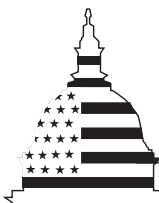


December 2002

# MILITARY PERSONNEL

## Oversight Process Needed to Help Maintain Momentum of DOD's Strategic Human Capital Planning



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-03-237](#), a report to the Secretary of Defense

## Why GAO Did This Study

The Department of Defense (DOD) has, in the past, lacked a strategic approach to human capital management. In April 2002, DOD issued two human capital strategic plans for military personnel. One plan addresses military personnel management and policies; the second addresses quality of life issues affecting service members and their families.

As a follow-on to its recent work on benefits for military personnel, GAO reviewed the extent that these two plans, in addressing military benefits, promote (1) the integration and alignment of human capital approaches to meet organizational goals and (2) the use of reliable data to make human capital decisions—two critical success factors for human capital planning. GAO also reviewed DOD's plans for overseeing the progress and implementation of its human capital plans.

## What GAO Recommends

GAO recommends that DOD establish an oversight process by which senior DOD officials may integrate and align benefits and other human capital approaches and promote a fact-based, performance-oriented approach to human capital management. As one option, DOD may wish to consider incorporating this oversight responsibility into the mission of the planned Defense Human Resources Board. DOD agreed with the recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-03-237](http://www.gao.gov/cgi-bin/getrpt?GAO-03-237).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5140.

## MILITARY PERSONNEL

# Oversight Process Needed to Help Maintain Momentum of DOD's Strategic Human Capital Planning

## What GAO Found

DOD's human capital plans addressing military personnel and quality of life represent a positive step forward in fostering a more strategic approach to human capital management. The two plans lay some of the groundwork needed to incorporate benefits into the strategic management of human capital. The plans, for example, recognize that benefits are important elements to meeting recruiting and retention goals and to alleviating some of the hardships of military life. However, the two plans do not satisfy the two critical success factors GAO has identified for human capital planning.

- The plans do not specifically address how DOD will integrate and align benefits with other human capital approaches to meet organizational goals. DOD's plans identify a number of initiatives, but the plans do not describe how individual initiatives, many of which are studies, will work in conjunction with one another to meet DOD's goals and objectives. For example, one of DOD's initiatives is to study alternatives to the military retirement system, and another initiative is to study variable career lengths for officers. However, the human capital plans do not explain how these two initiatives may be integrated and aligned with each other to achieve desired outcomes.
- The military personnel strategic plan also does not identify outcome-oriented performance measures or discuss, at a strategic level, military workforce needs or gaps in meeting these needs—the kinds of data used by high-performing organizations to manage their human capital.

DOD lacks a process for overseeing the progress and implementation of its human capital plans from a strategic vantage point. Without such a process, DOD may have difficulty integrating and aligning benefits and other human capital approaches to meet organizational goals and promoting a data-driven, performance-oriented approach to human capital management. Moreover, an oversight process could help DOD officials maintain the momentum of their strategic human capital planning efforts. DOD is considering establishing a Defense Human Resources Board to maintain the viability of its strategic human capital planning, but DOD officials have not determined the roles and responsibilities of the board.

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United States General Accounting Office  
Washington, DC 20548

December 5, 2002

The Honorable Donald H. Rumsfeld  
The Secretary of Defense

Dear Mr. Secretary:

People are at the heart of an organization's ability to perform its mission, yet a key challenge for many federal agencies, including the Department of Defense (DOD), is to strategically manage their human capital.<sup>1</sup> Along with Congress and the administration, we have been focusing increased attention on the need for improved human capital management across the government. In March 2002, we published a model to assist federal agencies in their human capital management.<sup>2</sup> Under our model, one of the four cornerstones of strategic human capital management is strategic human capital planning.<sup>3</sup> The two critical success factors to strategic human capital planning that we identified in our model are (1) integration and alignment of human capital approaches and (2) human capital decisionmaking that is data-driven. Since 1997, a number of DOD studies have recommended that DOD adopt a strategic approach to managing its human capital. We too have encouraged DOD to improve its human capital management by taking a more strategic approach. For instance, we testified in March 2001 that DOD must step up its efforts to identify current and future workforce needs, assess where it is relative to those needs, and develop strategies for addressing any related gaps.<sup>4</sup> More recently, in our work on benefits for active duty military personnel, we noted that DOD lacked a human capital strategy that would align all

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<sup>1</sup> Throughout this report, we use the term "human capital" to refer to an organization's workforce or human resources.

