were distributed as a percentage of an employee’s gross income.

A 1992 study<sup>13</sup> revealed that the Lincoln Electric Company’s use of incentive pay initiatives was linked to employee productivity. A 1995 study<sup>14</sup> noted that over 90 percent of the Fortune 1000 companies used some form of pay for performance.

A significant amount of research confirmed repeatedly that pay for performance worked in companies with strategic policies that provided top-down guidance and direction<sup>15</sup>, but that the degree of success was dependent upon employees’ perceptions of the performance orientation in the organization<sup>16</sup>, and the organizational approach to performance<sup>17</sup>. Literature further suggested that implementation issues of pay for performance processes were more important than strategic design and policy of such<sup>18</sup>. Research also confirmed that pay for performance assisted in organizational recruitment practices<sup>19</sup>. The private sector continues to adopt successful pay schemes of other companies, rewarding employees who make business more competitive, and creating a team environment<sup>20</sup>.

Comparing pay for performance successes in private business with public government is challenging because the most significant difference between the two is

the cultural consequences associated with performance. When a corporate employee's performance exceeds expectations, he/she stands to benefit; and when the employee fails to meet expectations, he/she suffers<sup>21</sup>. In fact, many private organizations "now have explicit policies that dictate salary increase differentials"<sup>22</sup> for the *role model*<sup>23</sup> employees. As an example, IBM's pay for performance policy prescribes pay increases for its role model employees that are 2.5 times higher than the average *valued performer's*<sup>24</sup> pay increase. If the average employee pay increase is four percent, then IBM's role model employees may expect ten percent.

The DoD and U.S. Army NSPS system applies annual pay increases based on a pot of money termed the *pay pool funds*<sup>25</sup>. Pay pool funds are allocated based on the number and base salaries of employees in a given pay pool. Pay pool fund limits are further designated by the Office of the Secretary of Defense (OSD) and other department heads' prescribed percentages of historical spending (i.e., fiscal years 2004 and 2005) on CSRA general schedule within-grade and quality step increases within Unit Identification Codes (UICs)<sup>26</sup> for Element 1. There are three elements that may make up pay pool funds, but for simplicity, only Element 1 is used here.

As an illustration, fictitious U.S. Army Garrison Happy, designated by UIC WAXZZZ and part of the Installation Management Command (IMCOM), had 100 NSPS employees that were part of the 41,565 Army civilians to attain their first NSPS payout in January 2008<sup>27</sup>. Eighty percent of the U.S. Army Garrison Happy NSPS employees were in the lower range of general schedule pay grades prior to conversion to NSPS. During fiscal years 2004 and 2005, while still under the general schedule system, the Garrison's leadership awarded less than the Army average in within-grade and quality

step increases. As such, and upon conversion to NSPS, the OSD designated IMCOM organizations with 2.30% as the amount of base salary to be designated as pay pool funds for the 2008 payouts for performance (see Table 1)<sup>28</sup>. So, 2.30% of the base salaries of 100 employees of U.S. Army Garrison Happy are designated toward the annual pay pool funds.

		Historical Funding % for NSPS Spiral 1
<b>ACOMs</b>		
	TRADOC	1.94%
	AMC	2.58%
	FORSCOM	2.55%
<b>ASCCs</b>		
	USARSO	3.25%
	USARPAC	2.56%
	USASOC	3.09%
	SDDC	2.40%
	USASMDC/ARSTRAT	3.10%
<b>DRUs</b>		
	IMCOM	2.30%
	NETCOM	2.56%
	A TEC	2.71%
	USACIDC	3.55%
	MEDCOM	2.02%
	MDW	3.12%
	USACE	2.01%
	USAASC	2.37%
	HQDA**	2.84%
<b>Total Population</b>	<b>Weighted Average</b>	<b>2.41%</b>

Table 1.

