

**SMALL BUSINESS ADMINISTRATION**

**OFFICE OF INSPECTOR GENERAL**

**INSPECTION AND EVALUATION DIVISION**

**MODERNIZING HUMAN RESOURCE MANAGEMENT**

**Report No. 2-20**

**May 31, 2002**

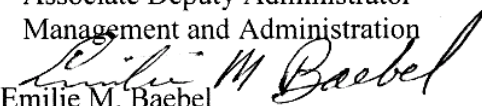


**U.S. Small Business Administration**  
Washington, D.C. 20416

**OFFICE OF  
INSPECTOR GENERAL**

May 31, 2002

TO: Dr. Lloyd Blanchard  
Chief Operating Officer and  
Associate Deputy Administrator  
Management and Administration

FROM:   
Emilie M. Baebel  
Assistant Inspector General  
for Inspection and Evaluation

SUBJECT: Inspection on *Modernizing Human Capital Management*

We are pleased to submit our inspection report on *Modernizing Human Capital Management*. Over a year ago the Office of Inspector General (OIG) designated the development and implementation of SBA's human capital strategies as a major management challenge. The strategic management of human capital is now also one of the five initiatives of the President's Management Agenda. While all the initiatives are mutually re-enforcing, the cornerstone is the strategic management of human capital. The key to improving the strategic management of human capital is modernizing and positioning SBA's Office of Human Resources (HR) to function more effectively and efficiently through automation and strong effective leadership.

Our objective has been to help SBA in its effort to "get a green" on the President's human capital initiative. This inspection focuses primarily on 1) delivery systems (especially automation), 2) HR metrics, and 3) office structure. To accomplish the effective and efficient strategic management of human capital, SBA will need to modernize HR office current operations and business practices, including the integration of automation and HR metrics. The new director of SBA's Office of Human Resources will also be a critical factor in SBA's attempt to manage strategically.

I appreciate the excellent cooperation that the inspection team received from the SBA and other agencies' offices of human resources.

Attachment

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## ABBREVIATIONS

COTS	Commercial-Off-The-Shelf
GAO	General Accounting Office
GOTS	Government-Off-The-Shelf
GSA	General Services Administration
HR	Human Resources
HRDN	Human Resources Data Network
HRIS	Human Resources Information System
HRM	Human Resources Management
HRO	Human Resource Office (generic)
NIH	National Institutes of Health
OIG	Office of Inspector General
OMB	Office of Management & Budget
OPM	Office of Personnel Management
SBA	Small Business Administration
TASC	Department of Transportation Administrative Service Center
USDAFS	United States Department of Agriculture Forest Service
USGS	United States Geological Survey

## EXECUTIVE SUMMARY

This inspection is designed to help the Small Business Administration (SBA) make some of the decisions necessary to modernize the Agency's Office of Human Resources. It provides relevant experiences of selected Federal agencies in modernizing their human resource offices (HRO), focusing on 1) service delivery methods (including automation, outsourcing, and cross servicing), 2) human resource management (HRM) metrics, and 3) HR office structure. The strategic management of human capital is one of the President's five Governmentwide management initiatives. It is closely related to two other initiatives, E-government and competitive sourcing. The Comptroller General has emphasized that "employees are the government's greatest asset—its human capital." To play a leading role in reforming human capital management, Federal HROs must be equipped and positioned to deal with the contemporary technological and results-oriented environment.

SBA's Office of Human Resources has experienced little modernization and automation is limited. To accomplish the President's human capital initiative, SBA's HRO must work with agency leadership to provide strategic direction and focus for workforce transformation, succession planning, employee recruitment, and retention. This will mean restructuring processes and developing tools to help managers and employees become more self-sufficient for routine HR activities and processes—that is, to a large extent, changing the way HR business is done. To accomplish the effective and efficient strategic management of human capital, SBA will need to modernize HRO's current operations and business practices, including the integration of HR functional automation.

Several recent developments in the Administration's management reform efforts have been the issuance of the Office of Personnel Management's (OPM) Human Capital Scorecard containing HR metrics, the Office of Management and Budget's (OMB) decision to standardize and consolidate Governmentwide HR/payroll service delivery, and OPM's issuance of Standards for HRM accountability. Based on the following conclusions drawn from our interviews and other research, the OIG's Inspection and Evaluation Division has developed four recommendations.

**Conclusion:** The cost and complexity of implementing an integrated human resource information system (HRIS) suggest it may not be an appropriate goal for a small agency. Moreover, OMB's mandate to reduce redundancy and effect savings by developing an HR/payroll solution architecture for only two to three Federal providers appears to overcome the need for comprehensive HRIS implementation in SBA. However, in order to address the President's Management Agenda, SBA will need to take some interim steps to modernize HR functions.

**Recommendation 1:** That SBA review the business case for its HRIS in light of other agencies' implementation experiences and the Administration's new initiatives, and consider available short term alternatives.

**Conclusion:** Metrics are key not only for building a strong business case for HRO modernization and automation, but also for assisting in day-to-day HR management, helping line managers accomplish their objectives, providing the basis for continuing improvement in HR

processes, and demonstrating HRO value to the agency. The development of fully Federalized functional applications in Governmentwide HR/payroll architecture may be far into the future, however, and HRM modernization in the form of functional automation can produce greater HR effectiveness, efficiency, and timeliness.

**Recommendation 2: That the SBA HRO develop business case metrics to determine the cost effectiveness of implementing appropriate functional automation software and/or outsourcing or cross-servicing certain HR functions.**

**Conclusion:** HR measurement should a) be the result of a close working relationship with Agency leadership and line management; b) align with the Agency's strategic plan goals; c) show the HRO's value; d) indicate whether progress is being made towards attaining human capital goals; e) be quantifiable, if possible; and f) provide sufficient data to improve operations, and support budget requests and management decisions.

