

HRM Policies and Practices in Title 5-Exempt Organizations



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**HRM Policies and Practices
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Title 5-Exempt Organizations**

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HRM Policies and Practices in Title 5-Exempt Organizations

Executive Summary

As OPM and other Federal organizations seek models for more flexible and responsive merit-based human resources management (HRM) systems, interest has increased in those Federal entities that already operate outside of central Federal regulatory systems with HRM systems exempt from some or all of the requirements of Title 5 of the U.S. Code. To tap this rich source of information on which there is little centralized data, the Office of Merit Systems Oversight and Effectiveness (O&E) initiated this current study. We interviewed HRM representatives in 18 organizations that are fully or partially exempt from Title 5 with two overall objectives in mind: 1) to discover how they embed the merit system principles in their HRM systems and 2) to identify their most innovative and effective HRM policies and practices. In support of these objectives, we sought information on what flexibilities they actually have in their human resources policies and practices, how they integrate HRM into their strategic management practices, and how they decentralize HRM responsibility to increase management accountability.

This report describes the study findings in the major functional areas of Federal HRM -- merit system principles, staffing, classification and compensation, performance management, monetary awards and non-monetary recognition systems, benefits and family-friendly practices, employee development and training, employee protections and labor relations, and HRM oversight and accountability. Important findings include the following:

Human Resources Policies and Practices

- In all of the studied organizations with the exception of the government-sponsored enterprise (GSE), we found clear incorporation of the merit system principles or other merit-based organizational values.
- There are no discernable differences in recruiting and staffing for specialized or shortage category occupations between the non-Title 5 organizations and Title 5-covered organizations.
- We did find that there are increased staffing flexibilities in organizations exempt from veterans preference and “Rule of Three.” However, these flexibilities are tempered by concerns for merit and diversity and by negotiated labor agreements.
- There is increased use of automation and simplified HRM systems in the Title 5-exempt organizations specifically designed to delegate more responsibility to managers and to reduce time and resource requirements.
- Several organizations are moving in the direction of rank-in-person systems that allow for increased management involvement in qualifying, rating, ranking, and selecting candidates.

- There is movement to market-based compensation and pay for performance systems which, in some cases, eliminate step increases and general increases and may include broadbanding, variable pay, and linkage of pay systems to organizational goals or performance.
- We found several instances of organization-specific benefits packages for retirement and health and life insurance along with other options, such as flexible spending accounts, greater thrift matching, and greater employer contributions to benefits packages.
- There is increased focus on employee development to meet future organizational requirements in competitive environments including the growing use of an internal university concept for workforce development and use of multi-source feedback systems for employee development.
- Generally, there are fewer externally-based employee protections, such as the Merit Systems Protection Board appeal rights, and a greater focus on internal negotiated procedures, mediation, and peer review processes.
- Several organizations that are currently struggling with changing environments such as deregulation and competitive markets are reinventing themselves to meet these challenges through better integration of HRM systems with overall management goals.
- The oversight of HRM policies and practices is incorporated in internal organizational accountability for central management systems under general Government regulation rather than through a specific external HRM authority, such as OPM, to hold agencies accountable for adherence to the Merit System Principles and effective human resources management (HRM).

The final section of the report draws implications and makes recommendations based on the study findings. Merit emerged as a key operating principle among the Title 5-exempt organizations, even those that are often referred to as quasi-Federal organizations. These merit-based HRM systems serve as alternatives to the Title 5 HRM model as the organizations seek to continue improving their HRM systems and services. While their policies and practices remain similar in many respects to those of Title 5 organizations, they display a capacity to readily respond as part of the management structure in a way that Title 5 agencies may wish to emulate.

At the same time, such flexibility raises questions about accountability to the public and the role of central management agencies, such as OPM. In this new Federal HRM environment, OPM potentially can serve as the linchpin by acting as the President's agent in holding all agencies accountable for upholding merit and encouraging them to manage human resources effectively. In this role, OPM could be responsible for maintaining a repository of information about the Federal workforce in its entirety and coordinating a range of legislated or administratively authorized merit-based HRM systems, while continuing to maintain the Title 5 HRM system that agencies can participate in or use as a benchmark for their own systems.

I. Introduction: The Changing World of Federal HRM

Human resource management (HRM) systems in the Federal Government are in a state of transition, necessitated by major changes in the workplace and in the economy itself. Work is more knowledge-intensive and more automated, and workers are different too -- more mobile and more insistent that their jobs be stimulating and satisfying and provide for individual growth. Competitive pressures to "do more with less" have become almost universal for organizations as a whole as well as the HR staffs within them.

Starting with the Civil Service Reform Act of 1978 and continuing with the Reinventing Government movement of the last 5 years, efforts have been made to align the Federal HRM system with the new workplace. A particularly prominent theme of this movement has been *flexibility* -- enabling individual workers and their agencies to focus less on conforming to centralized HRM system requirements and more on developing HRM policies and practices to support their own mission-related needs.

In the Federal Government, the trend toward flexibility has manifested itself a number of ways, including the attempt by a number of agencies to move away from the specific requirements of Title 5. Full or partial exemption from Title 5 is of course nothing new. Agencies such as the Tennessee Valley Authority and the Federal Reserve Board have been outside Title 5 for decades. But the movement in that direction has gained momentum, to the extent that nearly half of Federal civilian employees are now outside of some aspect of Title 5 coverage (the U.S. Postal Service, with over 800,000 employees, constitutes the majority of the Title 5-exempt work force). Agency interest in waivers from Title 5 through OPM-sponsored demonstration projects is also at an all time high.

In order to better understand the increasingly varied world of Federal HRM, the Office of Merit Systems Oversight and Effectiveness (O&E) initiated this study on "HRM Policies and Practices in Title 5-Exempt Organizations." The broad purpose of the study was to gain further knowledge of human resource systems, policies, and practices in such organizations. Specifically, the two overall objectives of the study were to:

1. Discover how Title 5-exempt organizations build the values and principles of merit, efficiency and effectiveness into their human resources systems and services; and
2. Identify innovative human resources management policies and practices to share with other Federal organizations.

Although there have been other studies completed on this topic or on single agencies that are exempt from Title 5, few have defined the objectives as broadly or included this large number of organizations. The study team contacted 28 organizations exempt from Title 5. Twenty-one of those organizations responded to the survey and 18 met the criteria for inclusion in the study report. The large number of study participants and the range of HRM information gathered allow us to draw conclusions regarding the broad range of Title 5-exempt organizations that have not been possible previously.

These conclusions challenge commonly held notions about the dichotomy between " Title 5" and "Non-Title 5" agencies. What has often been viewed as two distinct worlds appears in this light to actually be the same world, but with shades of difference within it. Rather than being able to place agencies in one of two clear cut, "black-and-white" categories, we found instead that they can better be understood as falling on a kind of legal continuum -- moving from totally Title 5 on the one end to totally non-Title 5 on the other, with many gradations in between.

For example, organizations such as the **Tennessee Valley Authority** and the **United States Postal Service (USPS)** have the most exemptions from Title 5, while other organizations such as the **Nuclear Regulatory Commission (NRC)** and the **Office of Federal Housing Enterprise Oversight (OFHEO)** are only partially exempt. OFHEO is exempt from Title 5 only for classification and compensation and must adhere to all other provisions of the title such as staffing, performance management, and adverse actions. In addition, there are some organizations where only certain classes or portions of employees are exempt from Title 5 while the remainder of the organization is covered. Examples of this case include the **Department of State**, where only the employees in the **Foreign Service** are outside of Title 5 and the **Smithsonian Institution**, where approximately one-third of the work force is funded and operates under a trust fund with the remainder covered under the Title 5 system. This is just a small sampling from the world of Title 5-exempt agencies, which includes government corporations, independent establishments, ordinary Executive Branch agencies with legislative approval to create alternative personnel systems, and other legal entities. A complete list of the study participants is available in Appendix B of this report.

As the next section elaborates, our findings also call into question the notion of a great divide between how Title 5 and non-Title 5 agencies actually practice HRM. We found instead agencies on virtually all points of the legal continuum demonstrating active concern with the broad concept of merit and how to operationalize it in the management of their human resources. With a few notable exceptions, we also found much commonality among the operating HRM systems designed by Title 5 and non-Title 5 agencies, in spite of the greater flexibility generally available to the non-Title 5 agencies. In the final section we discuss the implications of these broad findings, and make recommendations for action.

II. Summary of Study Findings

Conventional wisdom suggests that organizations exempt from Title 5 requirements can be more flexible and responsive to changing organizational needs. These study findings offer a broad look at "how the other half lives" -- to show how the principles of merit are built into Title-5-exempt environments and to identify what HRM policies and practices are especially effective in meeting the needs of their organizations and employees. Our interest was not in constructing detailed case studies of these organizations but in drawing a broad picture of critical HRM policies and practices operating in a potentially less regulated environment.

This section of the report highlights the general findings in the major functional areas of Federal HRM -- merit system principles, staffing, classification and compensation, performance management, award and recognition systems, benefits and family-friendly practices, employee development and training, employee protections and labor relations, and HRM oversight and accountability. We also included a section (Integrated Human Resource Management System Change) describing the significant efforts being made in several organizations to create integrated HRM systems in response to changing environments. A more detailed presentation of these findings, including what specific agencies are doing, is available in Appendix D of this report.

The Merit Systems Principles and Merit-Based HRM Systems

The constraints and inflexibilities (perceived and actual) of the merit processes embedded in the current Title 5 system have served as a rallying cry for what is wrong with government. One of the most complex issues for Federal HRM today is how to create policies and practices that are at once responsive and efficient and based on merit.

The concept of merit in the American civil service has its roots in the reform movement of the late 19th century. The Pendleton Act of 1883 created a Civil Service based on the merit principles of fair and open competition and competence in contrast to the corruption and incompetence that were rampant under the practice of patronage. Since then, merit has served as both an overarching tradition in public service as well as a unifying theme in public personnel management. It represents the principles of fairness, equity, and earned achievement in public employment in lieu of political or other acts of favoritism. The merit system principles were formally incorporated into law in the Civil Service Reform Act of 1978. (See Appendix A for a list of the Merit System Principles.)

Determining how to define and implement the Merit System Principles in specific HRM policies and practices is a complex and continuing process. While most people in and out of government recognize the importance of merit in public employment, there is an equal call for more flexible and timely HRM systems to meet the government's changing needs. In this study, we began to explore the role merit plays in the institutional HRM policies and practices in organizations that are not restricted by the Title 5 requirements. So, in addition to asking directly if the organizations were covered by the Merit System Principles, we looked for evidence of merit processes throughout the

HRM system, especially in the areas of staffing, classification and compensation, and employee protections.

The responses to the question about actual coverage by the Merit System Principles revealed some uncertainty about specific coverage. Five respondents stated they are covered by the Merit System Principles and 13 said they are not (although three said they administratively follow the Merit System Principles in their HRM policies and practices.) A strict reading of Title 5 on Merit System Principle coverage would suggest that some of the organizations may actually be covered; but it would take a careful reading of the individual legislative authorities to make a final determination.

Of greater importance in the responses, however, was the unequivocal position of all but one of the organizations took on embracing the Merit System Principles or some statement of merit-based organizational values within their HRM systems. The only organization that did not identify merit as a fundamental value was the sole government-sponsored entity (GSE) included in the study, where the employees are considered private sector rather than public. While the GSE incorporates some due process elements in its HRM policies, the survey responses indicate that HRM is more driven by corporate principles that ensure employment decisions are within compliance with all relevant laws than by a concept of merit in public employment. The other organizations cited either the Merit System Principles or organizational core values, such as equity, fairness, and open competition, as key merit values underlying HRM policies and practices.

