APRIL 2003

Modernizing Human Resource Management in the Federal Government: The IRS Model

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Human Capital Series

IBM Endowment for
The Business of Government

HUMAN CAPITAL SERIES

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FOREWORD

On behalf of the IBM Endowment for The Business of Government, we are pleased to present this report, "Modernizing Human Resource Management in the Federal Government: The IRS Model," by James R. Thompson and Hal G. Rainey.

The report tells the story of how the Internal Revenue Service (IRS), a highly troubled agency in the mid-1990s, made a dramatic turnaround, in part, because it received new legislative flexibilities for managing its workforce. In addition, a new leadership team at the top of the agency knew how to leverage these provisions, as well as existing laws, to begin the transformation of IRS into a customer-centric, performance-oriented organization.

The key lesson from this report by Professors Thompson and Rainey is the importance of an integrated, coherent, and comprehensive organizational strategy focused on the mission of the agency. A key component of that organizational strategy is the ability to design a new human resource system to support the organization's mission. By using existing laws and flexibilities provided by the IRS Restructuring and Reform Act of 1998, IRS leaders were able to design a new human resource system. This report describes each of the components of the integrated IRS approach to the management of human resources within the agency.

The lessons learned from the IRS experience are relevant to a wide range of other agencies as the federal government strives to modernize its approach to human resources. This report provides advice and guidance to those agencies as they consider redesigning their own human resource systems. With additional human resource flexibilities provided in the Homeland Security Act of 2002, the time is now ripe for additional reform in the management of human resources.

We trust that this report will be both informative and helpful to all government executives as they approach the challenge of modernizing human resource management within their own departments and agencies. There is clearly much to learn from the experience of the Internal Revenue Service in its human resource modernization initiative.

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EXECUTIVE SUMMARY

After decades of relative stability, the federal personnel system is in the midst of a period of profound change. With the Homeland Security Act of 2002, Congress and the President did away with the Rule of Three, an artifact of federal hiring practices that dated back to the 1870s. The same law exempted the new Department of Homeland Security from key provisions of the federal Civil Service Law, including those relating to compensation, classification, hiring, and promotion. That exemption was consistent with a trend that began in the 1990s, whereby agencies experiencing intense performance pressures have been granted special personnel flexibilities.

Among the agencies granted such flexibilities was the Internal Revenue Service (IRS). The IRS received its human resource flexibilities as part of the IRS Restructuring and Reform Act of 1998 (RRA '98). Since passage of that law, the IRS has made remarkable strides in modernizing its structure, its business practices, the processes by which it collects taxes, and its technology. The implementation of personnel flexibilities provided under RRA '98, critical to the success of that transformation, are a focus of this report.

However, the report goes beyond a discussion of these special flexibilities, such as paybanding, category rating, and critical pay, to the broader set of human resource management (HRM) innovations that have complemented these flexibilities—innovations that have not required any special authorizations. Changes have been made to virtually every phase of the personnel process. Further, as a package, the changes have reinforced tenets of the broader organizational modernization, including the importance of (1) partnering with individuals and entities from outside the organization to gain needed expertise; (2) linking the goals and objectives of individual units to those of the organization; (3) assessing performance along the three dimensions of customer satisfaction, employee satisfaction, and business results; (4) rewarding employees for their leadership qualities as well as for their technical skills; and (5) generally being open to innovation and change.

The scope and nature of the HRM changes at the IRS exemplify many of the ideas associated with strategic HRM and the human capital philosophy. One of the tenets of strategic HRM is that practices must be "tailored" to an organization's particular mission, technology, and culture. IRS leadership has designed and implemented the new set of HRM practices to support organizational transformation as well as to reinforce the values and practices upon which that transformation is based. One example of the way in which HR practices have been integrated into organizational strategy is their new "tripartite" personnel structure, with an Office of Strategic Human Management, an Agency-Wide Shared Services unit, and "embedded" HR units at the operating division level. The structure enables "end-to-end accountability" at the division level, while ensuring that HRM considerations are incorporated into business decisions by having the chief human resource officer serve as a member of top strategy-making bodies.

Although key lessons are those of scope, comprehensiveness, and strategic integration, much also may be learned from the specifics of the ways in which the IRS has gone about implementing the different HRM innovations, including the shift from classroom to electronic means of training, the use of sophisticated workforce planning tools, the integration of personnel processes through the use of "competencies," and the management and executive succession programs intended to ensure both continuity and quality of leadership. With the Homeland Security Act of 2002, the category rating and workforce shaping tools that the IRS obtained through special authorization are now generally available. The ways in which the IRS has gone about employing these authorities will be of particular interest to others.

Among the most important lessons to emerge for policy makers from the IRS experience is the importance of accompanying flexibilities with measures that enhance chances for effective implementation. The accomplishments of the IRS are in no small part attributable to a knowledgeable, engaged, and effective set of leaders who were able to project a clear picture of where the agency was going, put into effect a strategy for getting there, and utilize the HRM tools that were available to maximize chances for success. Once employees understood the bigger picture and where the proposed changes fit, it was easier to gain the acceptance needed for successful implementation. The comprehensiveness and coherence of the program were also critical success factors.

During the debate over the future of civil service reform now under way, a broad consensus has developed among key stakeholders on the elements of a modernized approach to personnel management. Largely absent until now have been examples of how all the elements in this approach can be integrated into a coherent and workable whole. As outlined in this report, the IRS has developed such a model. Although the elements of the model are important and many insights into policy development and implementation can be gained, the overriding lesson of the IRS experience is the importance of an integrated, coherent, and comprehensive organizational strategy in support of which an HRM system can be designed.

Introduction

The Homeland Security Act of 2002 leaves little doubt that a period of profound change in federal personnel practices is upon us. That law exempted 170,000 federal employees from key provisions of the Civil Service Law on the heels of other similar exemptions afforded organizations as diverse as the Federal Aviation Administration (FAA), the Internal Revenue Service (IRS), the Office of Federal Student Aid, the science and technology laboratories in the Department of Defense, and the Transportation Security Agency.[1] Equally important, the law extended category-rating authority throughout the government. That authority formally abrogates the Rule of Three, which had been a central element of federal hiring practices for over 130 years. With the new authority, government managers are no longer restricted to hiring from among those with the top three scores on an exam. Henceforth, job candidates will be segregated into categories, with anyone in the top category eligible for selection (subject to veterans' preference requirements). The consequences for the federal personnel system are profound. Not only does the new law represent a major expansion in the discretion allowed managers on hiring matters, but it could greatly expedite the hiring process and thereby make the government more competitive in the recruitment of badly needed technical and scientific talent.

Whether the new law results in major changes in personnel practices depends, in part, on how officials utilize their new authorities. A recent General Accounting Office (GAO) report reveals that only modest changes have been made at the FAA, despite the broad exemptions from Civil Service Law afforded that agency in 1995.[2] On the other hand, the IRS, granted human resource management (HRM) flexibilities pursuant to the IRS Restructuring and Reform Act of 1998 (RRA '98), has leveraged those flexibilities to facilitate a significant transformation, still under way, of its structure, processes, and technology.

This report reviews what the IRS has done with its personnel flexibilities since passage of the 1998 law. However, the focus extends beyond these flexibilities to the broad set of personnel changes that have been made. As discussed here, many of the changes have been made pursuant to authorities that are broadly available. Of particular interest is the way in which all the various pieces, both those unique to the IRS and those for which no special authorities were required, have been integrated into a coherent whole.

The Context for IRS Human Resource Modernization: GAO, Human Capital, and Strategic Human Resources Management

An important element of the context for the IRS's HR-related activities is work done by the GAO and other agencies to promote the concepts of "human capital" and "strategic" HRM. Based on a review of corporate HR "best practices," the GAO identified a set of practices associated with the concept of "human capital."[3] The term "human capital" implies that human skills, abilities, and contributions serve as an organization's most valuable assets, and, further, that successful organizations will maintain and enhance the value of those assets by providing increased opportunities for training and education. The GAO argues that the government will gain from such an approach, because employees will have an enhanced ability to perform their jobs and because high performers will be attracted to an environment in which professional development is valued.

Associated with the concept of human capital is that of strategic HRM, whereby HR practices are employed strategically in support of organizational missions. Traditionally, HR practices have shared a high degree of similarity across very different types of organizations. Proponents of strategic HRM argue that personnel practices should be tailored to organizational strategies. Thus, for example, compensation practices can be designed to promote innovation or, alternatively, to promote workforce stability, depending on the organization's strategy.

