

Change

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Act

Work

Team

Drive

# **Business Executives for National Security**

**Pay for Performance at the CIA:  
Restoring Equity, Transparency  
and Accountability**

**The Assessment of the Independent Panel  
on the Central Intelligence Agency's  
Compensation Reform Proposals**

**January 2004**



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## Preface

The report that follows summarizes the results of the assessment conducted by the Independent Panel on the Central Intelligence Agency's Compensation Reform Proposals. The CIA desired such a review to obtain a private sector perspective on their rationale for and attributes of a new performance appraisal and compensation system to replace what they (the CIA) believed to be an outdated, inequitable system, out-of-step with market forces in the civil sector. Business Executives for National Security, a national, non-partisan organization of business leaders dedicated to improving the business of national security, was pleased to be asked to conduct the assessment.

The Independent Panel consisted of six members, from various private sector backgrounds, selected based on their experiences leading and managing change in large corporations or professional practices. All were familiar with current federal employment processes. Several had previous experience with the national security community and, in particular, the CIA. At the start, none was familiar with the content of and context in which the CIA compensation reform proposals were being designed, tested, and implemented.

Starting in mid-November 2003, the Panel met with experts, employees, managers and other interested parties from the CIA, Office of Personnel Management, Department of Defense, members of Congress and staff, and outside experts. Throughout our work, we were ably supported by BENS leadership and staff. At the CIA, the Chief Human Resources Officer (CHRO) and staff provided, literally, reams of documentation, which we digested as we got our hands around the issues. A particular note of gratitude goes to the CIA's Chief Financial Officer (CFO) and staff for sharing with us their experiences as they completed a year-long pilot test of a new appraisal and pay-for-performance model.

One singular impression: we were struck by the commitment to mission of every person, manager and worker, we met at the Agency. It was obvious they approach their duties professionally and responsibly. All recognize that change is inevitable, but the concern we heard expressed time and again is that it not cause degradation to their ability to accomplish the mission set out for them.

In late January 2004, as our assessment came to conclusion, what we had sensed throughout the investigation was crystallized in a meeting with the CFO pilot program participants. They were unanimous in the belief that the concepts behind the reform proposals were right. Although execution of the implementation needed to be improved, they all believed that the Agency's mission would ultimately suffer if the changes are not carried through. If allowed to fail, the message sent would be that performance does not matter. That said, there are execution issues to be worked out. Further, a green light or stamp of approval from the Federal community, including the Congress, would be helpful to confirm that change is necessary and that the elements for that change are in place.

None of our conclusions, findings or recommendations should be taken as negative commentary on either the CHRO team charged with designing and administering this program or the CFO team chosen as the pilot. Collectively, they have been superb and supportive of both their mission and our investigation. In the end, this report represents the views of the Panel, not necessarily of the CIA, the parties we interviewed, or the Congress. The report was reviewed by the CIA for factual accuracy at the request of the Panel Chairman.



Paul G. Stern  
Chairman

The Independent Panel on the Central Intelligence Agency's Compensation Reform Proposals



## 1 – Executive Summary

### Our Conclusion –

- Restoring equity, transparency and accountability in the Central Intelligence Agency's performance and pay systems is critical to the Agency's future and its workforce
- Failure to achieve reforms would be detrimental to executing the Director's strategic vision and accomplishing the Agency's mission
- However, the rapid evolution of compensation reform in the Agency has outpaced the concomitant requirement to secure managers and workers comprehension, understanding and acceptance of the changes
- The road ahead requires senior management to:
  - Gain workforce buy-in
  - Achieve a sense of Congressional acceptance
  - Successfully educate and train managers and workers in the new system
  - Demonstrate management accountability
  - Establish a pace of implementation that phases in the changes over a period of two to three years—with up to five years required for full institutionalization

### The CIA's Challenge and BENS Response –

- What prompted the CIA to consider reform – Ills of the General Schedule
  - Outdated – Not standard and inconsistently applied – Much tinkering over the years
  - Rewards longevity over performance/expertise/skills added
  - Promotion only adequate way to increase pay, so good analysts become bad managers
  - No accountability in the system – Employees don't have to perform and managers don't have to manage
- Key elements of the CIA compensation reform proposals:
  - Standardized pay and performance assessment processes
  - Two-tracks – Let good analysts stay analysts, build a good management corps
  - Pay bands with market equity planned in
  - Pay for performance – Pay increases not automatic, pay and bonuses calculated and distributed based on performance against agreed objectives by and within "pay pool"
  - Promotion fewer times in normal career and based on skills and qualifications gained
  - Management and employee roles and responsibilities clearly defined and enforcement built into system
- The BENS Panel sought to answer these questions:
  - What are the challenges the CIA is trying to meet with this new program?
  - Can this program achieve those goals?
  - Does the proposed program represent the best practices of business, as well as conform to the expectations and goals of other government personnel management reform efforts?
  - If the Panel believes the CIA should proceed with this proposal, what recommendations for improving the proposal would the panel offer?

## Our Findings —

- This program does represent the best practices of business—and is at least equal to, if not ahead of, the programs of other government agencies we reviewed and which are already approved by Congress.
- The concept is right—and would appear familiar to someone coming from a strictly business background, but:
- The CIA program seems to be rushed and smooth execution has suffered as a consequence
- We believe that many of the problems cited by employees and subsequently communicated to Congress might have been avoided if the program had proceeded more deliberately following extensive communication and up-front training
- Our business experience tells us:
  - Implementing a change such as this is challenging even in the best-run private companies
  - “Ownership” by the CEO and all top leadership is essential
  - Extensive and continuous communication is critical
  - Thorough training of both supervisors and employees must happen before “turning on the switch”
  - Must be thorough and visible follow-through in enforcing the process and ensuring “fair” treatment across the organization and up the chain

## Our Recommendations —

- Proceed with plans to implement proposals, but:
- Develop a complete communications strategy, both within Agency and with Congress
- Demonstrate linkage of reforms to a larger strategic agenda (critical first element of communications strategy)
- Demonstrate that employee (and other) feedback to this point has improved the quality of the proposed program
  - Highlight the lessons learned from the CFO pilot program
- Demonstrate that Congressional concerns have been heard
- Monitor progress of reforms in other government agencies for lessons and insight
- Establish comprehensive plans to deal with the twin concerns of:
  - Training managers and workforce
  - Pace of implementation
- Make management accountability visible and credible
- Implement in phases – Possible sequence might be –
  - Use remainder of this year to debug the processes, assign new job categories and pay bands, and conduct training

- First full year –
  - o Standardize PARs and Performance Objectives process
  - o Continue to train managers and workers
  - o Carry out entire appraisal and pay decision cycle as a demonstration event, but allow pay decisions to reflect current general schedule and promotion panel determinations
  - o Provide minimum guaranteed portion of legislated pay increase (COLA) for all employees
- Second full year –
  - o Performance appraisal/compensation reforms take full effect
  - o All compensation resources allocated to pay pools
  - o Appraisal and pay decision processes govern pay increases or bonuses



## 2 – The BENS Independent Panel

In October 2003, A.B. (Buzzy) Krongard, the CIA's Executive Director, asked Business Executives for National Security Chairman Stanley Weiss to look at the Agency's compensation reform proposals and to make recommendations on how they might be improved, if necessary, and implemented.

In response to the CIA's request BENS chartered an independent panel of its members to participate in the review. BENS member Paul G. Stern agreed to Chair the panel.<sup>1</sup> From November 2003 through January 2004 the panel met with and interviewed proponents and opponents of the proposed reforms, including CIA personnel, CIA affinity group representatives, Congressional members and staff, representatives of other federal agencies engaged in similar reforms and outside-of-government experts.

The panel sought to answer the following questions:

1. What Agency challenges is the new program designed to address?
2. Do the proposals adequately address those challenges?
3. Do the elements of the program constitute best private sector practice, as well as conform to the expectations and goals of other government personnel management reform efforts?

At the conclusion of the initial phase the Panel assessed its findings and made nine recommendations designed to help the CIA gain acceptance of its proposals and successfully implement the reforms throughout the Agency.

The following pages document the results of the BENS Independent Panel effort.

**BENS is a national, non-partisan organization of business leaders who donate their time and talent to transferring best private business practices to the business of national security.**

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<sup>1</sup> The membership of the BENS Independent Panel is listed at Appendix E.



### 3 – Overview of Federal Civil Service Reform

The current Federal compensation system—the General Schedule—was established by the Classification Act of 1949 and, today, covers approximately 1.2 million Federal workers.<sup>2</sup> It is a job evaluation structure that classifies positions by difficulty, responsibility and skill requirement. The General Schedule's central principle is internal equity, that is, each job is compensated according to its relative place in a single hierarchy of positions.

