

Strategic Compensation Update

Strategic Compensation Conference 2002
Alexandria, Virginia
August 27–28, 2002



Since last we met . . .

09/11/01 *A Nation at War*

Volcker Commission

Enron, WorldCom, etc.

Homeland Security



Meanwhile, back at OPM

- Emphasis on the President's Management Agenda and improving the strategic management of human capital
- Director committed to examining pay reform and other issues

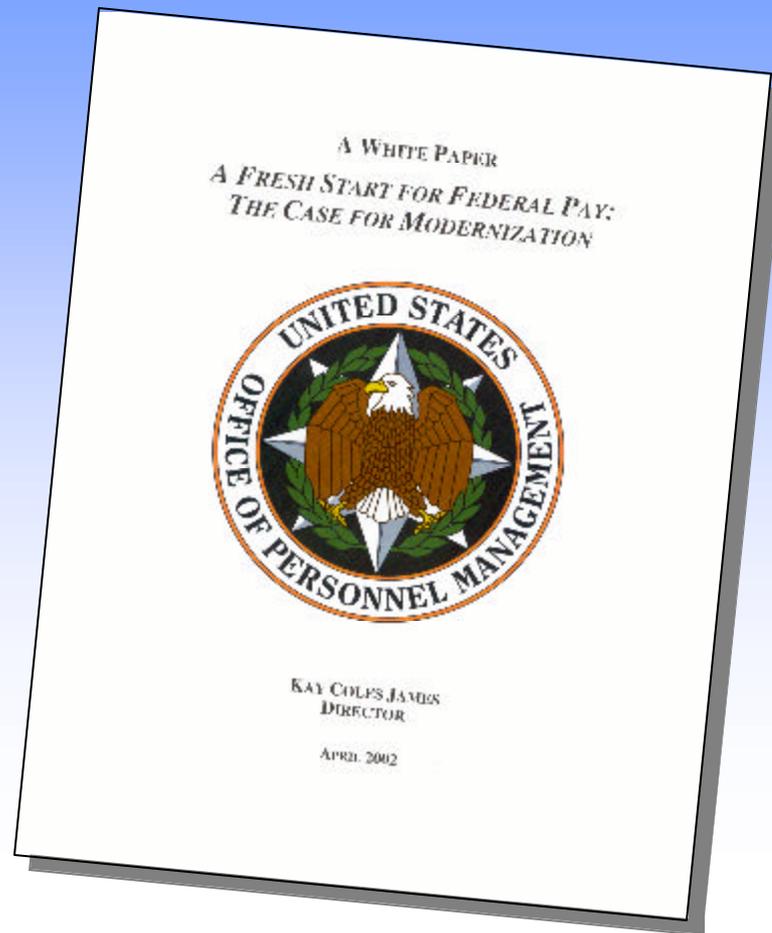


Strategic Compensation Initiative

- Wraps up main research agenda
- Wraps up working group discussions on compensation components
- Shifts to developing a White Paper



The White Paper



August 2002

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The White Paper

- Purposes:
 - provide an honest examination of the current white collar pay and job evaluation system
 - stimulate discussion
- Emphasis:
 - merit system principles
 - classic compensation principles (external equity, internal equity, individual/contribution equity)



The White Paper

- Deliberately does **not** include proposals for change
- The nature of changes are implied:
 - “If what we’ve got is wrong, what would be right?”



Sharing the White Paper

- Unveiled at a Kennedy School of Government Executive Session on the Future of Public Service hosted at OPM
- Several key groups briefed immediately: media, congressional staff, stakeholder groups



Reaction and Next Steps

- Reaction has generally been quite positive
- Some significant concerns raised
- We will “continue the conversation”
- Addressing related issues
- More research as needed



Related Issues

- Executive pay
- Pay gap(s)
- Bargaining pay
- Funding
- Poor performers



Readiness Issues

- Federal managers and supervisors
- Performance management systems



Federal Supervisors and Managers

- If Federal agencies got pay flexibilities tomorrow, would managers be ready to use them effectively?
- Another negative effect of pay inflexibility



Federal Supervisors and Managers

- Selection, development, reward systems for managers may need updating
- System for valuing managerial work must be updated to work better
 - Not designed for modern structures
 - Assumes steep hierarchy still present
 - Technical skills rewarded more than leadership and performance management skills



Performance Management Systems

- Effective performance-oriented pay requires credible measurement systems
- Levels of performance must be distinguished
- To be meaningful, “Outstanding” must be the exception, not the rule



Performance Management Systems

- Must start examining performance culture NOW
- Be alert to possible disparate impact
- Audit measurement systems NOW, and take corrective action as needed



Performance Management Systems

- Not paying proper attention to this issue can derail efforts to relate performance and pay
- Such outcomes can be averted, but it takes vigilance and commitment



Checking Ratings Distributions

- Compare across:
 - Protected groups
 - Grade groupings
- Look for disparate distributions
- Can you explain any differences with credible measures?



