

**OPM's GUIDING PRINCIPLES
FOR
CIVIL SERVICE TRANSFORMATION**

Working for America



**UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
KAY COLES JAMES, DIRECTOR
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OFFICE OF THE DIRECTOR

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OFFICE OF PERSONNEL MANAGEMENT
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For well over a century, the merit system principles have served our civil service, and our nation, well. However, while those principles continue to assure the integrity of that system for 1.8 million Federal employees and the American people they serve, we are long overdue to modernize the policies and processes we use to put those principles into practice. As the successor to Theodore Roosevelt's Civil Service Commission, the Office of Personnel Management (OPM) is the steward for those merit principles, and it is imperative that we lead that modernization.

This concept paper is designed to begin a dialogue among policymakers, human resource professionals, and stakeholders, including veteran service organizations, managers and unions, on the way ahead – what must be done to build a civil service system for this new century without compromising on the foundational values that have served us so well.

Even as OPM has continued to preserve the ideals of the merit system, we have also been at the very center of one of the most transformational changes in the Federal civil service in the last fifty years – the creation of the Department of Homeland Security (DHS). And while the regulations establishing its new human resources (HR) system are still in the final stages, it is not too soon to look to DHS as a model for modernization – in the substance of that new HR system as well as in the collaborative process we used to design it. In this regard, Congress has recognized the vital role OPM must play in the modernization process, and it is a role we embrace as part of our institutional mandate.

Civil service modernization does not signal a belief that “one size fits all.” That is the old paradigm of reform. Rather, we must develop and deploy a civil service system that is flexible, agile and responsive enough to adapt to the diverse missions, cultures, and work forces of the agencies that make up the Executive Branch. We believe that we can do so and still remain true to the common ideals that have made our Federal service so special. Of course some elements of our civil service system, such as the successful Federal Employee Health Benefits Program, will remain uniform, capitalizing on the tremendous efficiencies and economies that can only be achieved by leveraging the Federal government's immense “buying power” as a single employer. In this regard, finding the right balance between flexibility and uniformity will be our greatest challenge.

This is an exciting time to be an HR professional in the Federal Government. Fundamental change is taking place, and we are at its forefront.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kay C. James".

Kay Coles James
Director

Modernizing Merit: OPM's Guiding Principles for Civil Service Transformation

Introduction

The United States has the finest civil service in the world. An essential element of our constitutional democracy, America's career civil servants truly represent the ideals of public service: integrity, continuity, and competence in the administration of our Federal Government, without regard to political party or election result. However, our civil service *system*, now over one hundred years old, has not kept pace with the evolution of that noble calling.

Born out of the abuses of political patronage in the late 1800's, that system has worked remarkably well. It has stood the test of war and peace, assassination and impeachment, terrorist attack, even electoral impasse. In each and every trial, it has remained rock steady...so much so that many Americans take its excellence for granted. However, it is based on assumptions about our Government's work, and its workers, that are outdated and obsolete, and the system is clearly in need of substantial modernization.

President Bush has recognized this need (indeed, he has made it one of the priorities of his Administration), and we have already made considerable progress in that overhaul. That progress has been guided by four strategic principles...our blueprint as we lay the foundation for a Federal civil service system for the 21st Century:

- preserve the ideal;
- maximize flexibility;
- leverage economies of scale; and
- ensure collaboration and coordination.

Taken together, these four principles provide the schematic for modernizing our merit system, with a result greater than the sum of their separate parts.

Preserving the Ideal

Even as we move to radically reshape the American civil service system, we must take great care to ensure that its modernization does not come at the expense of its foundational values. **The enduring legacy of Theodore Roosevelt, these foundational values are set forth in the merit principles that ground our nation's civil service laws, regulations, procedures, and practices...literally every aspect of the relationship between our Federal Government and its career employees. Codified in statute and regulated by OPM, these principles represent the core of our system, and they guarantee a civil service that is free from any partisan political activity or influence - without diminishing the responsiveness and accountability of our civil servants to the public interest.**

These core values cannot and will not be compromised. If there is a "prime directive" that drives OPM in its modernization of the civil service, this is it - our first principle of reform.