Jobs are divided into 15 grade levels and hundreds of occupations. Each of the grades has a pay range of about 30 percent, meaning that the highest rate in a given grade is set at about 130 percent of the lowest. The pay range in a given grade is the same for all agencies and all occupations.<sup>3</sup>

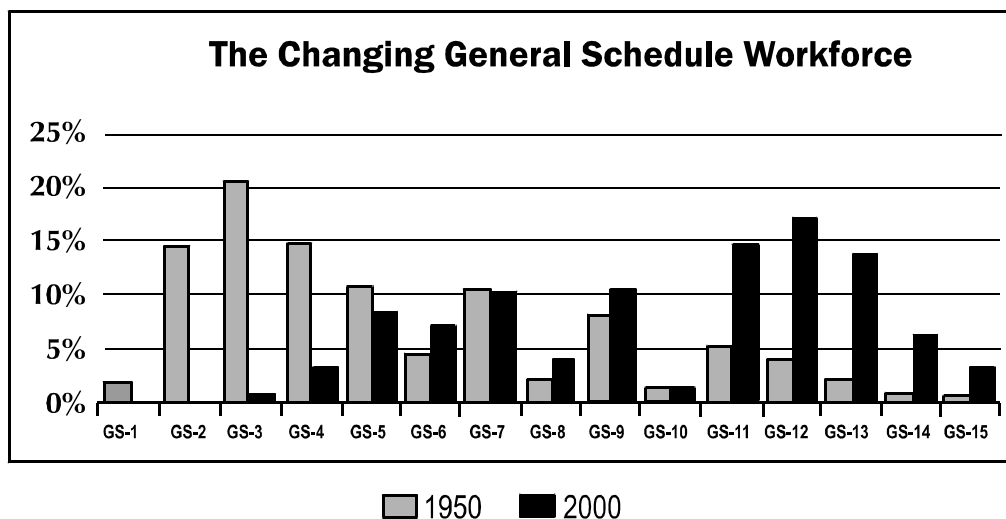
Each pay range is divided into 10 specific rates of pay called “steps.” An employee moves from step to step after a prescribed waiting period and on the condition of an “acceptable level” of performance. Government regulations specify that the “acceptable level” be reflected by assigning an employee a summary performance appraisal rating of Level 3 or higher. Generally, agencies describe Level 3 as “Fully Successful.” The law sets waiting periods for moving from step to step at 1, 2, or 3 years depending on an employee's position in the pay range. A high performing employee may compress the waiting period by being awarded a “Quality Step Increase.”

The Federal compensation system reflects a concept of employment predicated on a 30-year career with the same employer. It rewards loyalty by providing stable and secure employment. It offers little flexibility from agency to agency and grants only limited authority to supervisors to reward performance.

#### What's changed in the General Schedule's 50-year history?

The biggest change in Federal employment since implementing the General Schedule is the change in the nature of Federal work. Instead of a government of “clerks” as existed at the close of the 1940's, Federal white collar work has become highly skilled and specialized “knowledge work.” The grade structure of the Federal workforce began, over time, to shift to the right side of the General Schedule (See Fig. 1).

Figure 1



<sup>2</sup> Office of Personnel Management: “A Fresh Start for Federal Pay: The Case for Modernization,” April 2002.

<sup>3</sup> The actual dollar values may vary due to a locality pay provision enacted by the Federal Pay Comparability Act of 1990.

As the nature of Federal work changed, the Federal compensation framework tried to recognize that employee expectations have also changed over time. The Office of Personnel Management, which oversees the General Schedule, has developed a strategic rewards framework that maps the overall rewards environment that agencies can manage and deliver to employees. It divides strategic rewards into four quadrants that embrace everything current-day Federal employees value in their employment setting:

**Compensation** — base salary, variable pay, other payments, paid time off

**Benefits** — health care, retirement, savings, other insurance

**Learning and Development** — training, learning experiences, career paths

**Work Environment** — work/life balance, leadership, performance culture, organizational climate

Programs to experiment with changing *Compensation* and *Benefits* have come into being but compete for limited funds and/or are limited by federal statute. For example, special salary rates have been authorized for some time. They address the external equity problem—OPM can take steps to ensure that Federal rates are competitive enough in the labor market to provide adequate staffing. The problem is, however, evident in their title. “Special” rates denote exceptions, and such rates still must operate within the confines of the General Schedule’s classification and time-in-grade provisions.

Another series of compensation experiments were the demonstration pilots authorized by Congress to allow specific agencies to opt out of the General Schedule. It is estimated that more than 10 percent of federal employees are now in organizations that have been granted the opportunity to manage compensation independent of the General Schedule—from the General Accounting Office in the 1970’s to the Security and Exchange Commission in 2001.<sup>4</sup>

Due to considerable management latitude and organizational resources, Federal agencies have strength and a competitive edge in offering programs to alter *Learning and Development* and *Work Environment* experiences. These so-called “relational rewards” (because they cement a relationship between employee and employer) are increasingly valued as part of total compensation packages. Due to the size of its workforce and a long time emphasis on providing training and education opportunities, the Federal government can offer much to employees in the way of non-cash compensation.

#### **Why change the General Schedule compensation system?**

Although the Federal compensation system has been refined, it has not changed its fundamental character in its 50-plus years of existence. It remains focused on internal equity (hierarchical organization); leaves little meaningful room for external equity (to accommodate changes in labor market rates for different occupations); or individual equity (to reward excellent performance).

### **The Central Intelligence Agency’s current personnel management process**

The Central Intelligence Agency is exempt from certain provisions of Title 5 of the US Code (the federal law governing employment in the civil service), in particular, those provisions concerning compensation and federal employment regulations. However, by convention, CIA Directors have generally followed the principles and practices described in Title 5. There are differences, however. The Agency’s personnel management process is decentralized for the most part. While overarching Agency-wide personnel policies are in place, each Agency Senior Manager heads a separate career service and has authority to unilaterally determine salary levels for positions within their span of control with little centralized oversight. Yet, the General Schedule of the Federal government still applies to most employees of the

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<sup>4</sup> A brief review of current Civil Service reforms in government is at Appendix D.

Agency, and Agency Senior Managers, as a matter of policy, must match positions and salary levels to the schema of the General Schedule.

Today, promotion to the next GS grade is the most prevalent way that CIA employees increase their base salary. These promotions are generally decided by panels comprised of more senior members of the employee's career service who meet at scheduled times during a year. There are drawbacks to the panel system. The number of employees considered by an individual panel can be quite large (e.g., in the Human Resources Directorate, a recent panel considered 65 GS-13s for promotion) and the employee's first line supervisor is not necessarily a member of the panel, which imparts a sense of impersonality and remoteness to the system. For the employee, the panel process provides limited feedback. Employees are encouraged to seek feedback from their panel representative but the process is not mandatory or consistent across the Agency.

Employees surveyed tend to describe the panel process as fair because the panel members assembled can provide differing perspectives on the employee—workers trust the fact that superiors familiar with their career service collectively make the promotion decision. However, employees complain about the quality and usefulness of feedback and lack of transparency into panel deliberations. Further, because promotions are done "by committee", individual managers are not personally accountable for making good or bad promotion decisions.

### **What's changed in the CIA's personnel management system over the years?**

Since adopting the General Schedule shortly after the Agency's creation in 1949, the CIA has made continual changes in an attempt to match its compensation system to workforce needs.

Today, there exist alongside the standard 15-level GS system special rates of pay for certain occupations ranging from engineers and scientists to medical doctors and secretaries. Although exempt by statute, the CIA had partially implemented the Federal locality pay provisions that apply to the rest of the Federal workforce. Today, the entire Agency follows the locality pay rates specified for the Washington, DC, area. The promotion system and the compensation structure have developed in isolation from the commercial marketplace for so long that many non-core—that is, commercial-like—occupations are now paid at rates far higher than would be supported by market forces, while certain core occupations go undercompensated.

#### **Why change the CIA personnel management system?**

Currently, the panel process is the Agency's primary tool for increasing employee permanent pay. Promotions tend to be a reward for current performance, with little recognition of an employee's ability to accept the greater responsibility of promotion to the next higher grade. Exemptions, exceptions and policy shifts over time have created a system in the CIA that is inflexible, process-driven and out of tune with market forces outside of the Agency. The current system is not equitable either internally or when compared with the external marketplace. Further, the shortcomings of the panel process—lack of transparency, subjectivity of the employee assessment tools and absence of management accountability—are deemed to be a cause of a lack of trust of management that permeates the CIA workforce. Those recognitions in both the compensation and personnel evaluation processes eventually led the CIA leadership to design the compensation reform proposals currently being considered for Agency-wide implementation.



## 4 – The Central Intelligence Agency's Case for Compensation Reform

The Central Intelligence Agency's intended reforms go well beyond compensation policy change. In fact, calling the effort compensation reform is somewhat of a misnomer and may contribute to the difficulty the Agency has experienced in moving forward with its proposals. The CIA's intended reforms constitute a much broader approach to its human capital strategic management process. At their most basic, the CIA's reforms attempt to re-posture its workforce to align with the Director's strategic intent for the Agency.

In formulating its proposals, the CIA Human Resources community sought to address current inadequacies in the system in seven areas:

- **Job Analysis and Occupational Structure** – During the Agency's downsizing in the 1990's, less attention was paid to maintaining occupational alignment of the workforce to Agency mission needs than to simply paring numbers. Over time occupational skills and job structures no longer matched perceived corporate organizational needs. The CIA undertook a complete analysis of its job and occupational structure as a basis for conducting a comparison with the external labor market and, most importantly, for developing performance standards and qualification requirements. It determined that it needed to completely realign Agency occupations based on the external labor market, importance of jobs to mission, costs to replace personnel, level of qualifications required and measures of difficulty of work.
- **Compensation Structure** – The compensation structure in the Agency had been altered and granted exceptions so many times that there is no longer consistency and equal pay for equal work across the workforce. The realignment of Agency occupations permits replacing multiple, inconsistent structures with a single compensation structure. The Agency need is to realign compensation to mission and establish equity in the system.
- **Linking of Pay to Performance** – Changes in the compensation system would permit correcting the inequities in which longevity counted for more than competency in the determination of pay levels. A new structure could be designed to support performance-based compensation, and, based on the realigned occupational structure, re-establish internal equity and pay comparability with the (outside) market.
- **Performance Management** – Because the panel system did not hold individual managers accountable, employee appraisals had almost no effect on performance management at the Agency. Performance feedback was frequently late, sporadic or non-existent. The CIA recognized that success in establishing employee confidence in pay-for-performance required a functional performance management process that increased transparency in the evaluation process, improved employee feedback, clearly demonstrated a link to mission and held to a single system with a uniform performance measurement cycle.
- **Position Conversion to New Occupations** – A looming challenge in the conversion to a realigned occupational structure is explaining and transitioning employees to position levels without affecting morale, performance, or both. To preclude adverse effects, all conversions are being done individually, at the employee level. The occupational criteria are being applied corporately to assure uniformity and consistency. Employees will receive individual counseling on conversions, which begins the process of setting manager/employee expectations. Agency officials recognize that for many employees the conversion will be the first real discussion of aligning employee expectations with organizational goals and direction.

