

**Statement of Jeffery K. Nulf  
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Before the  
Subcommittee on Oversight of Government Management,  
the Federal Workforce and the District of Columbia  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
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**Statement for the Record**

**INTRODUCTION**

Good morning, Mr. Chairman and members of the subcommittee. My name is Jeffery Nulf and I have the honor of serving as the Deputy Assistant Secretary for Administration at the Department of Commerce. As one of the principal tenants of President Bush's management agenda, strategically managing Commerce's workforce to better achieve our mission-critical objectives is a key priority for Secretary Gutierrez and the Department. While Otto Wolff, our Chief Financial Officer and Assistant Secretary for Administration was unable to attend this morning's hearing, I am pleased to appear before you again today to discuss the Department's efforts in this area, particularly as they relate to alternative personnel systems.

**COMMERCE DEMONSTRATION PROJECT**

Commerce has been managing pay for performance systems since 1988. As Dr. Semerjian will testify, our first involvement in alternative pay for performance systems occurred at the National Institute of Standards and Technology. Based on the

success achieved with that effort and other early attempts, including the Department of Navy's China Lake, Commerce established a second alternative personnel system, referred to as the Commerce Demonstration Project, in 1998. Over the seven years in which it has been in operation, the Commerce Demo has grown to cover approximately 4,200 employees in five of our operating units stationed throughout the nation. These include:

- National Oceanic and Atmospheric Administration (NOAA), with approximately 3,300 employees;
- Technology Administration, with about 25 employees;
- Bureau of Economic Analysis, with about 500 employees;
- National Telecommunications and Information Administration, with 80 employees;
- and
- Office of the Chief Financial Officer and Assistant Secretary for Administration, with about 360 employees.

In October, we anticipate further expanding this alternative personnel system to include employees represented by two local bargaining units that have asked to participate. This expansion, which attests to the positive attitude with which employees generally view the Demo, involves 33 employees represented by the Washington Printing and Graphic Communications Union, Local 1-C of the Graphic Communications International Union, and the American Federation of Government Employees, Local 2186. Additionally, the statutory limit of 5,000 employees was recently increased in relation to the number of

NOAA employees covered. We are now working with the Office of Personnel Management to implement this legislation and add 3,500 additional NOAA employees to the Demo.

## **BENEFITS**

The Demo's benefits to managing employees are perhaps most clearly evident in five areas:

- Performance. Under the Demo, Commerce managers have greater flexibility to recognize the contributions made by high performers through salary increases and bonuses. Salary increases are no longer tied to the largely fixed schedule of steps and grades under the GS system, but are established under a series of five broad bands of salary levels. The fifteen level schedule for salaries – each subdivided by 10 “steps” has been replaced with a system of five bands with five intervals each. Since salary adjustments and bonuses are determined as part of the annual performance appraisal system, the nexus between performance and salary is very clear to employees at all levels.

Program operations are reviewed each year through detailed evaluations conducted by third-party organizations, e.g., Booz Allen Hamilton. The results, once finalized, are made publicly available to ensure transparency. During our most recent program evaluation, fifty-three percent of supervisors in the Demo Project reported that they

are able to identify and reward good performers under the new system compared with 26 percent of GS supervisors.

- Recruitment. Recognizing the highly competitive job market in which federal managers must operate, the Commerce Demo provides them with a real opportunity to effectively negotiate salaries with job candidates. This tool is serving us well, particularly in recruiting individuals with specialized skills in mission-critical occupations. The most recent evaluation of the Demo indicated that 41 percent of participating supervisors believe that the ability to offer competitive salaries has better equipped them to recruit well-qualified employees. Only 19 percent of the supervisors operating within the traditional GS system felt this way.
  
- Classification. Under the Commerce Demo, the GS classification system of hundreds of career series has been streamlined into four career paths:
  - Administrative Professionals,
  - Administrative Support Staff,
  - Scientific and Engineering Technicians, and
  - Scientific and Engineering Professionals.

This system allows managers to more quickly advertise to fill vacancies and to consider a broader range of skill sets to meet their organization-specific needs during the hiring process.