In looking for substantive HRM practices that support their merit-based philosophies, we found that all of the organizations (excluding the GSE) incorporate at a minimum; open competition, some form of rating and ranking, classification/compensation systems based on rank or position, and formal due process procedures. While the language of merit and fairness is embedded in the language of the HRM policies and practices in these organizations--more clearly in some more than others--there is little doubt about merit as a key value in these HRM systems. Unions and other employee groups appear to play a role in building merit practices into collective bargaining agreements or in monitoring merit-based HRM activity in the organization. Of course, all of the studied organizations are covered by civil rights laws, which also seem to reinforce concern for merit practices.

In summary, with the understandable exception of the GSE (as a private organization), the study organizations are clear about the importance of merit as the foundation of their HRM systems. It should be noted, though, that this finding is based on the organizations' description of themselves, since a more in-depth review of their merit processes was beyond the scope of this study. Also, this does not mean that they necessarily interpret and implement the Merit System Principles or merit processes as Title 5 and its implementing regulations direct. The findings on the various HRM policies and practices will show both similarities to and differences from Title 5.

HRM Policies and Practices

The next set of study findings provides a broad picture of the core HRM policies and practices in non-Title 5 organizations -- staffing, classification and compensation, performance management, monetary awards and non-monetary recognition systems, benefits and family-friendly policies, workforce development and training, and employee protections and labor relations -- as well as the data on HRM oversight and managerial accountability for HRM. In each area, the analysis identifies the number of organizations that reported they either are covered by or exempt from Title 5 requirements in that area. Although 18 organizations are represented in the survey data, the numbers do not always add up to 18 since some questions were not answered by all organizations in the survey. We also note where organizations reported that they have chosen to administratively follow Title 5 even though not required to do so. For an overall view of Title 5 coverage in each category, the chart in Appendix E shows aggregate numbers of organizations that are covered or exempt.

Staffing

Title 5 Coverage Staffing		
	Covered	*Not Covered
Staffing	3	15
*One organization administratively follows some provisions of Title 5		

The merit staffing process in Federal HRM has traditionally been perceived to be time consuming and labor intensive. It has been asserted that it takes too long to fill a job and the results are sometimes challenged in the grievance or EEO process. Since the Title 5-exempt organizations have fewer regulatory requirements in the hiring process, we expected to find clear differences in their hiring policies and practices. In fact, we found

few differences in their recruitment, hiring, and promotion practices with the important exceptions of the "Rule of Three" and veterans preference. None of the organizations exempt from Title 5 staffing regulations follow the "Rule of Three" unless they are obligated also to apply veterans preference.

Three of the study organizations are fully covered by Title 5 for hiring and staffing. Of the 15 organizations not covered by Title 5 regulations, 12 use some level of rating and ranking procedures and 5 apply some form of veterans preference procedures for hiring and/or RIF. Two organizations report that they informally consider veterans preference when candidates are otherwise equal in hiring or RIF situations.

All of the organizations use a variety of mechanisms to advertise vacancies including the Internet. Each organization specifically mentioned the use of targeted advertising to ensure a diverse applicant pool. Most of the 15 organizations exempt from Title 5 staffing requirements expect selecting officials to play a major role in the hiring process, for example, in participating in the rating and ranking process and especially in providing written justification to document selections.

Management responsibility for staffing decisions is most pronounced in the rank-in-person systems. In a rank-in-person system an employee is "classified" by a panel of managers/experts according to the skills and achievements he or she brings to the work of the organization. This contrasts with the "rank-in-position" approach in the Title 5 classification system which classifies jobs based on the specific duties of specific occupations. Four organizations have rank-in-person systems where hiring and promotion decisions are based on expert panel reviews of qualifications. Promotions are made from eligibility lists; some organizations have "up or out" promotion requirements which limit the idea of guaranteed employment based on seniority and focus on the qualifications of the employee rather than the requirements of the position.

In general, rating and ranking procedures vary among the organizations, from formal testing and central registers to simple resume reviews. Most use some process for grouping the applicants. The organizations generally seem to be most concerned about matching qualifications with job requirements and ensuring selecting officials take responsibility for justifying selections.

Like many other Federal organizations, the non-Title 5 organizations also struggle with improving the usually long and cumbersome recruitment and hiring processes. In response to organizational needs, these exempt organizations are moving to develop institutional mechanisms to improve the timeliness and quality of the hiring process. For example, one organization holds managers and HRM staff accountable for maintaining strict time frames established for their hiring process. A tracking system monitors the status of all vacancies.

Automation is also helping to improve the hiring process. Several organizations are using or planning to use the same commercial software for managing their HR Information System (HRIS) systems, tracking resumes, and qualifying applicants (PeopleSoft® and Resumix® were frequently noted). In addition, a number of the study organizations have developed or are in the process of developing other internal automated systems or interactive voice response systems to streamline and assist in the recruitment and staffing process.

Overall, staffing processes in the study organizations are by and large very similar to those in Title 5 agencies, with targeted recruitment for diversity or hard-to-fill positions a goal shared by both types of organizations. The major differences appear in the absence of veterans preference and the "rule of 3" in many Title 5-exempt organizations. The 15 organizations exempt from staffing regulations seem to have more flexibility in staffing with their exemptions from the "rule of 3" and, for most, veterans preference. Examples of such staffing flexibilities used in some Title 5-exempt agencies include the ability to conduct "on-the-spot" hiring for special program needs, the use of a central applicant pool that provides automatic consideration for applicants and the opportunity for managers to hire without announcing the vacancy, and elimination of time-in-grade requirements. Such flexibility is limited, however, by concerns for merit, equal employment opportunity, collective bargaining, and the resources required to develop and defend alternative systems.

Classification and Compensation

Throughout the study we found that flexible, competitive and efficient classification and compensation systems were critical to the efforts of Title 5-exempt agencies to meet institutional needs. Of the 18 non-Title 5 organizations represented in this study, 17 were exempt from Title 5 for classification and 16 were exempt for compensation. Most have developed their own systems, which diverge considerably from the Title 5 classification system.

Title 5 Coverage Classification and Compensation		
	Covered	*Not Covered
Classification	1	17
Compensation	2	16

*Five organizations administratively follow Title 5

Overall, alternative classification and compensation systems provide the exempt organizations flexibility to meet competitive needs and to move from seniority-based pay systems to performance-based alternatives. Nine of the study organizations have developed (or are in the process of developing) their own classification systems, based on benchmarking, factor evaluation systems, or other job analysis assessments. Several others use Hay- or market-based systems. Correspondingly, the majority of the organizations exempt from Title 5 compensation systems have also established pay systems that are more flexible and better fit their unique environments and organizational needs (pay-for-performance systems, broad bands, variable pay and others).

It should also be noted, however, that five exempt organizations reported that they administratively follow Title 5 for classification and compensation because it is easier than establishing their own systems, particularly if only a portion of the organization is outside of Title 5. For example, in one organization approximately one-third of the work force is outside of Title 5 -- these employees are administered through a trust fund system. To promote fairness and equity between them and Title 5 employees with whom they work side-by-side, the organization has chosen to manage both sets of employees in essentially the same manner and under the same systems. Another agency follows the Title 5 pay structure for ease of pay administration and to sustain inter-agency transfer options for its employees.

Performance Management

Fourteen of the organizations reported that they are exempt from the Title 5 laws and regulations relating to performance management systems, while three are covered. One organization chose to administratively follow the Title 5 practices. However, recognizing the need for change throughout Government, Title 5 regulations governing performance

Title 5 Coverage Performance Management		
	Covered	*Not Covered
Perf. Mgt.	3	14

*One organization administratively follows Title 5

management have been revised to give agencies and components within agencies much more flexibility to design performance appraisal and reward systems that are adapted to individual agencies' needs. Because there is already a great deal of flexibility in this area under Title 5, we were looking more for innovative approaches to performance management in the organizations under study than to compare the differences between Title 5 and non-Title 5 organizations. Nevertheless, an important difference emerged relating to the extensive use of performance factors in determining pay in the Title 5-exempt organizations. Approaches vary and pay for performance means different things in different organizational contexts, but a definite trend in that direction was found.

Each of the 18 organizations represented in this study reported that they have some sort of performance management and appraisal system and there was a range of different approaches. For example, some of the organizations use a pass/fail system rather than the more traditional five level rating system.

Performance Management Systems		
	Yes	No
Performance is Linked to Organizational Goals	12	4
Performance is Linked to Compensation	13	3

Another noteworthy finding is that 12 of the 18 organizations reported that their performance management systems are linked to organizational goals (i.e., individual performance plans and objectives are linked back to the overall agency objectives). In addition, 13 of the 18 organizations reported that

performance management is linked to compensation (i.e., increases to pay are linked to individual performance ratings or results). As noted in the compensation section, other organizations are developing or have already transitioned to “pay for performance” systems where compensation is directly linked to employee performance. Several of these systems have eliminated “automatic” pay increases such as “step increases” and comparability adjustments that are elements of the Title 5 General Schedule compensation system.

Monetary Awards and Non-Monetary Recognition Systems

Although 16 of the 18 agencies represented in this study reported that they were exempt from Title 5 for monetary awards, we did not find significant differences or innovations which differed from Title 5 organizations. Most of the non-Title 5 organizations used the same types of monetary awards as are used under Title 5 including Special Act or Service, annual

Title 5 Coverage Monetary Awards		
	Covered	Not Covered
Awards	2	16
*Three organizations administratively follow Title 5		

performance awards (based on performance rating), Quality Step Increases (QSIs), Sustained Superior Performance (SSPs), On-the-Spot cash awards, and Time-Off awards.

We also found that overall there is not significant emphasis placed on non-monetary awards and recognition systems and the programs in this area in the Title 5-exempt organizations were also very similar to those found in Title 5 organizations. We found programs such as individual and team recognition certificates, employee of the month, and merchandise awards.

Benefits and Family-Friendly Policies

Title 5 Coverage Benefits		
	Covered	*Not Covered
Benefits	5	12
*Three organizations administratively follow Title 5		

Five of the 18 Title 5-exempt organizations we studied reported that they are covered by the Title 5 provisions for benefits, while 12 are exempt.

Three of the organizations reported that they administratively follow the Title 5 provisions for benefits.

For the most part, the organizations that are outside of Title 5 for benefits offer the same types of benefits as the Title 5 organizations (i.e, life and health insurance, annual and sick leave, and retirement). However, there were some significant differences from Title 5 including a number of organizations that have established their own benefit programs or systems.

Family-friendly policies is another area where we did not find significant differences in the types of programs offered between the Title 5-exempt organizations and those covered by Title 5. In fact, in some of the organizations the family-friendly benefits and programs were fewer than those offered in most Title 5 organizations. Generally, the organizations offered some sort of flexible scheduling, access to fitness centers, child and elder care information or facilities, transportation subsidies, and health screenings. It is also important to note that a number of the organizations have followed the guidelines developed and implemented under Title 5 for programs such as flexible work schedules, leave banks and leave transfer.

Work Force Development and Training

Educating and training employees for better organizational and individual performance is one of the Merit System Principles as well as an area of emphasis nationally. Workers must be prepared for the greater demands of a highly technological, knowledge-based workplace. We included this topic in the study recognizing full well that it is an area where both Title 5 and non-Title 5 organizations have similar issues and problems. The limitations are more budgetary than regulatory.

There appear to be several trends in the workforce development arena -- developing and using competencies as the basis for training, linking training more directly to organizational needs and the budget process, and creating organizational corporate universities to build employee capability and organizational capacity for the future. In several organizations, the corporate universities are the

vehicle for enhancing workforce development and encouraging continuous learning through a range of training opportunities that address the business needs of the organization.