- **Promotion** – Under the civil service pattern, promotion was based on position and longevity. In the proposed system, promotion and compensation entitlement are separated. This change is likely to cause anxiety and require a shift in mindset for Agency employees. Under the new system there will be fewer promotions in a typical career since there may be fewer grades that define the entire specialty of a given occupation, as opposed to the civil service pattern of 15 grades in every occupation. However, promotion is not the only way to receive a salary increase. Promotions will recognize an increase in scope and responsibility of the job. They will be based not on anticipation of acquiring, but rather demonstration of knowledge and skill at the next career level. Most significantly, they will start with an employee petition to be selected for promotion.
  
- **Pay Decision Process** – Key to making the new pay-for-performance system work is the pay decision process itself. The current system has one subjective mechanism, the promotion panel, and one mechanical process, the time-in-grade step increase. The proposed system retains the promotion panel, albeit related to a different grade structure than previously. The second process is replaced by the pay-for-performance decision (the “annual pay decision”) in which a manager (typically, but not always, the manager in closest supervisory proximity to the employee) makes a decision on a permanent salary increase and /or bonus. No promotion or time-in-grade requirements exist for a permanent salary increase under the proposed process. Managers cannot decrease an employee’s compensation.

## 5—The Central Intelligence Agency's Compensation Reform Proposals

The goals of the CIA's proposed reforms align with the Office of Personnel Management's (OPM) vision for the Federal government's future workforce and are in accord with the President's Management Agenda to improve the Strategic Management of Human Capital.

The CIA proposal has four main features:

- **New Pay Scales** – The Agency would no longer use the General Schedule pay scales. Instead, the Agency has developed a master pay scale with broad, overlapping pay ranges that adjust annually to reflect changes in the labor markets on which the scales are based. The master pay scale is divided into nine sub-scales. Each occupation would be placed onto one of the nine scales according to market salary and internal equity for the occupation. The nine pay scales would clearly illustrate career progression for each occupation.
- **New Performance Appraisal** – The Agency would replace the multiple performance appraisal systems now in use with a single, standard system that can be tailored to the individual, the occupation, and the specific assignment. The new form features a clear statement of expectations and standards discussed with the employee at the start of the performance cycle, a mandatory mid-cycle performance review, employee input in the final evaluation, and an overall rating. The standards and expectations for each employee are tailored to the employee's skill level and expertise. Managers would be responsible for providing feedback to employees at every stage of the year-long performance review.
- **Promotion** – Promotions would continue to be handled by panels as they are now. However, promotions under this program would be based on the acquisition of new skills and the assumption of greater responsibility required for career progression - both of which are clearly articulated in documented promotion criteria. Twenty-two grades would be defined in place of the current 15 General Schedule grades. However, because grade levels are defined for specific occupations under the new system and tied directly to comparability in the external job market, each occupation does not necessarily start at grade 1 and progress step-by-step to grade 22. Instead, based on the occupational skills and qualifications required, the positions could, for instance, start at 13 and progress to 15, 17 and 19. An employee in such a career occupation would thus see fewer promotion opportunities than under the current 15-grade General Schedule. However, the pay bands in each of the grades would ensure no loss in opportunity to earn higher compensation. Employees would have the opportunity to self-petition for promotion to the next responsibility level. Unlike the current system, all employees who petition would receive specific feedback on their promotions. Furthermore, promotions would include a seven percent salary increase.
- **New Pay Decision** – Employees would be grouped into pay pools, generally based on the assigned work unit, and would be evaluated by a supervisor in the direct chain of command. Annually, pay pool managers would review performance and contribution to the mission and make decisions on employee pay. This decision would be aided by an automated "Pay Tool" that permits managers to view the entire pay pool, make pay decisions, and document those decisions for higher-level review. Pay could come in the form of a bonus, permanent salary increase or a combination of the two depending on the employee's performance and salary in relationship to the market. Two higher levels would review the supervisor's pay decision before it is presented and explained to the employee. All the employee safeguards now in place would remain in place, and the system would automatically generate metrics to allow reviewers to assess equity within and across pay pools and the impact on key segments of the Agency population before the pay decisions are final. Funds for the pay pools

would come from the comparability portion of the annual Federal pay increase, the monies marked for within-grade step increases, a portion of the awards budget, and additional funds. Automatic pay increases would end, with one exception: all employees would continue to receive the Washington, DC, locality portion of the annual legislative pay increase, regardless of performance.

## 6 – Observations of the BENS Independent Panel

What the Panel heard and what we observed in the way of Agency response to manager and worker feedback, Congressional concern, the experiences of other Federal agencies, and the CIA's own experience with its Chief Financial Officer (CFO) pilot program led eventually to the findings and recommendations in Chapter 8 of this report.

From the beginning of our assessment, the proposals seemed about right. But it became clear in our discussions that there was a perceptual disconnect between the way senior management saw the process unfolding and the comprehension and internalization of the reforms on the part of front line managers and workers.

Central to the CIA's vision for a reformed human resources strategy was the determination to seize opportunities to:

- Establish a truly corporate—rather than stovepiped—Human Resources system to promote core values in personnel management and performance improvement
- Rationalize pay to support mission priorities and equal pay for equal work across the Agency
- Institutionalize a pay-for-performance model
- Implement dual-track managerial/professional career ladders
- Promote employees based on knowledge, skills and level of responsibility

Perhaps the magnitude of the changes—particularly when imposed on a system that was widely viewed as seriously flawed but yet functioning—strained the already cautious bonds of trust between management and workers at the Agency. Challenging the status quo on something as personal as individual pay and performance may have been deemed by many to be unfair in the midst of Agency overextension in the nation's fight against terrorism. But the majority of the managers and workers interviewed by the BENS panel accepted the need for change. They recognized that the terms of employment, first in the private sector, but now moving onto the federal stage, are in the process of change.

We believe that senior Agency management is aware and sensitive that changes of this magnitude will cause a certain amount of anxiety and unrest. Our experience is that this unrest occurs in all organizations—public and private. While challenging, we submit that the solution lays in the direction of managing expectations—reaching out to employees via intense periods of communication and training.

Two categories of concerns were heard regarding the projected effort. These concerns surfaced in discussions with both supporters and critics of the proposed reforms as well as internally, from Panel members themselves, based on their personal experience with human resources reforms in the private sector.<sup>5</sup> Unquestionably, the biggest change is in the implementation dynamics of pay-for-performance. The two concerns center on the mechanics of the pay-for-performance process and on how transitioning to a new system will deal with and cure the current system's shortcomings.

### Pay Pools

**What we heard:** The difficult process of grouping employees into pay pools raised the concern that the pools themselves might not remain homogeneous in terms of mission area and function. How would a pay pool manager make equitable comparisons among pay pool members performing different functions?

<sup>5</sup> A list of appearances and interviews is at Appendix C.

There is also widespread concern that “line of sight” supervisors might not be the actual pay pool managers. If that occurs, what would be the process for pay pool managers making final pay decisions—with or without direct input from first-line supervisors? Is there a process for consultation?

Transparency of the pay pool process is another key concern. What parts of the pay pool and Pay Tool processes are available to individual employees, e.g., will they be allowed to know what the Pay Tool recommended for them? Will substantive comments be required in the Pay Tool when managers elect to deviate from Pay Tool recommendations? Will these comments be available to the rated employee? How and when will pay decisions be communicated to employees? Will decisions be transmitted by the pay pool manager? What if that pay pool manager is not the immediate supervisor?

Ensuring fairness and preventing favoritism depends on the process for reviewing management decisions. What is the timing following the annual pay pool review? How will pay pool managers be held accountable for their decisions—in case of bias, favoritism, etc? Will it be before or after the employees have already had their pay decision affected? How will decisions be reviewed in cases where an employee is included in a pay pool with other employees not performing the same sort of work (e.g. contracting officers operating in support of operations in remote locations) and where the pay pool manager may not be familiar with the requirements of that person’s work?

**Our observation:** Many of these concerns also arose during the CFO pilot and lessons from that experience will be incorporated into the final Agency-wide pay pool process. Without addressing each specific concern, our impression is that consultation, transparency, and accountability are hallmarks of the new process. These traits are largely overlooked or un-enforced in the current system, so any movement in the direction of greater emphasis will improve the process.

The most important consideration is that pay pools remain of manageable size, on the order of 20-35 workers. This sizing will decrease the likelihood that pools will be non-homogeneous or that first line supervisors will be too removed from the process.

The most challenging situation will be with regard to overseas postings, where distance and travel may prevent direct knowledge and supervision. These situations will require exceptional management attention. Strict review and accountability standards will, over time, create credibility in this situation.

Another challenge is rotation timing, which could expose an employee to short periods of supervision before a pay decision is required. Synchronizing the rotation and pay pool cycles may eliminate most of these situations.

## **Promotion Process**

**What we heard:** There is considerable confusion over the mechanics of delinking the pay pool process from the current promotion process. Will the promotion process be administered by the employee’s pay pool manager or will it stay with the promotion panel system that is in use today? If that were to happen, what provisions are made if the pay pool manager is not familiar with the employee’s professional specialty?