Ratings Distributions

Data Source for the following graphs is the Central Personnel Data File, 2001

The data are only for appraisal programs that use five summary levels graphed here with

0 = Level 5

XFS = Level 4

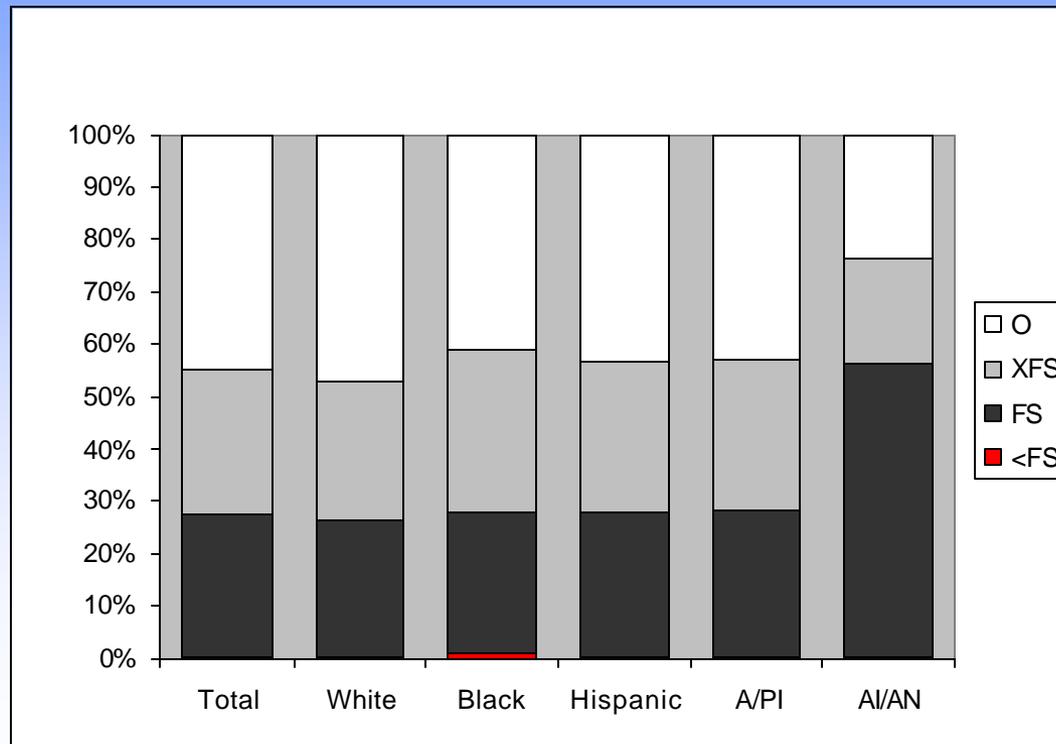
FS = Level 3

FS = Level 2

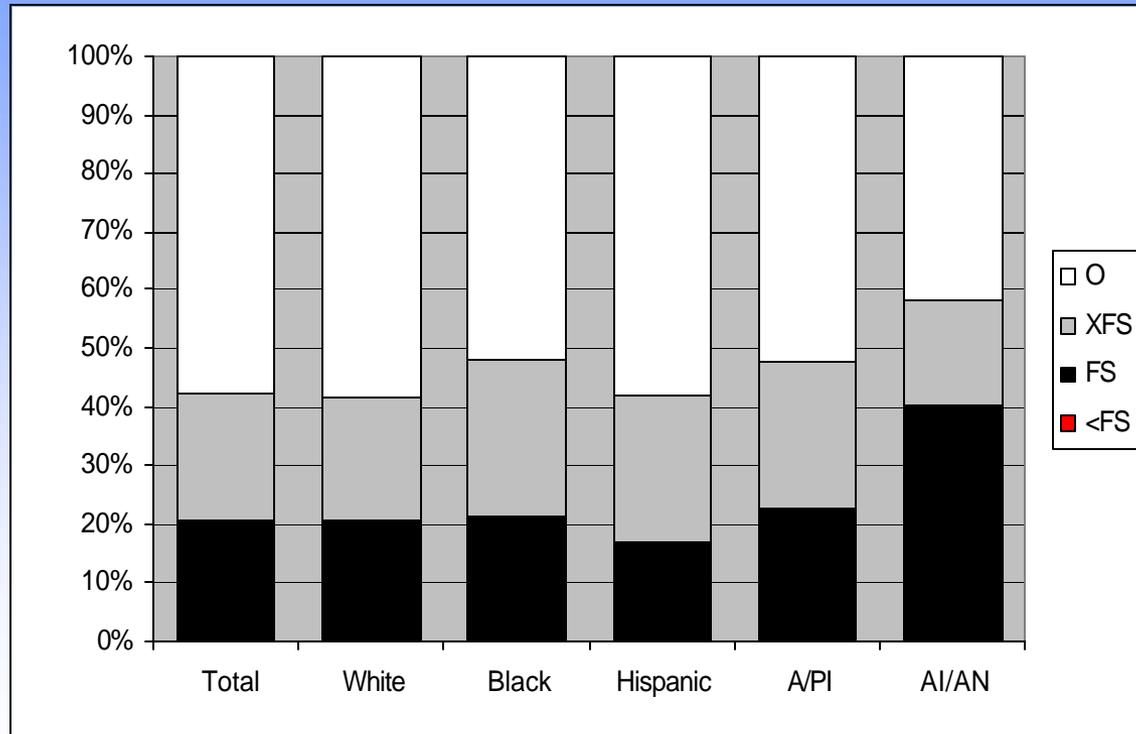
< FS = Levels 1 & 2



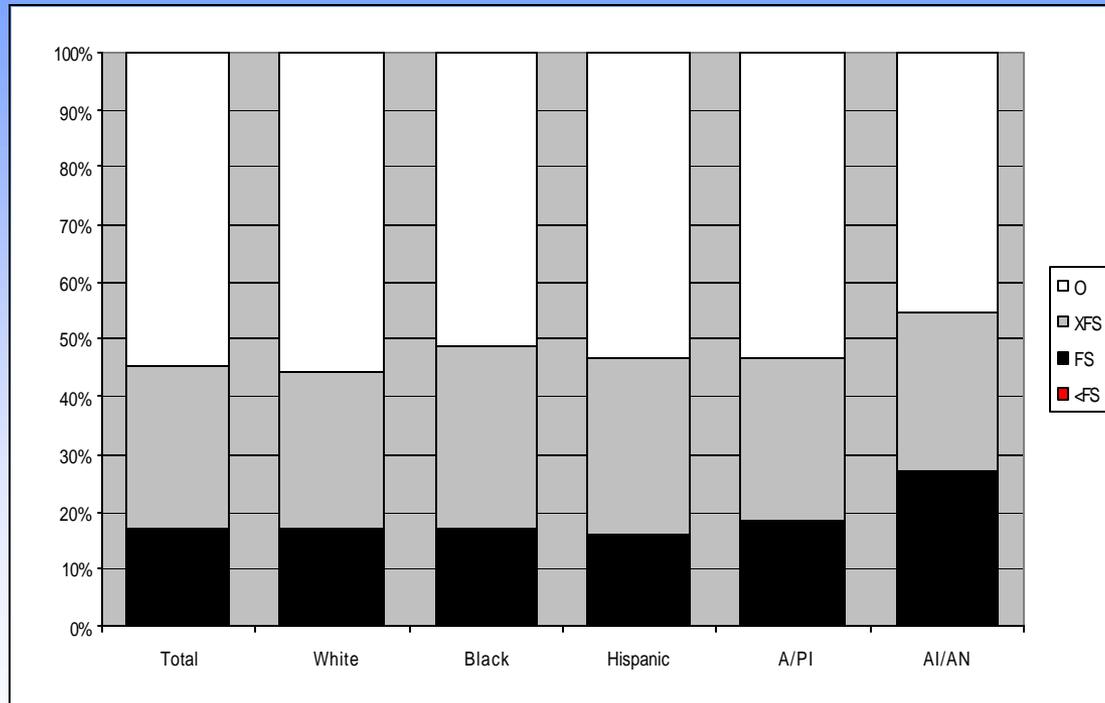
All Non-SES & Non-Foreign Service



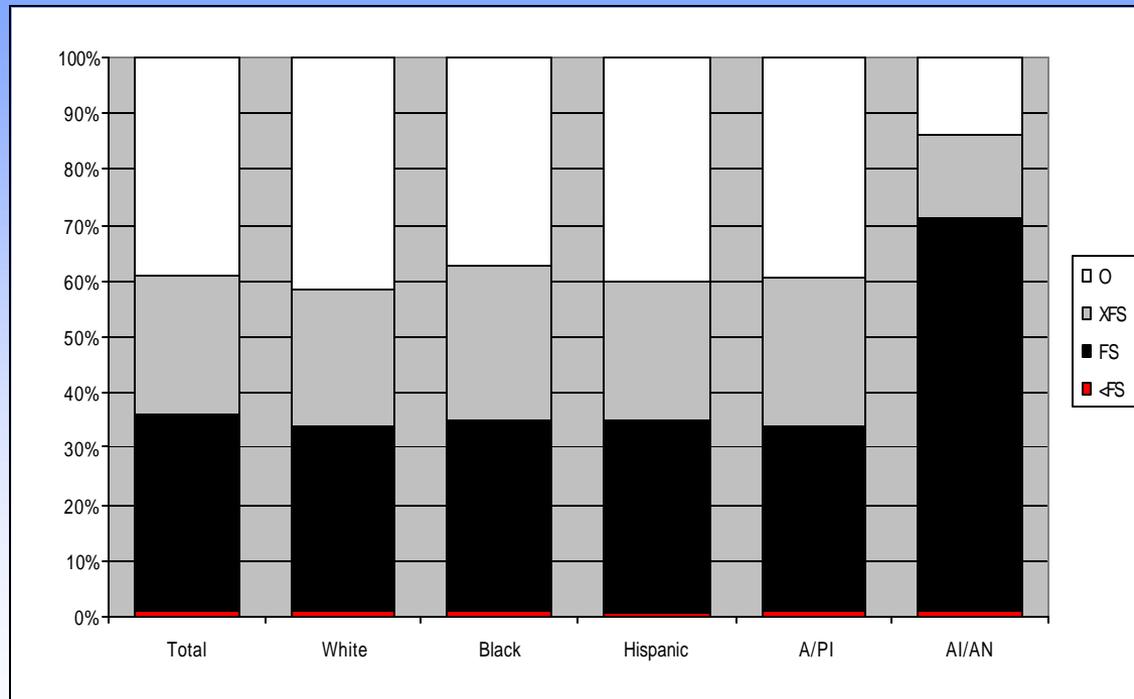
GS 13-15 Supervisors/Managers