In addition to the means used in determining the pay pool fund amount, individual payouts theoretically based on performance are further constrained by the total number of shares disbursed in the pay pool. As of this writing, number of shares for 2008 payouts was distributed based on average rating scores similar to those identified in Table 2<sup>29</sup>. With all of this in mind, it is logical to assume that DoD and U.S. Army pay for performance is based on (a) base salaries of others within the same pay pool, (b)

historical spending prior to NSPS, (c) and total number of shares distributed, all of which have no correlation to individual performance.

Rating level	Average rating	Number of shares
5	4.76 – 5.00	6 shares
5	4.51 – 4.75	5 shares
4	4.01 – 4.50	4 shares
4	3.51 – 4.00	3 shares
3	3.01 – 3.50	2 shares
3	2.51 – 3.00	1 share

Table 2.

The cultural consequences associated with individual performance in private business are a successful characteristic of pay for performance use<sup>30</sup>. The significant salary increase differentiation between *valued performers* and *role models* is just one aspect. Role models in the corporate world can also expect faster promotions and higher bonus awards; their contributions to the businesses' success is recognized, and many times celebrated<sup>31</sup>. Employees that fail to meet corporate expectations can expect adverse consequences, to the point of swift and certain termination of employment.

In contrast, federal managers and supervisors that pursued employee discipline based on poor performance have described the process as cumbersome, time-consuming, and emotional<sup>32</sup>. Due to public perception of high levels of poor performance of federal civilian employees, a fiscal year 1998 oversight review conducted by the Office of Personnel Management (OPM) Merit and Effectiveness Division determined that the actual number of poor performers in federal civil service totaled 3.7 percent<sup>33</sup>. The results of the OPM study were derived from 200 interviews of supervisors (188 were civilian supervisors and 12 were military supervisors of civilians) who directly supervised 3,114 civilian employees<sup>34</sup>.

As of 2005, 2.7 million workers made up the federal civilian work force; nearly two percent of the entire U.S. workforce<sup>35</sup>. OPM's 2006 federal civilian employee profile determined that 11.4% of the civilian workforce was managers and supervisors<sup>36</sup>. Using the above figures and percentages, we can estimate that roughly 307,800 civilian workers make up the manager and supervisor workforce. OPM's survey of 200 supervisors (.06% of the total supervisor population) who supervised 3,114 employees (.13% of the total non-supervisory population) is a quantitative study that does not adequately represent the surveyed population. Other studies<sup>37</sup> continue to indicate a growing concern of poor performance in the federal civilian workforce, and the absence of initiative in reducing or eliminating the issue.

A variety of performance systems exist and are generally comprised of two main components: performance measurement and incentive pay. Performance is measured at the individual level or at the team level; and performance measurements may either be subjective (i.e., behavior-based) or objective (i.e., results-based)<sup>38</sup>. The incentive pay component is normally based on company profitability, cost savings, individual performance, or achievement of goals. Edward Lawler<sup>39</sup>, a prominent compensation expert, suggested that performance systems contain several elements:

- The performance system must allow employees to directly influence their own performance measures.
- Incentives must be based on clearly specified behaviors or outcomes (objective measures are more specific than subjective measures).
- Employees must perceive a connection between their pay and their performance.

- Performance compensation must be provided soon after the performance occurs. Lawler suggested that long delays in payouts weaken the performance-reward contingency.
- Payouts that are formula-driven as opposed to arbitrarily established payouts improve the system credibility, especially if the formula remains consistent over time.

According to Lawler and other compensation experts<sup>40</sup>, systems that possess all of these key features provide the greatest link between performance and pay, and ultimately result in enhanced employee performance. As will be noted by employee perceptions later in this document, the DoD and U.S. Army are partially effective at allowing employees to directly influence their own performance measures and having clear performance objectives, but prompt performance compensation and fair and equitable formulas that drive payouts are deficient.