<sup>2</sup> See U.S. General Accounting Office, *A Model of Strategic Human Capital Management, Exposure Draft*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 2002).

<sup>3</sup> The other three cornerstones are leadership; acquiring, developing, and retaining talent; and results-oriented organizational cultures.

<sup>4</sup> See U.S. General Accounting Office, *Human Capital: Major Human Capital Challenges at the Departments of Defense and State*, [GAO-01-565T](#) (Washington, D.C.: Mar. 29, 2001).

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elements of DOD's human capital management, including pay and benefits, with its broader organizational objectives.<sup>5</sup>

As a follow-on to our work on active duty military benefits, we reviewed two human capital strategic plans that DOD published in April 2002. One of these plans addresses military personnel priorities. The other plan addresses quality of life issues affecting service members and their families. According to DOD officials, the plans are intended to complement one another and, together with a third human capital plan addressing civilian personnel, constitute DOD's overall human capital strategy. We have undertaken a separate review of DOD's civilian human capital strategic management. For this report, our specific objectives were to review the extent that these two plans, in addressing active duty military benefits, promote (1) the integration and alignment of human capital approaches to meet organizational goals and (2) the use of reliable data to make human capital decisions—the two critical success factors identified in our model. We also reviewed DOD's plans for overseeing the progress and implementation of its human capital plans. In conducting our work, we recognized that federal agencies employ a wide variety of approaches to manage human capital. These human capital approaches may include policies and practices for recruitment, compensation (which includes pay as well as benefits), promotion, career development, and retention. Benefits are one of the important human capital tools an agency has at its disposal for shaping its workforce and meeting organizational goals. As such, they may provide a useful lens for examining the current state of DOD's strategic human capital planning as represented by the two human capital plans we reviewed.

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## Results in Brief

DOD's human capital plans addressing military personnel and quality of life represent a positive step forward in fostering a more strategic approach to human capital management within DOD. The two plans lay some of the groundwork needed to incorporate benefits into the strategic management of human capital, but they do not satisfy the two critical success factors identified in our strategic human capital management model. The plans recognize that benefits are an important element to meeting recruiting and retention goals and to alleviating some of the

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<sup>5</sup> See U.S. General Accounting Office, *Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Continued Focus Is Needed*, [GAO-02-557T](#) (Washington, D.C.: Apr. 11, 2002).

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hardships of military life; establish long-term goals for a number of benefits, including health care, housing, and family support; and call for studies of other benefits, including the military retirement system and sabbaticals. The plans, however, do not specifically address how DOD will integrate and align benefits with other human capital approaches to meet organizational goals. For example, one of DOD's initiatives is to study alternatives to the military retirement system, and another initiative is to study variable career lengths for officers. However, the plans do not explain how these two initiatives may be integrated and aligned with each other to achieve desired outcomes.

The human capital plans do not identify outcome-oriented performance measures. High-performing organizations use relevant and reliable data to determine key performance objectives and goals that enable them to evaluate the success of their human capital approaches. Neither plan discusses, at a strategic level, military workforce needs or gaps in meeting these needs—the kinds of data used by high-performing organizations to manage their human capital.

Moreover, DOD lacks a process for overseeing the progress and implementation of its human capital plans from a strategic vantage point. Without such a process, DOD may have difficulty integrating and aligning benefits and other human capital approaches to meet organizational goals and promoting a data-driven, performance-oriented approach to human capital management. An oversight process also could help DOD officials maintain the momentum of their strategic human capital planning efforts. The military personnel strategic plan calls for the establishment of a Defense Human Resources Board by March 2003. However, DOD officials have not decided on the roles and responsibilities of the board, the composition of the board, or how the board would work with existing processes.

We are recommending that DOD establish an improved oversight process. One option is to incorporate this oversight responsibility into the mission of the planned Defense Human Resources Board. In commenting on a draft of this report, DOD concurred with our recommendation.

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## Background

Recognizing the human capital challenges facing federal agencies, Congress, the administration, and others are focusing increased attention on strategic human capital management. Congress has underscored the consequences of human capital weaknesses in federal agencies and pinpointed solutions through the oversight process and a wide range of

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hearings held over the last few years. The President, in August 2001, placed human capital at the top of his management agenda. The Office of Management and Budget is assessing agencies' progress in addressing their individual human capital challenges.

