

Putting “Strategic” in Human Capital Management

by Philip Nathanson

Federal agencies—particularly the IRS—are implementing a comprehensive human capital plan and using outcome measures for decision making, demonstrating results and driving continuous improvement in the agency.

Like their counterparts in the private sector, public-sector human resources (HR) professionals have spent the last couple of decades clamoring for “seats at the table” when senior decision makers gather. Today, federal HR managers are being invited to the strategy table as never before. The aging workforce, shrinking staff ceilings, sourcing competition and implementation, pay for performance, and rising customer service expectations of all stakeholders have created a pressing workforce agenda for agency top managers.

The President’s Management Agenda

In addition, administration and congressional initiatives require at least some consideration of employees at federal agencies as *human capital* (HC). Viewed as HC, employees are not costs to be avoided or resources to be consumed, but assets to be valued and investments to be strategically managed to maximize their usefulness. Comptroller General David Walker introduced the term “human capital” into federal-speak in the late 1990s. Since then, the Bush administration and Congress have eagerly embraced the notion of the workforce as a manageable investment. *The President’s Management Agenda* (PMA), developed early in President Bush’s first term, includes a Strategic Management of Human Capital initiative, and each agency’s progress in implementing it is tracked as part of the quarterly executive branch management scorecard

of the Office of Management and Budget (OMB). The Chief Human Capital Officers Act of 2002 requires each executive agency to appoint a senior official whose major role is to think about the workforce strategically.

A look at the June 30, 2005, executive branch management scorecard suggests that over the past couple of years, HC professionals have indeed been spending some time in the executive conference room. On the Strategic Management of Human Capital initiative, eleven of twenty-six departments and agencies scored "green." That means, among other things, that they have provided OMB with documentation that they have implemented and are using a comprehensive HC plan and that they use outcome measures "to make human capital decisions, demonstrate results, make key program and budget decisions, and drive continuous improvement in the agency." Another fourteen organizations scored "yellow," having shown that they put the planning and management machinery in place to support HC strategic decision making.

U.S. Department of Energy

At the U.S. Department of Energy (DOE), which scored green, chief human capital officer Claudia Cross has taken advantage of the early, enthusiastic, and continuing support of HC initiatives at the Deputy Secretary and Assistant Secretary levels to set up a comprehensive HC planning and tracking process. DOE is determining what core competencies will be needed in the workforce five years from now by identifying gaps and planning initiatives to address them. In addition to top management involvement, Cross credits DOE's success to a holistic approach, which looks at all parts of DOE and the PMA as interlocking rather than independent and encourages input from all levels of the organization. The philosophy behind this approach is that each DOE manager—not the HR staff—"owns" HC initiatives and is responsible for the effective use of HC.

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U.S. Department of State

At the U.S. Department of State, another "green" agency, the director general for human capital is at the table (and usually next to the Secretary or Deputy Secretary) for all significant agency management decisions, including budget allocations. State HC managers have developed twenty key performance indicators that have already assisted in shaping HC programs and activities. For example, two years ago the metrics showed that it was becoming increasingly difficult to fill positions in hardship posts. State responded by requiring a tour of duty in a hardship post for promotion to senior foreign service officer.

Human Capital Metrics

Although many federal HC managers are more involved in agency management decisions today, the permanence of this state of affairs can be reasonably questioned. The history of federal government management theory over the past fifty years is replete with examples of what *The Public Manager* calls "Fads of the Year." These ideas—from Theory Y to PPBS, MBO, ZBB, CQI, TQM, and the balanced scorecard—become prominent in federal management discourse for a while and then fade into the background. No longer the topics of mandatory management off-sites or the centerpieces of agency initiatives, some have been at least partially incorporated into established public management practices, but many have simply faded away over time. If HC initiatives suffer the same fate, will HC managers be asked to stay at the strategy table?

The answer depends on whether HC managers are able to offer information useful to the top decision makers in making core business decisions, practical insights that transcend traditional HR boundaries and the perhaps transient focus on "workforce issues." It is axiomatic that in any organization, line managers—those responsible for profit and loss or, in the public sector, those directly accountable for accomplishing the organization's mission—are the principal strategic decision makers. Staff managers are part of the process only to the extent they provide this leadership with "news it can use."