The Office of Personnel Management (OPM) also has been a proponent for modernizing federal HR practices. In a recent white paper, OPM stated that the federal white-collar pay system "suits the workforce of 1950, not today's knowledge workers."[4] One means that OPM has employed to foster innovation in the areas of both pay and hiring is the personnel demonstration project authority.[5] For example, paybanding as a means of simplifying classification processes and of making pay increases contingent on performance was first tested as part of a demonstration project in the Department of the Navy.[6] The rating of job applicants by category was first tested as part of a demonstration project in the Department of Agriculture.[7]

This orientation has led OPM to join GAO in emphasizing human capital, and this emphasis has formed into something of a movement. OPM, GAO, and the Office of Management and Budget (OMB) have developed a set of human capital standards according to which agency HRM systems will be assessed. Those standards are organized into the following categories: strategic alignment, workforce planning and development, leadership and knowledge management, results-oriented performance culture, talent, and accountability.[8]

The Senate Governmental Affairs Committee has also joined the effort to promote the nurturing of human capital. Members of the committee have issued reports and initiated legislation supporting investments in human capital.[9] As a result of the committee's efforts, the Homeland Security Act of 2002 included provisions that: (1) require each of the largest agencies to appoint a chief human capital officer, (2) establish a Chief Human Capital Officers Council, and (3) require OPM to "design a set of systems … for assessing the management of human capital by federal agencies."[10]

Despite these various activities, only a few agencies have overhauled their HR practices to incorporate human capital and/or strategic HR ideas and innovations. In part, this is attributable to legal restrictions. The Civil Service rules incorporated into Title 5 of the United States Code impose numerous constraints on federal agencies. However, it is also apparent that agencies have not taken full advantage of the authorities they do have to put modernized practices into effect. For example, the goals of revising appraisal practices in ways that "link unit and individual performance to organizational needs" or increasing "investments in people" can be achieved within existing legal authorities.

There are several possible explanations for agencies' reluctance to more aggressively implement modernized HR practices. One is that agencies lack experience with many of the new techniques and are uncertain about how to implement them. Another is that agencies lack the resources that would be required to put them in place. Leadership is certainly a critical ingredient. It is also the case, however, that few models are available for agency heads and HR managers to emulate. Only a handful of agencies have employed these new HRM principles in a comprehensive manner.

The recent changes made at the IRS provide one such model. Since 1998, when Congress passed the IRS Restructuring and Reform Act, the IRS has been aggressively deploying a system that incorporates state-of-the-art private and public sector practices. The IRS experience deserves attention for several reasons. First, to an unusual and perhaps unique degree within the federal government, the IRS has overhauled its entire personnel system in ways that coincide with human capital and strategic HRM principles set forth by GAO and OPM. Second, these changes have been made coincident with a broad restructuring that has left few organizational elements untouched. As such, the IRS provides a revealing study of ways in which HR practices can contribute to the achievement of mission and organizational transformation in pursuit of mission. Third, the IRS case makes apparent that structural changes, although necessary to the attainment of an effective HR system, are not sufficient. Many elements of the IRS model have not required any special legislative authorization. Fourth, many of the practices employed by the IRS as part of its modernization effort may be suitable for adoption by other agencies. The availability of information about the IRS model allows agency heads, HR executives, and policy makers to evaluate the possible transfer of the practices that comprise the model to other settings.

The next section of the report provides a brief overview of the organizational changes under way at the IRS. Subsequent sections recount how the many HR innovations being employed at the agency support development of the new approach to doing business.

Acknowledgments

The authors gratefully acknowledge the help and guidance of Ron Sanders in the preparation of this report. Ron served as Chief Human Resource Officer for the IRS from 1998 to 2002. Ron not only made his staff fully accessible for the purpose of compiling the information presented in this report, but helped the authors understand the context in which the activities described herein took place.

The authors are also grateful to the Internal Revenue Service for providing access to officials and to a multitude of documents. Especially important in this regard have been:

Bob Wenzel, Deputy Commissioner

David Mader, Assistant to the Deputy Commissioner

Kathy Feldmann, Executive Assistant to the Assistant to the Deputy Commissioner

The many able professionals in the Office of Strategic Human Management gave generously of their time and information. Especially important for purposes of this report have been:

Napolean Avery, acting Chief Human Resource Officer

Bobbie Kelly, Director of the Personnel Policy Division

Julia Cronin, Director, Career Management and Recruitment

Alex Manganaris, Director of Workforce Planning and Analysis

James Trinka, Director of Leadership and Organizational Effectiveness

Chuck Grimes, Special Assistant for Compensation Strategy

Vince Wolfinger, Deputy Director of Education and Learning

Mary Schlegel, Associate Director, Policy

Also, John Jones proved an extraordinarily valuable source of insight and knowledge.

Modernizing the Internal Revenue Service

The IRS Restructuring and Reform Act (RRA) of 1998, coupled with the hiring of Charles Rossotti as Commissioner in 1997, set the stage for a major organizational transformation, which, when complete, will leave few elements of the IRS unchanged. A period of controversy and criticism for the IRS led to RRA '98 and Rossotti's appointment.[11] For decades, the Service had struggled to "modernize" its tax processing system through computerization and other forms of advanced information technology (IT). By the mid-1990s, the IRS had been subjected to repeated waves of bad publicity and congressional criticism over the failure of expensive new technologies for the tax system. In addition, among some stakeholders inside and outside of the IRS, concern was growing about service to clients or "customers." This concern often was coupled with the view that IRS employees were overly aggressive on tax law enforcement and tax collection. The criticisms and concerns mounted to a point at which Congress created the National Commission on Restructuring the Internal Revenue Service in 1996 to consider major reforms. Many of the provisions of RRA '98 flowed from the recommendations of this commission and were influenced also by other sources, such as a report by a special task force appointed under President Clinton's National Performance Review.[12]

During the period of congressional reform activities, Charles Rossotti was appointed Commissioner of the IRS in 1997. Unlike his predecessors, Rossotti was not a tax lawyer. In recognition of the daunting management challenges that the agency faced, Rossotti was selected for his management expertise.

IRS At-a-Glance

Mission:	To provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.
Budget (2003):	$9.916 billion
Employees (2003):	99,155
Taxes Collected (2001):	$2 trillion
Tax Returns Processed (2001):	228 million
Field Offices:	404

Before entering government, Rossotti headed American Management Systems, a large consulting firm that specializes in the modernization of large data systems.

Rossotti took an aggressive approach to modernization, bringing in the private sector arm of a top-notch consulting firm to help manage the effort and consulting widely with experts in management, tax collection, and data systems modernization to determine a strategy. Rossotti's vision for the agency, entitled "Modernizing America's Tax Agency," was published in 1998.

An element of Rossotti's vision was to reorganize the agency into four new "customer-oriented" operating divisions, similar to the way most large private sector financial institutions are now organized. The new divisions, which "stood up" in October 2000, replaced a 50-year-old structure of districts, regions, and service centers. Layers of management were reduced by half, top jobs were redefined, and managers were assigned new roles and responsibilities.

Another element of Rossotti's vision was change in the way frontline employees perform their day-to-day tasks. The new approach to tax administration includes:

- Greater emphasis on providing taxpayers with the information necessary to comply with tax laws;
- Specialization by employees on the tax issues and problems of different groups of customers;
- Redesigned systems and procedures to allow expedited resolution of taxpayer issues; and
- Much greater reliance on the electronic filing of tax returns.[13]

Early in the change process, IRS leadership determined that modernization of HR practices was integral to the success of the reforms. Modernized practices were essential both to facilitate the transition and to enable achievement of the envisioned new approach to tax administration. In the modernized IRS, frontline employees will need a broad range of skills and access to advanced IT to resolve taxpayer problems in a single contact. The IRS, accordingly, is developing an extensive and high-quality training program that will permit employees to continually renew their job skills. To achieve high levels of performance, managers will need to demonstrate not only a high level of technical competence but a capacity to lead. The IRS has created a "leadership competency model," in which top leadership has identified behaviors appropriate for executives and managers. The IRS also will need to attract highly competent technical personnel who can bring a world-class data systems modernization project to a successful conclusion. As described more fully here, the IRS has utilized the HRM flexibilities provided in RRA '98 to reform hiring and pay practices in ways that accommodate that need.

Changes in the HRM infrastructure have also been implemented. The IRS has reconfigured its HR structure into three parts, including a new Office of Strategic Human Resources (OSHR) charged with ensuring that HR policies and practices support the agency's mission, an Agency-Wide Shared Services (AWSS) charged with HR operations, and embedded HR units within IRS divisions. New planning tools will allow the IRS to be proactive in its recruitment, promotion, and executive succession activities. Training programs have been revised and made more accessible and cost effective. Reward programs have been restructured in ways that promote a tighter link between individual performance and the achievement of service-wide strategic goals.