**Recommendation 3: That the SBA HR Office work with SBA management to develop a measurement system that conforms to OPM's Standards of HRM Accountability and includes a) financial measures, such as cost per employee hired; b) customer satisfaction measures, such as those associated with responsiveness and quality; c) workforce capacity measures, such as employee satisfaction and education; and d) process effectiveness, such as cycle time and productivity.**

**Conclusion:** The question of how to organize an HRO is not as important as ensuring that a) relevant activities are covered; b) the HR staff works closely with line management; c) individual responsibilities are well-defined; and d) activities are publicized to all concerned—HR staff, line managers, and the workforce.

**Recommendation 4: That the new SBA Assistant Administrator for HR ensure that a) relevant SBA HR activities, such as strategic advisory services, are incorporated into office operations, and the office plays a key role in the Agency's workforce planning and restructuring effort; b) a process is in place for working closely with line management; c) individual planning, policy, and operational responsibilities within the office are well-defined; and d) HRO activities, metrics, and results are publicized to all concerned—HR staff, line managers, and the workforce.**

In response to the draft report, the Acting Deputy to the Associate Deputy Administrator for Management and Administration stated in a memo to the OIG that "SBA agrees with the overarching purpose of your report, which we see as upgrading the automation capabilities of SBA's Office of Human Resources (HR), which will result in more efficient processes that will allow human resource specialists more time to provide advisory consultant services to SBA managers." SBA management agreed with the recommendations and noted that they intend to incorporate the recommendations, where appropriate, into SBA's 5-year Workforce Restructuring Plan. (See Appendix C for the memo.)

## PURPOSE

This inspection is designed to help SBA make some of the decisions necessary to modernize the Agency's Office of Human Resources by providing relevant experiences of selected Federal agencies in modernizing their HROs. The strategic management of human capital is one of the President's five Governmentwide management initiatives.<sup>1</sup> Human resources offices (HRO) should play a leading role in the effort to reform human capital management. To accomplish this, they must be equipped and positioned to deal with the contemporary technological and results-oriented environment. In the fall of 2001, OIG discussed with the then Assistant Administrator for Human Resources the areas of concentration that would be of greatest use to SBA. Consequently, the inspection focuses on 1) service delivery methods (including automation, outsourcing, and cross servicing), 2) HR metrics, and 3) HR office structure.

## BACKGROUND

The strategic management of human capital is one of the five Presidential Initiatives. The others are competitive sourcing, expanded E-government, budget and performance integration, and improved financial management. While all five are mutually reinforcing, putting the right people in the right jobs is the cornerstone for accomplishing the other four. As the Comptroller General has emphasized, "employees are the government's greatest asset—its human capital."<sup>2</sup> Of particular importance is the nexus between the management of Federal human capital and the internal effectiveness and efficiency goal of the electronic Government (E-government) initiative. Automating processes is essential to the goal of effective and efficient management of human capital. Four of the Administration's E-government initiatives directly relate to HR: e-training, one-stop recruiting, electronic personnel record-keeping, and e-payroll. The human capital goal may also be partially accomplished by pursuing another Presidential initiative—competitive sourcing, both outsourcing and cross-servicing.

In the Federal Government, typically human resource planning and linkage to organizational mission, vision, core values, goals and objectives is weak. Given the complexity and nature of the Federal HR system, most HROs have been too process oriented. Many have been slow to take advantage of technological advances in the HR area that can improve recruitment and servicing efforts in today's highly competitive job market. Few are able to provide the advisory services needed for successful strategic HRM. Yet these are key enabling factors in accomplishing effective workforce planning and restructuring, and in on-going HRM. Today's HROs must be more relevant to mission accomplishment and demonstrate greater value to the agency.

The SBA Office of Human Resources has experienced little modernization and automation is limited. SBA does participate in some interagency agreements for electronic operations—for example, National Finance Center payroll, Employee Express which allows Federal employees in participating agencies to make certain changes to their personnel-payroll information, and

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<sup>1</sup> The President's Management Agenda, <http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf>, page 4.

<sup>2</sup> General Accounting Office (GAO), "Human Capital: Managing Human Capital in the 21<sup>st</sup> Century," GAO/T-GGD-00-77, March 9, 2000.

Thrift Savings Plan account access services. SBA has purchased the software for a human resources information system (HRIS) as part of an agencywide enterprise system but has not begun implementation. To accomplish the effective and efficient strategic management of human capital, SBA will need to modernize HRO's current operations and business practices, and consider the integration of HR functional automation.<sup>3</sup>

## SCOPE AND METHODOLOGY

For this inspection, an expert consultant with over two decades of Federal HR experience in the Departments of Defense (DOD) and Veterans Affairs (VA) functioned as a team member and provided the Office of Inspector General (OIG) with HR technical expertise. The team met with a number of Office of Personnel Management (OPM) specialists on metrics and OPM's electronic initiatives. Site visits were made to five Federal HROs with efforts underway that directly relate to the topics reviewed. Those agencies are General Services Administration (GSA), National Institutes of Health (NIH), the Department of Transportation Administrative Service Center (TASC), the U.S. Department of Agriculture Forest Service (USDAFS) and the U.S. Geological Survey (USGS).<sup>4</sup> These HROs are reassessing what needs to be done, reprioritizing and/or redefining their missions, and developing strategic plans or business cases to implement their new visions of human resource management (HRM). In addition, telephone interviews were held with three other HROs regarding their automation experiences—the Farm Service Center and National Resource Conservation Service in the Department of Agriculture, and Robins Air Force Base in DOD. The relevant literature was also reviewed.<sup>5</sup>

As we were finalizing this report, several actions taken by the Administration changed much of the dynamics of HR management with regard to automation and metrics. On December 7, 2001, the Director of the Office of Personnel Management (OPM) issued OPM's Human Capital Scorecard. It contains objectives and measures to help agencies in addressing the President's human capital management initiative. On December 21, 2001, the Office of Management and Budget (OMB) advised agencies that the Joint Financial Management Improvement Program (JFMIP) had recommended the establishment of Governmentwide HR/payroll standardization, enterprise architecture development, and consolidation of service delivery which will include an electronic human resources data network (HRDN).<sup>6</sup> In January OPM issued Standards for HRM Accountability. This report takes these new developments into consideration.