Employee Protections and Labor Relations

Title 5 agencies are often said to be frustrated with the complexity of the system for taking adverse actions for conduct or poor performance. At the same time, it is recognized that employees should be protected from undue political influence or arbitrary, capricious, and discriminatory administrative action. Our examination of Title 5-exempt organizations gives some evidence of a growing interest in developing systems to meet their specific needs rather than follow a standardized process, and shows what such systems could look like.

Title 5 Coverage Employee Protections		
	Covered	Not Covered
Adverse Actions	4	14*
Whistleblower	7	11
Hatch Act	9	9**
*1 organization administratively follows Title 5 for Adverse Actions		

Overall, the findings reveal fewer protections for employees in the Title 5-exempt organizations. Fourteen organizations are exempt from the adverse actions regulations, 11 from the whistleblower protections, and nine from the Hatch Act provisions. Nine of the 18 organizations in the study are exempt from all three.

The most common difference from the Title 5 system among the organizations exempt from adverse action laws and regulations involves access to the Merit Systems Protection Board (MSPB). Thirteen organizations offer internal appeals procedures only, with no access to the MSPB. Two others offer MSPB appeal rights under certain conditions, and one provides for an MSPB appeal in reduction-in-force (RIF) situations only while another offers an appeal in RIF and adverse action situations for those eligible for veterans preference. It should be noted that the jurisdiction of MSPB is set by statute and OPM regulation only; therefore, individual Title-5 exempt organizations wanting to develop employee protection systems to meet their specific needs do not have the flexibility to permit appeals to MSPB, even on a limited basis. However, there is no lack of opportunities for employees to have their cases heard. Fourteen of the participating organizations have negotiated grievance and arbitration procedures. Several organizations mentioned the availability and use of the Inspector General and the General Counsel as sources for whistleblower and Hatch Act complaints. As mentioned earlier, civil rights remedies are available to employees of all of the organizations.

Closely related to employee protections programs are labor relations programs. Of the 18 organizations in the study, 14 have collective bargaining units or other employee representative organizations. Six of the organizations with bargaining units are covered by Chapter 71 of Title 5. At least five of the Title 5-exempt organizations have multiple unions.

Title 5 Coverage Labor Relations		
	Covered	Not Covered
Labor Relations	6	10

The management officials we spoke with report that the general experience of these organizations with labor relations is mixed, just as it is under Title 5. Some have historically good relationships with their unions and some have had a stormy relationship. Most of the study organizations are participating in partnership activity even though only those covered by Title 5 are covered by the President's executive order on labor-management partnerships. Some of these partnerships preceded the executive order.

The scope of bargaining is broader for non-Title 5 organizations than for those covered under Chapter 71 of Title 5, including bargaining over pay and benefits. Of particular note are those organizations trying to move toward pay-for-performance systems, which have reported meeting strong union resistance in establishing such systems for bargaining unit employees. Officials in one organization that recently negotiated a performance-based pay system indicated that initially the costs will be higher, but the long term goal of moving away from a seniority-based pay system is worth the protections the unions negotiated for bargaining unit employees.

Overall, the large number of unions in these organizations means that their role in curbing the authority of management is particularly important. On the one hand, union influence and the collective bargaining process often reinforce the adherence to merit-based systems in these organizations. Obviously, though, a strong union voice adds another complicating factor to efforts to make use of the flexibilities available from being exempt from Title 5.

Integrated Human Resources Management System Change

Most organizations have recognized that a strong and integrated human resources management system is vital to successful mission accomplishment. In the previous sections we focused on a large number of changes in the separate functional areas of human resources management. While changes in the individual functional areas are important and deliver necessary improvements, it is also important to highlight organizations that are redesigning their entire HRM system to become an integral part of achieving overall organizational goals.

While virtually all of the Title 5-exempt organizations we studied acknowledged that they are operating in ever-changing environments, some are using this opportunity to undertake major human resources reorganization or reengineering efforts. In some of the organizations these efforts are focused solely on the human resources functions while others include human resources functions as

part of an overall organizational restructuring. These efforts are in response to major changes taking place both in the organizations' internal and external environments. Several organizations which had operated in almost an exclusive or monopolistic market are now facing deregulation and/or competition within their markets. Others are facing downsizing or being forced by tighter budgets or other constraints to develop HRM systems that better support the organization's effectiveness and accomplishment of its overall mission.

Several organizations are focusing on integrating all aspects of HRM management (e.g., staffing, classification, compensation, performance management, etc.). For example, one agency has launched a comprehensive effort to systematically identify the skills, knowledge, and abilities necessary to perform the jobs within the agencies. Once established, this system will classify jobs based on the skills needed rather than looking at the tasks of the position. Another outcome of this effort will be the establishment of a data base which will identify all employees' skills so that when vacancies arise, there will be immediately available information on qualified candidates from within the agency. The data base will also serve as a tool to identify organizational and individual training needs.

The performance management reform at this agency focuses on a metrics-based model with measurable performance elements for all employees. These objectives will eventually provide the basis for new skills and performance-based compensation initiatives. The new performance management system will also provide for employee skill and career development through multi-rater (360 degree) feedback. To support these reform efforts, the agency is undertaking a significant HR automation effort.

Several other study agencies have focused their reform efforts on the role of HRM in mission accomplishment. These organizations have established HR goals and measures that link directly to agency strategic plans. Once these strategic frameworks are in place, managers are held accountable for aligning their programs to fit the organizational framework and achieving the stated goals.

This is only a brief discussion of the changes some Title 5-exempt organizations are facing and the integrated HRM systems these organizations are designing to meet these challenges. These challenges, and the integrated responses these organizations have adopted to meet them, can be applied in the Title 5 universe as well. HRM systems and staff must become less process oriented and more advisory; employees must focus on acquiring and maintaining the competencies and skills necessary to function well in a job and the HRM system must identify and provide the tools necessary to build those competencies and skills; managers, with support from human resources staff, must be held accountable for effectively managing their human resources to achieve the mission of the organization; and automation must play a key role in making this possible.

Oversight and Accountability

Finally, we looked at the extent to which these Title 5-exempt organizations hold themselves accountable for effective HRM systems and adherence to the Merit System Principles (as appropriate) or other organizational values and policies. Consistent with OPM's general use of the term, we define HRM accountability as the responsibility placed on organizations to show that they are making effective use of their human resources, within the values expressed by the Merit System Principles or other merit-based organizational values defined by the non-Title 5 agencies.

Our findings show that most of the organizations studied do not have a formal internal oversight or accountability mechanism and there is limited external oversight of overall HRM programs and merit systems among the exempt organizations. Most organizations identified the Merit Systems Protection Board (MSPB), the General Accounting Office (GAO), and their Inspector General (IG) as organizations that periodically look at their operations. But there was no systematic regulatory review of the HRM operations from an external source, although, as noted previously, merit is a clear component of HRM within these organizations.

Some exempt organizations enter into interchange agreements with the Office of Personnel Management (OPM). Such agreements authorize OPM to review their merit systems in exchange for conferring Federal "status" on employees who apply for jobs at Title 5 agencies. OPM's review, however, is limited to certifying the systems as merit-based, and is much narrower than its typical review of Title 5 covered organizations. Central HRM staffs in some of these organizations also provide policy direction and oversight to subordinate HRM units in the field. Some HRM representatives stated they periodically review management practices under delegated HRM authority.

This is especially important, since many of the organizations have given line managers more authority and/or responsibility for managing HRM. They expect line managers to be responsible for HRM as part of their managerial responsibilities, with less reliance on the HRM staff. In particular, such delegations fall in the area of selection, where managers are required to justify in writing the reasons for selection sufficient to withstand legal challenge. Although many Title 5 organizations are moving in the direction of more responsibility for line managers, we found a distinct difference in the perspective of Title 5-exempt organizations, where managers play a more integral role in HRM activities, from Title 5 organizations that have depended traditionally on a dedicated HRM staff to implement and manage the personnel system.

With this increased HRM authority and responsibility for managers, the need for HRM accountability becomes more apparent. We found a number of examples of HRM accountability including one agency that holds managers accountable for employee and organizational performance through an established performance measurement system based on the Balanced Scorecard approach. Another organization includes HRM accountability factors in its executive and supervisor

performance evaluations. Their leadership sets the tone and sends the accountability message downward throughout the organization.

Nevertheless the lack of third-party oversight of the Title 5-exempt agencies to ensure adherence to Merit Principles and to encourage HRM effectiveness is noteworthy. Similarly, these agencies lack a central source of information, such as OPM, on effective HRM practices. The final section, which follows, takes up these and other findings to identify implications and make recommendations for the future.

III. Implications and Recommendations

This study describes the HRM policies and practices of non-Title 5 Federal organizations as they blend merit principles and practices with their own institutional approaches and mission requirements. These merit-based HRM systems serve as alternatives to the Title 5 HRM model. They demonstrate responsiveness to the organization's unique needs while retaining key merit-based administrative values and practices that are shared throughout the Federal HRM community. While their HRM practices do not in most cases differ significantly in overall organization and operation from those of traditional Federal agencies, their experiences further our understanding of merit-based systems in a more deregulated environment. Among other things, they teach us that there is no magic bullet when it comes to creating high quality HRM systems.

The organizations that participated in the study revealed that they, too, are seeking ways of adding value to their organizations, and they are interested in learning what is being done in Title 5 organizations as well as in other exempt organizations. Continuing communication with non-Title 5 organizations can be a positive outcome of this study and, by broadening our understanding of the wide range of HRM issues and alternative responses, benefit the whole Federal HRM community.

Merit as a Key Operating Principle

The following are key implications and recommendations drawn from the findings about the role of merit in Title 5-exempt organizations:

- As evidenced by the organizations studied, merit remains a cornerstone of Federal HRM policies and practices for organizations not covered by Title 5. However, this does not mean that Title 5-exempt organizations interpret and implement the Merit System Principles or their merit processes as Title 5 and its implementing regulations direct. In other words, there are already multiple merit-based HRM systems in the larger Federal community--multiple merit systems that may fit the looser network of organizational and management relationships called for in today's complex political, economic, and social environments.
- At the same time, this situation raises legitimate issues about accountability to the public and the responsibility of the central management agencies, such as OPM. Based on the study data, most organizations outside Title 5 do not have a formal oversight or accountability mechanism. One way to ensure accountability in such a decentralized environment would be to make organizations fully responsible for defining and defending their merit system policies and practices under the umbrella of the Merit System Principles and their legislative or administrative authorization. OPM can become potentially instrumental in managing this diversity as the President's agent for holding agencies accountable for upholding the Merit System Principles.

- OPM could also serve as the repository of information about the Federal work force as a whole, a clearinghouse of public HRM policies, practices, and evaluation, and most importantly, a center of leadership for Federal human resources management. Through its oversight and effectiveness role, OPM could broadly coordinate a range of legislated or administratively authorized merit-based HRM systems.

This approach recognizes the unique missions of many different Federal agencies and offers an open framework to adjust to changing requirements rather than the single one-size-fits-all approach many organizations are endeavoring to escape. At the same time, it will ensure adherence to merit and provide the important context of government-wide needs and values.