Human Resource Flexibilities

As a means of achieving its strategic objectives, the IRS has leveraged certain HR "flexibilities" afforded it by RRA '98.[14] That law provided the agency with the following tools:

- "Critical pay" authority, to hire up to 40 individuals at a salary not to exceed that of the Vice President of the United States;
- "Workforce shaping" tools, including buyouts and early retirement authority;
- "Streamlined demonstration project" authority, waiving some of the restrictions that generally apply to personnel demonstration projects;
- Authority to assign employees to paybands whereby pay would be determined according to qualifications and performance rather than longevity; and
- Authority to rate prospective employees by "category" rather than by strict numerical score, giving managers greater flexibility in hiring.[15]

One of the most important aspects of the IRS HRM "model" is the leveraging of these flexibilities to achieve broader change in HRM practices. These flexibilities, although critical to what has been achieved, represent only a small part of the whole. Of equal if not greater importance are the associ-

Figure 1: IRS Human Resource Initiatives

	Implemented Pursuant to RRA '98 Flexibilities	Implemented Pursuant to Generally Available Authorities
Developing a Modernized Human Resources Infrastructure		
Structuring the Human Resource Function for Mission Accomplishment		X
Creating a Competency-Based Personnel System		X
Utilizing Workforce Planning Tools to Drive Recruitment and Development Processes		X
Transitioning the Workforce to a Modernized Structure		
Making Managers Compete for Positions in the New Organization		X
Shaping the Workforce through Buy-Out and Early Retirement Authority	X	X
Renewing the Workforce for Improved Performance		
Using Critical Pay to Recruit Technical and Organizational Leaders	X	
Planning and Managing Leadership Succession		X
Employing Modern Recruitment Techniques		X
Expediting the Hiring Process through Category Rating	X	
Investing in Employee Training and Development for Enhanced Capacity		
Expanding the Job Scope for Frontline Positions		X
Partnering in the Provision of World-Class Training		X
Supporting Employee Development and Growth		X
Heightening Performance and Maintaining Accountability		
Developing Technical as well as Organizational Leaders: the Senior Leadership Service	X	
Linking Pay to Performance through Paybanding	X	
Distinguishing Levels of Performance through the Performance Management System		X

ated changes that have been made in HRM systems and practices utilizing authorities that are generally available to the IRS and other agencies.

Figure 1 distinguishes the various elements of the IRS HR model according to (1) those implemented pursuant to special flexibilities provided under RRA '98 and (2) those implemented pursuant to generally available authorities. Apparent from the figure is that the majority of changes under way fall into the second category and, hence, are suitable for widespread adoption within the federal government.[16]

Figure 2: Human Resource Management Initiatives Introduced at the IRS

		The Human Resource				
		Building an HR Infrastructure	Workforce Planning	Classification/Pay	Recruitment	
Developing a Modernized Human Resources Infrastructure	Structuring the Human Resource Function for Mission Accomplishment	X				
	Creating a Competency-Based Personnel System	X				
	Utilizing Workforce Planning Tools to Drive Recruitment and Development Processes		X		X	
Transitioning the Workforce to a Modernized Structure	Making Managers Compete for Positions in the New Organization					
	Shaping the Workforce through Buy-Out and Early Retirement Authority		X			
Renewing the Workforce for Improved Performance	Using Critical Pay to Recruit Technical and Organizational Leaders			X	X	
	Planning and Managing Leadership Succession					
	Employing Modern Recruitment Techniques				X	
	Expediting the Hiring Process through Category Rating				X	
Investing in Employee Training and Development for Enhanced Capacity	Expanding the Job Scope for Frontline Positions					
	Partnering in the Provision of World-Class Training					
	Supporting Employee Development and Growth					
Heightening Performance and Maintaining Accountability	Developing Technical as well as Organizational Leaders: the Senior Leadership Service		X	X	X	
	Linking Pay to Performance through Paybanding			X		
	Distinguishing Levels of Performance through the Performance Management System			X		

	Management Process				
	Selection	**Training/Ongoing Performance of Duties**	**Performance Appraisal**	**Awards, Promotions, Adverse Actions**	**Attrition**
		X			
		X			
	X			X	
				X	X
		X	X	X	
	X				
		X			
		X			
		X	X	X	
	X				
			X	X	
			X		

As illustrated in Figure 2, each of the various innovations that have been introduced affects one or more of the following key HRM processes:

- Building an HR Infrastructure
- Workforce Planning
- Classification/Pay
- Recruitment
- Selection
- Training/Ongoing Performance of Duties
- Performance Appraisal
- Award/Promotion/Adverse Action
- Attrition

The comprehensiveness of the changes that have been undertaken is key to the successes that have been achieved. Any one innovation is unlikely to have much effect on individual behaviors or on the system. Together, however, particularly when coupled with the other organizational changes under way within the agency, they represent a powerful intervention that holds promise for radical improvements in performance.

In the analysis that follows, the new HR practices are discussed according to the following "imperatives" for modernizing HRM in the federal government:

- Developing a Modernized Human Resources Infrastructure
- Transitioning the Workforce to a Modernized Structure
- Renewing the Workforce for Improved Performance
- Investing in Employee Training and Development for Enhanced Capacity
- Heightening Performance and Maintaining Accountability

Developing a Modernized Human Resources Infrastructure

Structuring the Human Resource Function for Mission Accomplishment

A key to modernizing federal HR practices, according to the GAO, is for federal personnel units to undergo a "fundamental reorientation, from being a strictly support function involved in managing the personnel process and ensuring compliance with rules and regulations, to taking a 'place at the table' with the agency's top management team."[17] The IRS is the first federal agency to establish an Office of Strategic Human Resources (OSHR) specifically charged with taking a strategic perspective in the design of policies, programs, and procedures that promote the achievement of the organizational mission. The effectiveness of OSHR is amplified by the existence of an Agency-Wide Shared Services (AWSS) unit, which processes day-to-day personnel transactions, and "embedded" HR units in each of the operating divisions. The three-part organization structure (see Figure 3) emulates that employed in the best private sector organizations.

Office of Strategic Human Resources

OSHR is a relatively small (fewer than 300 employees) and consists largely of HR professionals who are able to take a strategic perspective in the design of policies, programs, and procedures that promote the achievement of the organizational mission. In that role, OSHR has worked with the business units to design and implement the various innovations described in this report: the critical pay authority, paybands for both senior managers and lower-level managers, a category rating system, a competency-based system, a new recruitment program, a rigorous workforce planning program, expanded executive and managerial succession programs, an electronic training initiative, and a revamped performance appraisal system.

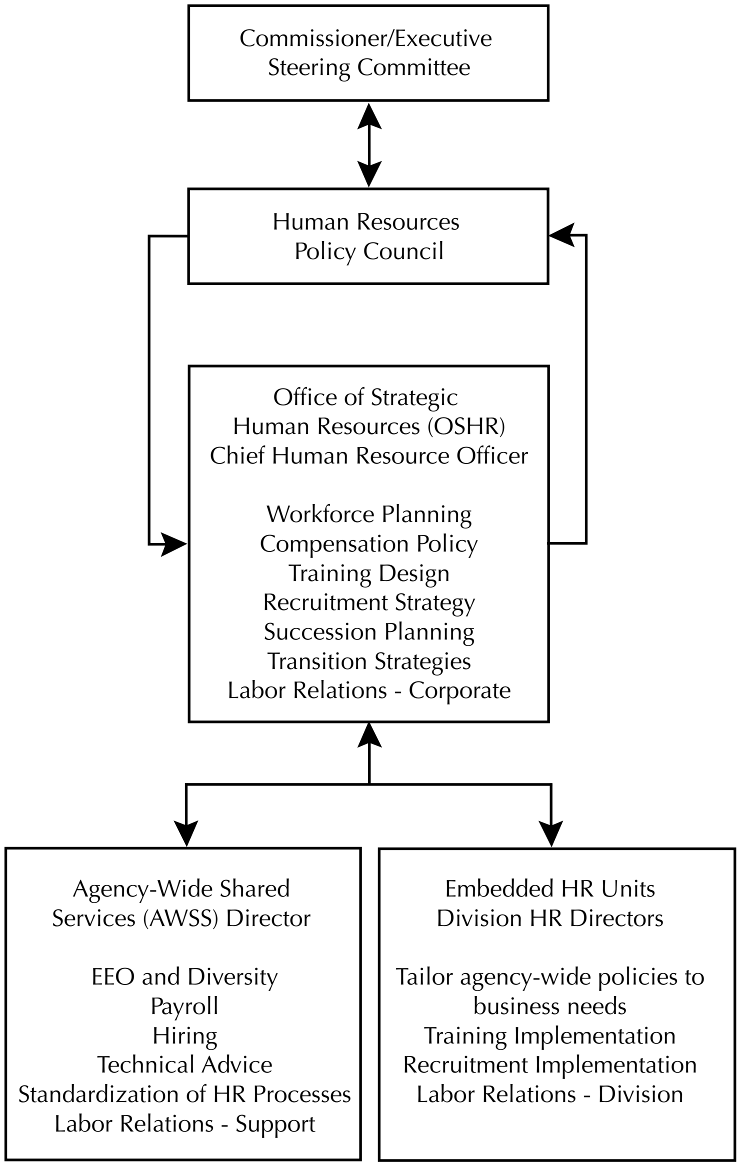
As an indication of the priority accorded HRM by agency leadership, the chief human resource officer (CHRO) serves as a member of top decision-making bodies, such as the Commissioner's Senior Leadership Council. CHRO membership in that body facilitates the incorporation of HRM considerations into organizational strategies.