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<sup>3</sup> In this report the term modernizing is used to refer to organizational changes, including office restructuring, quality improvements, streamlining efforts, the use of new technologies, and reengineering personnel processes such as that used to hire employees or classify positions.

<sup>4</sup> See Appendix A for information on the offices visited.

<sup>5</sup> See Appendix B for a selected bibliography.

<sup>6</sup> The HRDN will enable the electronic transfer of HR data across agencies, over time eliminating the transactional tasks of filing, shipping, and storing the Official Personnel File.



## SERVICE DELIVERY

To accomplish the President's human capital initiative, SBA's HRO must provide strategic advice and focus for workforce transformation, succession planning, employee recruitment, and retention. This means restructuring processes and developing tools to help line managers and employees become more self-sufficient for routine HR activities and processes—that is, to a large extent, changing the way HR business is done. A key component of the President's E-government initiative both externally and internally is to simplify all processes by eliminating redundancy, providing timely service, improving internal effectiveness and efficiency, reducing errors and process time, and making processes usable. In the HR arena, automation is critical to reengineering and improving service delivery.<sup>7</sup>

Automation: In this report, two automation terms are used—human resources information system (HRIS), and functional or transactional automation. An HRIS is an automated system that includes a wide range of data on the organization's workforce (e.g., employee names; social security account numbers; the employees' position titles, series, and grades; their rate of pay, etc.) and the organization's position and organization structure. This data is used to process personnel actions, generate data necessary for payroll processing, and retain a historical record of the organization's workforce history. The HRIS system can also contain additional information, such as workforce training history and future requirements, award history, performance rating data, and position skill or competency requirements. The term functional or transactional automation is used to distinguish the automation of major labor-intensive HR functions such as staffing/hiring, position classification, employee relations advisory services, etc.

The emphasis for HROs in the future will be more on building a partnership with line management, and providing managers with strategic advisory services than on processing paper. The labor-intensive transactional work that, by necessity, has been a core activity of the Federal HR office is increasingly being performed by automated systems. Typically, the systems include: open architecture, client/server, computer telephone integration, imaging, distributed databases, electronic data interchange across high-capacity telecommunications lines, and artificial intelligence to respond to routine inquiries or perform needed processes.

HROs we interviewed were typically pursuing one or both of two automation initiatives, the implementation of a new HRIS to replace the agency's legacy HRIS, and/or the implementation of commercial-off-the-shelf (COTS) or government-off-the-shelf (GOTS) functional automation. Agencies have undertaken to implement COTS HRIS because their legacy systems either lacked needed functionality (for example, reports generation, workforce planning capacity, manager/employee self-service), were antiquated and in need of far too much maintenance, or the HRIS was part of a broader agencywide enterprise system implementation. They use functional automation to speed slow and labor intensive HR processes and enable the HR organization to accomplish needed work when staff are unavailable because of downsizing. In addition, functional automation is used to free HR staff from transactional work so they may perform more value-added strategic advisory work.

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<sup>7</sup> Technology can enhance efficient training delivery and provide employees with greater developmental opportunities at a reduced per person cost. While we do not address e-training in this inspection, we recognize its potential value to SBA.

COTS HRIS implementation projects are complex and costly efforts. They should not be entered into with the anticipation of rapid improvement in HR services. Post-implementation, users have not necessarily gained increased functionality or faster service from their HRIS because the initial implementation included only basic HR action processing for “hire, fire, and pay actions.” The longer-term objective includes expanding the users’ functionality to broader areas, but that expansion will occur years, not months, into the implementation.

GSA fully implemented a major HRIS system in 2000 following a procurement process begun in 1996. They now service 14,000 GSA customers and an additional 4,000 at other Federal agencies. At one point, GSA had a 40 person implementation team, including government staff and costly contractor expertise. Some of the latter often lacked sufficient Federal HR experience. The magnitude of HRIS implementation activities is not directly related to agency size. According to GSA officials, even with a small agency, most of the same implementation activities would still have to be performed on the COTS product. For implementation, they recommended one to two years of work, an excellent project manager, superior consultants with Federal HR experience with the product, and a dedicated team. Our research strongly suggested the prudence of outsourcing HRIS implementation and operations to a Federal agency provider.

Although several years ago SBA developed a business case and purchased an enterprise system that includes an HRIS component, it has not been implemented. Its implementation now would require a new database and considerable development and configuration work. Moreover, there have been several new Governmentwide developments in the HR area.

To eliminate redundancy and reduce the costs of replacing and/or implementing HR/payroll systems, OMB has now incorporated the simplification and unification of the various elements of the HR/payroll process, and the consolidation and integration of HR and payroll systems across government under the Internal Efficiency and Effectiveness steering group of the “E-government” effort. The strategy includes establishing central governance over HR/payroll initiatives; standardizing HR/payroll policy and processes; developing integrated Governmentwide enterprise architecture for HR/payroll systems; and consolidating HR/payroll service delivery to two to three providers. This initiative appears to preempt implementation of HRIS systems—at least by small agencies. At this time, it is not clear when the Administration’s HR/payroll initiative will include functional automation, however. Agencies may want to continue to pursue their own functional initiatives.

