



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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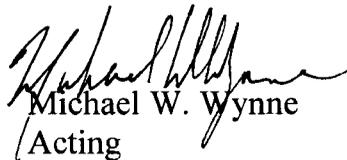
SUBJECT: Perspectives on Implementing a Pay-for-Performance System

The Department of Defense (DoD) Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) was implemented in 1999 to demonstrate that a flexible and responsive personnel system will enhance DoD's ability to attract, motivate and retain a high quality DoD acquisition, technology and logistics (AT&L) workforce and to improve managers' ability to manage the workforce effectively. Our experience with implementing AcqDemo for over five years provides us with key insights into the process required to successfully implement a performance-based personnel management system across the Department of Defense.

I am forwarding the attached key insights for your use in planning for the Department's transition to the National Security Personnel System (NSPS). I urge you to consider these insights during your planning for NSPS implementation, and more importantly, in discussions with senior leaders concerning the vital role each of us will play in this process.

The organizations who have participated in AcqDemo implementation and provided project leadership at all levels are a valuable source of expertise and additional lessons learned. I encourage you to make use of these most valuable resources.

My point of contact for this matter is Ms. Mary Thomas who can be reached by telephone at 703-681-3508 or by e-mail at mary.thomas@osd.mil.


Michael W. Wynne
Acting

Attachment:
As stated



Perspectives on Implementing a Pay-for-Performance System

Lesson One – The buy-in, dedicated involvement and un-wavering support of senior leaders is essential.

Leadership at all levels - from OSD, to the Military Departments and Defense Agencies, to organization commanders and directors, to individual managers and supervisors - must be visibly and demonstrably involved in the implementation of a pay-for-performance system. Such a system impacts the one thing that the workforce is most passionate about – pay. The workforce must see and believe that leadership is committed to the fairness, equity, and success of the system.

Participation in the AcqDemo was voluntary, each organization commander/director made a decision and commitment to participate. This commitment was vital, especially during the early stages of implementation when obstacles were encountered that needed to be addressed and communicated. Given that the transition to NSPS will not be voluntary, the need for leadership support in this process is even more vital.

To achieve the buy-in and support of leadership up front, knowledge of the system is essential. Reliance on a group of experts in an implementation team or human resources office will not achieve optimum results. Leadership and management must understand and be capable of communicating both the benefits for and potential negative impacts on the organization and the workforce. They must also be capable of operating the system in such a way as to achieve organizational goals while maintaining fairness and equity in management of the workforce. Leadership support is the only way to convince employees that the organization is dedicated to the success of the system despite the challenges encountered during the implementation process.

Lesson Two – The NSPS philosophy of centralized development and decentralized execution requires an integrated management structure to provide oversight, manage flexibility, and hold components accountable for results.

NSPS design is based on a philosophy of building a flexible system that can be easily adapted to changing mission requirements. It gives managers the flexibility to manage at the unit level. AcqDemo was also designed to provide managers, at the lowest practical level, the authority, control, and flexibility they need to manage their workforce. The greatest challenge in the development, implementation and continued operation of such a system is managing flexibility.

Managing flexibility means, ensuring that organizations understand and utilize the authorities they now have, maintaining the desired level of consistency across the Department, and providing oversight and direction when required.

The key to managing this flexibility in AcqDemo was the early establishment of a permanent, integrated management structure to facilitate consistency in decision making, training, and procedure development. The AcqDemo Executive Council consists of representatives from each participating Component and Agency to voice individual organization needs, and assist the Program Office in the identification of necessary operational modifications and controls. The flow of information up and down this management structure allows for the identification/correction of issues at the proper level and for overall system changes to benefit the organization and participants.

Implementation and operation of NSPS must be regularly monitored at all levels to manage flexibility. An integrated management structure, at both the OSD and Component level, will provide the means to achieve this without intrusive oversight.

Lesson Three – Flexibility must be balanced with simplicity.

NSPS is being designed to have “a built-in flexibility that is simple and adaptable to varying command missions and structures”. Our experience has shown that “simple” cannot be emphasized enough.