Differences and Similarities

The following are key implications and recommendations drawn from our findings about HRM systems and practices in Title 5-exempt organizations:

- We started the study with the working hypothesis that there would be substantial differences in the HRM systems of non-Title 5 organizations compared with Title 5 agencies. In general, we found that the actual system differences are important but more limited than anticipated.
- Our findings revealed that exemptions from Title 5 requirements can provide the organizations with a greater flexibility in responding to changing needs both in the structure of the HRM office and in the policies and practices that support the mission. Also, in those organizations that are fully exempt from Title 5, the HRM staff become more involved in the research and implementation of alternative HRM policies and practices, and acquire both expertise and a sense of participating in such activities. On the other hand, developing and defending new HRM systems can be complex and perilous.
- Overall, the greatest differences in HR systems and programs occurred in classification, compensation, and benefits, along with the area of employee protections. Fewer differences were found in recruitment and staffing (except for those not required to follow veterans preference and the "rule of 3"), performance management (except where agencies report implementation of more rigorous pay-for-performance systems), worker-friendly programs, and training.
- In labor-management relations, we noted that a large number of the studied organizations have one or multiple represented units, with the respondents suggesting that unions serve as a brake on management -- supporting adherence to merit principles, but sometimes constraining full use of certain flexibilities. They also experience a range of positive and negative relationships with their unions just as Title 5 agencies do.

- Significantly, in some organizations we also found substantial cross-functional activity surrounding the reorganization, reengineering, or reinvention of the overall HRM systems and structures to meet the changing needs of the organization. There was a greater integration of the HRM role into the management of organizations in order to make them more competitive with the private sector or to respond to other changing conditions. These efforts are particularly instructive in light of Government-wide efforts to tie HRM systems more directly to agency mission requirements.

As more flexibility is built into Title 5 and as increasing numbers of agencies engage in demonstration projects, these experiences can serve as a guide to other agencies as they develop alternative HRM systems.

Building an Expanded Picture of Title 5-Exempt Systems

Given the importance of the example of Title 5-exempt organizations, it is clear that we could benefit from more detailed information about them. As noted at the outset, this study was intended only to sketch a broad picture of non-Title 5 HRM policies and practices. The next step toward building a more complete picture of these systems would be to take a more in-depth look at specific HRM functions, for example, staffing systems and practices that meet the need for timely hires of skilled candidates in a merit-based process or competitive compensation systems that reward performance in order to support the unique needs of the organization. Such studies could also go beyond this one by including information from managers and employees on their views of the responsiveness and quality of these HRM systems and services, rather than relying only on the views of HRM managers and staff.

Several other issues concerning Title 5-exempt agencies emerging from this study might also be pursued further:

- The cataloging and categorization of Federal organizations. Of particular interest may be those organizations that are partially covered under Title 5 and partially exempt -- such hybrid organizations are difficult to describe and their dual HRM systems may be more complex to administer;
- The organization of the HRM office staff and its relationship to the management of the organization; and
- The degree of decentralization of HRM authority to line management and the process for accountability.

Merit System Principles

§2301(b) of Title 5, United States Code

1. Recruitment should be from qualified individuals from appropriate sources in an endeavor to achieve a work force from all segments of society, and selection and advancement should be determined solely on the basis of relative ability, knowledge, and skills, after fair and open competition which assures that all receive equal opportunity.
2. All employees and applicants for employment should receive fair and equitable treatment in all aspects of personnel management, without regard to political affiliation, race, color, religion, national origin, sex, marital status, age, or handicapping condition, and with proper regard for their privacy and constitutional rights.
3. Equal pay should be provided for work of equal value, with appropriate consideration of both national and local rates paid by employers in the private sector, and appropriate incentives and recognition should be provided for excellence in performance.
4. All employees should maintain high standards of integrity, conduct, and concern for the public interest.
5. The Federal work force should be used efficiently and effectively.
6. Employees should be retained on the basis of the adequacy of their performance, inadequate performance should be corrected, and employees should be separated who cannot or will not improve their performance to meet required standards.
7. Employees should be provided effective education and training in cases in which such education and training would result in better organizational and individual performance.
8. Employees should be--
 - (A) protected against arbitrary action, personal favoritism, or coercion for partisan political purposes, and
 - (B) prohibited from using their official authority or influence for the purpose of interfering with or affecting the result of an election or a nomination for election.
9. Employees should be protected against reprisal for the lawful disclosure of information which the employees reasonably believe evidences--
 - (A) a violation of any law, rule, or regulation, or
 - (B) mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety.

Study Methodology

Because of the breadth and diversity of Title 5-exempt organizations, a three phase plan was used to conduct this study. The phases were as follows: 1) identification, categorization, and back-ground study of the Title 5-exempt organizations, 2) an initial telephone survey of 21 Title 5-exempt organizations, and 3) on-site and further telephone interviews of ten selected organizations.

Phase I

In Phase I, the study team spent a significant amount of time attempting to identify and categorize the Title 5-exempt organizations. Categorization of the Title 5-exempt organizations was more difficult than it appears because the organizations studied represent a complex array of coverage under, and exemptions from, Title 5 requirements. Only six reported being completely outside of Title 5, including benefits. Several others reported being covered only for benefits or for Hatch Act or whistleblower requirements. Several of the organizations operate multiple HRM systems with some employees covered by Title 5 and others by alternative HRM systems.

The many different types found (e.g., government corporations, independent authorities, etc.) and the complex legislative histories of each of these entities further complicates any effort to account fully for their legal status or to understand completely their HRM systems. A truly comprehensive list of Title 5-exempt organizations would require an exhaustive analysis of each organization's authorizing legislation. For the purposes of this study, the study team therefore chose not to attempt to develop that comprehensive listing of Title 5-exempt organizations, but rather to categorize a large number of the most significant organizations in a way that supports the stated objectives of the study. Therefore, for the purposes of this report we refer to only two categories of non-Title 5 organizations:

1. Organizations partially exempt from Title 5, and
2. Organizations fully exempt or not covered by Title 5.

As noted, the study team initially selected 28 organizations for potential participation in the study. The initial selection was based on the following criteria:

1. Organizations from each of the two Title 5-exempt categories listed above;
2. A cross-section of organizations based on size, mission, location, and degree of unionization; and

3. Organizations judged to have potential value to the study (e.g., extent of Title 5 exemptions, known human resources innovations, etc.).

Participation in this special study was voluntary and of the 28 organizations contacted, 21 agreed to participate. Of these, there were 18 organizations that, upon further examination, actually met the criteria for participation in the study. A nineteenth participant, the National Security Agency, was added later based on the referral by another organization. The following chart lists the study participants:

Study Participants		
Central Intelligence Agency	Library of Congress	Sallie Mae
Department of State-Foreign Service	Metropolitan Washington Airport Authority	Smithsonian Institution (Trust Employees)
Farm Service Agency	National Security Agency*	Tennessee Valley Authority
Federal Aviation Administration	Nuclear Regulatory Commission	United States Postal Service
Federal Deposit Insurance Corporation	Office of Federal Housing Enterprise Oversight	Veteran's Health Administration (Title 38 employees)
Federal Reserve Board	Office of Thrift Supervision	
Foreign Agricultural Service	Peace Corps	

*The National Security Agency was referred by another organization later in the study and did not participate in the initial survey. Therefore, the survey results reported are based on the original 18 organizations, not 19 as listed here.

Phase II

The second phase of the study included developing and administering a telephone survey to the organizations agreeing to participate. In order to obtain a significant amount of data from each of these organizations, the study team chose to develop a broad-based data collection survey which provides a general picture of the HRM systems and an understanding of their approach to merit rather than a detailed or in-depth assessment of any of the individual HRM functions. The survey captured data in the following areas:

- Demographic and Background Information
- Staffing

- Classification and Compensation
- Performance Management
- Monetary Awards and Non-Monetary Recognition Systems
- Benefits and Family-Friendly Policies
- Employee Development and Training
- Employee Protections and Labor Relations
- HRM Oversight and Accountability

The study team contacted the human resources departments of these organizations and conducted the interviews with either the head of human resources or his or her designee(s). (The telephone survey is included in Appendix C of the report.)

Phase III

Based on the results of the telephone survey, the study team selected ten of the Title 5-exempt organizations for participation in the third phase of the study. In this phase, the goal was to gather more in-depth information through on-site visits or through more extended telephone interviews. The organizations were selected for this phase based on the following criteria:

1. Evidence of further value to the study, making it worthwhile to learn more about the organization's HRM policies and practices;
2. Use of the merit system principles or evidence of a merit environment;
3. Potential applicability to other organizations; and
4. The organization's willingness to participate further.

Organizations warranting comprehensive further examination of their HRM systems included the **Tennessee Valley Authority (TVA)**, the **United States Postal Service (USPS)**, and two organizations from the intelligence community -- the **Central Intelligence Agency (CIA)** and **National Security Agency (NSA)**. The TVA and the USPS are organizations that have undergone significant change in how they approach HRM and are continuing to implement new programs and expand existing programs to larger portions of the work force within their organizations. The CIA and NSA are part of the intelligence community and are also facing significant changes. These organizations provided a great deal of information on current trends in many areas of human resources management.

The other six organizations were looked at further in selected areas of HRM only (e.g., classification, compensation, training and development) rather than focusing on the entire HRM structure. These organizations include the **Office of Federal Housing Enterprise Oversight**, the **Federal Deposit Insurance Corporation**, the **Nuclear Regulatory Commission**, the **Library of Congress**, the **Office of Thrift Supervision**, and the **Foreign Agricultural Service**.

Study Limitations

The limitations of this study result from both its scope and its methodology. As noted above, not every partially or fully Title 5-exempt organization was included in this study, although a large majority of the exempt work force can be found in the organizations covered here. In order to develop, in a short time frame, a broad picture of how HRM systems operate in a non-Title 5 world, we also limited our data gathering in the organizations covered to survey responses and conversations with HR managers and staff, and relied heavily on this self-reported data. Finally, as noted above we did not undertake the labor-intensive task of systematically examining each organization's authorizing legislation. Instead, this study focuses on identifying broad categories of agencies and presenting a general picture of their HRM practices, especially as they relate to merit and innovation and point toward possible avenues for future study.

**Office of Personnel Management
Special Study on
Title 5-Exempt Organization
Telephone Survey**

Introduction:

The Office of Personnel Management (OPM) is conducting this Special Study to better understand how organizations that are fully or partially exempt from civil service personnel laws and regulations create and manage their HRM systems and services to meet the needs of the organization and its employees within the framework of the merit system principles. This information is important for addressing the challenges that organizations government-wide are facing as they reinvent the HRM role in the organization and develop more business-like management practices.

Study Objectives:

- Identify how Title 5-exempt organizations build the values and principles of merit, efficiency, and effectiveness into their HRM policies and practices, and
- Identify innovative HRM practices that might be adapted for use government-wide.

This telephone survey will take approximately 60 minutes to complete.

Survey Questions

Section I: Organizational Demographics and Background Information:

1. Please provide the following demographic information:

- a. Number of employees _____
- b. Number of bargaining units _____
- c. Number of field units _____
- d. Number of personnel systems under different authorities (i.e., Title 5 and non-Title 5) _____ and number of employees under each system --
 - 1) Authority _____ Employees _____
 - 2) Authority _____ Employees _____
 - 3) Authority _____ Employees _____

2. How is your HRM Office organized to service the organization (e.g., what functions are centralized vs. decentralized, delegations to line managers)? Describe.

3. Is your organization covered by the Title 5 Merit System Principles?

- Yes -- How does your HRM system incorporate the Merit Principles generally into your HRM policies and practices?

No (or don't know) -- What values/principles form the basis of your HRM system and how are they incorporated into your HRM system?

4. Does your organization have written human resources regulations, policies, and operating instructions?

Yes -- Who develops the regulations and who provides oversight for their implementation?

No -- What guidance is available for HR staff and line managers?