Championing pay for performance has been another key element to success in private business. The key that the private sector has found in championing pay for performance is that it must come from the top, not from a human resource management official in the organization<sup>41</sup>. While senior leadership exercised championing in some geographic areas of the U.S. Army, this did not occur in all areas. Experts in the field of performance-based compensation programs echo the sentiment that the role of a champion is critical, and it should not be human resources personnel<sup>42</sup>.

The performance-based compensation program must be championed by the top management of the organization, to communicate what the program entails, what is in it for employees, and why it is important to the overall success of the organization.<sup>43</sup>

The private sector has a clear understanding that the responsibility of championing and continually reinforcing the importance of performance falls on the chief executive officer and his/her executive team. In contrast, individual performance planning and appraisal processes of DoD and the U.S. Army have originated from, and in some instances championed by senior federal leadership, but the responsibility of implementation has historically fallen under the human resources functions<sup>44</sup>. Since the inception of the NSPS, civilian personnel offices of the U.S. Army have (a) conducted the training programs, (b) distributed policies and guidelines, (c) provided forms and instructions, (d) processed grievances, (e) taken the lead in NSPS system upgrades, and (f) followed up with supervisors. Literature suggests that the implementation phase of pay for performance initiatives is far more important than strategic design and policy of such<sup>45</sup>. Until senior leadership assumes these roles, managers, supervisors, and employees of NSPS will not invest time toward appropriate behaviors that ensure the system works as intended.

Research has confirmed that successful pay for performance programs assist in organizational recruitment practices, especially with younger workers who do not base salary levels as important elements to job choices<sup>46</sup>. The federal government expects a peak in civilian workforce retirement between 2008 and 2010<sup>47</sup>. The younger workers that the federal government is looking to employ are seeking assurance that their value and contribution to the organization will be recognized. A successful pay for performance plan is a primary tool in illustrating individual value and contribution to an organization. Future recruitment of *role model* employees drives home the added requirement for NSPS championing from the top down.

## History as a Strategic Decision-Maker

As part of the DoD and U.S. Army's ongoing transformation, and building and retaining of a highly qualified 'total force' of military and civilian personnel<sup>48</sup>, the regulatory authorization and succeeding implementation of the civilian NSPS was termed a "key transformation tool"<sup>49</sup> in revolutionizing the civilian Army work force. Considering ongoing federal budget issues, an aging civilian work force, maintaining continuity in hard-to-fill positions, and similar issues, the NSPS system was further saluted as a means for (a) recapturing resource management challenges (pay and personnel), (b) monetarily compensating for individual performance based on strategic objectives, and (c) forecasting and planning future civilian work force needs to meet DoD mission<sup>50</sup>.

It has already been mentioned that pay for performance systems and incentives are not new concepts – they have been in practice for centuries<sup>51</sup>. While not in practice for centuries in the DoD world, various forms of legislation over the past 46 years have attempted to align federal civilian pay with private sector pay as a means of attracting *role model* employees to civil service. The Federal Salary Reform Act of 1962 established the comparability principle that was a means for adjustments to general schedule white-collar salaries to closely match the private sector rates for the same levels of work<sup>52</sup>. The general schedule step increases were also part of the Act of 1962.

The ensuing Federal Pay Comparability Act of 1970 transferred the responsibility of general schedule pay adjustments from Congress to the Executive Branch<sup>53</sup>. Progress continued to be made toward salary equivalents with the public sector and private sector, but no major changes took place and leaders were not satisfied with results.

The CSRA of 1978<sup>54</sup>, the first major change in federal civil service since the 1883 Pendleton Act, resulted in significant changes:

- The Office of Personnel Management (OPM) and the Merits Systems Protection Board (MSPB) replaced the Civil Service Commission.
- The Senior Executive Service (SES) was introduced.
- The Federal Labor Relations Council transformed into the Federal Labor Relations Authority.
- A process of civilian employee merit principles was enacted.