In January 2001, we designated strategic human capital management as a governmentwide high-risk area and stated that one of the pervasive human capital challenges facing the federal government was a lack of strategic human capital planning and organizational alignment.<sup>6</sup> In March 2002, we issued our model of strategic human capital management, stating that federal agencies needed to adopt a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure accountability.<sup>7</sup>

Several DOD studies have identified the need for a more strategic approach to human capital planning. The 8th Quadrennial Review of Military Compensation, completed in 1997, strongly advocated that DOD adopt a strategic human capital planning approach. The review found that DOD lacked an institutionwide process for systematically examining human capital needs or translating needs into a coherent strategy. Subsequent DOD and service studies, including those by the Defense Science Board Task Force on Human Resources Strategy (2000), the Naval Personnel Task Force (2000-2001), and the DOD Study on Morale and Quality of Life (2001), endorsed the concept of human capital strategic planning. For example, the Defense Science Board Task Force found there was "no overarching framework within which the future DOD workforce is being planned aside from planning conducted within the military services and ad hoc fora in the Office of the Secretary of Defense. An overarching strategic vision is needed that identifies the kind of capabilities that DOD will need in the future, the best way to provide those capabilities, and the changes in human resources planning and programs that will be required."

In view of these studies, the Office of the Secretary of Defense published the *Military Personnel Human Resource Strategic Plan* (referred to in this report as the military personnel strategic plan) in April 2002 to

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<sup>6</sup> See U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, [GAO-01-244](#) (Washington, D.C.: Jan. 2001).

<sup>7</sup> See U.S. General Accounting Office, *Managing for Results: Building on the Momentum for Strategic Human Capital Reform*, [GAO-02-528T](#) (Washington, D.C.: Mar. 18, 2002).

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establish military personnel priorities for the next several years. DOD, in the military personnel strategic plan, states that the plan is intended to be a dynamic document that will be assessed and refined. In April 2002, DOD also published *A New Social Compact: A Reciprocal Partnership Between the Department of Defense, Service Members and Families* (or *Social Compact*) to review measures for improving the quality of life for military personnel and their families. These two plans were developed separately within the Office of the Under Secretary of Defense for Personnel and Readiness, and they differ in their methodological approach and structure. Nevertheless, DOD officials said the plans should be considered in conjunction as part of DOD's overall strategic human capital strategy.

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## Human Capital Plans Are a Step Forward but Not Fully Developed

DOD, in its military personnel strategic plan and *Social Compact*, recognizes that benefits are an important component to human capital management and deserve attention. In this regard, the two plans constitute a positive step forward in DOD's strategic management of the military workforce. The *Social Compact* indicates that benefits are important to alleviating some of the hardships of military life and emphasizes that providing consistent, high-quality benefits that meet the needs of service members and their families can yield a committed and long-term workforce. The *Social Compact* also outlines DOD's vision and goals for a number of benefit areas, including child and youth services, parent support, commissaries and exchanges, financial literacy, health, housing, spouse employment, fitness and recreation, and tuition assistance. The military personnel strategic plan indicates that DOD considers benefits important elements in its efforts to develop, sustain, and retain the force and to transition members from active duty. The plan lists a number of planned studies (see table 1) that ultimately could lead to changes in pay and benefits.



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**Table 1: Compensation-Related Studies and Milestones in DOD's Military Personnel Strategic Plan**

<b>Study</b>	<b>Milestone</b>
Sabbatical programs that could be implemented in DOD	Final report due October/November 2002
Nonmonetary incentives that support retention	Final report due December 2002
Programs designed to improve retention by informing military members of career opportunities and military benefits available to them	Action plan due December 2002
Alternatives to the military retirement system	Report due January 2003
Proposals of the 9th Quadrennial Review of Military Compensation	Staff recommendations due March 2003
Programs designed to inform members of their transition benefits when leaving active duty service	Final report due March 2003
Military pay levels compared to pay levels of civilians by age, education, and occupation	Final report due December 2003

Source: GAO's analysis of military personnel strategic plan.