Section II: Career Systems--Staffing, Training, and Performance Management

Staffing -- Please respond to the following questions on your recruitment and selection systems and practices:

1. What are your major occupations?

2. What occupations do you have the greatest turnover in, the most difficulty recruiting for?

3. Is your organization covered under Title 5 regulations for recruitment and staffing?

Yes -- Skip to question 9.

No -- Do you administratively follow Title 5?

Yes -- Why? Then skip to question 9.

No -- Describe what authorities you have and how you implement them.

4. How do applicants apply for your job openings? (e.g., advertisements, open continuous announcements, recommendations by current employees, other.)

5. Do you rate and rank candidates?

Yes -- Describe.

No -- How do you differentiate among candidates?

6. How do you apply veterans' preference?

7. Are there any other special preferences applied (e.g. unions, internal candidates)?

Yes -- Describe.

No

8. How are promotions determined? (e.g., career ladders, competition, competency/skill acquisition)

9. How do your selection and promotion systems protect your organization from discrimination charges?
10. What role do supervisors and managers play in the hiring and promotion process?
11. Please describe any innovative or highly successful practices you are using in the recruitment and staffing areas.

Some possible areas include --

- Electronic application or rating and ranking systems
- Recruitment partnerships with educational institutions
- Recruitment bonuses (What occupations? How effective?)
- Delegations to line managers
- Publicizing job openings (e.g., Internet, targeted advertising)
- Other (describe)

Training and Development

1. Do you have a training and development plan for the organization?
 - Yes --
 - a. Describe how the training supports the mission of the organization.
 - b. Is training centrally funded or part of operating unit budgets?
 - c. Does the organization designate a certain percentage of the operating budget for employee training?
 - No -- What types of training does the organization offer? Require?
2. Describe any innovative or highly successful practices you are using in the area of training and development.

Some possible examples include:

- Automated training request and registration tools/processes
- Training partnerships with educational institutions
- On-site college programs
- Career resources center/counseling
- Training for organizational or occupational competencies
- Other (describe)

Performance Management

1. Is your organization covered by Title 5 regulations for performance management?
 - Yes -- Skip to question 5
 - No (or don't know) -- Do you have a performance management system in place?
 - Yes -- Answer all of the questions in this section.
 - No -- Skip to question 8.

2. Are there different performance management systems for different occupations or groups of employees?
 - Yes -- Describe.
 - No

3. Do you have written performance plans and formal appraisals/ratings?
 - Yes -- Describe.

 - No

4. Is the performance management system linked to employee compensation?
 - Yes -- Describe.

 - No

5. Are individual or team performance plans linked to organizational goals?
 - Yes -- How?

 - No

6. How are performance standards and measures developed for individuals and teams?

7. What approaches do you take for managing poor performance? (e.g., retraining, reduction in pay or status, discipline, termination)

8. Describe any innovative or highly successful practices you are using in performance management.

Some possible examples include:
 - Automated systems (please briefly describe)
 - Team-based performance plans and/or assessment
 - Competency-based performance assessments
 - Multi-source Feedback (360 degree)
 - Upward feedback
 - Other (describe)

Recognition Systems (Non-monetary)

1. Does your organization have an established recognition system for employees?

Yes -- Describe

No

2. Describe any innovative or highly successful practices you are using to recognize employees or teams.

Section III - Classification, Compensation, Awards, and Benefits

Identify if each of the following areas is covered by Title 5:

Classification Yes No

Compensation Yes No

Awards Yes No

Benefits Yes No

(If yes for any item, answer only the last question under that topic.)

Classification

1. Does your organization have a job classification system?

Yes -- Describe. (e.g., based on graded duties/occupations, competencies)

No

2. Who has the authority to classify jobs/duties? (e.g., HR only, line managers)

3. Describe any innovative or highly successful practices you are using to classify positions/duties (e.g., automated job requests or position descriptions or grade assignment).

Compensation

1. Does your organization administratively follow the General Schedule? The Executive Schedule? the Federal Wage System (Wage Grade)?

Yes -- Why? Then skip to question 3.

No -- Describe the pay systems used (e.g., broad banding, executive level).

2. What is/are the basis/bases for basic pay progression?

Seniority/length of service (Are there waiting periods?)

Performance (based on ratings?)

- Acquisition of competencies/skills
- Training Completed
- Other (describe)

3. Describe any innovative or highly successful practices you are using in the pay/compensation area.

Some possible examples include:

- Automated tools (describe)
- Pay Banding or Broad Banding
- Special bonus plans (describe)
- Variable Pay (describe)
- Other (describe)

Awards

1. Does your organization have an awards system (monetary) for managers and employees?

Yes -- Describe.

No

2. Are awards linked to individual and/or team performance?

Yes -- Describe.

No

3. Describe any innovative or highly successful practices you are using in the awards area.

Benefits

1. Does your organization have authority to create alternative retirement/health/life insurance programs?

Yes -- Describe.

No

2. Describe any innovative or highly successful practices you are using in the benefits area (e.g., cafeteria plans).

Section IV - Employee Relations--Family Friendly Policies, Employee Protections

Family Friendly Policies

1. Describe policies established for employee personal, professional, and family needs and interests.

Some possible examples include:

- Child care/Eldercare
- Fitness/Health Centers
- Flextime
- Alternative Work Schedules (AWS)
- Leave banks
- Family-friendly leave
- Other (describe)

Employee Protections

1. Is your organization covered by Title 5 regulations for:

- a. Adverse actions -- Yes No
- b. Whistleblowing -- Yes No
- c. Hatch Act -- Yes No

2. If no for adverse actions -- What procedures/processes are in place for adverse actions (discipline and discharge)?

- a. What appeal rights do employees have?

3. If no for Whistleblower protections -- What protections do you have in place?

4. If no for the Hatch Act -- What protections do you have in place?

5. Do you have employee attitude surveys or other data that reflect employee perceptions of fairness in HRM policies and practices?

- Yes
- No

6. Describe any innovative or highly successful practices you are using to manage conduct problems.

Some possible examples include:

- Pre-employment clearance
- Alternative Dispute Resolution
- Peer Review of Grievances
- Other (describe)

Section V -- Labor Management Relations (Please answer these questions if your organization has unions; otherwise, skip to the next section.)

1. Is your organization covered by Title 5 regulations relating to labor management relations?

- Yes -- Skip to question 3.
- No

2. Which HRM areas, if any, are restricted from negotiations with the unions, e.g.,

- Pay
- Benefits
- Hiring, qualifications, or selection criteria
- Discipline
- Other (describe)

3. Describe any innovative or highly successful practices you are using in the labor relations area.

Some possible examples include:

- Formal partnership agreement(s)
- Joint committee(s) for HRM policies and practices
- Other (describe)

Section VI - Conclusion

1. What would you describe as your overall best practices in HRM?

2. What are your major challenges in HRM?

3. How do you ensure line-management accountability for managing human resources in achieving organizational results?

4. Have your HRM responsibilities expanded into areas of organizational development, organizational change, strategic planning, conflict resolution or other new areas?

- Yes -- Describe.

- No

5. Is there anything else you would like to add about the concept of merit in your HRM system or any other innovative practices that we did not ask about?

Detailed Description of Study Findings

The following sections describe in more detail the study findings outlined in the “Summary of Study Findings” in the body of this report. Each section contains contextual or summary information similar to the summary section in the body, but also provides more in-depth information on specific examples or programs found in individual organizations. By offering more detailed information here, we hope to enhance the value of this report to readers seeking information about specific agency practices in the various areas of HRM.

The Merit System Principles and Merit-Based HRM Systems

The responses to the question about actual coverage by the Merit System Principles revealed some uncertainty about specific coverage. Five respondents stated they are covered by the Merit System Principles and 13 said they are not (although three said they administratively follow the Merit System Principles in their HRM policies and practices.) A strict reading of Title 5 on Merit System Principle coverage would suggest that some of the organizations may actually be covered; but it would take a careful reading of the individual legislative authorities to make a final determination. Several organizations described specific responses to ensure their HRM systems reflect what we would call merit principles:

The Nuclear Regulatory Commission (NRC), which is party to an interchange agreement with OPM, maintains a highly visible merit staffing system based on the NRC’s organizational values and the Merit System Principles. A recent staffing initiative, a special Merit Staffing course, developed in January 1997, helps supervisors improve their skills in rating, ranking, selecting, and giving constructive feedback to job applicants. A labor-management partnership group and EEO Advisory Committees help monitor the system.

As a recent initiative, supervisors are participating more fully in the total hiring process. A special Merit Staffing Course, begun in January 1997, instructs supervisors in assuming responsibility for qualifying, rating, ranking, selecting, and giving constructive feedback to job applicants. A labor-management partnership group and the EEO Advisory Committee help monitor the system.

The Library of Congress, as a member of the Legislative Branch, is not covered by Title 5 requirements. In settlement of an EEO complaint calling for fair treatment in employment, the Library established a formal, merit-based HRM system that mirrors Title 5 staffing regulations with a focus on objectivity, automation, timeliness, and quality results to meet the organization’s needs. The organization had voluntarily adopted the Title 5 classification and pay systems earlier. The Library sees a merit-based HRM system as a protection for both the organization and its employees in a highly complex and dynamic environment.

The 1996 legislation granting the **Federal Aviation Administration (FAA)** authority to create its own responsive HRM system exempted the organization from most Title 5 requirements, including the Merit System Principles. The FAA, however, has declared that its newly emerging HRM system should be consistent with those principles. For FAA, merit policies and practices require a balance between fairness and the flexibility to achieve organizational results. The organization has established the National Employees' Forum (representatives of employee associations and special emphasis groups) to serve as a one point of check and balance to ensure appropriate representation and protection for employees against undesirable practices.

Staffing

Since the Title 5-exempt organizations have fewer regulatory requirements in the hiring process, we expected to find clear differences from Title 5 in their hiring policies and practices. In fact, we found few such differences in their recruitment, hiring, and promotion practices with the important exceptions of the "rule of three" and veterans preference. None of the organizations exempt from Title 5 staffing regulations follow the "rule of three" unless they are obligated also to apply veterans preference.

Three of the organizations are fully covered by Title 5 for hiring and staffing--the **Office of Federal Housing Enterprise Oversight (OFHEO)**, the **Federal Deposit Insurance Corporation (FDIC)**, and the **Office of Thrift Supervision (OTS)**. Of the 15 organizations not covered by Title 5 regulations, 12 use some level of rating and ranking procedures and five apply some form of veterans preference procedures for hiring and/or RIF. Two organizations report that they informally consider veterans preference when candidates are otherwise equal in hiring or RIF situations.

All of the organizations use a variety of mechanisms to advertise vacancies including the Internet. Each organization specifically mentioned the use of targeted advertising to ensure a diverse applicant pool. OFHEO noted use of a Minority On-line Information System (MOLIS) that sends vacancy announcements via the Internet to minority institutions. Targeted recruitment is also aimed at specific occupations and skills, such as foreign language competencies for the **Library of Congress**. There is some use of recruitment and relocation bonuses for hard-to-fill occupations in organizations such as the **Veteran's Health Administration (VHA)** for Title 38 employees and the **Tennessee Valley Authority (TVA)**. The TVA has a large internship program for targeted areas (e.g., nuclear engineering) and offers scholarships to dependents of employees. The VHA operates a highly publicized Central Placement Service, which is a nationwide automated inventory of applicants for Title 38 positions. The OTS has a Fellows Program in which up to ten Fellows receive 14-month appointments with benefits.