The intent of the CSRA was to transform federal civil service into a flexible and productive management system. The inception of an objectives-based performance appraisal process was the foundation of the CSRA changes<sup>55</sup>, and drove the policies that staffing considerations, disciplinary processes, and incentive programs were based.

The policy development of CSRA established the platform for structural implementation reforms, but did nothing in instituting behavioral changes in the civil service environment<sup>56</sup>. Difficulties during the implementation phases of the CSRA were noted from inception of the process. There were concerns about impartial administration of the performance appraisal and incentives processes<sup>57</sup>. Civil service employees noted concerns about (a) poor job performance, (b) protection when 'blowing the whistle' on government misconduct and fraud<sup>58</sup>, and (c) an added layer of civilian political appointees known as the SES. Even the SES that were appointed admitted an uncertain environment of political interference with their responsibilities and with the new performance appraisal process<sup>59</sup>.

In addition to the objectives-based performance appraisal process, the CSRA was the foundation which other reforms were built to enhance management flexibility and productivity. Unfortunately, lacking a behavior cultural shift and other issues, the execution of the CSRA failed miserably<sup>60</sup>.

### NSPS Personnel Perceptions

Federal employee reactions to the CSRA were detailed in a series of employee surveys conducted by the OPM (1980<sup>61</sup>, 1983<sup>62</sup>, and 1984<sup>63</sup>) and the MSPB (1988<sup>64</sup>). It is difficult to assess the attitudes of federal civilian employees toward pay for performance and other reforms prior to the 1978 CSRA due to the lack of baseline data<sup>65</sup>. The most comprehensive data of employee attitudes prior to the CSRA is the *1979 Federal Employee Attitude Survey Phase 1 (FEAS 1)*<sup>66</sup>. The 1979 Likert Scale Survey<sup>67</sup> immediately followed implementation of the CSRA and was used as a pre-reform baseline for evaluating future CSRA effects. The 1979 survey asked 14,000 randomly chosen federal servant participants what they thought about reform in general. Lynn and Vaden<sup>68</sup> reported high levels of skepticism and distrust in regard to civil service reform; some participants even referred to the CSRA as a “return to the spoils system.”<sup>69</sup>

The 1986 Merit Principles Likert Scale Survey (MSPB, 1988) contained over 150 questions and included responses from 16,000 federal employees from all levels and agencies<sup>70</sup>. While the 1979 FEAS survey and the 1986 MSPB survey contained varying topics, they also contained a large number of common issues, to include the performance appraisal system. Specifically, these surveys assessed the perceptions of the objectivity and fairness of the performance appraisal system, and the adequacy of

its feedback and participation. The general response by survey participants was that the performance appraisal process was full of uncertainties and negative perceptions.

A proportion of respondents felt that the awarding of *blanket* performance ratings declined slightly, but the change was due to uncertainty rather than disagreement. While the motivational equity theory claimed that awarding of blanket performance ratings discourages poor performance<sup>71</sup>, it is debatable by many, and is certainly dispiriting to employees that do work diligently. The awarding of blanket performance appraisals impedes the purpose of the appraisal process, and weakens employee confidence in the system (FEAS, 1979; MSPB, 1988). The current concern with maintaining a *bell curve* in the way of NSPS appraisal ratings<sup>72</sup> is following the same concept as the blanket performance appraisal issue under CSRA.

The results between the FEAS (1979) and MSPB (1988) illustrated a decline in employees that participated in the establishment of their own performance objectives<sup>73</sup>. An essential requirement of a successful objectives-based performance appraisal process (and the theory behind the CSRA performance appraisal process) is inclusion and participation of employees with their own performance objectives<sup>74</sup>. The studies also noted a decline in the proportion of respondents who believed they were receiving adequate supervisor feedback regarding their performances<sup>75</sup>.

The objectives-based performance appraisal process mandated by the 1978 CSRA was an impressive goal whose successful implementation necessitated both structural and behavioral changes. As noted by survey results, the federal service system fell short of the intended goals.