While not simple, the magnitude of difficulty in implementing functional automation is not comparable to that encountered with an HRIS. A wide variety of HR functions are now available in software. These include, for example, position classification, staffing, benefits administration, time and attendance reporting, training administration, position description writing, and employee relations advisory.

Implementation of COTS or GOTS functional automation by the agencies interviewed appears to be yielding short-term process improvements by speeding processes and eliminating paperwork. For example, ten months after acquiring a COTS product for automating the staffing function, the USGS project team of 3 full-time and 2 part-time employees with solid HR and automation

knowledge was able to roll it out agencywide. It has radically reduced the amount of time required to produce a referral list (from 32 to 62+ days, to 4 days). The team was led by an information technology professional hired by the HRO. Although a significant amount of work was required to customize the system's assessment approach for agency positions, USGS officials report that the return-on-investment for purchasing the system and customizing the assessments has been quickly recouped.

NIH, TASC, GSA, and USDAFS had similar experiences in automating various staffing and/or classification activities via COTS systems. Although the transition was not as smooth as in USGS, the Forest Service was able to begin implementing a COTS staffing product only 16 days after procurement. To handle their implementation, the Forest Service used a team consisting of two and a half full time employees, augmented on an as needed basis by a virtual team of other headquarters and field representatives. In telephone interviews, other HROs spoke of similar successes in automating the staffing function by using OPM's GOTS staffing product.

SBA's staffing activities are limited at this time because there has been little outside recruitment. However, staffing automation has the advantages of 1) significantly expanding the pool of applicants for positions, and 2) reducing the length of time to hire, thereby making the agency more competitive.

The SBA HRO conducts extensive classification activities. Moreover, projected Agency restructuring will entail greater use. TASC is using a COTS classification system primarily for the generation of performance plans and establishing career ladder job descriptions as opposed to routine position classification actions. The other organizations we visited were either in the process of implementing, had implemented in selected locations, or had plans to implement, an automated position classification system. While all COTS classification products speed the slow and labor intensive processes of job analysis, they take somewhat different approaches. For example, in some products the staffing and classification functions are inseparable and in others each function can stand alone. Optimally, classification products enable line managers to actually accomplish job analysis, position description development, and/or position classification without having to become "position classification specialists."

Tables 1 and 2 provide some guidance on the requirements for, and barriers to, successfully implementing any functional automation.

**REQUIREMENTS FOR SUCCESSFUL IMPLEMENTATION OF FUNCTIONAL AUTOMATION\***

- Develop a business case
- Clearly establish technical and reporting requirements
- Use a proven product/partnership
- Appoint a “risk taker” to lead the project
- Ensure that a dedicated team with the right skills implements the project
- Provide sufficient and appropriate user training
- Allow time before implementation to re-engineer and thoroughly document business processes
- Develop a process for dealing with unanticipated issues
- Defer taking HR staff savings until after implementation is completed
- Pick HR champions in management at the beginning and keep them involved
- Ensure that a dedicated team manages the project after the rollout

\*Selected considerations, not intended to be all inclusive

Table 1

**BARRIERS TO SUCCESSFUL IMPLEMENTATION OF FUNCTIONAL AUTOMATION\***

- Fear of technology
- Resistance to change
- Skepticism
- Internal turf issues
- Lack of leadership support

\*Selected barriers, not intended to be all inclusive

Table 2

Functional automation via either COTS or GOTS systems can yield real changes in HR business processes and improvement in service levels in a relatively short timeframe. However, the General Accounting Office (GAO) found in a 1998 study that although four Federal departments had begun to automate the processes for classifying and staffing functions, much of the new automation was not in place even though personnel staff reductions had already occurred. GAO reported that “some officials said that when restructuring<sup>8</sup> efforts began they had not fully appreciated the need to 1) assess existing automated systems before making changes, 2) have technology in place before downsizing personnel staff, and 3) allow sufficient time for testing

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<sup>8</sup> The GAO uses the term “restructure” to refer to major organizational changes, including reorganizations, consolidations, downsizing, quality improvements, streamlining efforts, the use of new technologies, and reengineering personnel processes such as the process used to hire employees.

the new technology.” Department officials recommended that other agencies facilitate the conversion process by considering the option of purchasing commercially available software rather than building new personnel systems in-house.<sup>9</sup> Table 3 provides some considerations in selecting a functional automation product.

**CONSIDERATIONS IN CHOOSING  
A FUNCTIONAL AUTOMATION PRODUCT\***

- Ability of the product to meet your requirements
- The degree to which the product requires customization before it can be successfully implemented
- The organization’s ability (via organization or contract staff) to customize the product
- The organization’s capacity to provide computer support—that is, run the computer operations for the product—or whether computer operations are provided by the vendor
- Internal workload requirements for implementation and maintenance.
- Additional technology requirements to operate the software
- Who owns the agency specific materials developed for and used by the system—your agency or the provider
- Cost and time required to recoup return on investment for purchasing the system—i.e., the business case for documented savings to be gained
- Customer satisfaction with the vendor’s product
- The vendor’s degree of support to the customer before, during, and after system implementation
- Ease of operation for system users—HR staff and line managers, if appropriate
- The product’s compliance with Federal HR requirements

\* Selected considerations, not intended to be all inclusive

Table 3

**Outsourcing and Cross Servicing:** A number of HR organizations are outsourcing work that is not central to meeting business goals if a contractor (whether public or private) can perform as effectively for less. NIH uses contractors to perform a variety of services ranging from files maintenance to training delivery. Purchasing specific services from a provider enables client agencies to provide HR services as needed without bearing the burden of maintaining permanent staff to perform the services. A full service HR function requires a base level of core services which may be expensive for a small agency. Outsourcing alleviates the problem of delivering services for which skilled employees are unavailable. On the other hand, we were advised that care has to be taken to be certain the contractors are current in their skills. Moreover, using contractors in lieu of Federal employees does nothing to develop future Federal HR professionals. Given the complex nature of Federal HR laws and related processes, this is a

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<sup>9</sup> GAO, “Management Reform: Agencies’ Initial Efforts to Restructure Personal Operations,” GAO/GGD-98-93. July 1998, pp. 16-17.

serious consideration. We were also told that although no longer a fixed cost, the hourly cost for contractors also may exceed that for Federal staff.