It is hard to believe, but once upon a time corporate financial managers were humble clerks, relegated to uncarpeted back rooms. In 1912, financial managers at the DuPont Corporation invented the notion of return on investment (ROI), which allowed leadership to

compare the relative profitability of different functions, activities, and initiatives. ROI wasn't simply a number; it was a powerful, measurable way to think about business strategy whose appeal was instant and intuitive to leadership. Almost overnight, financial managers moved to top floor offices and took their seats at the corporate strategy table. They have been there ever since.

If HC managers want to become as valuable to top management in the long run as financial managers, they will need HC analogues to ROI: information about the capabilities of the workforce, its productivity, and the impact of HC initiatives that is so compelling that senior managers will not want to make strategic decisions without it.

IRS Human Capital Metrics

At the U.S. Internal Revenue Service (IRS), chief human capital officer Beverly Ortega Babers and her staff are on the road to doing exactly that. Through a set of strategic HC metrics, they are beginning to provide and interpret quantitative workforce information that links directly to the agency's business initiatives:

At IRS, we are fortunate to have a Human Capital Board, chaired by me and made up of several of our Business Unit Heads—our highest level line managers. The role of the Human Capital Board is to oversee and develop our human capital strategy on behalf of the Commissioner and to ensure that all our human capital activities are consistent with the overall business strategy and make sense from a bottom-line perspective. For the Board members to do that, they need clean, meaningful statistical information about the workforce and its strategic readiness, in the form of measures that are familiar to and resonate with business-oriented people. Though our metrics are still new and evolving, I believe they are meeting that test. They are already helping the Human Capital Board, the Commissioner, and managers throughout IRS think about our business in terms of the workforce, and vice-versa.

A look at the IRS strategy and approach suggests ways that HC managers can position themselves to add value to the strategic discussion, even if the spotlight should shift from HC per se to knowledge management, supply chain management, or some other kind of management du jour.

One key to a successful HC metrics effort is to think about it equally as a change management project as well as a technical design project. The IRS, like many

Figure 1. Human Capital Assessment and Accountability Framework

<p>I. Strategic Alignment Agency human capital strategy is aligned with mission, goals, and organizational objectives and integrated into its strategic plans, performance plans, and budgets.</p>
<p>II. Workplace Planning and Deployment Agency is citizen-centered, delayed and mission-focused, and leverages e-government and competitive sourcing.</p>
<p>III. Leadership and Knowledge Management Agency leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance.</p>
<p>IV. Results-Oriented Performance Culture Agency has a diverse, results-oriented, high-performance workforce and a performance management system that effectively differentiates between high and low performance, and links individual/team/unit performance to organizational goals and desired results.</p>
<p>V. Talent Agency has closed most mission-critical skills, knowledge, and competency gaps/deficiencies and has made meaningful progress toward closing all.</p>
<p>VI. Accountability Agency human capital decisions are guided by a data-driven, results-oriented planning and accountability system.</p>

Source: OPM.

public agencies, faced a number of potential obstacles to its development of strategic workforce metrics, from management's historical perceptions of HR as purely a support function to an anti-metrics bias among some members of the HR community itself. However, metrics project manager Carolyn Lee, acting director of the division of human capital planning and metrics in the human capital office, was very much aware of the need to anticipate potential objections and meet them—not merely in the strategy for introducing the metrics to the agency, but in both the choice of strategic measures and the design of the metrics themselves.

Choosing Strategic Measures

It is one thing to understand that HC measures must link to the mission and the business strategy, and another to make it happen. Many organizations face a chicken-or-the-egg situation. Because HR has traditionally been thought of as transactional, the current mission or business strategy statement may not contain anything explicit enough relating to the workforce with which to link. Many strategic plans never go beyond stating that the agency values its employees. Having HC metrics in place can change that, of course—as it has, in fact, at the IRS—but where to start?

In summer 2003, the IRS began a focused strategic HC metrics development process. Lee and the metrics team elected to start with the “Human Capital Assessment and Accountability Framework (HCAAF),” Figure 1, which the U.S. Office of Personnel Management (OPM), U.S. Government Accountability Office (GAO), and OMB developed to translate the president's Strategic Management of Human Capital initiative into “discrete outcomes toward which agencies can strive.” (See apps.opm.gov/HumanCapital/tool/index.cfm.)