Benchmarking has long been vital to the practice of employee compensation<sup>76</sup>. The negative side of pay for performance comes from stories similar to CSRA and those like Enron. The case of Enron clearly confirmed that pay can motivate behavior, but that relating income to performance may also distort executive and employee decisions<sup>77</sup>.

Enron serves to emphasize a central issue in pay for performance strategy, and that is that an organization gets what it rewards. Enron concentrated on stock prices; the DoD and U.S. Army NSPS theorizes to concentrate on individual performance as a means for enhanced organizational performance<sup>78</sup>. However, an Office of Personnel Management (OPM) survey conducted earlier this year with federal Senior Executive Service (SES) members leans toward the contrary<sup>79</sup>. Fifty-seven percent of the 4,386 career, non-career, and term appointment SES members surveyed believed that the NSPS process in practice did not promote enhanced organizational performance in their agencies. The Office of Management and Budget scored the highest in this area, with 89% surveyed stating that pay for performance did not promote enhanced organizational performance; paradoxically, 68% of SES members of the OPM that were surveyed said that pay for performance promoted greater organizational performance. Whether the greater percentage of OPM members applauding the pay for performance system is correlated to their replacing the old Civil Service Commission<sup>80</sup>, and their ensuing relationship and responsibility with the NSPS is unknown.

The 2008 and 2007 Defense Manpower Data Center's (DMDC) Status of Forces Surveys of DoD civilian employees provided the following data that corresponds to the questions asked in the FEAS (1979) and the MPSB (1988).

DMDC 2008 and 2007 Status of Forces (SOF) Survey of DoD Civilian Employees 2008 DMDC Respondents=58,978; 2007 DMDC Respondents=60,180* (Results Shown in Percentages)						
Survey	Strongly Agree	Agree	Neither**	Disagree	Strongly Disagree	Do Not Know
<i>2008 and 2007 DMDC SOF Survey: My performance appraisal is a fair reflection of my performance.</i>						
2008 SOF	19	46	19	9	7	1
2007 SOF	17	47	19	9	6	2
<i>2008 and 2007 DMDC SOF Survey: Creativity and innovation are rewarded.</i>						
2008 SOF	8	31	30	18	11	2
2007 SOF	9	35	30	16	8	2
<i>2008 and 2007 DMDC SOF Survey: In my work unit, differences in performance are recognized in a meaningful way.</i>						
2008 SOF	7	27	32	19	11	3
2007 SOF	7	30	31	19	10	4
<i>2008 DMDC SOF Survey: Pay raises depend on how well employees perform their jobs.</i>						
<i>2007 DMDC SOF Survey: Employees are rewarded for providing high quality products and services to customers.</i>						
2008 SOF	6	23	28	22	16	3
2007 SOF	10	36	27	16	8	2
<i>2008 and 2007 DMDC SOF Survey: In my most recent performance appraisal, I understood what I had to do to be rated at different performance levels.</i>						
2008 SOF	21	42	17	10	6	4
2007 SOF	19	43	16	11	7	3

\*The 2007 DMDC SOF Survey divided responses between NSPS Spirals 1.1, 1.2, 1.3, and non-NSPS employees. The responses of NSPS Spirals 1.1, 1.2, and 1.3 were totaled and averaged for the numbers indicated here; the non-NSPS responses were not used.

\*\*The 2008 DMDC SOF Survey uses "neither" as its middle category wherever the 2007 DMDC SOF Survey uses "neither agree nor disagree."

Table 3.

Given the large sample sizes involved in Table 3, statistical significance is assured but based on 95 percent confidence intervals and margins of error within +/-2 percent. While the perception is that performance appraisals are fair reflections of performance have remained constant between 2007 and 2008, there is increasing negativity in the specific results of the NSPS Spiral 1.1 employees. Table 3 illustrates a declining agreement that (a) creativity and innovation are rewarded, (b) differences in performance are recognized in meaningful ways, and (c) pay raises are dependent on

individual performance. There is little to no change in employee understanding of the rating process.