TASC is a “fee for service” organization, earning their operating fees by selling HR services internally to DOT offices and externally to others. They provide a wide range of HR services to 16 Federal agencies. To deliver their services, TASC also employs Federal retirees as HR contractors. There are currently ample experienced contractors available to do HR professional work (GS-11/12/13). We believe, however, that if the size of the internal Federal HR population continues to decrease, that resource may diminish in the future.

GSA now provides payroll and/or processing services to external customers. Their files and some lower-level data entry work have been consolidated, but GSA has found it difficult to contract out HR technician level work (GS 5/6/7 transaction processors) because the technical expertise has not been available in the contractor marketplace.

Building a Business Case: HROs that have been provided the resources and are successfully implementing new technology have first developed solid business cases. The USGS and the Forest Service developed business cases for their automated staffing systems. The USGS business case included a description of the current state of agency HR operations, and the costs and benefits of changing to an electronic system. The business case indicated the needed resources and provided 22 metrics to support the business case. Some of the metrics they used to support the need for staffing automation were:

- The frustration factor—applicant supply/demand comparison
- A time used comparison of an automated versus manual process
- A productivity/loss analysis
- Projected applicant pool increase
- Proposed cost savings on panels
- Projected improvement in HR operations
- The relationship to accomplishing the department’s initiatives
- The competitive advantage the USGS would have—while this was not quantified, there was anecdotal evidence

Because USGS does a significant amount of hiring, two years after the implementation of automated staffing for \$1 million in developmental costs, USGS had \$6 million in recognized savings for the organization as a whole. While they expect a 20-30 percent savings for the HRO eventually, it will not occur in the short term.

## METRICS

The Government Performance and Results Act and the President’s Management Agenda emphasize strategic direction and accountability. While measurement is not all there is to HRM accountability, measures are becoming increasingly important to the strategic direction of both the HRO and the organization it services. And they are critical to building a business case for modernizing operations and automating. A 1998 GAO report on restructuring personnel

operations found that without adequate information on the services being offered, the service quality, and their costs, agencies have a difficult time making an informed decision on whether to purchase personnel services from another Government agency.<sup>10</sup> In the past, SBA had some HR metrics. We were told, however, that they did not appear to be consistently produced by the HRO or considered as particularly important by customers.

The Administration has now set a strategic mandate for measurement in the human capital area. In December 2001 the Director of OPM issued OPM's Human Capital Scorecard. It is to be used in combination with OMB's Human Capital Standards for Success in attaining the human capital objectives in the President's Management Agenda. The OPM scorecard was developed in collaboration with agency HR directors and draws heavily on private sector practices. It outlines five dimensions of human capital: leadership, performance culture (strategic awareness), learning (knowledge management), strategic alignment, and strategic competencies (talent). It also provides performance goals and a set of objective measures for each dimension. The measures will be used to assess and report progress on improving strategic human capital management, and allow comparisons and benchmarking with high performing government and private sector organizations. The three types of measures used are check off, improvement gauge, and comparative. Information on data sources, tracking, and reporting on the measures is included. All of the information for the comparative measures will come from a Governmentwide random sample survey to be conducted by OPM. In accordance with Executive Order 13197, in January 2002 OPM also issued Standards for Agency HRM Accountability Systems Under the Merit System Principles which describes the essential features of an internal HRM accountability system.

The OPM scorecard will assist agencies in tracking their progress in achieving their agencies' strategic HR objectives. Each HRO, however, will need to develop additional operational measures to build a business case for technology improvements, assist in day-to-day HR management, help line managers accomplish their objectives, provide the basis for continuing improvement in HR processes, and demonstrate HRO value to the agency.

The Administration's scorecard clearly shows that HR metrics should go beyond the notion of merely measuring HR processes/operations. They should not be used just as a report card; they need to be used for process improvement. Performance objectives must be clearly established. HR measurement should:

- Be the result of a close working relationship with agency leadership and line management to determine what the agency needs to know and what information will provide the greatest value;
- Align with the agency's core business practices, and strategic and operational goal performance;
- Indicate whether HRM is accomplishing its objectives;
- Enable the agency to assess its progress towards attaining its human capital goals;
- Be quantifiable, if possible;

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<sup>10</sup> Ibid, pp. 14 & 17.

- Provide sufficient data to improve operations, and support budget requests and management decisions; and
- Convey measurement trends in terms of strategic mission accomplishment.

Table 4 identifies several items to consider when developing HR metrics beyond those in the OPM scorecard.

<b>CONSIDERATIONS IN DEVELOPING HR METRICS*</b>
<ul style="list-style-type: none"> <li>• Frame measures in simple terms the customer will understand and show trends</li> <li>• Develop measures that will help line managers accomplish what they want to accomplish</li> <li>• Tie metrics to the agency strategic plan and to specific program initiatives</li> <li>• Put generic information in an organizational framework</li> <li>• Build a business case for HR as strategic asset</li> <li>• Identify the performance return on human capital investments</li> <li>• Keeping in mind that not everything can be measured, focus, at least initially, on one of two measures for each area of concern.</li> </ul>
<p>* Selected considerations, not intended to be all inclusive</p>

Table 4

To assist agencies in tracking their progress in achieving their strategic HR objectives, OPM has issued standards for the development of an HRM accountability system. Each agency must develop and use an internal accountability system with measures in four broad categories.