While progress has been made, DOD's human capital plans do not yet satisfy the two factors we identified in our model as critical to the success of strategic human capital planning (one of the four cornerstones of sound strategic human capital management). First, the plans do not specifically address how DOD will integrate and align benefits and other human capital approaches to meet its overall organizational goals. According to our model, effective organizations integrate human capital approaches as key strategic elements for accomplishing their mission and programmatic goals and results. These organizations consider further human capital initiatives or refinements in light of both changing organizational needs and the demonstrated successes or shortcomings of their human capital efforts. DOD's military personnel strategic plan identifies more than 30 discrete initiatives. It is unclear from the plan how these initiatives are integrated and aligned with each other, except that they are grouped under five broadly stated human capital goals such as recruit the right number and quality of people.<sup>8</sup> It is also unclear how the initiatives, many of which are studies, will work in conjunction with one another to meet DOD's goals. For example, one of the initiatives is to study alternatives to the

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<sup>8</sup> The four other human capital goals are (1) develop, sustain, and retain the force; (2) increase the willingness of the American public to recommend military service to youth; (3) transition members from active status; and (4) sustain the process and maintain its viability.

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military retirement system. The plan does not explain how retirement reform may be integrated and aligned with other initiatives such as DOD's study of variable career lengths for officers. In addition, the retirement study is listed under the human capital goal of transitioning members from active status but does not explain why a new approach to retirement may be needed to meet this goal. It is also unclear why the initiative was not listed under the human capital goal of developing, sustaining, and retaining the force, even though an organization's retirement system is considered an important retention tool. Further, the military personnel strategic plan and the *Social Compact*, which were developed separately, address different sets of human capital issues, and there are no explicit linkages between the two plans. For example, while the *Social Compact* addresses such benefit areas as housing, health care, and family support, the military personnel strategic plan is silent on these topics. Thus, DOD lacks an overarching framework integrating its human capital plans for military personnel. DOD officials said they are working to improve the integration of the human capital plans by developing an "umbrella" plan.

Secondly, the plans do not satisfy the critical success factor of using data in human capital decisions. We state in our model that a fact-based, performance-oriented approach to human capital management is crucial for maximizing the value of human capital as well as managing related risks. High-performing organizations use relevant and reliable data to determine key performance objectives and goals that enable them to evaluate the success of their human capital approaches. These organizations also identify current and future human capital needs, including the appropriate number of employees, the key competencies and skills mix for mission accomplishment, and the appropriate deployment of staff across the organization and then create strategies for identifying and filling gaps. The military personnel strategic plan provides measures of effectiveness for each initiative; however, these measures are not adequate to assess the success of DOD's human capital approaches because they (1) do not describe the significance of outcomes in terms of programmatic goals and results, (2) are not always specific or stated as measurements, and (3) are activity-based rather than outcome-oriented. For example, one initiative calls for a study of sabbatical programs. However, the measure of effectiveness for this initiative is to implement guidance for a sabbatical-type program. The relationship between sabbatical programs and the human capital goal of improving retention is not described. In addition, DOD's plans do not discuss, at a strategic level, military workforce needs or gaps. Furthermore, they do not address how the military workforce may change in its total end strength, distribution among the services, grade level, geographic deployment, or force mix. For example, DOD has faced

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challenges in providing benefits to service members that respond to their changing needs. A major demographic change has been the growing proportion of service members who are women. In 2000, women comprised about 15 percent of the active duty force, compared with 4 percent in 1974. Up to 10 percent of women in the military become pregnant each year. If these trends continue, DOD may need to take into account the benefits that this population values to better retain these trained, experienced service members. For example, we have recommended that DOD assess the feasibility, costs, and benefits of offering extended time off to parents of newborn or adopted children.<sup>9</sup>

Moreover, DOD lacks a process for enabling senior DOD officials to oversee the progress and implementation of its human capital plans from a strategic vantage point. Our model of strategic human capital management identifies the sustained and active commitment of senior leaders as a critical success factor for effective strategic human capital management. Top leaders need to stimulate and support efforts to integrate human capital approaches with organizational goals and direct that approaches be evaluated by the standard of how well they support the agency's efforts to achieve program results. A senior DOD official told us that implementing the plan will be a long-term endeavor. One of the human capital goals in the military personnel strategic plan is to sustain the strategic management process and maintain its viability. According to the plan, DOD needs to establish a process and forum to regularly review the progress of its human capital strategy in order that its strategy will remain viable and relevant. The plan calls for the establishment of a Defense Human Resources Board by March 2003. However, DOD officials have not decided on the roles and responsibilities of the board, the composition of the board, or how the board would work with existing processes.