The success of the new configuration will be assessed ultimately according to how well the new HR programs help the organization perform its mission. OSHR personnel thus work closely with the "embedded" HR units at the division level, helping to customize organization-wide initiatives to unit needs. For example, OSHR has played a key role in assisting the Small Business/Self-Employed (SB/SE) Division in analysis of the HR implications of reengineering certain key business processes. According to David Krieg, director of Human Resources for the Small Business/Self-Employed Division, "We brought OSHR into the fold immediately so they are working side-by-side with myself and my staff and the business as this process unfolds, developing project timelines, developing a risk assessment…. They've got some expertise we don't have."

Agency-Wide Shared Services

OSHR has been able to assume a strategic role because, in part, responsibility for administrative

Figure 3: IRS Tripartite Human Resources Management Structure



support services has been assigned to a new AWSS division. OSHR personnel can assist the business units in achieving organizational goals without the distraction of day-to-day personnel work. Ron Sanders, the first chief HR officer, stated that the structure "has allowed me to focus on designing HR systems for the IRS in a very strategic way and not be bogged down in operational issues…. I don't have to worry about processing personnel actions and cycle time. Somebody else worries about that."

Consolidating the responsibility for the processing of all personnel transactions in AWSS further allows significant economies of scale and improved operational efficiency. AWSS assists in the hiring and placement of employees, performs background investigations, processes labor relations and Equal Employment Opportunity cases, and handles payroll and financial services for the entire agency. In addition to its personnel-related responsibilities, AWSS is responsible for the procurement of materials, supplies, and office space for all IRS units and for the printing of IRS forms and publications.

Under the shared services model, control over support services is centralized. The concept is that consolidating responsibility for such services can help reduce overall costs and promote the development of a high level of expertise in the delivery of such services. In the original design, the shared services unit at the IRS was to be put on a fee-for-service basis. However, according to several executives, IRS leadership decided that the management challenges involved in changing to a fee-for-service status would exceed the organization's capacity in a period during which multiple other changes were under way.

It took a while to get some of the wrinkles out of the AWSS model. A high-ranking executive in one of the operating divisions commented that the managers in that division, "one, don't know who to go to, and, two, don't think they're getting the service that they should." This individual observed that AWSS was:

> ... going through the throes of a reorganization at the same time that the operating divisions were trying to come up. If you had to do it over again, you'd probably either time it differently, or you would pay more attention to making sure that the support delivery was there to meet the basic needs of the employees as you were standing up.

The same official commented that "we're now in a position where we've got level-of-service agreements for virtually all of the services that they provide" and, further, that "complaints have decreased over time."

Level-of-service agreements between AWSS and the embedded HR units were developed as a means of promoting responsiveness by AWSS to the needs of the major operating divisions. According to Krieg, "The document very clearly describes the roles and responsibilities of AWSS in providing services to the frontline manager. I think that will prove to be a very helpful document, because it not only lays out roles and responsibilities but also timeframes as well."

Embedded Human Resource Units

Krieg is the head of one of the "embedded" HR units that have been created in each operating division, consistent with the principle of promoting end-to-end accountability for tax administration at that level. These units tailor IRS-wide HRM programs and initiatives to the unique needs of each division. Decisions previously made centrally about the relative priority accorded each element of the HR program are now made within each division according to that division's operating needs.

A "concept of operations" report prepared for the IRS distinguishes between the functions of the three units as follows:

- "Policy development is the responsibility of the National headquarters (OSHR);
- Policy customization and implementation are the responsibilities of each OD [operating division] or business organization (i.e., embedded HR); and
- Personnel services delivery is the responsibility of AWSS."

The document further states that "the role of the embedded HR function is to apply strategic thinking to ODs' business interests" and, further, that "the job of the embedded HR specialist is to advise OD leaders on how to best apply HR strategy to achieve improved business results."[18]

Jim O'Malley, director of Management and Finance for the Large and Mid-Size Business Division (LMSB), described the function of LMSB's embedded HR unit:

> LMSB executives and managers are not just our customers, we are they. We're in the division with them. We can translate for them strategic HR policies and programs in a way that they can understand, and we can turn around and advocate LMSB's business interests in the various forums where strategic HR policies are being developed and vetted.

Carol Barnett, director of Human Resources for the Wage and Investment (W&I) division, says that one of the advantages of the new structure is that, as the head of an "embedded" unit, she can spend time "interfacing with field managers and real employees." She continues: "I get the opportunity to get that perspective because I don't have to worry about the day-to-day operations, nor do I have to worry about dealing with Treasury or OPM on a regular basis."

The Human Resources Policy Council and Relationships among the Parts

A Human Resources Policy Council (HRPC), chaired by the chief HR officer and including representatives of the business units and employee organizations, serves as the principal HRM policy-making body at the corporate level. The HRPC provides policy advice to the Commissioner and the senior staff, as well as policy direction and oversight to OSHR, the operating divisions, and other functional components. This is the forum in which the heads of the embedded HR units can raise issues about organization-wide policies as those policies affect the operations of their divisions.

This new three-part structure makes possible an effective and systematic approach to managing the agency's human resources, as is evident from recent attempts to cope with recruitment and retention problems at the agency's 25 call sites.[19] Historically, the IRS has had difficulties keeping these sites staffed with qualified personnel and providing the training required to ensure that taxpayers were provided with prompt and accurate responses to their tax questions. These issues traditionally were addressed on a site-by-site basis by individual call site directors.

The new structure has enabled the IRS to take a strategic perspective on call site management. The W&I division now has primary responsibility for the call sites, and recruitment, retention, and training issues for all the sites are addressed centrally by the W&I HR division. OSHR has assisted W&I in developing new tools to assess the competencies of those applying to work at the call sites and in implementing a national recruitment initiative targeted to those sites where recruitment needs are the greatest.[20]

The training function provides another illustration of how the three different units relate. The IRS has an extensive training operation involving more than cities. Consistent with the principle of "end-to-end accountability" at the business unit level, responsibility for the design, development, and delivery of training was assigned to the embedded HR units at the operating division level. AWSS is responsible for training logistics, such as securing classrooms, and OSHR retains responsibility for developing advanced learning technologies and for training policy. The functions performed by OSHR include maintenance of a database with all training-related information, monitoring of training quality, development of standards for curriculum design, and assisting the operating divisions to develop strategic training plans.

Creating a Competency-Based Personnel System

One of the deficiencies of traditional approaches to HRM is that recruitment, selection, development, compensation, and appraisal processes function for the most part independently of each other. Pursuant to recent thinking in the HR field, "competencies" are being used at the IRS as a means of linking these different processes.

Jobs traditionally have been described in terms of knowledge, skills, and abilities (KSAs). Competencies are similar but are described in more concrete, behavioral terms. One official said that with KSAs "knowledge of something is not demonstrated—you have it by virtue of a degree or job experience. A competency is demonstratable."

The IRS has identified core competencies for all 12 of its occupational families. For example, the 11 competencies identified for the customer service job family are: customer service, consulting, decision making, influencing/negotiating, interpersonal skills, organizational awareness, oral communication, planning and evaluating, problem solving, technical competence, and writing. A description of each competency is included in the model. For example, the description of customer service is: "Works with customers to assess needs, provide assistance, resolve problems, satisfy expectations, knows products and services, is committed to providing quality products and services."[21]

Subject matter experts from within the IRS and personnel psychologists from OPM assisted in determining the competencies related to each job family as well as the associated learning objectives and training requirements. An example of a learning objective for the customer service job family is: "Asks questions to identify customer's needs or expectations and assess understanding of, or satisfaction with, service provided." The competency model then identifies courses from which one could obtain this competency.