By grounding its process in the PMA and HCAAF, the IRS immediately secured high-level government attention to and support for the effort. Anchoring the metrics to the HCAAF, a direct reflection of administration priorities, also made it difficult for anyone to find fault with the philosophy behind the initiative.

The next step was translating the HCAAF standards into a set of specific outcome measures. Here, the IRS team worked with the OPM staff as informal advisors. The consensus was that for tracking purposes, Standards I, II, and VI are essentially “met/not met.” For example, either the HC strategy is aligned with the mission, goals, and organization objectives (Standard I) or it is

not. But HCAAF Standards III, IV, and V can generate a number of outcome measures that tie explicitly or implicitly to the performance of the agency mission. For instance, Standard V, Talent, focuses on mission-critical skills, knowledge, and competency gaps or deficiencies. It therefore requires the agency to define its mission-critical skills, knowledge, and competencies; to measure gaps that may affect the performance of the mission; to institute programs designed to close those gaps; and to measure the effectiveness of those programs. Each of these activities easily yields potentially workable measures that focus on mission-critical aspects of the workforce's capabilities and, thus, relate directly to the mission-readiness of the IRS.

Designing Metrics

In turning the HCAAF outcomes into metrics, the IRS adhered to three design principles that served it well:

1. *Create no new data collection requirements.* The IRS selected no metric for the initial set that required gathering information that was not already being collected. This limitation was not as draconian as it seemed, for one of the IRS's strengths in beginning a metrics effort was that it had a great deal of information in retrievable form about almost every aspect of its operations, including the workforce. Sticking to existing data meant that the IRS could launch the effort without a labor-intensive data collection initiative. Perhaps most important, it meant that the IRS could start using the selected metrics immediately since a baseline measure of historical data would be available for each.
2. *Select data that have been collected over time and whose quality is known.* Data were selected from several IRS databases developed to track expenditures, vacancies, and training. Each had been in operation with uniform data definitions for at least several years. IRS data analysts were familiar with the data quality, strengths, and weaknesses and could determine the validity and reliability of the conclusions that could be drawn from measurements built on them.
3. *Eliminate or minimize hand counting.* The initial set of metrics required none; all measurements could be done by extracting data and manipulating it electronically.

Figure 2. IRS Strategic Human Capital Metrics, July 2006

HCAAF Standard	Outcome	Strategic issue addressed	Metric (lay definition)
V. Talent	T1. Competency gap resolution	Have organizational staffing and employee development initiatives resulted in the appropriate level of talent assigned to mission-critical occupations (MCOs) in support of the IRS mission and goals?	Full-time permanent employees in MCOs at or above "full working level" (highest grade level achieved without promotion) compared with all employees in MCOs.
	T2. Optimized workforce balance	Are we focusing the deployment of our valuable resources on the staffing of MCOs?	Percentage of full-time permanent employees in MCOs compared with total full-time permanent employees.
	T3. High employee satisfaction	How satisfied are employees with their jobs?	Score on Gallup employee survey question about job satisfaction.
III. Leadership and Knowledge Management	L1. Gap resolution for management competencies	Outcome approved for tracking and reporting; measure currently under development.	
	L2. Effectiveness and efficiency of succession planning	Do we have a ready inventory of well-trained, highly qualified individuals to fill vacant leadership positions efficiently?	Percentage of leadership positions filled in 60 days or less.
	L3. High employee satisfaction with leadership	How effective is the IRS leadership from the perspective of those who must complete the work necessary to achieve the agency's mission and goals?	Mean score on the Gallup employee survey question: "Overall, I believe my organization is effectively managed and well run."
IV. Results-Oriented Performance Culture	PC1. Improved performance culture	How effectively does the IRS manage employee performance?	Index based on response to three questions on the Federal Human Capital Survey (FHCS) about managing performance.
	PC2. Increased respect for diversity	How effective are agency efforts to promote an equitable and diverse workplace?	Index based on response to three questions on the FHCS about commitment to diversity.
	PC3. Reduced under-representation ^a	How well does diversity of the workplace reflect the diversity of the general population?	Percentage of IRS employees by race, origin, and gender compared with the civilian labor force

Source: IRS (adapted).