- Strategic alignment
- HRM program effectiveness
- HR operational efficiency
- Legal compliance<sup>11</sup>

Indicating that “measurement systems need to be tailored to fit the situation,” a 1997 NAPA study identified four aspects of HR that can be measured using a balanced scorecard approach. They are: 1) financial measures, such as cost per employee hired and litigation costs; 2) customer satisfaction measures, such as those associated with responsiveness and quality; 3) workforce capacity measures, such as employee satisfaction and education; and 4) process effectiveness, such as cycle time and productivity<sup>12</sup>. Table 5 identifies some key outcome areas for HR metrics and their information sources.

<sup>11</sup> See also OPM, “Human Resources Management (HRM) Accountability System Development Guide,” April 1999. For best practices, see OPM’s “Human Resource Management Clearinghouse” at <http://www.opm.gov/account/clrnghse/clrnghse.htm>.

<sup>12</sup> NAPA, “Measuring Results: Successful Human Resources Management,” August 1997, pp. 65.



**KEY HR OUTCOME AREAS  
AND INFORMATION SOURCES\***

**Organizational/Mission Success**

- Client satisfaction—from management and customer satisfaction surveys
- Training effectiveness (training accomplished and improved work processes)—from management surveys, and other indicators of improved performance, for example, appraisals, awards, bonuses, etc.

**Efficiency**

- HR cost and/or benefits for any specific initiative
- Comparative cost and ratios with other like organizations (benchmarking)

**Trend Data**

- Employee retention, morale, commitment, and skills—from turnover, employee attitude surveys, and exit interview information
- Open positions, hiring, retirement, and terminations—from HRIS
- Diversity groups—from HRIS

\* Selected outcome areas, not intended to be all inclusive

Table 5

Both the TASC HR organization at the Department of Transportation (DOT) and the Forest Service take a “balanced scorecard” approach to developing metrics. TASC has addressed cost effectiveness, customer satisfaction, HR workforce skills, continuous improvement, and HR employee performance.<sup>13</sup> They 1) conducted customer, and HR employee and management self-assessment surveys to determine the various areas that needed to be addressed; 2) took the entire HR staff off-site to analyze the data; and 4) developed an action plan to address areas of concern. Their scores were compared against all other DOT HR offices. Initially, they were below average in many areas. By the third year, however, they had become the departmental “best in class” in nine out of the ten measures. In conducting surveys to gather measurement data, some of TASC’s “lessons learned” are:

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<sup>13</sup> From these five perspectives, ten different dimensions emerged: timeliness, quality, service/partnership, quality work environment, executive leadership, excellence in HR programs, effective use of information technology, quality workforce, mission goals, and financial perspective.

- Survey instrument validations are essential;
- Automating data collection facilitates the process;
- Annual surveys provide opportunities for monitoring and continuous improvement;
- Employees are fertile sources of organizational insights and improvement ideas;
- Surveys are useless unless the results are used;
- Action plans to respond to the results are critical; and
- Proactive communication with customers about what has been learned and what is being done about it is essential.

Based on their experience, TASC officials note that the major lesson learned has been to act on feedback.

### **THE HR OFFICE AND STAFF**

Structure: Vital service-oriented HR offices are effecting changes that will enable them to optimize staff utilization and improve strategic advisory services to line managers by applying technology to the accomplishment of “process-oriented” HR work, outsourcing, and further developing HR staff competencies. Our discussions with Federal HR officials consistently underscored that responsive and relevant Federal HROs are not status quo organizations. Nevertheless, our research indicates there is no “one approach fits all” solution to how HR organizations that are incorporating new work activities such as automation, strategic planning, and performance assessment and reporting should be structured.

Some HR officials believe good policy can best be developed by staff who have operational insight and contact with the customer; they are unifying policy and operations. Others separate policy and operational activities to preclude operational workload from diluting the ability to complete necessary policy development and evaluation activities. The question of how to organize is not as important as ensuring that

- Relevant activities are incorporated into the organization;
- There is a close working relationship with line management;
- Individual responsibilities are well-defined; and
- Activities are publicized to all concerned—HR staff, line managers, and the workforce.

For facilitating the implementation of automation or the handling of strategic planning activities and metrics development, HR offices frequently establish project offices/teams. The USGS and USDAFS successfully used teams to handle their functional automation implementation. The USGS hired an information technology specialist to lead the automation effort. To handle strategic planning activities and metrics development, TASC established a “Maximizing for Performance” organizational entity and USDAFS created a “Corporate Initiatives” unit.

Regarding organizational structure, the best advice may come from the National Academy of Public Administration’s Center for Human Resource Management. Any restructuring process should:

- Result in improved customer service and enhance the HR department's value;
- Better position HR to move from a reactive process-oriented focus to the strategic platform needed to become full business partners;
- Help HR staff members add value by positioning them to directly assist line managers in the hiring and development of their people; and
- Align HR with the business strategy of its customers and stakeholders.<sup>14</sup>

HR Skills and Competencies: The skills and competencies that HR professionals need to be successful have changed. In responsive organizations, HR professionals are becoming change agents, strategic partners, and consultants. This does not mean HR organizations should develop agency strategy. It does mean that HROs must develop partnerships with line management, and identify and deliver the people aspects of agency strategy. In many reengineered HR organizations, there are more generalists at the customer contact level. Specialists set policy, study trends, design process improvements, and provide support to generalists. In addition to the continuing need for technical HR knowledge, there is increased emphasis on computer and telecommunications literacy for using new HR programs, consulting and advisory skills, strategic planning, change management strategies, business case analysis, organizational design, and process redesign and continuous improvement methodology. Working with agency management also entails using more of the flexibilities that are currently available for HRM.