Competencies are often divided into two categories: general (leadership and/or managerial) and technical. The general and technical competencies required serve as a basis for job descriptions, educational requirements, recruiting and staffing models, career paths, training, and performance assessment. Competencies also can be used to link performance appraisals with training programs. Where the appraisal reveals a deficiency in a job competency, the employee can be directed to the specific training resources required to address that deficiency. Similarly, competencies can serve as a basis for appraising individual performance and for allocating rewards through the new Performance Management System (PMS). A manager able to demonstrate a high level of proficiency in both the leadership and technical competencies associated with his or her job becomes a likely candidate for a performance award or bonus. Sanders comments:

> Competencies allow you to develop a common vocabulary to describe jobs. Given the right meta-model, you can describe any job using any combination of the competencies in the model. It provides for much more flexibility with your HRs. Jobs that don't look related may, in fact, be based on many of the same competencies. It allows for more deployment flexibility, much more career mobility.

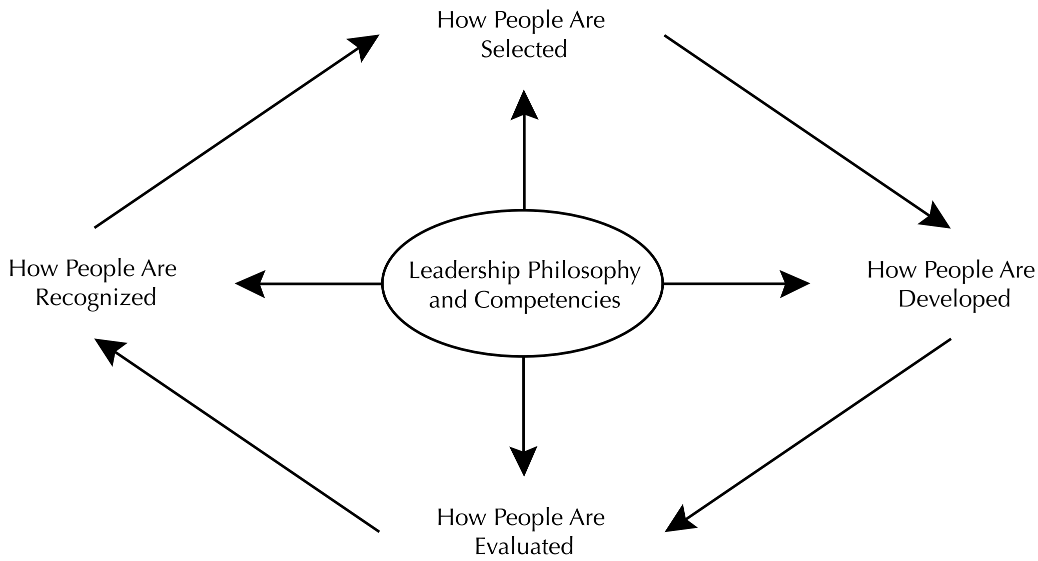
The development of a competency-based system has not been without its problems and challenges. An HR executive in one of the operating divisions commented that the new system is "still incredibly confusing to our workforce, and that means executives all the way down to frontline employees." According to this individual, the problem lay with the fact that "we have way too many competencies. It's hard for anyone to understand and grasp what they need to be doing and/or writing to [when seeking to transfer jobs]." Another disadvantage is that sometimes the competencies are expressed in such broad terms that it is difficult to use them for evaluation purposes. This is one reason that, to date, competencies are used for selection and evaluation purposes for managerial personnel only. The National Treasury Employees' Union (NTEU) has not yet agreed to their use for bargaining unit employees.

Modeling Workforce Competencies

Although the number and clarity of the competencies caused some concern, the focus on competencies also offered important advantages. One of the most important advantages is the linkage that can be created between job requirements and training programs. As job requirements change along with new work technologies and with general shifts in the way taxes are administered, new training programs directly linked to newly required competencies can be developed. For example, revenue officers, who are responsible for collecting delinquent taxes, previously spent much of their time on the phone or knocking on the doors of delinquent taxpayers. Consistent with the new orientation toward improved service to taxpayers, revenue officers are now expected to play less of an enforcement role and more of a facilitation role. Their primary responsibility is to help taxpayers meet their tax obligations. The new job requires a higher level of communication and interpersonal skills than in the past, and employees will be provided training to assist them in gaining these competencies.

The technical competencies required of customer service representatives (CSRs), who are responsible for responding to taxpayer inquiries over the phone, are being identified as part of an effort to improve service at IRS call sites. CSRs previously responded to questions on a broad range of tax matters. Under the new approach, CSRs will specialize in a small number of taxpayer account and tax law issues, thus increasing the incidence of correct responses provided. Subsequent to identifying the technical competencies required for the CSR positions, the actual competencies of current workers will be assessed and a comprehensive training and recruitment program developed to ensure that any deficiencies are addressed and that knowledge, skills, and abilities stay up to date.

Figure 4: Leadership Philosophy and Competencies Drive Development



Identifying and Rewarding Leadership Competency

As a means of inducing high levels of performance, the GAO recommends that "leaders' performance standards" be aligned "with the agency's shared vision."[22] The competency-based personnel system that has been developed by the IRS for executives and managers accordingly incorporates leadership as well as technical competencies. Through a series of "behavioral event interviews"[23] with the Commissioner and other top officials, 21 separate competencies (such as "adaptability," "communication," "decisiveness," and "leadership/integrity"), representing a blueprint for leadership in the new IRS, were identified and integrated into a Leadership Competency Model (LCM). Each candidate for a management position is required to demonstrate these competencies by citing specific instances in which he or she has behaved in ways consistent with that competency. In the past, consideration of such traits entered the selection and appraisal processes informally, if at all. Too often, individuals promoted on the basis of their technical competence lacked the requisite skills for leading people. The LCM ensures that leadership ability receives formal consideration in key personnel decisions. It further highlights the leadership values being promoted by the agency.

As suggested in Figure 4, the LCM aligns the selection, development, evaluation, and recognition of managers. For example, each of the 21 competencies corresponds directly to one of the five core responsibilities of "leadership," "employee satisfaction," "customer satisfaction," "business results," and "equal employment opportunity" included in the PMS, the appraisal tool for executives and managers. The PMS, in turn, is linked to the Balanced Measurement System (BMS), which includes three categories of measures: customer satisfaction, employee satisfaction, and business results, according to which the performance of all IRS units is assessed. As illustrated in Appendix I, the LCM directly links individual performance with the IRS's strategic goals in these three areas.

Utilizing Workforce Planning Tools to Drive Recruitment and Development Processes

In the past, levels of employment and skill inventories have been determined too often by the vagaries of fiscal cycles and the personal decisions of individual employees. For example, between 1993 and 1999, the IRS went from more than 16,500 revenue agents to fewer than 12,500 without having made a strategic decision to do so. The easiest way to accommodate budget constraints was through workforce attrition. Unfortunately, a decline of that magnitude severely compromised the organization's ability to perform its mission, and audit levels declined significantly. Workforce planning tools have helped the agency focus on the relationship between the level of the workforce and performance. In recognition of the importance of maintaining the number of incumbents in critical occupations at specific levels, the IRS has become more systematic in its recruitment efforts than in the past. In place of the "binge" hiring that was previously the norm, the IRS now hires between 500 and 1,000 revenue agents each year.

That hiring has been made possible in part by a Workforce Renewal Model developed by OSHR. The model forecasts hiring requirements based on projected workload, attrition, and internal migration. The model estimates internal and external candidate availability by location for each major occupational category. For example, the SB/SE Division used the model to estimate future attrition rates for revenue officers, who play a critical role in collecting delinquent taxes. SB/SE determined that about 300 revenue officers would have to be hired in FY 2002 to meet projected needs, 125 of whom would be hired internally and 175 externally. Projections for revenue officers and for the other occupations served as a basis for SB/SE's college recruitment effort in 2001. The IRS is also developing models that project training requirements and link levels of personnel resources more directly to workloads and performance outcomes.