Most of the 15 organizations exempt from Title 5 staffing requirements expect selecting officials to play a major role in the hiring process, for example, by participating in the rating and ranking

process and especially in providing written justification to document selections. The **Nuclear Regulatory Commission (NRC)** has delegated merit selection to line managers who are responsible for hiring and promotion decisions. The Library of Congress holds managers accountable for filling positions based on the organization's staffing plan that shows diversity imbalances in the workforce. The **Peace Corps** holds managers and supervisors responsible for differentiating among candidates and for justifying their selections. The USPS and the TVA have introduced structured interviewing to help selecting officials improve their hiring selections. The TVA also uses a management selection board for some hiring. The selecting official identifies the selection criteria, then the selection board (comprised of the selecting official's peers, customers, etc.) interviews applicants for behavioral competencies while the selecting manager interviews for technical competencies. The board ranks the candidates and the selecting official makes the selection.

Management responsibility for staffing decisions is most pronounced in the rank-in-person systems. In a rank-in-person system an employee is "classified" by a panel of managers/experts according to the skills and achievements he or she brings to the work of the organization. This contrasts with the "rank-in-position" approach in the Title 5 classification system which classifies jobs based on the duties of specific occupations. Four organizations--the **Central Intelligence Agency**, the **State Department Foreign Service**, the **Foreign Agricultural Service (FAS)** (Title 22 employees), and the **Veteran's Health Administration** (Title 38 employees)--have rank-in-person systems where hiring and promotion decisions are based on expert panel reviews of qualifications. Promotions are made from eligibility lists; some organizations have "up or out" promotion requirements which limit the idea of guaranteed employment based on seniority and focus on the qualifications of the employee rather than the requirements of the position. The State Department Foreign Service promotion panels include, by law, one public member from outside the U.S. Government.

In general, rating and ranking procedures vary among the organizations, from formal testing and central registers in the USPS to simple resume reviews by selecting officials at **Sallie Mae**. Most use some process for grouping the applicants; for example, the NRC places applicants in one of three categories while the Library of Congress uses a statistically validated scoring scheme to identify the most qualified. The organizations generally seem to be most concerned about matching qualifications with job requirements and ensuring that selecting officials take responsibility for justifying selections. The USPS, the largest of the Title 5-exempt organizations (and now larger than any Title 5 organization including DoD), has the most formal selection process, which includes the use of national test registers and veterans preference. A new approach under consideration would move away from national registers to a testing process that places the responsibility on the applicant to apply for vacancies with score in hand rather than waiting on a register, sometimes for years, and then not being interested or available when the call comes. The goal is to develop a system that generates more self-initiative and personal responsibility in the application process.

In all, four organizations studied use formal validated examinations in the hiring process. The **Metropolitan Washington Airport Authority (MWAA)** uses tests for police and firefighter positions; the USPS continues to use the clerk test and maintains large national registers; the Foreign Service has an entry-level exam; and the Foreign Agricultural Service has an internal exam for selection for Title 22 (Foreign Service) positions. Several of these exams have survived legal challenge. The MWAA is also currently in the process of validating physical requirements for their police and firefighter positions.

Most of the organizations use a one-year probationary period (one indicated this can be extended if circumstances warrant); the USPS has a 90-day probation. Three organizations have particularly interesting probation and appointment policies. The FAS selects candidates for its Title 22 Foreign Service Officer positions from current employees who take a competitive examination. Successful candidates move laterally into the Foreign Service. After a candidacy period of five years, they must be certified by a tenuring board or they return to a position in the competitive service at the FAS. The Peace Corps has a five-year employment rule. Employees can have a maximum of two 2½ year appointments. It reports that this limitation both restricts the hiring pool and reduces performance and conduct related actions.

Like many other Federal organizations, the non-Title 5 organizations also struggle with improving the usually long and cumbersome recruitment and hiring processes. In response to organizational needs, these exempt organizations are moving to develop institutional mechanisms to improve the timeliness and quality of the hiring process. Here are several examples of recruitment and hiring process improvements:

The Library of Congress holds managers and HRM staff accountable through the performance system for maintaining the strict time frames embedded in their hiring procedures. A tracking system monitors the status of all vacancies.

The **Federal Aviation Administration** has implemented several tools to continuously improve the hiring process: the use of a Centralized Applicant Pool System that provides automatic consideration for applicants and the opportunity for managers to hire without announcing a vacancy, "on the spot" hires for special program needs and hard-to-fill positions, elimination of time-in-grade, use of the Internet for job applications, non-competitive conversion from temporary to permanent status if competition is held initially for the temporary position, standardized position descriptions, and reduction in the number of hiring authorities to three (permanent, temporary with time limit, and temporary without time limit).

Automation is also helping to improve the hiring process. Several organizations are using or planning to use the same commercial software for managing their HR Information System (HRIS) systems, tracking resumes, and qualifying applicants (PeopleSoft® and Resumix® were frequently noted). The Veterans Health Administration's placement service will be augmented by an

interactive website where candidates can file their applications electronically and get information about the VA. Several other organizations are also using or planning to use interactive voice response systems for applications (and other services such as benefits). In the FAA's automated staffing system, Selections Within Faster Times (SWIFT), vacancy announcements are placed on the Internet and automated tools are available for creating, copying, and storing vacancy announcements. FAA states that this has reduced the time required to advertise vacancies by more than 80 percent and provides greater assurance that employees and outside applicants have timely access to vacancy announcements. The Centralized Applicant Pool System will review qualifications and assign ratings and rankings, enabling managers to get referral lists over 90 percent faster. Standard position descriptions, now available in the PDLibrary, also reduce the time for creating a job by more than 90 percent.

One shared concern that came up in several organizations involved decisions concerning external versus internal recruitment/promotion. One organization has separate lists for internal and external candidates so internal candidates will not have to compete with sometimes more experienced external applicants. Another runs a special selection/training program that moves nonprofessional employees to a professional positions based on training and experience rather than the positive education requirement otherwise needed to qualify for the position.

Classification and Compensation

Of the 18 non-Title 5 organizations represented in this study, 17 were exempt from Title 5 for classification and 16 were exempt for compensation. Most have developed their own systems, which diverge considerably from the Title 5 classification system.

Overall, alternative classification and compensation systems provide the exempt organizations flexibility to meet competitive needs and to move from seniority-based pay systems to performance-based alternatives. The **Federal Reserve Board**, the **Tennessee Valley Authority**, the **Federal Aviation Administration**, the **Central Intelligence Agency**, the **Nuclear Regulatory Commission**, the **Office of Thrift Supervision**, **Metropolitan Washington Airport Authority**, the **Office of Federal Housing Enterprise Oversight (OFHEO)**, and **Sallie Mae** have all developed (or are in the process of developing) their own classification systems, based on benchmarking, factor evaluation systems, or other job analysis assessments. Several others including the USPS and TVA use Hay- or market-based systems. Correspondingly, the majority of the organizations exempt from Title 5 compensation systems have also established pay systems that are more flexible and better fit their unique environments and organizational needs (pay-for-performance systems, broad bands, variable pay and others).

An example of an organization with special needs in the areas of classification and compensation is OFHEO, where the authorizing legislation requires that the organization have comparable pay and benefits programs with other Federal regulators (e.g., Office of Thrift Supervision, Federal

Deposit Insurance Corporation, Federal Reserve Board, Office of the Comptroller of the Currency, etc.). OFHEO uses a broad band pay system to help recruit for unique and hard-to-fill positions. Examiners and financial analysts at OFHEO must have a high level of knowledge and expertise related to the banking industry. Therefore, a high level of the OFHEO's recruiting efforts are concentrated in the banking industry, Wall Street, and other financial forums. To attract high-quality candidates, OFHEO must be able to offer comparable compensation packages and the broad band system has given it more flexibility to do so.

The USPS has implemented both a broad band system and merit-based pay for all of its non-bargaining unit positions (approximately 80,000 employees). Increases in salary are determined solely by performance and there are no longer any step increases or cost-of-living adjustments (COLAs). Other organizations that have implemented pay-for-performance systems include OTS, which has also eliminated step increases and annual pay adjustments, and the OFHEO, which has implemented a broad band system with salary increases based solely on merit. Several of these organizations, including the USPS and OFHEO, reported that there have been some problems or expected problems with employees reaching the top of their pay band too quickly, particularly if the employees are recruited at high points in the pay band. To remedy this situation, the organizations have devised formulas for employees at the top of their pay bands so that some portion or all of the salary increases are granted as cash awards rather than increases to base salary.

Several of the organizations outside the Title 5 classification system have moved to or are in the process of moving to market-based classification and/or compensation systems. For example, in order to be competitive in the newly-deregulated utilities industry, the TVA is moving away from a traditional Hay-based classification and compensation system to a market-based system. TVA officials state that their former classification system tended to put value on power and authority and subtly encouraged managers to build large staffs with specific technical skills. This is inconsistent with TVA's movement toward deregulation, downsizing, and increased emphasis on the "softer" skills such as leadership and management.

TVA officials acknowledge that the former system strongly encouraged internal equity within and between pay grades and job classes. However, they point out that individual jobs are different even within the same occupations and there is a need for classification and pay structure focused externally through which positions are rated relative to the market rather than on specific technical skills and knowledge. As an example, TVA's HRM positions tested in a market system showed they would be paid less than they are being paid in the current internal equity-based system.

It should also be noted, however, that five exempt organizations reported that they administratively follow Title 5 for classification and compensation because it is easier than establishing their own systems, particularly if only a portion of the organization is outside of Title 5. For

example, approximately one-third of the **Smithsonian Institution's** work force is outside of Title 5 -- these employees are administered through a trust fund system. However, to promote fairness and equity between them and Title 5 employees with whom they work side-by-side, the Smithsonian has chosen to manage both sets of employees in essentially the same manner and under the same systems. The NRC states that it follows the Title 5 pay structure for ease of pay administration and to sustain inter-agency transfer options for its employees.

Performance Management

Fourteen of the organizations reported that they are exempt from the Title 5 laws and regulations relating to performance management systems, while three are covered. One organization chose to administratively follow the Title 5 practices.

Each of the 18 organizations represented in this study reported that they have some sort of performance management and appraisal system and there was a range of different approaches. For example, some of the organizations use a pass/fail system rather than the more traditional five level rating system. The **Tennessee Valley Authority (TVA)** has a unique performance management system. While it uses a multi-source feedback system (managers, peers, and self), it is for employee development only. There is no overall formal rating. The steps in the TVA performance appraisal process include:

1. Managers and employees set annual performance objectives which must be linked to TVA's seven organizational values and annual strategic goals.
2. Quarterly updates are conducted between managers and employees to assess progress toward the stated objectives.
3. At year-end, employees are given a final rating on each element, however, there is no overall performance rating.

Another noteworthy finding is that 12 of the 18 organizations, including TVA, reported that their performance management systems are linked to organizational goals (i.e., individual's performance plans and objectives are linked back to the overall agency objectives). In addition, 13 of the 18 organizations reported that performance management is linked to compensation (i.e., increases to pay are linked to individual performance ratings or results). As noted in the compensation section, other organizations including the **United States Postal Service**, the **Federal Deposit Insurance Corporation**, and the **Office of Federal Housing Enterprise Oversight** are developing or have already transitioned to "pay for performance" systems where compensation is directly linked to employee performance. Several of these systems have eliminated "automatic"

pay increases such as “step increases” and annual pay adjustments that are elements of the Title 5 General Schedule compensation system.

Monetary Awards and Non-Monetary Recognition Systems

Although 16 of the 18 agencies represented in this study reported that they were exempt from Title 5 for monetary awards, we did not find significant differences or innovations which differed from Title 5 organizations. Most of the non-Title 5 organizations used the same types of monetary awards as are used under Title 5 including Special Act or Service, annual performance awards (based on performance rating), Quality Step Increases (QSIs), Sustained Superior Performance (SSPs), On-the-Spot cash awards, and Time-Off awards.