**Our observation:** Although parts of the whole, the pay decision and the promotion decision are completely independent processes. While the pay decision is annualized, the promotion process will become a less frequent occurrence, initiated by the employee, and carried out by a promotion panel consisting of members of the employee’s career field.

## Performance Objectives

**What we heard:** There are a number of goal setting and performance appraisal systems in use at the CIA today. How are these going to be supplanted by a single, uniform system for creating and assigning performance objectives for each employee? How will these individual performance objectives be aligned with Agency objectives?

What metrics are used in assessing an employee's performance in meeting these objectives? How often is an employee's performance reviewed? What is the process for changing an employee's objectives in response to changing circumstances or demands?

**Our observation:** Establishing valid performance objectives can be one of the most challenging aspects of administering a pay-for-performance system. The skills are not innate. However, professional coaching has overcome this obstacle in the private sector. There is no reason for the CIA to pioneer in this area. First-class private sector methods can be adopted for this aspect of its system. Web-based or self-paced training is not usually sufficient. The CIA University has taken the lead and responsibility for this aspect of the new process.

## Impact on Retirement

**What we heard:** A computational issue arises when overlaying the proposed new pay system on the current federal retirement formula. Because the pay decision can be paid out as a bonus instead of permanent pay increase, an employee's retirement pay, which is calculated based on the average of his or her "high three" salary years, could possibly be lower than it would have been under the General Schedule.

**Our observation:** This is a "fact of life" of the new proposal, the effect of which is to shift responsibility for retirement planning from the "system" to the employee. The master pay scales created under the compensation reform program are much broader than those under the General Schedule. If an employee's salary is aligned to the market and he or she is meeting or exceeding expectations, there is no reason for the employee to receive any less in permanent pay increases. In fact, the employee has an opportunity to receive permanent pay increases every year (provided they have not already "topped out" in the respective pay band), as opposed to the waiting period between step increases in the General Schedule.

The other component to retirement is employee contributions to their own retirement Thrift Savings Account. For FY 2004, the Agency submitted Thrift legislation to Congress, which the Senate Select Committee on Intelligence included in the Authorization bill. This legislation would allow employees to contribute bonus awards to their Thrift Savings Accounts as pre-tax dollars, which will be matched by the Agency in accordance with existing Thrift legislation.

## Quality of Managers and their Training

**What we heard:** Effective implementation of any scheme demands much of managers. One of the stipulated reasons for compensation reform was that—as the only way to deliver monetary rewards—the current system creates "good analyst to bad manager" promotions. This process results in a fair number of bad managers (estimates are that 10-20% of CIA managers lack the desire or skills for managerial positions).

If an effective pay-for-performance system requires good management to make it work, how can the CIA expect to succeed if it currently has a number of bad managers?

If quality of management is indeed a problem, what training is being provided for CIA managers? When will the training begin and will it be completed before new system is in place? How will the training be accomplished?

Will bad managers be allowed to return to their technical expertise rather than remain as managers? What are the plans for remediation/training of failing managers?

**Our observation:** Industry (and government) experience indicates that substantial training is required for managers as a precursor to implementing a pay-for-performance system.

The first issue is preventing good analysts from having to move into management to rise in salary. One solution is to implement a two-track system—a professional ladder and a management ladder. This is the system being proposed by the Agency. It is imperative that during the position conversion to new occupations, employees—manager or professional—be given guidance and have input into the selection of career paths.

“Bad” or failing managers exist today, and the system already has mechanisms for moving such individuals to positions more in line with their skills. The accountability built into the proposed system should improve the identification of management shortcomings, and set the stage for counseling, retraining or removal actions on a more consistent, documented basis.

## **Management Trust**

**What we heard:** A theme that underlies the current system is an apparent lack of trust between management and employees due, in part, to perceptions that current Agency policies with respect to performance rating and promotion are followed arbitrarily, or not at all, by management. The concern is that this fundamental inconsistency will transfer to any new system. That is, Agency management will not treat employees equitably, particularly during the performance appraisal and the annual compensation decision.

**Our observation:** The proposed reforms confront this problem head-on. A basic principle of the compensation reform program is to increase feedback from managers to employees on their performance. Managers can no longer hide behind the previous performance system, which indirectly allowed them to avoid the feedback process. In addition, the annual pay decision will more transparent with greater management accountability:

- All members of a pay pool will know the pay pool membership, budget, and the average payout. Pay pool managers must now explain the pay decision to each of their employees
- At least two levels of review will occur before any pay decision is final.
- Metrics are automatically generated and used by reviewers to monitor and compare the equity of pay decisions within and across pay pools
- Pay pool managers’ decisions are documented at every step and are available to reviewers, and pay decisions for pay pool managers are affected by how well they execute their pay pool responsibilities

## **Congressional Oversight**

**What we heard:** What is the source and extent of the authority of the CIA to act without approval of Congress? Congress expressed support for the concept of compensation reform but concerns over timing, pacing, communications, and some particular aspects of this proposal, most notably the use of legislative pay increase (the COLA) money in pay pools.

**Our observation:** Congressional interest arises from two sources: Constituents raised initial alarms over the CIA's approach to installing the new system; further, Congressional staff raised concerns over specific communities within the CIA, particularly those that operate in the field.

On the issue of CIA authority, we attempted no independent legal determination but also detected no "show stopping" issues that could not be resolved through discussion and mutual understanding. The sense of Congress seems to be that, while there are no general objections to reform, the specifics, timing, and effects of the current set of proposals are not clear, understood, or agreed upon.

The reasons for this state of play are less important than figuring out how to move forward. We believe that true dialogue between the CIA and Congress has been insufficient. If the changes to the CIA's human resources processes are needed to support the mission of the Agency—as we believe they are—then the proposals must be championed at the highest levels and a dialogue begun to achieve a sense of Congress that the reforms are timely and right. Achieving a "green light" would be made easier if the Agency, as other federal entities have done, cultivates support with the Committees and Members of Congress who hold jurisdiction.

### **Communications Strategy**

**What we heard:** What is the Agency's communications strategy for:

- Informing employees, receiving employee questions and comments, and providing feedback?
- Addressing the concerns of Congress?
- Securing Congress' assent for reform?

What role, if any, will outside organizations (including BENS) have in effecting a successful communications strategy?

**Our observation:** The Intelligence Authorization Act for Fiscal Year 2003 included language indicating there had been insufficient dissemination on compensation reform plans outside of Agency senior management. To correct this perception, the Agency hosted over 100 formal briefings both at headquarters and in overseas locations, fielded hundreds of questions received through on-line databases established for two-way employee communicative purposes, provided formal training to managers, engaged subject matter experts, held focus groups with rank and file employees, and regularly briefed the Strategic Diversity Advisory Group to address issues related to compensation reform. In addition, the Agency developed a website solely dedicated to all aspects of compensation reform, accessible to employees both at headquarters and in the field.

Yet, the impression left is that information, while abundantly available, is not being internalized as completely as senior management would like to think. The need to communicate consistently, authoritatively, and repetitively to ensure that information is understood is hard to underestimate. Part of the challenge is that new programs evolve and changes during the implementation have to be made. While inevitable, these changes should be few as possible. When they occur, they have to be communicated accurately and quickly.

Another fact, which is no revelation, is that professional organizations like the CIA are mission-focused. For much of the workforce, including management, the fine points of the human resources process are second-order concerns to that of accomplishing the day-to-day mission. Ensuring that attention is paid may require more than a website or online training can deliver. Time will have to be made for hands-on education and training.

Our observations on Congressional relations have already been addressed. As to the role of outside organizations in communicating the need for reform, we believe that they can at best support the goals, but that success will be determined by the strength of the Agency's proposals, its championship of same, and its strategy for communicating its goals and objectives to the workforce and its representatives in Congress.

## 7 – Comparison with Private Sector Best Practice and Policy

The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to set goals, measure performance, and report on their accomplishments as a means of achieving results. Effective implementation of performance-based management, as envisioned in GPRA and the President's Management Agenda, hinges on agencies' ability to strategically manage all of their resources – financial, information technology, and people – to achieve their missions and goals. However, agencies' discussions on how they plan to strategically manage their most important asset – their people or "human capital" – to achieve results has been notably absent from many agencies' annual performance plans and only recently has begun to align with business best practices.

For years the private sector has led performance-based management practices. A GAO study entitled "Human Capital: Key Principles from Nine Private Sector Organizations"<sup>6</sup> conducted in 2000 interviewed nine of the top private sector organizations that were recognized in current literature as being innovative or effective in strategically managing their human capital: Federal Express Corp.; IBM Corp.; Marriott International, Inc.; Merck and Co., Inc.; Motorola, Inc.; Sears, Roebuck and Company; Southwest Airlines Co.; Weyerhaeuser Co.; Xerox Corp.; and Document Solutions Group. The study lays out a clear set of best practices gathered from private industry leaders in performance-based management and human capital development.