The U.S. Government Accountability Office (GAO) just released a NSPS report that stated its concern of DoD employee survey results that illustrate a growing dislike of the NSPS system the longer employees are under the system<sup>81</sup>. In 2006, 67 percent of the first employees under the NSPS system (i.e., Spiral 1.1) said their appraisal fairly reflected their performance<sup>82</sup>; in 2007 the number fell to 52 (GAO collapsed the response categories for positive (to include “agree” and “strongly agree”) and negative (to include “disagree” and “strongly disagree”). GAO’s report was based on focus groups it held with NSPS employees and supervisors within DoD installations. The input from the focus groups was that NSPS was bringing down motivation and morale, was not transparent, and was implemented too quickly and with little training. GAO stressed the importance of prompt implementation of three changes to the current NSPS process: (a) increase transparency of NSPS by requiring commands to publish overall rating results, (b) incorporate a third party to analyze and review ratings before finalization as a means of eliminating discrimination, and (c) eliminate all NSPS materials that tell supervisors that employees should be rated as a 3 (i.e., *valued performer*) on a 5-level system<sup>83</sup>.

### Other Considerations

Implementation processes of the first spirals of NSPS were literally contingent on date-time-group, organization, and individual. Decisions made before and during conversion from general schedule to NSPS were dependent upon interpretation of laws by varying individuals (generally, the civilian personnel offices) and organizations.

During the implementation phases of NSPS, organizations would not code a NSPS employee as a supervisor without one or more NSPS employees subordinate to them, regardless of whether such supervisor had additional subordinate wage grade or host nation personnel. There were instances through the first pay pool process where higher level review authorities directed supervisors to reduce a rating to meet the bell curve assumption.

On the positive side, the U.S. Army federal civilian service is gradually imitating successes of its active component military counterparts in identifying high-potential employees for strategic leader positions. One such success is acknowledgement and steps toward official leadership training models and cultivating pools of high-potential employees. The ideals of the NSPS are geared toward high-potential performance and successful strategic leadership models.

For years, the U.S. Army has been using formal promotion boards to select military officers for promotion; and informal boards that select the same for command positions<sup>84</sup>. Two drawbacks to attempting to maintain 'high-potential' civilian lists are the added burden of official, vice unofficial, promotion boards that should accompany such lists, and keeping the lists secret. The responsibility of a civilian promotion board would likely fall on the members of the senior executive service, already burdened by conflicting agendas and other forms of institutional boards. In addition, while 'high-potential' lists have proven successful in private business, and only if kept secret from those on the lists as well as those not on the lists<sup>85</sup>, a 'high-potential' list in the DoD and Army public sector is inconsistent with the current merit system that emphasizes fair and open competition in advancement and selection decisions. Until the strategic

actions of the NSPS mirror the theory and documented intent of the NSPS, execution of human capital management cannot emulate the successes of the private sector. The mission and culture of the U.S. Army is so distinct from its private complements that emulation of successful private sector human capital management will prove doubtful.

The DoD employs innumerable missions with the assistance of the executive departments. The U.S. Army's mission is to provide necessary forces and capabilities to the Combatant Commanders<sup>86</sup>. In contrast, the U.S. corporation's mission is in increasing worth<sup>87</sup>. Attempting to compare and imitate an organization whose mission is to generate revenue with one whose mission is to win the nation's wars is almost illogical as the cultures significantly differ.

Wilson<sup>88</sup> once said that every organization has a culture—a constant way of thinking about tasks and human relationships. For Feaver and Kohn<sup>89</sup>, organizational culture is likened to individual personality. With that in mind, few differences are as apparent or as stark as the values of liberal democracies and the U.S. Army organization<sup>90</sup>.