GS 13-15 Nonsupervisors



GS 1-6



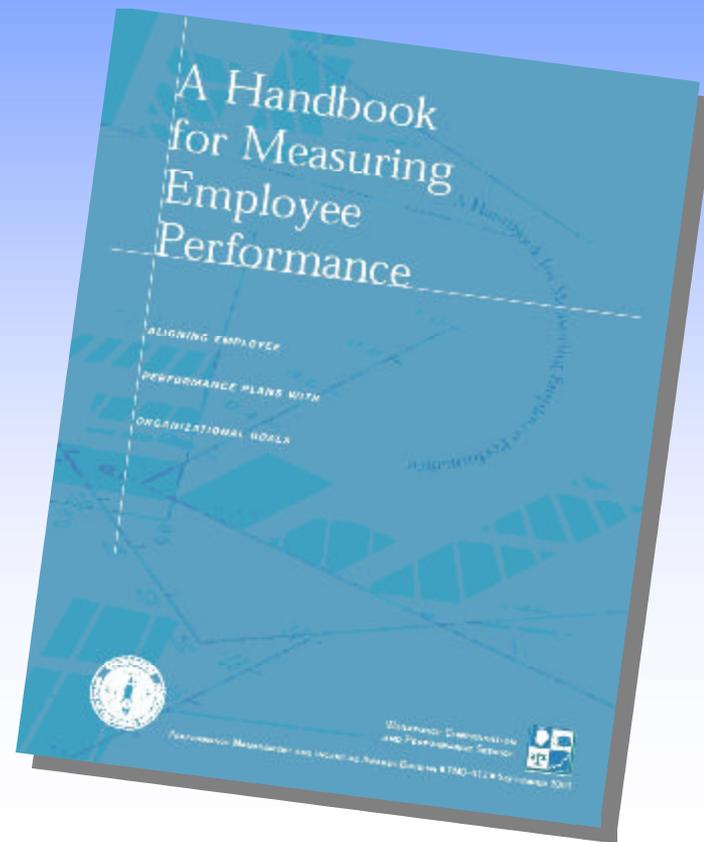
Checking Ratings Distributions

- What do **your** distributions reveal?
- Are you ready to explain them?



Checking Ratings Distributions

- What's the solution?
- Measure **results!!**



Oncoming Events

- Continued outreach from OPM
- Establishment of the Department of Homeland Security
- Volcker Commission's report and recommendations
- Continued emphasis on the strategic management of human capital



It's Still True . . .

- From a report by the Federal Council for Science and Technology:

“Only one area has been selected for attention because improvements in it are of the most pressing importance. This area is the modernization of the Federal salary structure. . . . The most vital needs are (1) to increase salary rates to appropriate levels, and (2) to provide flexibility in the salary structure primarily as a means of recognizing superior quality.”

**— The Competition for Quality
January 1962**



Our Motto:

Press on, regardless!!!