Those components are:

- **Treat human capital management as being fundamental to strategic business management.** Integrate human capital considerations when identifying the mission, strategic goals and core values of the organization as well when designing and implementing operational policies and practices.
- **Integrate human capital functional staff into management teams.** Include human capital leaders as full members of the top management team rather than isolating them to provide after-the-fact support. Expand the strategic role of human capital staff beyond providing traditional personnel administration services.
- **Leverage the internal human capital function with external expertise.** Supplement internal human capital staff's knowledge and skills by seeking outside expertise from consultants, professional associations, and other organizations, as needed.
- **Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals.** Identify the leadership traits needed to achieve high performance of mission and goals, and build and sustain the organization's pool of leaders through recruiting, hiring, development, retention, and succession policies and practices targeted at producing leaders with the identified characteristics.
- **Communicate a shared vision that all employees, working as one team, can strive to accomplish.** Promote a common understanding of the mission, strategic goals, and core values toward which all employees are directed to work as a team to achieve. Create a line-of-sight between individual contributions and the organization's performance and results.
- **Hire, develop, and retain employees according to competencies.** Identify the competencies – knowledge, skills, abilities, and behaviors – needed to achieve high performance of mission and goals,

<sup>6</sup> "Human Capital: Key Principles from Nine Private Sector Organizations," GAO/GDD-00-28, January 2000.

and build and sustain the organization's talent pool through recruiting, hiring, development, and retention policies and practices targeted at building and sustaining those competencies.

- **Use performance management systems, including pay and other meaningful incentive, to link performance to results.** Provide incentives and hold employees accountable for contributing to the achievement of mission and goals. Reward those employees who meet or exceed clearly defined and transparent standards of high performance.
- **Support and reward teams to achieve high performance.** Foster a culture in which individuals interact and support and learn from each other as means of contributing to the high performance of their peers, units, and the organization as a whole. Bring together the right people with the right competencies to achieve high performance as a result of, rather than in spite of, the organizational structure.
- **Integrate employee input into the design and implementation of human capital policies and practices.** Incorporate the first-hand knowledge and insights of employee groups to develop responsive human capital policies and practices. Empower employees by making them stakeholders in the development of solutions and new methods of promoting and achieving high performance of organizational missions and goals.
- **Measure the effectiveness of human capital policies and practices.** Evaluate and make fact-based decisions on whether human capital policies and practices support high performance of mission and goals. Identify the performance return on human capital investments.

Most leading-edge HR systems today include many of the components the 2000 GAO survey highlighted. McKinsey & Company, a leader in HR operation and performance-based management systems, published five principles<sup>7</sup> that drive executive development. McKinsey emphasizes the importance of strong executive development and believes that five principles behind a strong system are:

- **Make development a fundamental part of organizational design.** The foremost influence on executive development is the way jobs are structured, so the design of an organization determines the extent of its growth opportunities. Harley-Davidson, for example, is a single-business company organized around three teams: one to create products, another to create demand, and yet another to provide support services. Each of the company's top 24 executives belong to one of the teams, which manage themselves and make decisions collectively (thus helping their members in big decisions) and benefit from feedback from and coaching by teammates.
- **Spotlight the best talent.** The McKinsey survey found that executives regard certain kinds of jobs as better at promoting development than others. Since virtually all of those positions that executives regard as the most valuable for promoting growth tend to be in limited supply, the most challenging jobs should go to the most talented people.
- **Broker talent across the organization.** Sharing talent across an organization doesn't come naturally and can be risky, but it is possible. The most common (and easiest) approach is the centrally managed one practiced by GE, AlliedSignal, and Arrow Electronics. At GE, staffing decisions for the top 500 jobs begin at the corporate center: HR executives work with the CEO, Jack Welch, to develop a slate of candidates from all parts of the company. Managers with jobs to fill can then choose any candidate as they please.

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<sup>7</sup> Helen Handfield-Jones, The McKinsey Quarterly 2000, Number 1.

- **Don't choose the best-qualified person.** At present, the people who make staffing decisions in most companies focus, quite naturally, on getting the best-qualified person for the job. But the best-qualified person may not be the one who can learn the most from it. Instead of focusing entirely on proven competence when appointing executives, companies should be prepared to take risks by considering the needs of executive development. Ninety-one percent of the corporate officers in the McKinsey survey agreed that their companies should “take risks sometimes by putting a high-potential person in a job before he or she is ready.”
- **Move mediocre people out of key jobs.** Perhaps the greatest boost a company can give its development effort is to remove from key jobs those who produce mediocre results, lack the potential to grow much further, and make uninspiring bosses, role models, or coaches. Half of the companies studied in depth in the McKinsey survey – particularly those known as development powerhouses – regularly refresh the development system by removing managers with the lowest potential and poor performers, thus opening a whole range of development opportunities.

Based on industry's findings, the executive development and leveraging of internal human capital in a performance-based management system is necessary for increasing efficiency, transparency, equity and accountability in any organization or agency. Selecting the right managers, placing demands on the system for the enforcement of standard processes, and ensuring fair outcomes are all essential elements of any systems the Central Intelligence Agency should consider implementing. The Agency's proposed pay-for-performance practices, while only one piece of a broader performance-based management system, compare with both the private sector's best practices and the Panel's combined years of business experience in HR and strategic development.



## 8 – Findings and Recommendations

### **The Bottom Line**

The BENS Independent Panel believes that the Central Intelligence Agency's compensation reform proposals are sound and should be incorporated throughout the Agency. They are representative of the best practices of the private sector, are in line with the Office of Personnel Management's vision for human resource management reforms for the entire federal government, and are the equal of, if not ahead of, similar programs we examined from other government agencies.

We believe, as one of the CIA's employees in the CFO Pilot Program said, that "this is the right thing to do; failure to carry out this program in the rest of the Agency would be detrimental to our mission and would send the message that performance does not really count." Without exception, the employees and managers we heard from who knew the program from direct experience were supportive of its aims but frustrated by challenges imposed by implementing it "on the fly."

Clearly, where the Agency has fallen short is in its execution of these important changes. We believe that the vast majority of the concerns raised by employees and managers alike could have been averted had the Agency not rushed into this program before it was ready. Even in the best-run companies, initiatives of this magnitude take two to three years to implement and require intensive communication and training. In this case, the communications and training have come only after the program was underway – rather than leading the effort.

### **A Critical Recommendation**

There is one element missing in the CIA's execution of this program that we have found essential in all successful change initiatives of this magnitude: clear, unequivocal and visible ownership, advocacy and support from the CEO, in this case, the Director of Central Intelligence. The DCI must take the leadership role in communicating to the employees, senior leadership, and—most important—to Capitol Hill. For this program to succeed, it must be one of the DCI's main priorities, and it must be prominent in his testimony before the Congress, and one for which he personally cultivates support in the intelligence oversight committees.

Nothing in this critique should be taken to diminish the superb efforts of the people serving in the office of the Chief Human Resources Officer and the employees and managers from the Office of the Chief Financial Officer involved in the pilot program. Their tremendous work in implementing this program has laid a foundation that will serve the Agency and its employees well as the Agency moves forward with full implementation.

Restoring equity, transparency and accountability in the Central Intelligence Agency's performance and pay systems is critical to the Agency's future and to its workforce. Failure to achieve reforms would be detrimental to executing the Director's strategic vision and accomplishing the Agency's mission. However, the rapid evolution of compensation reform in the Agency has outpaced the concomitant requirement to secure managers and workers comprehension, understanding and acceptance of the changes.

We note that the CIA proposals are in parallel with authorities and policies already being implemented in other federal departments and agencies, most notably the Department of Homeland Security and the Department of Defense. We caution that should the CIA not proceed with its reforms, the Agency could find itself at a competitive disadvantage in the federal marketplace in its efforts to attract and retain a talented workforce.

Private sector experience indicates that pay-for-performance is an established feature of America's top-performing companies. In both the services and industrial sectors of the economy, dual-track, e.g., professional and managerial, ladders are unremarked upon features. In fact, particularly in the services sector, entry and mid-level employees expect pay-for-performance. Such plans satisfy their expectation to be recognized and rewarded commensurate with their initiative and contribution.

That said, the Central Intelligence Agency, as well as other organizations in the federal government attempting large changes in human resources management, face not-insignificant challenges in changing the legacy policy and processes that have defined federal employment for the past fifty years. We believe these reform efforts can be successful if the Agency is committed and steadfast in implementing the proposed changes—and it communicates each step well to its workforce and their champions in the US Congress and elsewhere. To that successful end, we present the following findings and recommendations.

### **Findings**

At this stage of CIA compensation reform implementation, execution must take top focus. The need for reform has been determined, the issues broached, and anxieties raised. Not going forward would dissipate momentum already built and would be disruptive to the CIA's mission. However, the execution plan is in need of improvement.

A relook at the implementation plan should be taken, with the condition that the CIA workforce currently lacks the tools and skills to adopt the magnitude of the proposed compensation reform changes in one step. Our business experience indicates that implementing changes like those proposed are challenging even in the best-run private companies.

- Demonstrating ownership and commitment by the chief executive and all top leadership is essential.
- Communicating extensively and continuously is critical
- Training of both supervisors and employees thoroughly must be completed before “turning on the switch”
- Follow-through in enforcing the process must be thorough and visible, ensuring “fair” treatment across the organization and up the chain

### **Recommendations**

1. Proceed with plans to implement proposal with modifications based on lessons learned from the CFO pilot and earlier efforts
2. Develop a complete communications strategy, both internal to the Agency and for use with Congress
3. Demonstrate linkage of reforms to a larger strategic agenda (critical first element of communications strategy)
4. Demonstrate that employee (and other) feedback to this point has improved the quality of the proposed program. Highlight the lessons learned from the CFO pilot program
5. Demonstrate that Congressional concerns have been heard
6. Monitor progress of reforms in other government agencies for lessons and insight

7. Establish plans to deal with the twin concerns of:
  - Training managers and workforce
  - Pace of implementation
8. Make management accountability visible and credible
9. Implement in phases. Possible sequence might be:
  - Use remainder of this year to debug the processes, assign new job categories and pay band assignments, and conduct training
  - First full year
    - Standardize PARs and Performance Objectives process
    - Continue to train supervisors and workers
    - Carry out entire appraisal and Pay Decision cycle as a demonstration event, but allow pay decisions to reflect current general schedule and promotion panel determinations
    - Implement new system
    - Provide minimum guaranteed portion of “legislated pay increase” for all employees
  - Second full year
    - Performance appraisal/compensation reforms take full effect
    - All compensation resources allocated to pay pools
    - Appraisal and pay decision processes govern pay increases or bonuses



## A – TERMS OF REFERENCE

GRATUITOUS SERVICE AGREEMENT  
BETWEEN  
THE CENTRAL INTELLIGENCE AGENCY  
AND  
THE BUSINESS EXECUTIVES FOR NATIONAL SECURITY

Summary. The Business Executives for National Security (BENS) has agreed to conduct a review of the Central Intelligence Agency's (CIA) proposed pay for performance compensation program, otherwise known as "compensation reform." The purpose of this review is for BENS to provide an independent, comprehensive assessment of CIA's entire program for compensation reform, including the pilot underway in the office of the Chief Financial Officer. BENS will prepare a report of its findings.