The democratic traditions of the 21st century American society elevate the importance of the individual to the supreme level; whereas, the U.S. Army organization is unable to function by elevating the individual above the *whole*<sup>91</sup>. Successful Army action requires “commonality of effort and an ability to subsume or ignore individual goals and needs to achieve the common objective”<sup>92</sup>. Where the democratic ideal of individual citizens of American society act as primary proponents and protectors of their own interests<sup>93</sup>, the U.S. Army organization confides these functions to a chain of command for shared attainment of objectives, and a protection of interests of the

individuals that make up the Army<sup>94</sup>. Even in the most simplistic of terms, the ideological and theoretical differences between a democratic society and a military organization will be disconnected by a gap not easily filled<sup>95</sup>.

Global issues tend to have a greater affect on DoD and U.S. Army organizations than on private sector business. This is not to say that DoD is the only system that contends with a world that is “both networked and fractured,”<sup>96</sup> full of possibilities, and full of danger – all sectors of business deal with global challenges of volatility, uncertainty, complexity, and ambiguity. It is to say, however, that the lines of reality between domestic and foreign affairs is becoming blurred for the DoD and U.S. Army as adversaries mutate from systematic patterns of behavior to asymmetric warfare. A 2004 study<sup>97</sup> reviewed prior research and then conducted a quantitative study of its own where it queried public, for profit, and nonprofit employees and leaders in the following areas.

- How has global issues, globalization, and the global war on terror changed the mission and activities of the organization?
- What enhanced skills and abilities are sought in hiring new professionals?
- What is the level of difficulty in finding professionals with the prerequisite skills and abilities? Where does the organization look?
- Once new professionals are hired, how is the talent continued to be nurtured within the organization?

The study found that public sector participants expressed a greater necessity for unique approaches to mission accomplishment (Table 4)<sup>98</sup>. The DoD was one step ahead when it implemented the NSPS to capitalize on civilian (a) personal accountability, (b)

participation in increasing deployments, (c) supporting global natural disasters, and (d) enhancing the joint spectrum of operations. The recurring challenge, as with the documented failures of the 1978 CSRA performance appraisal process, is that actions and behaviors do not emulate the NSPS theory. Legal oppositions toward aspects of NSPS and continuing legislation only further the challenges in innovating actions and behaviors to a successful federal pay for performance process.

Organizational Effects of Globalization Trends in Years Prior to 2004 (figures in percentages)			
Response Categories	Public	For Profit	Nonprofit
Few/Negligible Effects	2	24	6
Some/Moderate Effects	17	27	58
Many/Major Effects	81	49	36

Table 4.

### Recommendations

President Bush's signing of the 2008 National Defense Authorization Act (NDAA) imposed government-wide rules for some portions of the implementation and regulatory documentation of NSPS that were not implemented<sup>99</sup>. Some of these changes included (a) mandating certain payouts to NSPS employees with a performance rating above *unacceptable*, (b) exempting federal wage grade system employees from the NSPS system, (c) employee representatives retaining rights to bargain on the implementation of NSPS for such bargaining unit employees, (d) requiring the Government Accountability Office to conduct annual reviews of employee satisfaction with NSPS, and (e) eliminating the Secretary of Defense's requirement to determine if the NSPS is meeting intended objectives before moving over another 300,000 employees. Despite these regulatory changes that impede certain aspects of a DoD and U.S. Army culture

shift to effectively aligning human resource and pay for performance practices with the theory of NSPS, recommendations are provided that can be implemented now.