A 2001 report by NAPA on changes in the roles and functions of HR organizations since 1996 found that “deficiencies in staff skills are a significant obstacle to HR’s efforts to improving the effectiveness of the HR function and to HR’s ability to become a business partner” in their organizations.<sup>15</sup> The organizations we interviewed indicated their current ability to provide consulting and strategic advisory services to their clients needs improvement. There was concern by some officials that the state of the profession has deteriorated as a consequence of downsizing through attrition and buyouts. Limited external hiring of people with the requisite business skills over the last decade, coupled with the aging of the HR workforce signals a potential retirement exodus of knowledgeable and appropriately skilled people without adequate knowledge replacement. Increasing use of HR technology will eventually eliminate a great deal of the transactional work that once was a core activity of the Federal HRO. While there will still be an emphasis on basic HR program and functional knowledge, it will expand to include the application of that knowledge to achieve mission results rather than focussing primarily on HR programmatic goals.

While limited in scope, some agencies are beginning to recruit HR professionals and use outsourcing and cross-servicing to a greater degree than in the past. If appropriate, agencies should leverage internal HR skills by using external expertise from consultants, professional associations, and other organizations. The HROs interviewed are taking action to address skills imbalances through classroom and on-the-job training, cross-training, and recruitment initiatives. The Forest Service now trains staff in the OPM-defined competencies.

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<sup>14</sup> NAPA, “Focus: Strengthening the Human Resources Department Through Strategic Alignment, Restructuring, and Benchmarking,” [1998], p. 7-10.

<sup>15</sup> NAPA, “Changes in the Human Resources Function Since 1996: Implications for Federal HR Competencies,” March 2001, page 3.

NIH has taken a significant step towards enhancing HR professionals' credentials by implementing a certification program for HR staff, requiring employees to acquire "consultant certification" before they can be promoted to GS 12 or above. The certification process at NIH is now outsourced to agencies such as the International Personnel Management Association and the Society for Human Resources Management. We were told that the program has resulted in a qualitative difference among the staff gaining certification. Moreover, because HR professionals from outside NIH find certification professionally stimulating, it is an employment draw.

Some HROs provide business skills training including business case analysis, marketing, and business communications on a wholesale basis to essentially all staff members, while others take a more "just in time" approach to offering such training. For example, GSA is isolating specific areas in which the staff can help line managers with strategic needs—for example, strategic competency identification/development, strategic awareness, and performance culture—and devoting attention to those areas as opposed to spreading those resources too thinly. On a temporary basis, some organizations have found it useful to outsource certain activities of this nature to ensure their organization is able to provide the needed service while they train their own staff. Some hire contractors to teach HR staff. No quantitative or qualitative data is available to determine which approach produces the best results.

## **LEADERSHIP AND COMMUNICATION**

Leadership: Progressive organizations tend to have their senior HR executive on the agency's top management team. This individual is personally committed to, and drives, the change, ensuring the development of a strong business case that factors in customer requirements and clearly outlines the desired outcome.

Change management requires supportive agency leadership. Moreover, it is agency leadership that can most effectively bring line management into the strategic HR process. The effective HR leader actively cultivates agency leadership support, clearly communicating the business case for change, emphasizing the nature, complexity, and duration of the HR transition.

Communication: Successful HR organizations regularly report on progress in attaining goals to agency leadership, HR employees, and line managers to maintain support. Because the implementation of technological innovations generates some changes in employee working conditions, early and continuous communication with HR employees and workforce bargaining representatives is important. The reason the transition must be made has to be clearly conveyed to the HR staff and the HR leader must support staff in making the change by providing the needed training and work opportunities. Interviewees advised that the introduction of functional automation offers many advantages to which workforce bargaining units have reacted positively. For example, USGS HR officials found that union representatives were favorably impressed that the COTS system they used for staffing eliminated 1) the need for employees to prepare lengthy KSA narratives in response to vacancy announcements, and 2) expert panel assessments that are sometimes perceived as subjective.

Some HROs have experienced success by tying staffs' performance awards, including cash and time off awards, to specific goals. For example, TASC used goal sharing with teams sharing a cash award if their performance met a targeted level of performance and contributed to continual improvement in HR service levels. Tailoring staff performance standards to a specific objective was regarded as a key ingredient in driving service improvement.

## CONCLUSIONS AND RECOMMENDATIONS

Based on our interviews and other research, we developed the following conclusions and recommendations.

- The modernization of HROs is directly related to the strategic management of human capital and expanded electronic government goals of the Presidential Management Agenda.
- The cost and complexity of implementing an integrated HRIS system suggest it may not be an appropriate goal for a small agency.
- Implementation of the HRIS SBA has purchased would require a new database and considerable development and configuration work.
- Moreover, OMB's directive to reduce redundancy and effect savings by developing an HR/payroll solution architecture for only two to three Federal providers appears to overcome the need for comprehensive HRIS implementation in SBA.
- However, to effectively address the President's Management Agenda, the Agency will need to take interim steps to modernize HR functions.

Recommendation 1: That SBA review the business case for its HRIS in light of other agencies' implementation experiences and the Administration's new initiatives, and consider available short term alternatives.

- Effective service oriented HR organizations grow out of changing the way they do business and leveraging technology.
- Agency leadership support, strong HR leadership, well developed business cases, and continual communication are common attributes of successful HRO change.
- Metrics are key not only for building a strong business case for HRO modernization and automation, but also for assisting in day-to-day HR management, helping line managers accomplish their objectives, providing the basis for continuing improvement in HR processes, and demonstrating HRO value to the agency.
- The Administration's HR/payroll initiative is a "work in progress" and development of fully Federalized functional automation applications in the envisioned Governmentwide HR/payroll architecture may be far into the future.

- HRM modernization in the form of functional automation can produce greater HR effectiveness, efficiency, and timeliness.