Nature of Services to be Provided. This agreement arose out of discussions between the signatories below, CIA's Executive Director and the BENS President and Chief Executive Officer. In offering to perform these services, BENS was not promised any reimbursement in any form in return for its agreement to review and report concerning the CIA's proposal for compensation reform. BENS expressly agrees that its services, and the services of individual members, associates, staff or consultants of BENS, are being performed gratuitously, and that its members, associates, staff or consultants are not, solely because of those services, considered employees of the United States government or any instrumentality thereof. BENS expressly agrees that it neither expects nor will demand any present or future salary, wages, or related benefits, including transportation or expenses, as payment for these volunteer services.

CIA Information and Personnel to be made available to BENS. CIA agrees to provide summary information to BENS about compensation reform that is unclassified but controlled at either the "Administrative-Internal Use Only" or "For Official Use Only" level. BENS agrees to maintain the confidentiality of this information and not disclose it to any third party without CIA's express consent. CIA also agrees to make CIA employees available for interview by BENS upon request, in a manner that is mutually acceptable to BENS and CIA, to be determined as appropriate.

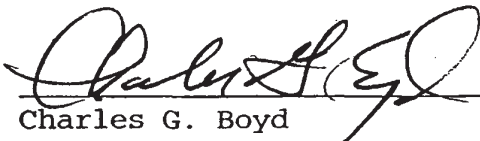
Classified Information. The parties do not anticipate that any information that is classified for national security reasons will be made available to BENS. Any request by BENS for information that would require the disclosure of classified information to BENS members, or that would require processing of BENS members or staff for the necessary CIA security approvals, will be dealt with on a case by case basis.


Nature of BENS Review. BENS has identified BENS Member Paul G. Stern as the head of the BENS review team. BENS anticipates that approximately nine other BENS members may be assigned to the team, and that approximately five BENS staff employees will assist in the review effort. CIA will facilitate access by the BENS review team to relevant material at CIA Headquarters, in a manner and at a time that is determined to be mutually convenient. It is anticipated that the BENS review will be completed by the end of January, 2004.

Report of Findings. BENS agrees to make its findings available to CIA, to the Congressional oversight committees, and to other parties as may be mutually agreeable to CIA and BENS.

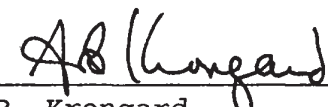
Expiration. This agreement expires on 1 April 2004.


Amendment. This agreement may be extended or amended upon mutual consent of the parties.

  
\_\_\_\_\_  
Charles G. Boyd  
President and Chief Executive Officer  
Business Executives For National Security

  
\_\_\_\_\_  
Date

Accepted by:

  
\_\_\_\_\_  
A.B. Krongard  
CIA Executive Director  
Central Intelligence Agency

  
\_\_\_\_\_  
Date

## **B – LIST OF ACRONYMS & GLOSSARY**

### **ACRONYMS**

#### **General Terms**

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<b>BENS</b>	Business Executives for National Security
<b>CIA</b>	Central Intelligence Agency
<b>COLA</b>	Cost of Living Allowance
<b>CR</b>	Compensation Reform
<b>DHS</b>	Department of Homeland Security
<b>DoD</b>	Department of Defense
<b>FCS</b>	Federal Compensation System
<b>GAO</b>	General Accounting Office
<b>GS</b>	General Schedule
<b>HPSCI</b>	House Permanent Select Committee on Intelligence
<b>IRS</b>	Internal Revenue Service
<b>ITA</b>	Internal Trade Administration
<b>NGA</b>	National Geospatial Intelligence Agency <i>(formerly the National Imagery and Mapping Agency (NIMA))</i>
<b>NSA</b>	National Security Agency
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management
<b>SSCI</b>	Senate Select Committee on Intelligence

#### **CIA Departments and Offices**

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<b>CFO</b>	Chief Financial Officer
<b>CHRO</b>	Chief Human Resources Officer
<b>CIAU</b>	Central Intelligence Agency University
<b>CIO</b>	Chief Information Officer
<b>DCI</b>	Director of Central Intelligence
<b>DDCI</b>	Deputy Director of Central Intelligence
<b>DI</b>	Directorate of Intelligence
<b>DO</b>	Directorate of Operations
<b>DS&amp;T</b>	Directorate of Science and Technology
<b>EXDIR</b>	Executive Director
<b>FIN</b>	Office of Finance
<b>GS</b>	Global Support
<b>ISI</b>	Information Services Infrastructure
<b>OFL</b>	Office of Finance and Logistics
<b>OPE</b>	Office of Procurement Executive
<b>OS</b>	Office of Security

## Personnel Management Reform

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<b>ACDE</b>	Annual Compensation Decision Exercise
<b>BCS BND</b>	Basic Compensation Schedule – Banded
<b>BSI</b>	Base Salary Increase
<b>EPA</b>	Exceptional Performance Award
<b>ILR</b>	Interim Level of Review
<b>MFR</b>	Memorandum for the Record
<b>PAR</b>	Performance Appraisal Report
<b>PAS</b>	Performance Appraisal System
<b>PD</b>	Position Description
<b>PPM</b>	Pay Pool Manager
<b>PSO</b>	Performance, Standards and Objectives
<b>US</b>	Unit Supervisor

## GLOSSARY

**Agency Profile** – The employee’s official Agency biographic information which can be accessed via Show Me the Data on CIALink.

**Agency Profile Update Form** – A document completed by the employee to capture updates to the Agency Profile.

**Annual Compensation Decision (ACD)** – An assessment of the sustained employee performance and contribution to mission for performance during the annual performance evaluation period that may result in a base salary increase, a bonus, or a combination of the two.

**Base Salary** – An employee’s annual salary. The annual salary is an employee’s hourly rate multiplied by 2,080 hours.

**Base Salary Increase (BSI)** – An increase to base salary that may result from a promotion decision or from a permanent pay increase during the annual compensation decision exercise.

**Basic Compensation Schedule – Banded (BCS BND)** – The Human Resources Information Technology (HRIT) system pay schedule code identified for employees paid on the compensation reform pay schedule.

**Bonus** – A lump sum of cash payment used to reward sustained performance as determined/approved during the annual compensation decision exercise.

**Career Service Subgroup** – A subset of employees within a career service that may be organized by function, occupation, or skill.

**Compa-Ratio** – An employee’s base salary divided by the salary associated with the midpoint of the applicable pay range. (Employees’ Base Salary Divided by the Midpoint of the Applicable Pay Range = Compa-Ratio).

**Compensation** – Monetary payments for work performed to include base salary, overtime, holiday pay, Sunday pay, or other special pay categories as well as bonuses.

**Contribution Assessment** – A collective evaluation of a pay pool manager's consideration of employee contribution to mission relative to other members in the pay pool that results in an overall employee performance category designation of one of the following:

- (a) Contributor- Minimal or satisfactory impact on achievement of work unit goals and objectives.
- (b) Strong Contributor – Substantial impact on achievement of work unit goals and objectives.
- (c) Top Contributor – Extraordinary impact on achievement of work unit goals and objectives.

**Contribution to Mission** – The extent to which an employee's performance, individually or as a part of a team, advances the goals and the objectives of the pay pool, and/or the Agency.

**Employee Conversion** – The process of assigning each employee to an occupation specialty and occupational specialty level.

**Employee Conversion Criteria** – Predetermined, written requirements for placement of employees at each occupation specialty level.

**Exceptional Performance Award (EPA)** – Recognition of superior performance from a personal or a team contribution for a single act of achievement that had considerable impact on the mission and that is beyond the scope of the employee's expected job duties, responsibilities, and performance objectives.

**Interim Level of Review (ILR)** – A level of review of the pay pool manager's annual compensation decisions formally documented in the automated pay tool by one or more officers who are generally within the management chain of PPM. There may be multiple interim level reviewers, but one ILR must be in a position to focus on process and employee performance issues and seek to ensure fairness, equity, and consistency within and across pay pools.

**Memorandum for the Record (MFR)** – A memorandum generally completed by the rating official that documents employee performance when a full performance appraisal report is not required.

**Midpoint of a Pay Range** – The arithmetic average salary of the minimum and maximum salary rates for the pay range. The midpoint represents the market salary reference point for the occupational specialty levels aligned to the pay range and is the value from which comp-ratios are computed.

To illustrate:  $(\text{Minimum} + \text{Maximum}) \text{ Divided by } 2 = \text{Midpoint}$

**Occupation** – A broad functional category of work requiring a common set of qualifications.

**Occupational Specialty** – The identification of work within an occupation consisting of similar skills and a common set of qualifications.

**Occupational Specialty Level** – The level of skills, responsibilities, and other characteristics required for performance of a particular occupational specialty within an occupation. For example, entry, developmental, and full performance are occupational specialty levels.