However, one organization has implemented an impressive variable pay system. Through its *Customer Perfect!* management system, the **United States Postal Service** has instituted a variable pay system with cash award payouts for groups based on the achievement of stated goals. The *Customer Perfect!* management system is based on three components or “voices”: 1) Voice of the Business, 2) Voice of the Customer, and 3) Voice of the Employee. Performance measures have been established for each of the three “voices.” On an annual basis, performance goals are established for each of the three areas. These goals are then cascaded to each of the USPS’s 85 Performance Clusters. The cash payout is a flat percentage of salary based on the achievement of the stated goals for each performance cluster made to various covered groups of employees. The USPS system is defined as “variable” in the sense that the size of the award may differ from year to year based on organizational performance. If the performance clusters do not achieve their stated goals for any of the three areas, there will not be a payout for that element for that particular performance cluster.

We found that overall there is not significant emphasis placed on non-monetary awards and recognition systems, and the programs in this area in the Title 5-exempt organizations were also very similar to those found in Title 5 organizations. We found programs such as individual and team recognition certificates, employee of the month, and merchandise awards.

Benefits and Family Friendly Policies

Five of the 18 Title 5-exempt organizations we studied reported that they are covered by the Title 5 provisions for benefits, while 12 are exempt. Three of the organizations reported that they administratively follow the Title 5 provisions for benefits.

For the most part, the organizations that are outside of Title 5 for benefits offer the same types of benefits as the Title 5 organizations (i.e, life and health insurance, annual and sick leave, and retirement). However, there were some significant differences from Title 5 and a number of

organizations have established their own benefit programs or systems. The **Metropolitan Washington Airport Authority** has created two retirement systems as well as health and life insurance systems; **Sallie Mae** offers a 401k Plan and a stock purchase plan; the **Federal Reserve Board** offers two additional retirement plans and 80 percent matching on the thrift plan; the **Office of Thrift Supervision** provides additional optional life insurance, business and travel insurance and long term disability, and flexible spending accounts up to \$5,000 plus \$750 contributed by OTS per employee; and the **Tennessee Valley Authority** has its own retirement, health (medical, dental and vision) and life insurance systems.

Several of the organizations noted that the benefits offered under Title 5 are generous, comprehensive and at competitive rates. It is interesting to note that the **United States Postal Service**, which is the largest organization exempt from Title 5, has the authority to offer different health and life insurance benefit packages, but instead offers its employees the same benefits as those under Title 5. However, the USPS employer contribution is greater through its collective bargaining agreements.

There are other noteworthy benefits practices in the organizations outside of Title 5. For example, the TVA has implemented Live Well Centers at all of its major facilities. These centers offer a variety of benefits including the following:

- Fitness centers are available to employees and their spouses at no cost to the employee. The employees may use the facilities before or after duty hours or during the work day by extending their duty hours under a flexible schedule.
- Trained medical staff are available on site. Various health screening procedures (breast cancer, high blood pressure, etc.) are offered and conducted by the medical staff.
- Educational health care literature in layman's terms have been developed for critical areas such as heart disease and high blood pressure.
- Touch-screen systems are available for employees to request various medical information. The information is sent to the employee's home to ensure confidentiality.

The USPS has established flexible spending accounts where employees may contribute pre-tax dollars on an annual basis to special accounts (e.g., dependent care and health care) to supplement their regular benefits.

In addition, several organizations we spoke to indicated that they are moving toward a service center concept for benefits administration and placing much more of the responsibility back on the

employee. For example, the TVA is currently developing an Employee Call Center which will consolidate all of the previously decentralized clerical processing activities such as name and address changes, requests for provider lists, and answers to basic questions into one inter-active voice response (IVR) system accessible to all employees. The IVR will also be linked directly with their health care provider.

Family-friendly policies is another area where we did not find significant differences between the Title 5-exempt organizations and those covered by Title 5. In fact, in some of the organizations the family-friendly benefits and programs were significantly less than offered in most Title 5 organizations. Generally, the organizations offered some sort of flexible scheduling, access to fitness centers, child and elder care information or facilities, transportation subsidies, and health screenings. It is also important to note that a number of the organizations have followed the guidelines developed and implemented under Title 5 for programs such as the Family and Medical Leave Act (FMLA), flexible work schedules, and leave banks and leave transfer.

Work Force Development and Training

There appear to be several trends in the workforce development arena -- developing and using competencies as the basis for training, linking training more directly to organizational needs and the budget process, and creating organizational corporate universities to build employee capability and organizational capacity for the future.

The use of competencies as guides for employee development helps organizations and employees focus resources and energies. The **Federal Deposit Insurance Corporation** provides an example of a corporate decision to develop an agency-specific competency-based management excellence program. A contractor developed the competencies for each level of supervision based on FDIC's vision of how it wanted to define management excellence for the organization. The mandatory training curriculum and a 360-degree assessment process support individual competency development. The competencies are now linked to performance management and, in fiscal year 1999, will be linked to organizational goals and compensation. In a much larger environment, the **United States Postal Service** is initiating a process to improve proficiencies (competencies) in all of their occupations, beginning initially with identification of the competencies for three critical positions -- window clerks, bulk mail acceptance clerks, and maintenance technicians -- to be supported by specific training programs.

Several organizations are making serious efforts to link training more directly to organizational needs. The USPS is reorganizing and consolidating its employee development structure to support the Voice of the Employee, which is part of the *Customer Perfect!* strategic management program. Since fiscal year 1996, the USPS has identified mandatory training hours each year for managers, other non-bargaining unit employees, and bargaining unit employees that promote and reinforce the organization's strategic initiatives for that year. Managers are held accountable

(through the variable pay system) for ensuring that employees complete the training and are supported in the work environment.

The **Federal Aviation Administration**, which is committed to making training throughout the organization support the mission, has decentralized and deregulated training funding and decision making. In line with the strategic goals of the organization, each organizational "line of business" will identify its needs and develop a training plan. They will have more flexibility to make decisions about employee training, including support for employees pursuing degree programs that address the organization's mission.

The **Central Intelligence Agency**, on the other hand, is introducing a corporate-level training program with mandatory courses to be taken over a five year period to bring an agency-wide perspective to workforce orientation and development. Employees will have cross-functional training within the CIA and inter-agency experience in the intelligence community through the Intelligence Community Assignment Program (ICAP).

The **Office of Thrift Supervision (OTS)** has instituted a comprehensive annual training cycle for office training plans that are recorded and linked to the budget electronically. In the Budget and Training Plan Cycle, the Training Steering Committee develops an annual organization training plan through a needs assessment process and an automated forecasting system that projects costs of training requested in the assessment and provides the basis for decisions on course approval for each employee for the year in line with organizational needs, certification training requirements, and budget availability. The OTS also has an on-line database, the National Training System, that contains records of courses taken by employees toward certification, shows course availability, and allows for course registration and scheduling. Employees can query their own records.

Corporate universities are also becoming popular vehicles for enhancing workforce development and encouraging continuous learning through a range of training opportunities that address the business needs of the organization. The **Tennessee Valley Authority** and the **Veterans Health Administration (VHA)** have universities in place and the **Library of Congress** is on the way to establishing one. Their structure and programs are different, but they share a common organizational approach to determining the effective use of training to enhance work force competence and organizational competitiveness.

The TVA University (TVAU), for example, operates in a matrix structure instead of as a fully centralized training function. There is a "dotted line" relationship between the University and the line units to ensure that training is linked to the TVA's new competitive business needs. A cross-organizational Education and Training Managers Forum has worked to integrate the many different training functions into the university structure. Based on a needs assessment that identified the strategic needs of the organization, such as addressing deregulation, financial management, diversity management, and others, a core curriculum was developed for four levels

of the organization. Mid and senior level managers act as faculty for some of these courses. All employees must complete these courses, which are funded at the corporate level, within their first 3 years. Technical training and electives are funded by the individual business units. The TVA has also developed a decision model to help determine how much investment should be made in a particular training or educational activity.

There are five TVAU campuses with classroom, distance, and self-directed learning programs available. The TVA partners with several academic institutions to provide college programs for skills upgrading and continuing education units for certification and licensure and hopes in the future to have its courses accredited by academic institutions. The TVA also allocates approximately \$2 million a year for employees to attend outside accredited institutions.

The Library of Congress also plans to establish an on-site university. It will consolidate all training resources under the Libraries and provide accredited academic courses taught by in-house faculty.

Employee Protections and Labor Relations

Our examination of Title 5-exempt organizations gives some evidence of a growing interest in developing employee protection systems to meet their specific needs rather than follow a standardized process, and shows what such systems could look like. Overall, the findings reveal fewer protections for employees in the Title 5-exempt organizations. Fourteen organizations are exempt from the adverse actions regulations, 11 from the whistleblower protections, and nine from the Hatch Act provisions. Nine of the 18 organizations in the study are exempt from all three.

The most common difference from the Title 5 system among the organizations exempt from adverse action laws and regulations involves access to the Merit Systems Protection Board (MSPB). Thirteen organizations offer internal appeals procedures only, with no access to the MSPB. Two others offer MSPB appeal rights under certain conditions, and one provides for an MSPB appeal in reduction-in-force (RIF) situations only while another offers an appeal in RIF and adverse action situations for those eligible for veterans preference. It should be noted that the jurisdiction of MSPB is set by statute and OPM regulation only; therefore, individual Title-5 exempt organizations wanting to develop employee protection systems to meet their specific needs do not have the flexibility to permit appeals to MSPB, even on a limited basis. However, there is no lack of opportunities for employees to have their cases heard. Fourteen of the participating organizations have negotiated grievance and arbitration procedures. Several organizations mentioned the availability and use of the Inspector General and the General Counsel as sources for whistleblower and Hatch Act complaints. As mentioned earlier, civil rights remedies are available to employees of all of the organizations.

Several organizations noted specific efforts to ensure employees are treated fairly:

The **Federal Reserve Board** has an Adjusting Work-Related Problems Policy. In addition, employees and supervisors can choose to use the Mediation Program at any time, putting formal resolution efforts aside while mediation occurs.

The **Library of Congress** is using dispute resolution techniques and last chance agreements in lieu of standard disciplinary actions.

The **State Department Foreign Service** and **Veterans Health Administration** have a peer grievance review process.

The **Federal Aviation Administration** has initiated a new appeals process called Guaranteed Fair Treatment. A three-member panel consisting of one advocate chosen by each side in a dispute and a neutral arbitrator resolves appealed actions. The panel issues a decision within 10 days of the hearing and the decision is final and binding but not precedential. This process replaces the MSPB appeal process and greatly reduces time frames for resolving disputes.

The **Nuclear Regulatory Commission** is piloting a negotiated procedure for settling EEO grievances (not complaints). Early in the process an employee can request mediation through the Federal Mediation and Conciliation Service (FMCS). Both labor and management must agree to the request and split the cost. Mediation is limited to two sessions before the case goes directly to arbitration.

Sallie Mae's Internal Audit acts as a neutral and confidential source through which employees can take reports, complaints, or evidence of any illegal or unethical activity for investigation.

Closely related to employee protection programs are labor relations programs. Of the 18 organizations in the study, 14 have collective bargaining units or other employee representative organizations. Six of the organizations with bargaining units are covered by Chapter 71 of Title 5. At least five of the Title 5-exempt organizations have multiple unions with the **Tennessee Valley Authority's** 23 bargaining units representing the largest number of unions. The **United States Postal Service** has the largest covered workforce, numbering approximately 735,000.

The management officials we spoke with report that the general experience of these organizations with labor relations is mixed, just as it is under Title 5. Some have historically good relationships with their unions and some have had a stormy relationship. Most of the study organizations are participating in partnership activity even though only those covered by Title 5

are covered by the President's executive order on labor-management partnerships. Some of these partnerships preceded the executive order.