Among other things, those values, and the laws and rules that give them life, assure that Federal employees are hired, promoted, paid, and discharged solely on the basis of merit and conduct...their ability to do their job. They provide special protections for veterans, victims of discrimination, and those who expose Government waste or fraud. They also guarantee our public employees due process in any action that threatens their employment, as well as the right to join unions and bargain collectively. With these enabling principles, our civil service system ensures that politics and political party, as well as other non-merit factors, have no bearing on the tenure of our civil servants, from the entry level clerk to the career members of our Senior Executive Service who lead them. These values were the genesis of the Federal civil service and have stood the test of time. They must remain intact and sacrosanct as we move forward.

In so doing, we must also assure the efficacy of those who make those core values and principles real, those who lead...and in so doing, are called upon to live those values by example; they too are an essential element of our civil service. Leadership matters; members of the Senior Executive Service and its equivalents, as well as those in its developmental "pipeline" (such as Presidential Management Fellows and new Senior Fellows), are as vital to preserving the ideal as the values that define it. If those values are our center of gravity, leaders serve as their binding force, connecting increasingly divergent agencies with a common, corporate culture of excellence and integrity, and they too must be an essential component of the modernization process.

However, OPM is ultimately the steward of these ideals. It establishes the policies that govern how Federal agencies manage their civil service employees, and along with other central agencies that adjudicate employee appeals, labor disputes, and discrimination complaints, it holds those agencies accountable for complying with them. The successor to Theodore Roosevelt's Civil Service Commission, OPM celebrates its 25th anniversary this year, and it is unique among Federal agencies – at once, accountable to the President, our highest elected official, and to assuring the bedrock principles of political neutrality and merit that ground our civil service. Without OPM's institutional stewardship, those values would be nothing more than noble abstractions, and thus, it is perhaps the most critical to our first principle: preserving the ideal.

Maximizing Flexibility

Change will be a constant in the 21st Century civil service; to meet this challenge, we must develop and deploy a civil service system that is flexible, agile and responsive enough to adapt to any circumstance. This is our second principle of modernization: provide agencies (and those who lead them) with maximum flexibility...but within the bounds set by the core values that define our civil service system. Thus, while those core values serve as our system's indivisible nucleus, the way they are operationalized may vary from agency to agency without necessarily threatening or eroding them. For example, while merit principles ensure that employees receive "equal pay for work of equal value," the means to that end may manifest itself in dozens of different compensation systems...indeed, that is the case today for a significant portion of the Federal civil service, and OPM's vision of the future portends even more of the same.

The nostalgia for a unitary, uniform civil service system notwithstanding, that past is long gone. Our system's standardized rules, once its strength, have become a weakness; intended to insure fairness and equal treatment, they have begun to have the opposite effect, fostering rigidity and sameness and mediocrity...to the point that few distinctions are made between top performers and those that are merely doing their time. Designed when bureaucracy was king, its "one size fits all" paradigm has become dysfunctional, an impediment to agencies whose missions and workforces have become increasingly diverse and complex. And its emphasis on process and procedure (as the principal means of assuring merit) increasingly comes at the expense of accountability and results.

In contrast, our future is a system that is flexible and elastic, one that can be molded and shaped to fit the unique missions, functions, and work forces of the agencies and departments that comprise the Federal Government...but without abandoning the core values that have so successfully served as our anchor. The establishment of our new Department of Homeland Security (DHS) provides a model for this delicate balancing act. Proposed by President Bush to guard against the threat of terrorism, the Department's success depends on its ability to field a skilled, agile, high-performing workforce, and as a result, its enabling legislation gives the Department, in partnership with OPM, the authority to design a completely new human resources (HR) system for most of its 180,000 employees...unprecedented flexibility to literally rewrite the civil service laws and procedural regulations that would otherwise govern how it classifies, evaluates, compensates, and terminates its employees.

However, by law, that flexibility remains firmly and unequivocally bounded by our system's core values - merit, due process, protection from reprisal and discrimination, etc. These values cannot be touched by the Department's flexibility. Moreover, the authority to exercise those flexibilities is shared by the Department's Secretary and the Director of OPM, the former accountable for the security of our homeland, the latter for preserving the ideals of the merit system. This same framework is replicated in the Defense Department's (DoD) new National Security Personnel System (NSPS). Covering up to 750,000 DoD employees, NSPS provides for similar personnel flexibility, but like DHS, it is balanced and bounded by similar safeguards...including the participation of OPM.