**Overall Performance Rating** – A description of an employee’s total performance on the performance appraisal report as characterized by the performance standard ratings and the impact of the employee’s accomplishments as they related to the performance standards and objectives and the work unit’s goals. The overall performance ratings are:

- Performance exceeds expectations.
- Performance meets expectations.
- Performance below expectations.

**Pay Pool** – A work unit or a combination of work units that consists of a group of employees (generally ranging in size from 15 to 40 employees) assigned to a pay pool manager for the purpose of the annual compensation decision process.

**Pay Pool Exception** – Organization of pay pools on a career service basis (subject to Executive Director approval) for the following reasons:

1. The employee is in a work unit where the work he or she is performing is not part of that work unit’s mission; and
2. The complexity of the work is such that only the career service has the expertise, insight, or capability to evaluate that employee’s contribution to mission.

**Pay Pool Manager (PPM)** – An officer who makes the annual compensation decision (base salary increases, bonuses, or a combination of the two) for all employees in his or her respective pay pool(s) based on an assessment of employee performance and contribution to mission.

**Pay Range** – The range of base pay associated with a particular occupational specialty level that includes a minimum mid-point, and maximum amount.

**Pay Scale** – A collection of pay ranges with aligned occupational specialties that are paid similarly.

**Pay Schedule** – The master pay schedule that includes all pay ranges.

**Pay Tool** – An automated software application that generates a recommended base salary increase and bonus for each pay pool member based on funds available, the employee’s comp-ratio, and the pay pool manager’s assessment of employee performance and contribution to mission. The pay tool displays the base salary increase and bonus recommendations as both a whole dollar amount and a percentage of base salary.

**Performance Appraisal Report (PAR)** – A record of employee performance that documents the various elements of the performance appraisal process.

**Performance Appraisal System (PAS)** – A performance management system that includes a record of the following elements:

- (a) Review of performance standards and development of performance objectives (PSOs).
- (b) Creation of a memorandum for the record (MFR) if applicable.
- (c) Acknowledgement that mid-cycle feedback did occur.
- (d) Documentation of employee accomplishments against the performance objectives.
- (e) Rating of each performance standard and evaluation of performance effectiveness against the performance standards.

- (f) Assessment of the employee's performance against the accomplishments by the unit supervisor (where applicable), rating official, and reviewing official.
- (g) Inclusion of an overall performance rating.
- (h) Inclusion of an employee rebuttal (if applicable).
- (i) Inclusion of employee comments. An employee may not wish to provide a rebuttal, but rather comment on documentation included in his or her performance appraisal report (PAR) by the unit supervisor (where applicable), rating official, and/or reviewing official. If so, an employee may provide such comments as a separate attachment to the PAR.

**Performance Objectives** – A description of three to five goals the employee is expected to accomplish during the performance appraisal report (PAR) rating period that target key areas of responsibility that are aligned to the compensation philosophy.

**Performance Standards** – Skills and behaviors developed by the career service that are critical for effective performance in an occupation.

- Common Performance Standards – Skills and behaviors that apply to all employees within that occupation and level.
- Specialized Performance Standards – Skills and behaviors selected by the rating official that are generally more specific to an employee's occupational specialty and level.

**Performance Standard Ratings** – Numerical ratings on a scale of 1 to 5 assigned by the rating official. Each rating equates to an employee's performance effectiveness for each applicable performance standard.

- 5 = Almost always performs significantly above the standards.
- 4 = Performs above the standards about half of the time.
- 3 = Consistently performs as described by the standards.
- 2 = Performs below the standards about half of the time.
- 1 = Almost always performs significantly below the standards.

**Position Conversion** – The process of assigning a position to an occupational specialty and occupational specialty level based on the work requirements of the position.

**Position Conversion Criteria** – Criteria for determining the occupational specialty and occupational specialty level based on the work requirements of the position.

**Position Description (PD)** – A written description of the characteristics of a position to include:

- (a) General summary of work performed.
- (b) Duties and responsibilities.
- (c) Knowledge, skills, and abilities required.
- (d) Supervision received and given.
- (e) Minimum qualifications.
- (f) Determination of applicable Fair Labor Standards Act (FLSA) designation.

**Professional Learning** – Training, academic coursework, and/or certification requirements.

**Promotion** – Career progression between occupational specialty levels.

**Promotion Criteria** – Requirements for progression to the next occupational specialty level based on the work requirements and minimum qualifications described in the position description that include identification of the following:

- (a) Experience and skill requirements.
- (b) Professional learning requirements.

**Promotion Panel** – A group of managers to include minority and female representation who meet to evaluate and recommend employees for promotion to the next occupational specialty level.

**Promotion Petition** – An employee-initiated application for promotion consideration.

**Relative Contribution Decision Worksheet** – A document used by the PPM for assistance in assessing an employee's contribution relative to other members in the pay pool by evaluating three factors:

- (a) Contribution relative to the occupational specialty level.
- (b) Impact of contribution.
- (c) Evaluation of overall PAR content and rating.

**Significant Accomplishments** – Employee-written descriptions of major accomplishments during the performance appraisal report rating period that are tied to the performance standards and objectives.

**Unit Supervisor (US)** – A term applicable to deployed officers where the employee's first-line supervisor is not necessarily of the same occupational specialty. This first-line supervisor will assume the role of US and will not be the rating official.

**C – List of Appearances and Interviews**

<b>Group/Organization</b>	<b>Purpose</b>	<b>Location</b>	<b>Date</b>
Buzzy Krongard and CIA staff	Initial briefing to Panel, staff and chairman on CIA project and request for BENS review	BENS Washington, DC	October 28, 2003
Buzzy Krongard and CIA staff	Briefing of Panel Members on CIA compensation reform initiative	CIA Langley, VA	November 13, 2003
Professor Richard Kohn, University of North Carolina	An expert in American military policy to speak on psychology of service vs. compensation in the U.S. Military vs. Intel Community	CIA Langley, VA	November 13, 2003
Ginger Groeber, Deputy Under Secretary of Defense, Civilian Personnel Policy	Measures DoD has taken to reform federal personnel system	Four Seasons, Washington, DC	November 13, 2003
Affinity Groups, CIA	Affinity group responses and concerns with CIA Comp Reform Initiative and Pilot Project	BENS Washington, DC	November 14, 2003
Kathy Perroff and staff	OMB response to CIA compensation reform plan and other federal initiatives to reform HR systems	OMB, Washington, DC	November 14, 2003
Congressman Jim Gibbons (R-NV) and staff	History of CIA/HPSCI communication and issues concerning pay for performance initiative	BENS Washington, DC	November 20, 2003
Jim Seacord, Program Designer and Expert, CIA	Discuss compensation reform program and pay pool concept	BENS Washington, DC	November 26, 2003
Brant Bassett, Counsel, Rep. Jim Gibbons	Discuss House Permanent Select Committee on Intelligence (HPSCI) issues of concern	BENS Washington, DC	December 4, 2003
Frans Bax, President, CIA University and staff	Discuss CIA management and compensation reform training	BENS Washington, DC	December 8, 2003
Robert Caudle, Associate General Counsel, CIA, and other CIA lawyers	Section 8 authority and congressional oversight	CIA Langley, VA	December 19, 2003
Bob Rebelo, Chief Human Resources Officer	CIA employee/manager discipline and removal/promotion process	CIA Langley, VA	December 19, 2003
CIA managers and employees participating in the CFO pilot program	General feedback and issues of concern/interest and recommendations	CIA Langley, VA	January 15, 2003



## D — A Selection of Current Civil Service Reforms

Current exemptions from Title 5 personnel requirements within the federal government illustrate the flexibilities that Congress has already granted to specific departments and agencies. For example, efforts to reform the Internal Revenue Service (IRS) led to provisions under the IRS Restructuring and Reform Act of 1998 giving the Secretary of the Treasury various pay and hiring flexibilities not otherwise available under Title 5, such as authorities to establish new systems for hiring, staffing, compensation and performance management. The Department of State and the International Trade Administration (ITA) are examples of organizations in which some employees are not subject to Title 5, while the remainder of the workforce is covered. In this case, the Foreign Service employees at State and ITA are outside the jurisdiction of Title 5. In addition several agencies, such as the General Services Administration and the Veterans Benefits Administration received additional, although temporary, flexibility through legislative authority to offer voluntary separation incentive payments—commonly called buyouts—to help restructure their workforces. The human capital flexibilities (in addition to compensation) that agency officials and employees often cite as most effective include:

**PAY FOR PERFORMANCE – A compensation system based on rewarding employees for individual merit and accomplishment. Frequently contrasted with systems that base salary on other factors, such as longevity**

- Work-life policies and programs (alternative work schedules, subsidized transportation, telecommuting, etc.)
- Monetary recruitment and retention incentives (bonuses, relocation aid, retention allowances)
- Special hiring authorities (student employment programs, veteran's hiring authorities)
- Incentive Awards (cash awards, quality step increases, time-off awards, honorary recognition awards)

Here is a survey of some of the human resources reforms that have been put in place or are about to be implemented:

**The Department of Defense.** Early in 2003, the Secretary of Defense proposed a plan to transform the way the Department recruits, retains and manages its nearly 700,000 strong civilian workforce. The impetus stemmed in part from the fact that 320,000 uniformed people are employed by the Department in non-military jobs. Why? Because military people can be put in a job, given guidance, transferred from one task to another and instructed on how to perform. Not true of the civilian workforce, who are managed under civilian personnel rules set by the Office of Personnel Management and governed by a host of bureaucratic regulations and requirements that were, reputedly, designed for another era.