The AcqDemo’s compensation and appraisal system is one example of this. The AcqDemo system incorporates pay band based assessments, a standard pay line, and supporting software with algorithmic formulas to assure fairness and equity across pay pools. While this software offers a relatively straight forward solution for pay pools to navigate the system, it limits the flexibility of the system for those who used it. A small number of organizations opted out of using the software system, maintaining total flexibility but thereby putting fairness and equity at risk. We learned from experience that a software approach that offers pay pools the use of more than one set of algorithms provides organizations with a simple way to tailor the system to the needs of the organization while still preserving fairness and equity.

Given the size of the AcqDemo population and the homogeneous nature of its workforce and their mission, this did not become a deterring obstacle. NSPS faces a greater challenge, however, in designing a system that will cover tens of thousands of employees in thousands of pay pools while maintaining the flexibility demanded to achieve the goals of organizations with drastically different missions and workforce profiles. The system must provide flexibility to

meet unique mission needs while maintaining a non-complex design that drives consistency across organizational-lines.

Lesson Four - The roles of the workforce will change in a pay-for performance system. All players must know and understand their individual responsibilities and how the new system will impact them.

NSPS will define a new role for managers, supervisors, human resource professionals, and employees. As with AcqDemo, the system will depend on the strategic partnership of management and human resource professionals. While leading to a significant increase in the time spent by management and supervisors on personnel issues and an increased involvement by all personnel in the appraisal process, this change in roles is essential to achieving the overall goals of a pay-for-performance system.

All stakeholders must understand the system as a whole and what their individual roles and responsibilities are. To provide this perspective to each participant, training must be structured to deliver in-depth system design and operational insight to the entire workforce, including senior management. Additional courses/materiel should then be provided to address the specialized knowledge required by each group of employees (senior management, pay pool managers, supervisors, human resource personnel, employees, etc.). Within AcqDemo, we developed “An Employee’s Guide to the AcqDemo – Understanding Your Role in the DoD Civilian Acquisition Workforce Personnel Demonstration Project” to facilitate this process. Based on the positive workforce response we received, we strongly recommend that a similar approach be adopted by NSPS.

Lesson Five – An integrated and iterative training approach, linked into the integrated management structure, is essential to maintain consistency in the system.

Consistency in the content of training provided and the message conveyed are as critical to program success as the subjects presented and method of delivery. Of equal importance is the ability of trainers to consistently and accurately answer the multitude of questions that will be asked during training sessions. These sessions will in most instances be the workforce’s first exposure to the new system and will form their first and most lingering impressions of its fairness and equity. In addition, these sessions will occur while refinements in the spiral development of NSPS are still taking place.

Due to size of the population affected, AcqDemo was able to control consistency by delivering all training directly from the Project Office with

supplementation by organization experts. NSPS will be required to adopt a train-the-trainer approach. The best way to control content and achieve consistency with this type of approach is to utilize the integrated management structure across components. A sub-group of experts who have been involved in the design of the system can refine/adjust training content throughout spiral development; assure that all levels of the workforce are receiving consistent information; provide authoritative answers to questions not answerable on-the-spot; and respond to issues arising during both implementation and continued operation.

Summary - We did not acquire these lessons learned without experiencing the negative impact of not “getting it right”. One such experience emphasizes this point. During initial AcqDemo implementation one Component decided it did not need training assistance from the Project Office and left all AcqDemo training to individual organizations. In one of these organizations, only cursory overview training was presented without an emphasis on the mechanics of the appraisal and compensation system or on the roles of the supervisor and pay pools. After the first payout cycle, numerous formal grievances were filed. Due to this one event, other organizations within that Component were given a negative impression of AcqDemo and future participation was stymied for the duration of the project.

As we have seen, the impact of just one failure can have serious impact on the acceptance of any new system by both employees and management. We have the unique opportunity today to prepare the Department for many of the obstacles we know we will address as we transition the Department to NSPS. By integrating these lessons into the implementation process now, we can minimize any lasting effect that these obstacles will have on the overall success of the National Security Personnel System.