These "designer systems" represent the future of our civil service, flexible enough to fit an agency's unique mission and culture, yet inextricably connected to one another by the civil service values that serve to bond all Federal employers and employees to the public interest. It is a future where flexibility and high performance need not (and shall not) come at the expense of such core principles as merit, veterans' preference, and equal employment opportunity; indeed, those values and the high standards of performance and integrity they enable are interdependent and inextricable.

Leveraging Scale

Agency flexibility must also be balanced and bounded by yet another imperative: our responsibility to capitalize on the tremendous efficiencies and economies that can only be achieved by leveraging the Federal Government's immense "buying power" as a single employer. This serves as our third guiding principle: leveraging scale. Thus, even

in a future of agency-specific HR systems, certain elements of the Federal civil service should remain part of a standard, overarching architecture that maximizes efficiency and effectiveness.

The most obvious example of this leverage is the Federal Employees Health Benefits Program (FEHBP). As the President has noted, the FEHBP is a model for health care delivery, and its efficacy is in part derived from the fact that it treats the Federal workforce as a single population, a huge risk pool that can be leveraged to maintain and improve benefits, reduce costs (to both the taxpayer and the employee), and mitigate financial risks. The same can be said for other benefit programs, from retirement and life insurance to long-term care and flexible spending accounts. That is why OPM has steadfastly opposed agency attempts to secede from these programs...the actuarial cost of balkanizing the Federal civil service in this regard is just too high. Standardization here is consistent with, and ultimately complements, the other principles of modernization.

We are just beginning to leverage scale in another critical area: HR information systems. For years, agencies have been spending hundreds of millions of dollars on information technology to support HR operations; however, in many respects, those investments have been redundant and wasteful, each literally re-inventing the wheel at great cost to the American taxpayer. For years, no one provided any central leadership in this area, allowing those redundancies to proliferate. The 21st Century OPM is changing that. Building upon such successful e-Gov initiatives as Recruitment One-Stop and *GoLearn*, OPM has been designated by the President as the “managing partner” for the Federal Government’s entire HR information technology line of business.

The underlying premise of that line of business is simple: at their root, separate agency HR information systems share a common, core set of functional requirements, and we can capitalize on that commonality (much as we do with benefit programs) to achieve considerable savings – not just in IT costs but also in order-of-magnitude efficiencies in HR service delivery. This will remain the case even as we afford agencies greater flexibilities, for at the transaction level, the functionality of our HR and payroll systems will continue to converge, providing an opportunity for even greater economies and savings – through consolidation and eventually, competitive sourcing of service delivery. Fears that consolidation is a thinly-veiled attempt to reestablish uniformity are groundless. The systems can and should be designed to accommodate flexibility. We have an obligation to provide American citizens the most value for their hard-earned tax dollars; this too must drive our modernization efforts.

Ensuring Collaboration and Coordination

The three guiding principles described above all have to do with the substance of a 21st Century civil service system, its core principles and overarching architecture. However, if modernizing this storied institution depends on successfully balancing the inevitable tension between agency flexibilities on one hand, and common values and economies on the other, *process* becomes just as important as content. **Thus, our fourth and final guiding principle: the modernization process must be collaborative, and the implementation and**

operation of the agency-specific systems that emerge from it must be managed by OPM, carefully coordinated so as to avoid adverse externalities.

No institution can transform itself successfully without the “buy-in” of its most critical stakeholders; in the case of the Federal civil service, that means everybody from senior agency executives and managers to front-line employees and the organizations that represent them. It also means OPM. That buy-in becomes even more important in a future that features agency-specific HR systems. If those systems are to be credible, they must be designed in a way that is as open and transparent, as inclusive and collaborative as possible. Congress has recognized the importance of collaboration in this regard, requiring it of both DHS and DoD, not only with their employee organizations, but also with OPM...the latter clearly in its stewardship capacity.