According to DoD, the current system has shortcomings:

- Managers are constrained by law and policy from truly managing the civilian workforce
- Employees are not rewarded on the basis of merit
- Civilian workers are losing opportunities to contribute, as critical tasks are assigned to military personnel or to contractors
- DoD is losing talented potential employees to private sector competitors because it takes too long to complete the hiring process
- The system is tied to a 30-year career path, while prospective employees are looking for opportunities to contribute and be appropriately rewarded or to move quickly up the promotion ladder

The Department of Defense has had experience with personnel management alternatives. Under demonstration projects authorized by the Civil Service Reform Act of 1978, certain DoD components were able to test personnel system reforms. For example, in 1980, the Navy personnel demonstration project, commonly referred to as the China Lake demonstration project, implemented a number of

reforms including pay banding and pay for performance. In the last few years, the Civilian Acquisition Workforce personnel demonstration project (AcqDemo) created a pay banding system that covers part of DoD's civilian acquisition, technology, and logistics workforce. Expected results include increased flexibility to assign employees, as well as increased pay potential and advancement satisfaction for employees. Lastly, DoD's science and technology reinvention laboratory demonstration projects implemented some form of pay banding and pay for performance. All these demonstration projects have been able to offer more competitive starting salaries. Together, they affect about 10 percent of DoD's civilian workforce.

**PAYBANDING – A salary structure divided into fewer, broader pay ranges than traditional grades. Also commonly called broad-banding**

After extensive consultation with Congress and with the help of Senators Susan Collins (R-Maine) and George Voinovich (R-Ohio) the Fiscal Year 2004 Defense Authorization Act, signed into law November 24 by President Bush, included language establishing the National Security Personnel System. Key provisions of the new system include:

- Preserving merit system principles, accommodating veterans' preference, and respecting bargaining rights. It preserves the principles of equal opportunity, diversity, due process, protection against non-merit based actions, and nonreprisal against whistleblowers. The system would also provide some modest savings.
- The system will be flexible and based on the balancing principles of accountability, collaboration, and cost neutrality.
- Two of the most important aspects of the best practice model adopted in the plan are 1) speeding the hiring process and, 2) pay banding as the basic construct for compensation and management of evolving responsibility.

**COST NEUTRALITY – The principle that any new system cost no more than the one it replaces, e.g., the total salary dollars available in a specific pay band would be no more or less than would have been paid out in the civil service grades it replaces**

**The Department of Homeland Security.** The Department of Homeland Security (DHS) has approximately 155,000 civilian positions and 54,000 military positions in the US Coast Guard for a total of just over 209,000 employees. Of the civilian employees, a vast majority were transferred from seven organizations: the Transportation Security Administration, the Immigration and Naturalization Service, the Bureau of Customs, the Federal Emergency Management Agency, the US Coast Guard, the US Secret Service and the Animal and Plant Health Inspection Service. Approximately 90 percent of DHS' civilian employees are stationed outside the Washington, DC, metropolitan area. These employees serve in positions ranging from inspectors, investigators, police, and intelligence analysts to attorneys and administrative services. DHS inherited multiple pay and benefits systems, with various hiring authorities and differing performance rating systems.

Authorizing legislation, the Homeland Security Act of 2002, permitted the Department to deviate from Title 5 requirements in the areas of:

- Performance appraisal
- Classification
- Pay rates and systems
- Labor-management and employee relations
- Appeals

To craft an entirely new, unified human resources system for the new department, the core design team was divided into two subgroups, Labor and Employee Relations and Pay and Performance. They began

their work in April 2003 and presented a wide range of options to the Senior Review Committee in late September.

As noted by the General Accounting Office in its review of DHS' design plan, key to successful implementation will be the degree to which the Department links its human capital strategy to its homeland security strategy. GAO further states that it is critical that senior DHS management "make the link between the new human capital system and the accomplishment of DHS's goals as outlined in the DHS strategic plan."

**JOB CLASSIFICATION — a hierarchical structure of jobs, usually arranged into classes or pay grades according to some form of formal job evaluation**

A survey of the options being considered for DHS are typical of those employed in other federal, state and local human resources reforms: modifications to the general schedule, broad banding of pay, performance/competency-based evaluations, revised job classifications systems and various alternatives to deal with collective bargaining rights, labor relations and adverse actions/appeal rights.

One new option, not unlike the dual-track proposals in other reform proposals, is the rank-in-person system. This option adopts a pay and classification approach used by the Coast Guard, the uniformed divisions of the Public Health Service and the Secret Service. In DHS the concept will primarily apply to research positions, law enforcement, and related occupations.

**DUAL TRACK — Typically, a compensation scheme that divides career tracks into two or more ladders, e.g., scientific/professional and administrative/ managerial**

The final selection of options and processes will be made jointly by DHS Secretary Tom Ridge and Director of OPM Kay Coles James early in 2004.

**RANK-IN-PERSON — Rank-in-person is an hierarchical approach in which rank obtains to person regardless of position. It provides a rank-in-person concept in pay bands with performance-based increases**

### **The National Geospatial-Intelligence Agency (formerly NIMA)**

The National Geospatial-Intelligence Agency (NGA) has nearly four years experience with a revised pay-for-performance compensation plan for its employees. Designated as the Workforce 21 Pay and Compensation Design, the plan exhibits characteristics that are standard fare in many pay-for-performance schemes:

- Total pay compensation in a broadband framework
- A single five-band pay structure, encompassing various occupational career paths
- Cost that is budget neutral, i.e., available compensation is anchored to the Federal General Schedule and its related GS step increase costs
- The annual general pay increase (COLA) is not at risk, except for unsatisfactory performance
- Decisions are made by organizational pay panels with higher level review and approval

In the NGA system, three primary factors determine an employee's performance pay: the performance rating, the employee's contribution (complexity, responsibility, and impact of the employee's work within the context of the band), and the employee's total pay compensation. This last factor—total pay compensation—is the most controversial aspect of the revised system. Total pay compensation is a focus on the resulting pay rather than the size of the increase an employee is likely to receive. The principle being employed is that two employees performing and accomplishing work at the same level should be paid equivalently. Over time the NGA pay scales and employee compensation levels had been delinked and management determined that the old system was no longer equitable to the workforce.

Performance pay takes three forms: salary increase, bonuses, and a separate “special acts” award program with the primary focus being on the permanent salary increase component. Compensation is determined by pay pool panels that apply a relative ranking beyond the single performance rating by assigning a contribution factor to each employee. From there, a combined performance-contribution score is entered into a performance pay spreadsheet that helps determine the employee’s salary increase and/or bonus. The performance appraisal system is administered on an annual basis with performance ratings completed during the first quarter of the Fiscal Year (Oct-Dec) and the performance pay determined/approved in the second quarter (Jan-Mar). The pay-out occurs over the next six months (Apr-Sep).

### **The National Security Agency**

The National Security Agency (NSA) as one of the largest organizations in the nation’s intelligence community has taken pioneering steps to develop and adopt a common Defense Intelligence Community Personnel System (DCIPS). Basic tenets of the DCIPS are:

- Protection of merit system principles
- Alignment with the Defense Department strategic goals for the intelligence community (note: NSA is a component of DoD)
- Alignment with the emerging DoD National Security Personnel System
- Consistency with Title 10 flexibilities
- Facilitation of movement of personnel between components of the Intelligence Community (IC)
- Pay for performance, not longevity

Attributes of the system include pay banding and dual-track (professional and managerial) career ladders. Performance management is accomplished in a single, simple structure that supports the pay-for-performance objective. Performance factors are standardized across occupations, and each factor is defined for the particular career path and pay band. Employees are rated on a nine point scale with five summary levels. Preliminary ratings are assigned by the first line supervisor with final rating approved by a reviewing authority. Ratings occur on an annual cycle and the pay out is over a twelve-month period.

The NSA compensation system establishes 5 pay bands which encompass three career paths: professional/administrative, functional support, and organizational support. Annual compensation decisions can include basic pay increases, performance bonuses and promotion the next higher pay band. Funds available for pay pool distribution include the annual/legislative pay increase (COLA), the General Schedule within grade increase budget, performance-based awards money, and the annual promotion budget. Locality pay continues as under the current GS system.

**The States of Texas, Georgia and Florida.** Civil service reform is not limited to the federal government, although it got its start there in 1883.<sup>1</sup> Since then, some form of civil service or merit-based system was applied at the federal level and has at some point been adopted by all 50 states. Now, a few states have decided to eliminate it. Texas (1985), Georgia (1996) and Florida (2001) lead the way.

The defining characteristics of the programs in these three states are devolvement of promotion authority to individual state agencies, no waiting period for hiring new employees, broader authorities to classify new positions and more flexible compensation policies.

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<sup>1</sup> In an interesting historical aside, the precipitating event was not, as is commonly taught, the assassination of President James Garfield by a “disappointed office seeker” named Charles Giteau. According to J. Edward Kellog of the University of Georgia, the reality is a bit more complicated—and perverse. With Republicans facing the prospect of losing control of Congress in the 1882 mid-term elections, they decided to cooperate with the Democrat’s efforts at personnel reform. They reasoned that if they (the Republicans) weren’t around to take advantage of patronage after the mid-terms, then why not back a new civil service system that would protect existing Republican appointments and stymie the patronage powers of incoming Democrats?

While it is not possible to compare outputs with other states, that is, to say that public employees in Texas, Georgia and Florida provide better public services than in non-reform states, government managers in the reformed states indicate more satisfaction with the revised systems than managers elsewhere. The reforms make it much easier to get rid of poor performers, simpler to accomplish organization downsizings and reorganizations and faster to both hire and reward new candidates and outstanding performers.



## **E – BENS Independent Panel**

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