- Employee Satisfaction. As employees and managers have gained experience with the Demo, trust in the system has grown. Over half -- 52 percent -- of the Demo employees surveyed this year agreed that salary increases were directly related to an employee's performance compared to roughly one-third of GS employees.
- Employee Retention. It is clear that the Demo Project has had a positive effect on retaining good performers. Employees are rated on a 100-point scale. Those receiving a score of 40 or above are eligible to receive a bonus and/or pay increase relative to their performance. This feature has allowed managers to distinguish and reward differences in performance. As a result, demo evaluations show that turnover is lower among high performers. For example, there was a 1.5 percent turnover rate for those employees receiving at least a 90 performance score, while there was a 7.7 percent turnover rate for those employees receiving lower performance scores (60-69).

## **FACTORS AFFECTING SUCCESS**

Based on our experience, we believe that the success of alternative performance systems depends on several factors:

- Communication. Change is never easy, particularly where it concerns what we consider to be our most important asset -- our employees. Over time, we have learned that, first and foremost a well-developed approach to educating employees

and managers about any system that is intended to replace the existing GS system is essential. This helps to create a mutual understanding of the objectives of the new system and provide a shared perception that change will be implemented together as a team.

- Effective Management. As with any personnel management system, if pay-for-performance is not managed well, it can be a disaster. Employees need to feel confident that their rights are protected under a new system. Managers must have the skills needed to manage employees effectively, make well-informed and fair decisions regarding salaries and bonuses, and provide effective feedback regarding performance expectations. This can only be accomplished by providing training in performance management and performance feedback to all affected individuals – managers and employees alike.
- We provide quarterly briefings to all new Demonstration Project employees as well as quarterly individual training on various Demo flexibilities to new supervisors. This year and last year we conducted training on Performance Feedback both for supervisors and employees at the end of the appraisal cycle to better prepare them for the appraisal process. By providing everyone involved with a full understanding of the system and the benefits it offers, the uncertainty and frequent reluctance that are inherent to such an undertaking can be significantly mitigated.

- Routine and Objective Evaluation. Not only do annual evaluations ensure transparency to interested stakeholders, but also they provide the basis on which human resources managers may objectively assess the success of the Demo and determine any need for adjustment. At Commerce, such adjustments have included:
  - strengthening supervisory training in providing performance feedback;
  - instituting performance management training for employees;
  - establishing a centralized data manager to oversee and ensure the quality of automated systems and data collection; and
  - adjusting how service retention credit is calculated based on performance rating.

Furthermore, we have taken steps beyond what is required by OPM and have expanded our reporting and analyses of this project relative to its impact on diversity groups. Our next report includes pay and performance data broken down by race and national origin, not just by minority and non-minority groupings. It also includes additional focus groups to capture concerns expressed by minority employees. These additions are designed to strengthen our already rigorous approach to ensuring that the Demonstration Project is operating according to merit system principles.

## **RECOMMENDATIONS**

We have had very good success with testing pay for performance under 5 U.S.C 47, the legislative authority for the Demonstration Project, and are pleased with the results that

have been achieved so far. The experiences that Commerce and other federal agencies have had provide a sound basis on which to continue moving forward.

Current legislative limitations, such as the 5,000-employee ceiling and five-year lifespan, for demonstration projects may unnecessarily discourage agencies from pursuing the flexibilities available under a demonstration project. The potential costs and limited lifespan of these projects may make it difficult – in some agencies – to appreciate the potential benefits. We support efforts to build on successful demonstration projects by establishing a permanent, Governmentwide core classification and pay system that makes use of lessons learned from the demonstration project experience.

## **CONCLUSION**

As I mentioned earlier, change is never easy. Far reaching changes to a decades-old system that will profoundly affect the work lives of hundreds of thousands of federal employees will inevitably – justifiably -- cause concern and merit careful consideration. Based on our experience and that of federal agencies across government, however, we believe that many of the tools are in place that are needed to continue the forward momentum initiated by the various demonstration projects now in place.

Thank you for giving me the opportunity to speak to you today on these important matters. I look forward to answering any questions that you may have.