One need only look to the still-pending development of the Department of Homeland Security’s HR system for our model. First, by statute, that system must be “jointly prescribed” by the Secretary and the OPM Director, and as a result, OPM has been a full partner in its design from the beginning. So too were DHS managers, employees, and unions...on the joint OPM/DHS design team, through focus groups and town hall meetings across the country, and finally, in the “meet and confer” process that, by law, serves as the terminal step in the system’s design. And the regulations that will actually establish the system have been published in proposed form for full public review and comment. The entire process has been characterized by its openness and inclusion, and while it has added time, we believe that the end result will be far better for it. That lesson has not been lost on DoD, and with OPM, it has embarked on a similar path in the design of the new NSPS.

However, collaboration in design and development is not enough. Even as individual agencies, jointly with OPM, design their own HR systems, the implementation and operation of those separate systems must be carefully managed so as to preclude (or at least minimize) any adverse impact on other agencies. This responsibility too must rest with OPM. In the proposed DHS regulations, it is described as “coordination,” a deliberately bland, bureaucratic term that is nonetheless pivotal to modernizing merit. As we have defined it, coordination affords agencies wide latitude in administering their own HR systems, but it reserves to OPM the ultimate authority -- indeed, the obligation -- to intervene when the exercise of one agency’s flexibility has the potential for adversely affecting others across Government...and if necessary, to veto that flexibility. OPM plays this coordinating role today (such as in setting special salary rates), and that concept has been expressly incorporated into the proposed DHS regulations at several vital points...points where DHS actions may potentially “spillover” to other agencies. For example, OPM coordination is required as the Department establishes its occupational clusters and paybands, including their minimum and maximum rates of pay, especially with respect to job families that are common to other agencies; OPM coordination is also required as the Department sets nationwide and locality-based pay adjustments each year. In keeping with this fourth principle of modernization, the Defense Department’s NSPS will include similar OPM coordination points, so as to assure that cross-agency effects are taken into account and mitigated.

What's Next: The Framework for Civil Service Modernization

The four principles we have outlined above provide a framework for the way ahead, for modernizing merit. And for those who worry about whether that modernization should be Governmentwide or agency specific, our approach does not require an “either/or” choice between these two paths. Rather, we believe that it is possible to establish, through legislation and regulation, a standard Governmentwide framework for modernization that uniformly (and unequivocally) preserves and protects the core ideals of our civil service, and *at the same time* affords agencies, under OPM’s leadership, maximum flexibility to design their own HR systems to serve their unique mission needs. This is a logical extension of demonstration project authority, but one that recognizes and takes full advantage of the quarter century of knowledge and experience accumulated under that process. It is time to move forward in that regard, beyond experimentation to implementation.

Reforming the Modernization Process. Instead of more demonstration authority, the way ahead should start with Governmentwide legislation that provides the personnel flexibilities given to DHS and DoD, as well as the same process for exercising them. As with DHS and DoD, that legislation must hold core civil service principles -- merit, due process, veterans’ preference, equal employment opportunity, union representation, whistleblower protections – sacrosanct; provide agencies with the discretion to design HR systems that fit and foster their missions; assure employee and union involvement; and keep OPM in the center of it all...as the overall governor on and of the exercise of that discretion. This approach acknowledges once and for all that a traditional, “one size fits all” approach to reform simply does not comport with the complex reality of our civil service (the General Schedule itself is evidence enough of that); however, it does assert that our civil service *system* can be modernized via a single, overarching framework.

Reforming Pay and Performance Management Systems. Reform in these areas should be our top priority. We believe that the framework outlined above is particularly well suited for modernizing compensation, classification, and performance management systems, simply because its architecture is so evident. The broad paybands being proposed by DHS and DoD are progeny of the original China Lake demonstration project, as are those developed by the Federal Aviation Administration, the Internal Revenue Service, and others who have been given this flexibility. All told, these paybanding systems, all variations on the same central theme, may soon cover well over half the Federal civil service; indeed, we are long past the “tipping point” in this regard, and if we do not act soon, we risk placing agencies outside this emerging architecture at a competitive disadvantage when it comes to recruiting and retaining the best and brightest.

Other Incremental Pay Reforms. We believe that there is no need for further demonstration and/or delay when it comes to pay-for-performance. We need to expand and extend the DHS/DoD framework, its process as well as its substance, to those agencies that are ready to move forward and modernize their pay and performance management systems. And for those agencies that are not quite ready to move forward, our modernization strategy should also provide for incremental transformation under more controlled conditions...the Human Capital Performance Fund is a good example, providing agencies limited but nonetheless important pay and performance management flexibilities (and funding), subject to OPM

approval and oversight. We should consider a similar approach to modernizing the process for setting special salary rates for those agencies that remain under the General Schedule.