Transitioning the Workforce to a Modernized Structure

Making Managers Compete for Positions in the New Organization

The most dramatic change made as part of the IRS modernization program as been the shift from a functional and geographically based structure to one featuring operating divisions that serve specific customer segments. As part of this restructuring, the Service's regional and district office structure was disbanded and all 50,000 affected employees reassigned to one of four new operating divisions: Wage and Investment (individual taxpayers), Small Business and Self-Employed, Large and Mid-Size Business, and Tax Exempt and Government Entities. In conjunction with the creation of the new divisions, the jobs of executives and senior managers were redefined and multiple management layers eliminated. Twenty-five percent fewer top- and mid-level managers were needed in the new structure,[24] requiring that the IRS determine which managers would be assigned to the new positions.[25] One option was for leadership to simply make unilateral determinations about who would be placed where. Based on a series of focus groups with senior managers, however, and consistent with the new emphasis on performance, the Service determined that the fairest way to fill these new jobs was to conduct an agency-wide competition among those in the top pay grades.

Approximately 1,700 top- and mid-level managers participated in the competition. To obtain one of the positions, a manager had to demonstrate both technical and leadership proficiency. Leadership competency was evaluated according to the LCM (discussed previously). Managers were subjected to "behavioral event" interviews in which they were asked to describe specific instances in which they demonstrated each competency.

The New IRS Structure

Wage and Investment (W&I): This division serves approximately 116 million taxpayers who file individual and joint tax returns.

Small Business and Self-Employed (SB/SE): This division serves the approximately 45 million small businesses and self-employed taxpayers.

Large and Mid-Size Business (LSMB): This division serves corporations with assets of more than $10 million.

Tax Exempt and Government Entities (TE/GE): This division serves employee benefit plans and tax-exempt organizations such as nonprofit charities and governmental entities.

The LMSB was one of the first to "stand up" and, hence, one of the first to interview job candidates. LMSB Commissioner Larry Langdon credits the job competition with helping him and Deputy Commissioner Debbie Nolan to build a cohesive leadership team:

> We had a unique opportunity in LMSB through the restructuring to build a leadership team from ground zero. Both senior service executives and Grade 15 senior

> managers applied for our open positions. We interviewed them using behavioral interviewing techniques, selecting the best candidates in a competitive process. We were able to send some very powerful statements in doing so, not only by the questions that we asked, but by the selections that we made and the competencies that we looked for. The process helped us set the stage for building an organization that is consistent with our vision.

One territory manager in LMSB was generally supportive of the competition, commenting, "I think with the new organization and the new positions, it gave the organization an opportunity to look at people to try to put the right people in the right places. So I didn't have such a problem with it." Others complained about the process. For example, some people with years of experience felt that they should receive credit for their experience and resented the requirement to demonstrate competencies. The IRS effectively dampened some of the opposition by guaranteeing that even those who were not selected would not lose their jobs or have their pay reduced. One manager remarked:

> One thing Rossotti did that had a dampening impact [on the opposition], that he emphasized over and over, was that if you do not get picked for this job, you will not be booted out on the street. You will be put in a pool with transition workers. We will find meaningful work for you. He got around, did videos, etc. There was fear.... 'I'm not going to have a job.' That is a bright spot, in his repeated assurance with people that this is not going to happen. If you are going to have people compete, from a human point of view, it was beneficial. If I don't get picked, I will have work.

Shaping the Workforce through Buy-Out and Retirement Authority

As part of the reorganization, design teams were created to determine the structures of each of the new operating divisions. Geographical "footprints," showing numbers of employees by occupational category in each state and/or metropolitan area, were developed for each of four operating divisions. Most bargaining unit employees and lower-level managerial personnel were "mapped" to corresponding positions in the new structure. These employees were not required to compete for their positions. However, about 3,200 employees remained unplaced after all the transfers were completed. Approximately 330 of these employees accepted early retirement or buy-outs; another 580 were placed when other employees accepted early retirement or buy-outs. Unlike many agencies where early retirement and buy-outs were offered organization wide as a means of reducing headcount, at the IRS these incentives were targeted only to specific categories of employees in locations where staffing imbalances had been identified.

An automated referral system was created to help place the remaining 2,300 "transition" employees. These employees were given temporary work assignments at their existing places of duty pending reassignment. As positions for which they were qualified became vacant, these employees were given permanent work assignments. The IRS also offered to retrain these employees for different occupations and provided career and transition counseling. Consistent with an agreement reached with the NTEU, no employees left the organization or were relocated involuntarily as a result of the reorganization. By the end of 2002, all but 300 of the transition employees had been placed in permanent jobs.

The use of the buy-out and early retirement authorities for workforce-shaping purposes (that is, to allocate resources consistent with the agency's objectives rather than simply to cut headcount) is consistent with strategic HR and human capital principles.

Renewing the Workforce for Improved Performance

Using Critical Pay to Recruit Technical and Organizational Leaders

The IRS's failure in its previous attempt at modernizing its data systems in the early 1990s stemmed in part from an inability to hire individuals with the technical talent required to update a data system as large and complex as that of the IRS. Government pay restrictions generally precluded offering competitive salaries to individuals with the requisite skills. In addition, complex federal rules and procedures for recruiting and hiring hindered the IRS as they hinder many other agencies. The competition for people with education and experience in advanced IT, especially those with executive experience in leading huge IT projects, has been very intense. Even if a federal agency such as the IRS could locate such a highly skilled candidate with an interest in government service, the hiring process would take so long that a competitor would hire the person away before the Service could make an offer.

In addition to the complications in competing and recruiting, the design and authorization of new senior positions in the federal civil service involves elaborate procedures. An agency such as IRS would have to work with the OPM and OMB to attain authorization for a new senior executive position.

To help streamline the hiring process for personnel whom the agency deemed essential in its modernization and reforms, RRA '98 provided the IRS with special "critical pay" authority to hire up to 40 individuals at a rate of pay equivalent to that of the Vice President ($192,600 in 2002).[26] This salary level is substantially higher than the level for members of the Senior Executive Service (SES) (capped at $142,500 in 2002).

With this authority, the IRS has been able to recruit personnel with extensive experience in data systems modernization. For example, the IRS's new chief information officer previously held the same title at AOL Time Warner. The new associate commissioner for business systems modernization gained extensive experience in the management and upgrading of large data systems in his previous work at American Management Systems. The Service has also employed the critical pay authority to successfully recruit its directors of security modernization, enterprise architecture, and e-commerce.

The IRS also has made use of the critical pay authority to fill key leadership posts in the new structure, such as the commissioners of both the Small Business/Self-Employed and Large and Mid-Size Business divisions. Larry Langdon, former general counsel for the Hewlett-Packard Company, was hired as commissioner of the Large and Mid-Size Business division, and Joe Kehoe, former partner at PricewaterhouseCoopers, is the head of Small Business/Self-Employed. John Duder was hired as deputy commissioner of the Wage and Investment division after a career with AT&T. He brought his AT&T experience to the IRS as it modernized its phone systems.

One IRS executive argues that it is at the executive level that the critical pay authority has made the most difference. In this official's view, Langdon, Kehoe, and other outside executives have effectively expedited change by questioning longstanding practices and procedures and by promoting new approaches to doing business. With his long experience in the corporate sector, Langdon has been an effective advocate within LMSB for a less confrontational attitude toward taxpayers than that which prevailed at the IRS in the past. His ideas are highly consistent with those of former Commissioner Rossotti, under whom the agency has devoted a higher proportion of its resources to education, communication, and outreach. Kehoe has brought his private sector experience to bear in modernizing the audit practices used within SB/SE. Commissioner of W&I John Dalrymple comments about Duder:

> He's constantly questioning things that I take for granted. That doesn't mean that for everything that he questions there's a change that's needed or necessary, but he questions things on a constant basis. I find that very healthy for Wage and Investment. That, I don't think, we could have gotten any other way.

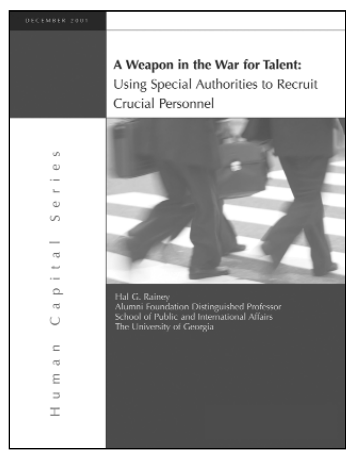
The deputy commissioner of the SB/SE division, Dale Hart, painted a generally similar picture of new perspectives and ideas brought into the agency by the people hired with the critical pay authority. She feels that the critical pay hirees have generally been "extraordinarily healthy for the agency ... by bringing in skills and abilities that we didn't have." She describes Kehoe as having brought leadership and new knowledge about contemporary business practices. His experience with large-scale organizational change, she said, helped IRS executives to understand what an organization goes through during such major reforms and to see what the organization's leadership must do to see the changes through. Kehoe's background has proved of particular value in managing the consultants involved in the reengineering of selected work processes within the division.