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## Conclusions

DOD, in developing its human capital plans addressing military personnel and quality of life, has made progress in adopting a more strategic approach to human capital management. Since the military personnel strategic plan is intended to be a dynamic document that periodically will be assessed and refined, DOD will have opportunities to incorporate additional elements of human capital strategic planning in future iterations

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<sup>9</sup> See U.S. General Accounting Office, *Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve*, GAO-02-935 (Washington, D.C.: Sept. 18, 2002).

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of the plan. A positive step toward such improvements would be the establishment of an oversight process enabling senior DOD officials to oversee the progress and implementation of the human capital plans. Such a process could assist in the integration and alignment of benefits and other human capital approaches to meet organizational goals and in promoting a fact-based, performance-oriented approach to human capital management.

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## Recommendation for Executive Action

To improve DOD's strategic human capital management, we recommend that you direct the Under Secretary of Defense for Personnel and Readiness to establish an oversight process by which senior DOD officials may integrate and align benefits and other human capital approaches and promote a fact-based, performance-oriented approach to human capital management. As one option, you may wish to consider incorporating this oversight responsibility into the mission of the planned Defense Human Resources Board.

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## Agency Comments

In written comments on a draft of this report, DOD concurred with our recommendation. DOD stated that it will establish a senior leader oversight process to ensure integration and alignment of benefits and other human capital approaches and to continue a fact-based, performance-oriented approach.

DOD's comments are reprinted in appendix I.

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## Scope and Methodology

To critique DOD's human capital plans for military personnel, we drew primarily from our model of strategic human capital management. The model highlights some of the steps agencies can take to make progress in managing human capital strategically. The model identifies eight critical success factors, which are organized in pairs to correspond with four cornerstones of effective strategic human capital management. We focused on the two critical success factors that correspond to strategic human capital planning, namely (1) the integration and alignment of human capital approaches to meet organizational goals and (2) the use of data to make human capital decisions. We reviewed DOD's human capital plans to determine the extent they satisfied these two critical success factors with respect to active duty military benefits. In analyzing DOD's plans, we reviewed our prior work on military personnel issues and DOD studies of human capital management. We discussed the human capital

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plans with officials in the Office of the Under Secretary of Defense for Personnel and Readiness.

We conducted our review from June to September 2002 in accordance with generally accepted government auditing standards.

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This report contains recommendations to you. Under 31 U.S.C. 720, the head of a federal agency is required to submit a written statement of the actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform not later than 60 days after the date of the report. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies to appropriate congressional committees and the Director, Office of Management and Budget. We will make copies available to other interested parties on request. In addition, the report will be available at no charge at the GAO Web site at <http://www.gao.gov>.

If you or your staff has any questions regarding this report, please call me at (202) 512-5140. Brenda S. Farrell, Thomas W. Gosling, and Stefano Petrucci made significant contributions to this report.

Sincerely yours,



Derek B. Stewart  
Director, Defense Capabilities and Management

# Appendix I: Comments from the Department of Defense



PERSONNEL AND  
READINESS

UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

Mr. Derek B. Stewart  
Director, Defense Management Issues  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report GAO-03-237, "MILITARY PERSONNEL: Oversight Process Needed to Help Maintain Momentum of DoD's Strategic Human Capital Planning," dated October 30, 2002 (GAO Code 350217).

The initial research phases of The DoD Military Personnel Human Resources Strategic Plan and The Social Compact were designed to identify optimal benefits and human capital approaches for shaping the future force. Grounding our strategy in fact-based research was prudent since the Department faces significant human resources and quality of life challenges--military capabilities transformation, market competition for technological skills, and changing expectations of the work force. Once optimal approaches *for DoD* are identified, performance measures will be implemented to monitor organizational impact and goal attainment. To that end, outcomes of The Social Compact research, as well as the recommendations from The Military Personnel Human Resources Strategic Plan, were aligned with, and incorporated into, the DoD Risk Management Balanced Scorecard, which will also serve as the basis for DoD's Annual Defense Report.

The Department concurs with the recommendation of the report and will establish a senior leader oversight process to ensure integration and alignment of benefits and other human capital approaches and to continue a fact-based, performance-oriented approach.

Sincerely,

David S. C. Chu





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