^a OPM considers workforce diversity a critical element of performance for all three of these standards. The IRS includes the score on this measure in all calculations of the score for each of the standards.

Figure 2 shows the set of strategic HC metrics currently approved for tracking and reporting by the IRS Human Capital Board.

All of the metrics in the set are indeed strategic in that they address questions about the capabilities of IRS HC, the effectiveness of IRS management of HC, and

the impact of HC functions and programs on workforce capability and readiness. Some of the metrics are proxies or rest on assumptions to be tested over time. For example, T1 assumes that individuals who have been promoted to the full journey level for their occupation have acquired all the skills, knowledge, and competencies required to do the job effectively, while those who have not been promoted to full journey level are lacking in these areas. Carolyn Lee notes that they never intended to achieve flawless measures at the beginning of the metrics effort: "If we had waited for perfection, we'd still be talking about when we could launch the metrics set," she says. "The important thing was to start to focus top management on strategic HC questions. We decided to get those questions right, develop the best metrics we could within our design constraints to address them, and get started as soon as we could."

Implementation

The IRS recognized the magnitude of the changes in thinking and behavior—of the HC community and IRS business leaders—necessary to use the metrics. The implementation strategy had three foci:

- ◆ *Involving all stakeholders in the HC community in metrics design and development.* A steering committee—comprising centralized HR and HR-supporting functions (such as information technology and statistical analysis) and those embedded in the IRS business units—governed the process. Work groups developed metrics for each of the three HCAAF standards, and they routinely circulate all metrics-related products and staff work to the entire HC community for comment.
- ◆ *Gaining early acceptance from those who could create demand for the metrics set.*
 - ◇ *Internal.* The Commissioner and his immediate staff; the Human Capital Board; and the Human Capital Advisory Board, a committee of the heads of HC units throughout the agency.
 - ◇ *External.* Planning and HC staff members at the U.S. Department of the Treasury; technical experts at OPM; and the IRS Oversight Board, an independent oversight body created by

Congress in 1998 to provide the IRS with "long-term guidance and direction." Staff members from Treasury and OPM were part of the steering committee development effort, and, by the end of the first quarter of 2004, the Commissioner, his top advisors, the Human Capital Board, and the IRS Oversight Board had all endorsed the effort.

- ◆ *Training and briefing as many IRS managers and staff members as possible.* Lee and her staff began training HC staff and briefing interested managers before the end of fiscal year 2003 (FY03) and continue to do so today. "The best way to overcome any doubts and resistance is to 'demystify' what we are doing," she says. "We have reached hundreds of our colleagues so far, and will continue to brief and train until the stakeholders are comfortable with the metrics and how to use them."

Current Status

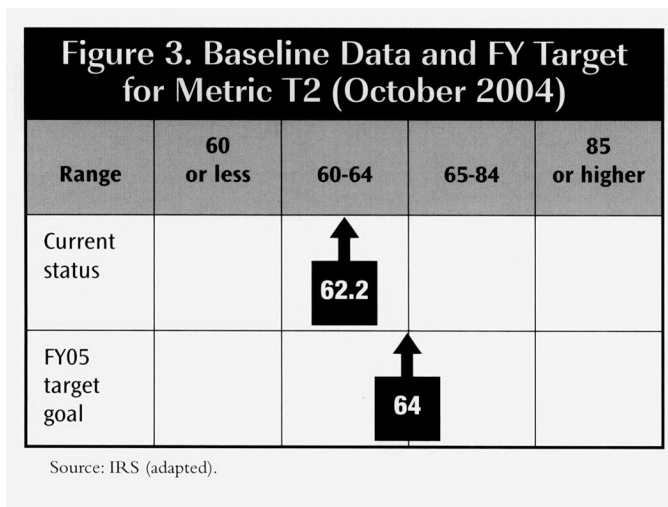
As a result of a sound implementation strategy, the crucial support of the Commissioner and other influencers, and key metrics design decisions that allowed a quick launch, the IRS strategic HC metrics set was formally inaugurated in FY04 and has been in operation throughout FY05. The IRS has set goals and performance ranges for each of the metrics, the Human Capital Board monitors performance in comparison, and initiatives are underway to improve performance in selected areas. The metrics are also breaking through into the general strategic planning process: Strategic HC Metrics T2 and PC1 now appear in the overall IRS strategic plan, and metrics T1, L2, and PC1 appear in the Department of the Treasury's accountability cycle metrics.