In numerous interviews with higher level executives, as well as with middle-level managers, one hears echoes of such testimonials about the value of the people brought into IRS under the critical pay authority. IRS executives and managers repeat the observation that the critical pay hirees have brought fresh perspectives, new knowledge and skills, and an attitude toward progress and change that facilitated the modernization and reform process at IRS.

Of course, the people participating in the interviews tend to have positive attitudes about the reforms and changes at IRS. In the interviews, they often talked about colleagues and, being generally positive and upbeat executives and managers, would be unlikely to speak ill of these colleagues or of an organizational program that the Commissioner and other executives clearly supported. Still, the very positive assessments in interview after interview, even after questions probing for any problems, indicate a consensus at the higher levels in IRS that the critical pay authority has worked out quite well.

To Learn More About Critical Pay Authorities

A Weapon in the War for Talent: Using Special Authorities to Recruit Crucial Personnel by Hal Rainey can be obtained in either electronic version or hard copy:



Electronic version
- In .pdf (Acrobat) format at the Endowment website: www.businessofgovernment.org

Hard Copy
- E-mail the Endowment at endowment@businessofgovernment.org
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- Call the Endowment at (703) 741-1077

Was it perfect? No one in IRS goes this far. Some critical pay hires did not work out. For example, one person was asked to leave fairly soon after arrival, when that person was not fulfilling agreements about what would be accomplished. Another left earlier than planned, as well. At least one external critic has characterized these situations as failures. IRS executives, however, say that early departures were rare and often had to do with family reasons or very competitive opportunities in private corporations at much higher salaries than IRS could pay, even with the new authority.

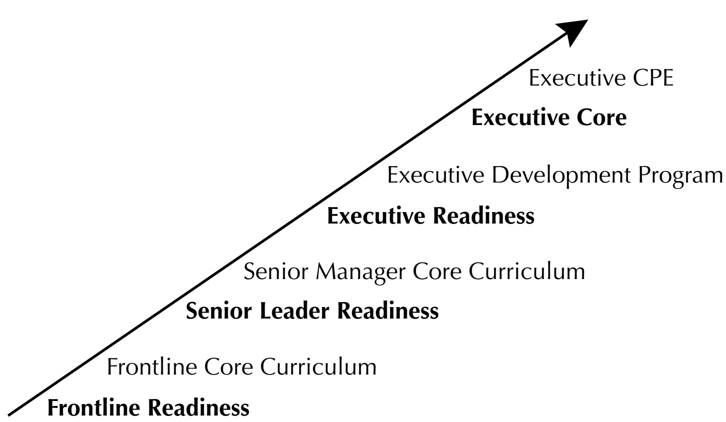
The critical pay authority sparked some additional controversy as well. The president of the Senior Executive Association, which represents the members of the SES, voiced strong opposition to the use of the critical pay authority. She expressed the concern that bringing in executives from the private sector, placing them over career members of the SES, and giving them much higher salaries would penalize SES members for long careers of loyal service. It is certainly important to defend loyal career civil servants from unfairness, and this issue needs attention in any extension of the critical pay authority. Probing for resentments in interviews with IRS employees, however, one finds few people who express any sharp resentments of the critical pay hirees or who report resentment on the part of others.

The critical pay authority gives more freedom and flexibility to executives in IRS to hire the individuals they want. This obviously and immediately raises concerns about accountability for the use of the new authority. In this regard, it is important to point out that the new authority by no means grants an open-ended free hand to IRS executives to hire anyone they want without justification or safeguards. According to IRS staff members who work directly with candidates during the hiring process, these candidates go through the typical, elaborate set of checks and reviews for persons who are job candidates at the IRS. These steps include financial disclosure, review of recent tax returns, and background investigation, with attorneys from the Treasury Department and the IRS keeping a close eye on the process. In addition, external oversight authorities can and do look into the use of the authorities. For example, the Joint Committee on Taxation of the Congress required the IRS to submit a report on their utilization of the critical pay authority. Extensive provisions, then, are in place for accountability in the use of these authorities.

Planning and Managing Leadership Succession

The GAO states that high-performance organizations "must have a succession planning strategy that ensures a sustained commitment and continuity of leadership even as individual leaders arrive and depart."[27] In recognition of the importance of leadership continuity to a high level of organizational performance, the IRS has developed a structured approach to identifying and training future leaders.

Figure 5: Succession Development Framework



Four leadership levels have been identified: employee, frontline, senior, and executive. As shown in Figure 5, the Frontline Readiness program prepares employees to serve in any of the 6,500 frontline manager slots. The Senior Leader Readiness program trains those frontline managers seeking advancement to the senior manager level. There are 1,500 senior manager positions Service-wide. Finally, the Executive Readiness program prepares senior managers to serve in any of the approximately 250 SES positions. According to Krieg:

> The plan is that there will be a very limited number of ad hoc announcements in the future. If you want to become a manager or if you want to move up the management chain, the way to do it is to compete for these programs. We think it will not only let us have ready folks in the waiting, but it will accelerate our ability to fill these jobs.

Each of these programs incorporates both on-the-job training and either classroom or online coursework. Thus, for example, those in the Senior Leadership Readiness program take courses such as "Leading Leaders" and "Leading Change" while simultaneously working with a mentor to improve job performance. Each course is designed to support the development of the 21 competencies associated with the LCM.[28]

To facilitate the identification and development of organizational leaders, the IRS has built its own web-based planning tool to help individuals and organizations map out succession strategies. The system includes both a "top-down" element, whereby critical positions are designated and prospective candidates for those positions identified, as well as a "bottom-up" element, whereby members of the executive and management corps communicate their career goals and interests to their senior leaders. As part of this process, the operating divisions create "depth charts" listing prospective job candidates by position. Candidates for each position are categorized into those ready for promotion, those who will be ready in two years, and those who will be ready in three to five years. Each operating division is responsible for identifying prospective leaders, and the Senior Manager Resource Board and the Executive Resource Board oversee the process in conjunction with the Leadership and Organizational Effectiveness Unit within OSHR.

Employing Modern Recruitment Techniques

Because of budget constraints and downsizing directives, the IRS had not hired significant numbers of entry-level professionals for almost a decade before 2001. Critical losses in key, mission-related areas resulted. With those losses, with the impending retirement of large numbers of "baby boomers," and with expanded employment in some occupations as a consequence of modernization, a substantial increase in recruitment activity has been required.

One of the occupations for which the IRS is recruiting is revenue agent. Consistent with the skill requirements of this position, the IRS has targeted its revenue agent recruitment efforts toward recent accounting graduates. Competing with the "Big Four" accounting firms for highly skilled individuals in a competitive job market has necessitated the development of a sophisticated recruitment strategy. With the assistance of an outside firm, focus groups were conducted with current IRS employees and with students and professors to identify those elements of key IRS occupations that could serve as the basis for an advertising campaign. The focus groups revealed some misunderstanding about the types of jobs performed by IRS employees and also helped developers of the recruitment campaign identify those job elements most likely to appeal to new graduates. The recruitment strategy also was influenced by information from surveys on the general job attitudes of new labor market entrants, revealing that younger workers are much less concerned about job security than were preceding generations of workers. The advertising campaign that was developed included both print and Internet elements and conveyed to prospective applicants the opportunities available at the IRS for challenging work and personal growth.

The advertising effort has been supplemented by an expanded recruitment presence on college campuses. Twenty-seven full-time recruiters have begun to attend job fairs and make recruiting visits on behalf of the operating divisions. A number of executives have volunteered to establish relationships with their alma maters or schools in their areas.

The recruitment strategy for FY 2001 was highly successful. Of a total of approximately 1,800 external applications received for the position of revenue agent, 441 were rated "superior." Of these, 361 were hired. Selective use was made of the recruitment and relocation incentives authorized in RRA '98 to fill positions in high-cost-of-living areas and/or areas with highly competitive labor markets. Eighty-three recruits were offered recruitment bonuses averaging approximately $9,000 each. Moving expenses were paid for 23 hires.

Expediting the Hiring Process through Category Rating

The hiring of new revenue agents was expedited by the use of the category rating authority made available to the IRS in RRA'98. Traditional government hiring procedures are slow and burdensome to both agencies and applicants. Previously, applicants for the revenue agent position took a six-hour exam that assessed social, accounting, and reasoning skills. It usually would take several months to grade the exam, at which time those receiving top scores could be called in for interviews. Often, of course, these individuals had found other employment by the time they heard back from the IRS.