Reforming Employee and Labor Relations Systems. There are aspects of the Federal employer-employee relationship that are not so amenable to an agency-by-agency approach, where a greater degree of uniformity is appropriate, and our modernization strategy should address these areas as well. For example, the due process guaranteed every Federal employee may be best protected by a single set of adverse action procedures for both misconduct and poor performance, as well as a single independent adjudicating agency, for all but the most egregious of offenses. This is not to say that the *status quo* should prevail in this area – both process and adjudication clearly need to be streamlined and simplified, perhaps based on lessons learned from DHS and DoD; however, those lessons may be more appropriately applied uniformly across all agencies. The same may be said for labor relations and collective bargaining.

Other Possible Governmentwide Reforms. Finally, as our four principles suggest, the way ahead must also address those elements of the civil service system that are best modernized across the board, where one size *does* need to fit all. For example, we have just implemented a new, standardized pay-for-performance system for members of the Senior Executive Service, and there are other common, structural elements of our senior career services that need to be similarly transformed (for example, the increasingly arbitrary distinction between executive and technical/professional leadership). The challenge of modernizing the pay and benefits of our law enforcement and protective occupations may also demand a more uniform approach, particularly given the illogical disparities that exist today. Similarly, we will continue to modernize our common benefit systems, offering all Federal employees enhancements like Health Savings Accounts, to ensure that they remain on par with the best that the private sector has to offer. Thus, there always will be a need for standardization, but it need not necessarily come at the expense of flexibility.

Back to the Future...

By now it should be apparent that by his actions to date, the President has laid out a clear vision and compelling strategy for modernizing the Federal civil service system. And contrary to those who have suggested otherwise, he has made that modernization an imperative of his Administration. That strategy is manifested in and by the four principles of modernization set forth above, and with DHS and DoD (together comprising over 850,000 employees), OPM has already begun to successfully execute it. These four principles have served to guide us in these historic efforts, and we believe that they also provide the framework for the way ahead. In so doing, they describe a Federal civil service system, and an OPM, that is far, far different from the one that Theodore Roosevelt (and even Scotty Campbell) led, yet one that is also the same...radically different in structure and administration, but unwaveringly grounded in the very same foundational values that they both held so deeply.

In charting a path to that future, OPM will assess how best to translate these possibilities into action. Some of these changes will require legislation; other reforms may be possible through Executive orders or regulations. However, all will require close collaboration and coordination with the White House, the Office of Management and Budget, congressional leaders, employees, veteran service organizations, union representatives, managers, and other key stakeholders. OPM is committed to such a process, and looks forward to the next wave of reform.

Disclaimer: "This document is not intended to recommend, support, or endorse any specific or pending piece of legislation."

Summary

Principles for *Civil Service Modernization*

Preserving the Ideal

Modernization must preserve the enduring legacy of Theodore Roosevelt, the foundational values set forth in the merit principles. Those principles ground our nation's civil service laws, regulations, procedures, and practices...literally every aspect of the relationship between our Federal Government and its employees. Codified in statute and regulated by OPM, these principles represent the core of our system, and they guarantee a civil service that is free from any partisan political activity or influence – without diminishing the responsiveness and accountability of our civil servants to the public interest. These must not be compromised.

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Agency flexibility must also be balanced and bounded by yet another imperative: our responsibility to capitalize on the tremendous efficiencies and economies that can only be achieved by leveraging the Federal Government's immense "buying power" as a single employer. This serves as our third guiding principle: leveraging scale.

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Our fourth and final guiding principle: the modernization process must be collaborative, and the implementation and operation of the agency-specific systems that emerge from it must be managed by OPM, carefully coordinated so as to avoid adverse externalities. No institution can transform itself successfully without the "buy-in" of its most critical stakeholders. In the case of the Federal civil service, that means everybody from senior agency executives and managers to front-line employees and the organizations that represent them. It also means OPM.



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1900 E Street, NW
Washington, DC 20415