Beverly Ortega Babers is particularly pleased with how the metrics have involved the Human Capital Board members in making business decisions that had been left to the HC staff in the past because they haven't been recognized as strategic. And Carolyn Lee provides a case in point:

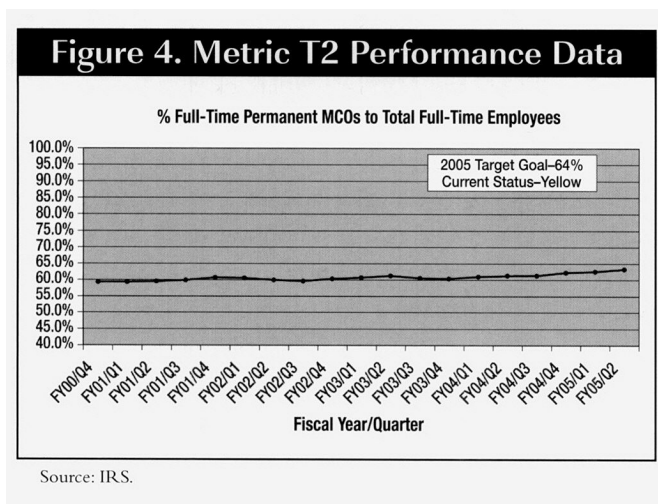
Metric T2 is about the percentage of the overall IRS workforce that is in mission-critical occupations (MCOs). We didn't need to explain the strategic relevance to top managers: Commissioner Mark Everson has made raising the percentage one of his personal priorities. But "mission-critical occupations" needed to be

defined. Our Human Capital Board took on the job, and when the baseline calculations were done, it turned out that 62.2 percent of the IRS workforce was in MCOs. But what should that performance be? What constitutes red, yellow, and green performance on the metric? After statistical analysis of the trends over the last five years and extensive discussion by the business unit managers on the Human Capital Board about the extent of improvement that was feasible, performance ranges and a FY 2005 target were set during the last quarter of FY 2004.

Figure 3 shows the performance ranges and targets established for 2005.



“Once senior IRS managers focused on the MCO/employee ratio, things began to change,” Lee continues. Figure 4 shows quarterly performance through the baseline period and over the first two quarters of FY05. The performance increased, beginning in the last quarter of FY04, when the performance target



for FY05 was set, and ending at 63.1 percent for the second quarter of FY05. “If the same rate of increase continues for the balance of the fiscal year, IRS will meet its 2005 target, and will start FY 2006 in a position to “get to green,” Lee notes.

The Future

Carolyn Lee is pleased with the progress of the metrics set so far but is focused on what still needs to be done to develop the current metrics into a robust, fully functioning strategic HC metrics system. One important agenda item is the continuing refinement and expansion of the metrics set itself. Another is the creation of more sophisticated analytics, models that will tell decision makers how the metrics results link with one another and how HC results impact business results. “I’d love to be able to say, for instance, that we’ve noticed that when the percentage of employees in MCOs who are at full working level gets to x, agency productivity increases by y.” Also on the agenda are more communication and education, the formal identification and tracking of action plans for improving results, and developing a method for calculating the return on IRS investment in HC.

Ask Beverly Ortega Babers the \$64,000 questions: Are strategic HC issues at the table at the IRS for good? And are metrics part of the recipe for success? She answers both with an emphatic yes:

I see workforce metrics playing an increasingly important role in our future. To reshape the current workforce to one with the necessary skills, knowledges and competencies to deal with a world of increasingly globalized business transactions, to better train and develop our managers, to find ways to retain our star performers—all of these will be expensive. They will require what I call “joint investments”: a set of collaborative decisions across all of the IRS Business Units for the good of the agency as a whole. Joint investments in the workforce will require justification to the business units, to our Inspector General, the Administration, the Oversight Board, and the Congress—all of whom will be looking for a return, an impact proportional to the investment. I believe HC metrics can help us make the investments shrewdly and account for them responsibly. I’m incredibly optimistic about the benefits. ✧