The most important difference between cultural practices in the private sector and the U.S. Army NSPS is the consequences associated with individual performance<sup>100</sup>. DoD and the U.S. Army should take prompt, clear steps toward emulating the pay for performance culture of the private sector. Replicating the NSPS theory with cultural diversity and action includes (a) prescribing pay increases for U.S. Army *role model* employees that are significantly higher than the average *valued performer's* pay increases, (b) instituting faster promotions, higher bonus awards, and quality recognition of *role model* employees, (c) affording leadership resources to conduct swift and certain termination of poor performers, and (d) eliminating the perception that maintaining a *bell curve* in the way of NSPS appraisal ratings is following the same concept as the blanket performance appraisal issue under CSRA. The DoD and U.S. Army should abolish and re-strategize the current foundation of the NSPS pay pool funds: (a) base salaries of others within the same pay pool, (b) historical spending prior to NSPS, and (c) total number of shares distributed, all of which have no correlation to individual performance. A simple and consistent formula of individual payout based on individual performance and individual base salary is discussed below.

An additional recommendation in the area of cultural transformation is to eliminate the five-tiered NSPS rating scale of *unacceptable*, *fair*, *valued performer*, *exceeds expectations*, and *role model* that encourages supervisor and NSPS pay pool panel members' interpreting employee performance rather than the employee's performance determining employee's performance. The current NSPS five-tier rating

scheme should be replaced with a three-tiered explicit rating scale: (a) fails to meet expectations, (b) meets expectations, and (c) exceeds expectations. The logic of a three-tier rating scheme is straightforward - there is no wiggle room for supervisor or NSPS pay pool panel member interpretation of whether an employee has *exceeded expectations* (tier 4 of NSPS) or *parted the Red Sea and is a role model* (tier 5 of NSPS). Using IBM's example of pay for performance policy, the DoD and U.S. Army should implement a simple and consistent formula of pay increases for employees that are based on individual base salaries. As an example, employees that exceed performance expectations earn pay increases that are, say, 2.5 times higher than those that meet expectations. If the average employee (i.e., *meets expectations*) pay increase is one percent, then the employee that exceeded expectations is 2.5 percent. Those employees that fail to meet expectations gain no additional pay increase.

The private sector has a clear understanding that the responsibility of championing and continually reinforcing the importance of performance falls on the chief executive officer and his/her executive team. In contrast, individual performance planning and appraisal processes of DoD and the U.S. Army have historically fallen under the responsibility of the human resources functions<sup>101</sup>. Since the inception of the NSPS, civilian personnel offices of the U.S. Army have (a) conducted the training programs, (b) distributed policies and guidelines, (c) provided forms and instructions, (d) processed grievances, (e) taken the lead in NSPS system upgrades, and (f) followed up with supervisors. The DoD and U.S. Army senior leadership should fully assume the role of NSPS champion; then, managers, supervisors, and employees of NSPS will invest time toward appropriate behaviors that ensure the system works as intended.

The federal government's expectation of a peak in civilian workforce retirement between 2008 and 2010<sup>102</sup> reinforces the necessity of NSPS championing from senior leadership, not human resource and civilian personnel offices. The younger workers that the federal government is looking to employ are seeking assurance that their value and contribution to the organization will be recognized. A successful pay for performance plan is a primary tool in illustrating individual value and contribution to an organization; it is crucial to establish an environment where performance really matters as a means of attracting future civilian service member role models.

### Conclusion

Behind every successful pay for performance initiative lays an effective performance management process. Private sector experience, while not completely reproducible, provides a sound roadmap for planning, implementing, and managing such a process. The federal government's NSPS strategy is neither well-documented nor well-executed. Unless and until steps are enacted to change behaviors and actions, and to restore employee confidence in the pay for performance process, the NSPS initiative will be subject to continuing skepticism and hypocrisy.

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<sup>22</sup> *Ibid.*, 325.

<sup>23</sup> General David McKiernan, *National Security Personnel System Implementation in Europe* (U.S. Army Europe & 7<sup>th</sup> Army, 10 August 2006). The NSPS has established a five-tiered performance rating scheme. An employee with a rating of 1 is termed *Unacceptable*; an employee with a rating of 2 is termed *Fair*; a 3 is termed *Valued Performer*; a 4 is termed *Exceeds Expectations*; and a 5 is termed *Role Model*. An employee's annual performance payout is based on its performance rating and its current salary.

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