Recommendation 2: That the SBA Office of HR develop business case metrics to determine the cost effectiveness of implementing appropriate functional automation software and/or outsourcing or cross-servicing certain HR functions.

- HR measurement should: a) be the result of a close working relationship with agency leadership and line management; b) align with the Agency's strategic plan goals; c) show the HRO's value; d) indicate whether progress is being made towards attaining human capital goals; e) be quantifiable, if possible; and f) provide sufficient data to improve operations, and support budget requests and management decisions.

Recommendation 3: That the SBA HRO work with SBA management to develop a measurement system that conforms with OPM's Standards of HRM accountability and includes a) financial measures, such as cost per employee; b) customer satisfaction measures, such as those associated with responsiveness and quality; c) workforce capacity measures, such as employee satisfaction and education; and d) process effectiveness, such as cycle time and productivity.

- The question of how to organize an HRO is not as important as ensuring that a) relevant activities are incorporated into the organization; b) there is a close working relationship with line management; c) individual responsibilities are well-defined; and d) activities are publicized to all concerned—HR staff, line managers, and the workforce.

Recommendation 4: That the new SBA Assistant Administrator for HR ensure that

- a) relevant SBA HR activities, such as strategic advisory services, are incorporated into office operations, and the office plays a key role in the Agency's workforce planning and restructuring effort;
- b) a process is in place for working closely with line management;
- c) individual planning, policy, and operational responsibilities within the office are well-defined; and
- d) HRO activities, metrics, and results are publicized to all concerned—HR staff, line managers, and the workforce.

FEDERAL OFFICES SELECTED FOR VISITS

ORGANIZATION	AREA OF INTEREST	APPROXIMATE POPULATION SERVICED & SERVICING RATIO
OPM, Office of Merit Systems Oversight & Effectiveness	Background on HR Metrics	N/A*
OPM, Human Resources Data Network Project Office	Background on Automation & Electronic Official Personnel File	N/A
OPM, Employment Service	Background on Functional Automation	N/A
National Institutes of Health (NIH) HRO	HR Competencies & Service Delivery	19,500 1:65
Transportation Administrative Service Center (TASC)	Service Delivery, & Balanced Scorecard Metrics	1,000 Departmental + Contract Fee for Service 1:150
General Services Administration HRO	Automation, Service Delivery,	14,000 Departmental + Cross Servicing 1:90
US Geological Survey (USGS) HRO	Automation & Business Cases	10,000 1:100
US Department of Agriculture Forest Service (USDAFS) HRO	Metrics & Automation	42,000-47,000 1:44

\* N/A—Not Applicable

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MODERNIZING A FEDERAL HRO**

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U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

APPENDIX C

5/7/2002

Emilie M. Baebel  
Assistant Inspector General  
for Inspection and Evaluation  
U.S. Small Business Administration  
409 Third Street, SW  
Washington, DC 20416

Dear Ms. Baebel:

We have carefully reviewed OIG's draft report on Modernizing Human Resource Management and appreciate the efforts you and your staff expended in researching this key issue and developing your recommendations. SBA agrees with the overarching purpose of your report, which we see as upgrading the automation capabilities of SBA's Office of Human Resources (HR), which will result in more efficient processes that will allow human resource specialists more time to provide advisory consultant services to SBA managers. We recognize the truth of both the Comptroller General's statement that "employees are the government's greatest asset – it's human capital," and your concern that human resources offices must be equipped and positioned to deal with the contemporary technological and results-oriented environment to play a leading role in reforming SBA's human capital management.

To accomplish the President's Management Agenda, SBA's Office of Human Resources must provide agency leadership with strategic direction and focus for workforce restructuring, succession planning, recruitment and retention of employees. This will require restructuring processes and developing tools to help managers and employees become more self-sufficient for routine HR activities and processes.

We agree with your first recommendation, that SBA review the business case for its HRIS in light of other agencies' implementation experiences and the Administration's new initiatives, and consider available short term alternatives. The Office of Human Resources will be working with the interagency Quicksilver initiative as appropriate to facilitate this process. In the short term, we plan to explore several short term alternatives, and implement those for which we can make a good business case as funding allows.

Your second recommendation, that the SBA should develop business case metrics to determine the cost effectiveness of implementing appropriate functional automation software and/or outsourcing or cross-servicing HR functions, aligns with our own thinking. Serious consideration is being given to competitive outsourcing and cross-servicing in the development of SBA's 5-year Workforce Restructuring Plan. In light of

both the potential for competitive outsourcing should our most efficient organizations not prevail, and several ongoing government-wide initiatives, now is not the time to invest in an agency HRIS system.

We intend to implement your third recommendation that the SBA HRO work with SBA management to develop a measurement system that conforms to OPM's Standards of HRM Accountability and includes financial, customer satisfaction, workforce capacity, and process effectiveness measures. Our concern is that such a system is aligned with our strategic plan and links seamlessly with our Activity Based Costing model.

SBA management welcomes your fourth recommendation and will make certain the new Assistant Administrator for Human Resources ensures that

- relevant strategic advisory services are incorporated into HR operations, and HR plays a key role in SBA's workforce planning and restructuring effort;
- a process is in place for HR to work closely with line management;
- individual planning, policy, and operational responsibilities within HR are well-defined; and,
- HR activities, metrics, and results are publicized to all concerned – HR staff, line managers, and the workforce.

We intend to incorporate your recommendations, where appropriate, into SBA's 5-year Workforce Restructuring Plan through the Agency's Strategic implementation of the President's Management Agenda.

Sincerely,



Robert J. Moffitt  
Acting Deputy to the Associate Deputy Administrator  
for Management and Administration

**CONTRIBUTORS TO THIS REPORT**

Mary Jeanne R. Martz, Senior Inspector  
Pamela M. Creek, Consultant  
Stephanie M. King, Presidential Management Intern