The scope of bargaining is broader for non-Title 5 organizations than for those covered under Chapter 71 of Title 5, including bargaining over pay and benefits. Of particular note are those organizations trying to move toward pay-for-performance systems, which have reported meeting strong union resistance in establishing such systems for bargaining unit employees. Officials in one organization that recently negotiated a performance-based pay system indicated that initially the costs will be higher, but the long term goal of moving away from a seniority-based pay system is worth the protections the unions negotiated for bargaining unit employees.

Integrated Human Resources Management System Change

While virtually all of the Title 5-exempt organizations we studied acknowledged that they are operating in ever-changing environments, some are using this opportunity to undertake major human resources reorganization or reengineering efforts. In some of the organizations these efforts are focused solely on the human resources functions while others include human resources functions as part of an overall organizational restructuring. These efforts are in response to major changes taking place both in the organizations' internal and external environments. Several organizations which had operated in almost an exclusive or monopolistic market are now facing deregulation and/or competition within their markets. Others are facing downsizing or being forced by tighter budgets or other constraints to develop HRM systems that better support the organization's effectiveness and accomplishment of its overall mission.

This section briefly describes what is happening in some of the organizations we found to be undertaking major change efforts. These include the intelligence community (focusing on the **Central Intelligence Agency** and the **National Security Agency**), the **Tennessee Valley Authority**, and the **United States Postal Service**.

In the fall of 1996, the intelligence community began a joint effort to reform their human resources management systems. This does not mean that the intelligence agencies will have identical HRM systems, but that they will be complementary to enable better cross-agency communication and facilitate exchange programs. For example, all the intelligence agencies are committed to developing and implementing skill-based, competency driven human resources management systems. For the purposes of this study, we interviewed two of the larger intelligence agencies--the **Central Intelligence Agency** and the **National Security Agency**.

There were a number of external drivers of change at the CIA, including the move from a near monopoly of intelligence information to a highly competitive information environment and increasingly constrained resources. In its HRM reform efforts, the CIA had to first address the

fact that it had multiple human resources offices and operations. The overall objective has been to establish an HRM system that is aligned with the agency's strategic plan and supports the needs of the organization.

The desired outcomes of the CIA's reform efforts include: strengthening a corporate identity; establishing an HRM system that recruits, trains, rewards, and retains the next generation of CIA leaders; leveraging talent across the entire organization; increasingly investing in work force development in order to maintain a highly adaptable cadre of intelligence personnel; reengineering and automating the human resources processes so that they assist, but do not control, the organization; and coordinating these efforts with the other intelligence agencies. The CIA will change the role of personnelists from administrative to advisory. The leaders of this CIA reform effort emphasize that unless HR supports the business of the agency, it is of no value. To this end, the CIA's human resources professionals are focusing on jobs, skills, and workforce analysis; automation; and appropriate compensation and performance management systems to ensure that they support agency mission accomplishment.

The National Security Agency is facing a similar set of circumstances as the CIA in that its HRM systems have not kept up with the changing needs of the organization. The HRM reform efforts at NSA to date have focused on skills identification and management, performance management, and automation.

NSA is involved in a comprehensive effort to systematically identify the skills, knowledge, and abilities necessary to perform the jobs within its agency. Once established, this system will classify jobs based on the skills needed rather than looking at the tasks of the position. Another outcome of this effort will be the establishment of a data base which will identify all employees' skills so that when vacancies arise, there will be immediately available information on qualified candidates from within the agency. The data base will also serve as a tool to identify organizational and individual training needs.

The performance management reform at NSA focuses on a metrics-based model with measurable performance elements for all employees. Managers and employees will work together to identify measurable and appropriately weighted mission-related performance objectives. These objectives could eventually provide the basis for new skills and performance-based compensation initiatives. The new performance management system will also provide for employee skill and career development through use of an individual development plan, a sophisticated skills analysis tool/system, and, eventually, through multi-rater (360 degree) feedback.

To support these HRM reform efforts, NSA is undertaking a significant HR automation effort. NSA has committed to using PeopleSoft® and changing its practices to be compatible with their system. It plans to distribute the PeopleSoft® system to all employee desktops so that many administrative HR tasks can be completed by employees rather than HR staff and so that

managers will have instant access to important HR data. NSA estimates that it will be able to reduce its HR and other administrative staff by as much as 40 percent through efforts such as these.

The changes at TVA arise primarily from the deregulation of the utilities industry. TVA was established in 1933, and after operating as a regulated monopoly for over 60 years, is now facing an environment of competition and open markets for the first time. These changes have a significant impact on all aspects of TVA's operations including human resources management. In addition to the deregulation, TVA has been in a downsizing mode since 1988 and has reduced its work force by almost half during that time.

In order to operate in a deregulated, competitive, and downsized environment, the TVA must build and maintain additional, and often very different, skills for the organization. It must move from a construction-based organization where the occupations were primarily scientific, engineering, and plant operations to an environment that can not only build and provide utility systems but also market them. In order to meet the needs of the future, TVA is currently undergoing a significant organizational restructuring effort to facilitate the necessary structural and culture changes that have been identified. The focal point of the HRM restructuring is to ensure that the HRM systems align with TVA's overall strategic framework which includes an organizational vision, goals, and values. Examples of initiatives under this framework are comprehensive HRM strategic planning to ensure future HRM needs are met, as detailed above, and the establishment of the TVA University to help build the skills needed for the transition to the deregulated environment.

The United States Postal Service has long had private-sector competition in letter and package delivery functions. However, in today's environment, where many people have access to electronic information exchange methods (e-mail, the Internet, etc.), the USPS must compete on a more sophisticated and difficult level. In this more competitive environment, USPS officials recognized that it must be much more focused on customer satisfaction. In order to address these changes, the USPS implemented the *Customer Perfect!* management system in fiscal year 1995 to improve processes and customer satisfaction. Earlier we described how this system is based on the Voice of the Customer, Voice of the Business, and Voice of the Employee. Each of these "voices" has performance indicators and measures to determine progress in meeting organizational goals.

The Voice of the Employee has the most impact on the USPS's HRM policies and practices. Under the Voice of the Employee, every employee has a mandatory number of training hours to complete each fiscal year. In addition, the USPS is developing competencies for all of its occupations. In order to achieve this goal, each year the USPS will focus on identifying and developing the competencies for three or four key occupations and will continue until all occupations have been covered.

Oversight and Accountability

Finally, we looked at the extent to which these Title 5-exempt organizations hold themselves accountable for effective HRM systems and adherence to the Merit System Principles (as appropriate) or other organizational values and policies. Our findings show that most of the organizations studied do not have a formal oversight or accountability mechanism, and there is limited external oversight of overall HRM programs and merit systems among the exempt organizations. Most organizations identified the Merit Systems Protection Board (MSPB), the General Accounting Office (GAO), and their Inspector General (IG) as organizations that periodically look at their operations. But there was no systematic regulatory review of the HRM operations from an external source. In Title 5-exempt organizations, HRM is strongly identified with the overall central management systems, and is responsive to the changing needs of the organization rather than to an externally imposed HRM authority. Yet, as noted previously, merit is also a clear component of HRM within these studied organizations.

Some exempt organizations enter into interchange agreements with the Office of Personnel Management (OPM). Such agreements authorize OPM to review their merit systems in exchange for conferring Federal “status” on employees who apply for jobs at Title 5 agencies. OPM’s review, however, is limited to certifying the systems as merit-based, and is much narrower than the review of Title 5 covered organizations. The organizations in this study with interchange agreements include the **Nuclear Regulatory Commission**, the **Tennessee Valley Authority** and the **Veterans Health Administration (VHA)**--Title 38 employees. MSPB studies of the TVA and VHA in 1989 and 1991, respectively, found strong merit-based operations with no evidence of discriminatory practices.

Central HRM staffs in some of these organizations provide policy direction and oversight to subordinate HRM units in the field. Some HRM representatives stated they also periodically review management practices under delegated HRM authority.

This is especially important, since many of the organizations have given line managers more authority and/or responsibility for managing HRM. They expect line managers to be responsible for HRM as part of their managerial responsibilities, with less reliance on the HRM staff. In particular, such delegations fall in the area of selection, where managers are required to justify in writing the reasons for selection sufficient to withstand legal challenge. Although many Title 5 organizations are moving in the direction of more responsibility for line managers, we found a distinct difference in perspective in Title 5-exempt organizations, where managers play a more integral role in HRM activities from Title 5 organizations that have depended traditionally on a dedicated HRM staff to implement and manage the personnel system.

The VHA, as a rank-in-person system, places primary responsibility for qualifications, placement and pay on panels of managers and occupational experts. In addition, managers at the VHA

develop specific work-area outcomes consistent with the organization's mission. Collectively, these outcomes represent the organization's performance improvement plan. The **Peace Corps'** managers have full authority to write position descriptions and classify positions as well as to rank applicants and make or justify selections.

Although more traditional in its operations, the **Library of Congress** expects managers to assume responsibility for meeting requirements set out in the staffing plan and for meeting the time frames of the selection process. These requirements are included in their performance evaluations.

Traditionally, TVA has had decentralized HR functions with HR staff in each location or plant. In their restructured environment, there will be approximately two HR staff members for each region, representing a reduction of almost half of TVA's HR staff. Line managers will be expected to take more responsibility for day-to-day HRM activities. For example, upcoming efforts at strategic work force planning and management will include the expectation that line managers become more responsible for predicting and planning for their future human resources needs.

With increased HRM authority and responsibility for managers, the need for an HRM accountability system becomes more apparent. For the purposes of this report, we define HRM accountability as the responsibility placed on organizations to show that they are making effective use of their human resources, within the values expressed by the Merit System Principles or other organizational values defined by the non-Title 5 agencies. The preceding examples showed how HRM authority and responsibility is changing in these organizations. The following two examples take the next step and show how some Title 5-exempt organizations are holding line managers accountable for effective HRM.

The **Federal Deposit Insurance Corporation** includes HRM accountability factors in its supervisor and executive performance evaluations. Their leadership sets the tone and sends the accountability message downward throughout the organization. Examples of these accountability factors include:

1. **Create a high-performance environment:** Create and maintain an environment where all employees are challenged and encouraged to achieve excellence;
2. **Manage performance effectively:** Provide clear expectation for the work and behavior of others, give constructive feedback, and follow up to ensure that performance is on track; and
3. **Develop others:** Provide opportunities, guidance, and feedback to help others enhance their knowledge, skills, and abilities.

At the **United States Postal Service**, accountability is managed through the Balanced Scorecard approach and through variable pay. The Balanced Scorecard relates to achievement in financial, customer, and employee goals for the year. Once goals for each of these areas are set by headquarters, managers in each of the USPS's 80 Performance Clusters must ensure that each of these goals is met or they will not receive a variable pay bonus award for that goal.

**Aggregate Telephone Survey Results
(Self-Reported by Organizations)**

Category	Covered	Not Covered	Admin. Follow	Other	Yes	No	?
MSPs	5	10	3				
Staffing	3	14	1				
Rate & Rank					15	3	
Veteran's Preference			2		7	9	
Performance Management	3	13	1				
Perf. Linked to Compensation					13	3	2
Perf. Linked to Org. Goals				1	12	4	1
Classification	1	15	2				
Compensation	2	14	2				
Award	2	13	3				
Benefits	5	9	3				
Adverse Actions	4	13	1				
Hatch Act	9	8	1				
Whistle Blower	7	11					
MSPB Appeal Rights				2 (partial)	4	12	
Labor Relations	6	10					2

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