The new approach is much more expeditious. After a structured interview, those qualified for the position are assigned to one of three categories ("qualified," "high," and "superior"). Those in the superior category can be offered a position once the categorization process, which takes a matter of weeks rather than months, is complete.

To be assigned to the "superior" category, a candidate must meet one of three benchmark indicators (for education, experience, or professional certification) and score well in the structured interview, which includes a writing sample, general competency questions, and technical knowledge questions. General competencies include verbal and quantitative reasoning and social and motivational skills; technical competencies are those relating to accounting and auditing.

Any of the candidates in the "superior" category can be hired without adhering to the Rule of Three. Traditionally, the selecting official had to choose from the three top scorers even if, in his or her judgment, others with slightly lower scores could better perform the job duties and contribute to organizational success. According to Krieg, "the primary advantage is that you are not restricted to the Rule of Three. Once you've identified people and they've gotten through the assessment and they're Category A, everyone in that group can be offered a job." Veterans receive preferred status under categorical hiring, just as they did with the Rule of Three. With category rating, veterans rise to the top in whatever category they are assigned.

There are constraints on who can be hired. Candidates in the "superior" category must be selected before candidates in a lower category can be considered, and veterans must be hired first. Generally, however, the new process is faster, places less burden on the applicant, and allows more discretion on the part of the selecting official than traditional government hiring processes. The new approach has increased the applicant pool, reduced the length of the hiring cycle, and facilitated the hiring of high-quality applicants for key positions, thereby contributing to the success of the recruitment initiative.[29]

Investing in Employee Training and Development for Enhanced Capacity

Expanding the Job Scope for Frontline Positions

The changing skill requirements for IRS employees are apparent in the creation of three new frontline positions intended to improve compliance through expanded outreach and education and to improve service by providing a single point of contact for the resolution of tax issues. The IRS traditionally has had separate functions for answering taxpayer inquiries, clarifying and correcting tax returns, and collecting unpaid taxes. Taxpayers often had to be referred to multiple offices to get a problem resolved. Problem-solving days, on which employees from multiple functions collectively help resolve taxpayer problems, are one way of addressing the problem. The creation of three new frontline occupations of tax outreach specialist (TOS), tax resolution representative (TRR), and tax compliance officer (TCO) is another.

The TRR position will replace the customer service representative (CSR) at the agency's walk-in sites. One official explained the rationale behind the TRR:

> Previously we had CSRs in walk-in offices. If a taxpayer had a complicated question,

New Frontline Service Positions

Tax Resolution Representative (TRR)
In W&I walk-in, primarily responsible for resolving examination and collection issues related to pre-filing, filing, and post-filing processes; conducting examinations of individual tax returns and/or an analysis of the taxpayer's financial condition and related operations; providing technical tax advice and tax-related accounting assistance to the taxpayer; and providing tax law advice and procedural assistance to the taxpayer.

Tax Outreach Specialist (TOS)
In W&I and SB/SE, primarily responsible for providing technical tax guidance and tax-related accounting consultation and the services related to pre-filing and filing processes for taxpayers, stakeholders, and partners; conducting surveys, studies, and focus groups to determine the effectiveness of existing agency tax specific products, services, and communications; customizing communication materials to assist and influence voluntary tax compliance within specific taxpayer segments; and serving as a liaison among IRS functions in conducting and performing compliance outreach activities, education, and volunteer programs.

Tax Compliance Officer (TCO)
In SB/SE, primarily responsible for the planning and conducting of examinations and related investigations of individual and business taxpayers to determine federal tax liability as well as conducting analysis of the taxpayer's financial condition and related operations.

> the CSR would have to call a revenue agent or officer to the front counter or take the information and give it to someone else to respond. Taxpayers were often frustrated, didn't receive an answer, and/or received an incorrect answer. The intent was to put in place an individual with extensive technical know-how to answer the more complex questions.

A "fact sheet" prepared by the agency describes the rationale for the three positions:

> As we move into the "new IRS," employees must become more proactive consultants, advisors, and advocates to the customers they support. Employees in the new positions must be able to interact with customers and serve as the single point of contact to resolve both general and technical customer issues.

Employees in the tax specialist positions will serve an outreach function and will partner with businesses to educate employees about the tax law before the actual filing of tax returns. The TCO positions represent an upgrading of the previous tax auditor position, which had traditionally been assigned less complex audits, freeing the revenue agents up for the more complex audits. Whereas the tax auditor position had no education requirements, TCOs are now required to have accounting training.

According to Krieg, the tax outreach specialists focus on pre-filing activities, consistent with the philosophy of tax administration promoted by former Commissioner Rossotti:

> They are designed to do marketing and to educate the taxpayer community. Their goal is to come up with initiatives as well as to put materials together for new small businesses. If we see we have problems in a particular type of small business, they will work with that community to assist in the pre-filing and filing so that compliance never has to deal with them.

All three positions require a higher level of skill than did the predecessor positions. Incumbents must have the equivalent of at least six credit hours of accounting training for journey-level, and 12 hours of accounting training for the highest graded positions in each occupational category. Employees transitioning to the new jobs can meet this qualification by passing an exam. Those not able to demonstrate accounting competency are being provided training through new e-learning technologies at the agency's cost and on the agency's time (see the discussion of "Partnering in the Provision of World-Class Training").

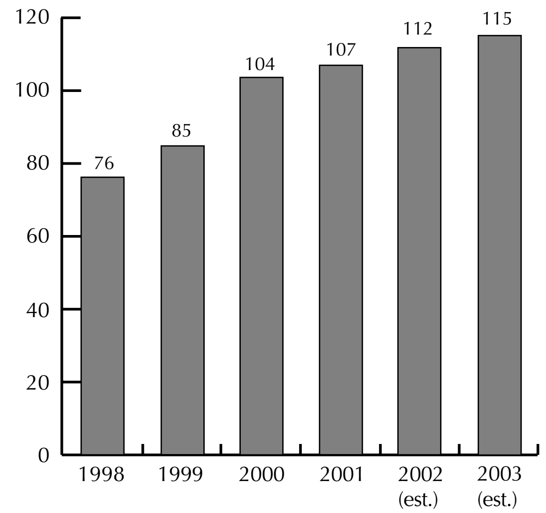
In upgrading the requirements for these positions, the IRS extended the job series to afford employees the opportunity to achieve higher levels of competence and to provide greater value to the organization. The new positions represent a "win–win" outcome for taxpayers and employees. The taxpayer can have his or her problem resolved more quickly, and employees are provided the opportunity to upgrade their skills and attain higher positions in the same job series.

Partnering in the Provision of World-Class Training

Those filling the new frontline service positions at the IRS will acquire the needed job competencies via an expanded training effort that incorporates new e-learning technologies. The IRS has entered into a partnership with a consortium of 16 universities to provide employees with world-class, accredited technical training in areas such as accounting, IT, and tax law. Pursuant to this partnership, the consortium assists IRS operating divisions by analyzing their learning needs and designing customized courses, as well as by actual course delivery.

The Accounting Competency program is an example of the benefits that this consortium has provided. Individuals filling the positions of tax resolution representative, tax specialist, and TCO are now required to have the equivalent of six credit hours of accounting training and 12 hours for the highest graded positions in each job series. In FY 2001, accounting training was made available through the consortium to all employees transitioning to these new positions. The training was provided at the agency's expense and on the agency's time. As of late 2001, more than 1,000 employees have either completed or were enrolled in web-based accounting courses through the IRS university

Figure 6: IRS Training Dollars (Dollars in millions)



consortium. Approximately 85 percent of those who have completed the course have passed it.

The university consortium is one vehicle for implementing the IRS's new e-learning strategy. The four courses that comprise the Accounting Competency Training program are delivered entirely online. Students receive a textbook, a study guide, and other materials, but "attend" class, communicate with the instructor, and hold discussions with other students entirely via the Internet.

According to Barnett, initially there was some "pushback" from employees who preferred traditional classroom training. Dalrymple was able to obtain a change in policy to allow employees the choice of taking the courses in a classroom or online. Ultimately, however, says Barnett, "not that many people jumped ship and went to the classroom." Barnett adds, "It's a cultural change for my staff as well as for our employees and managers. The fact that you don't go to a classroom to learn something makes people feel like they're not being trained. What we've noticed, people are beginning to recognize that 'Oh yeah, it *is* training'."

With electronic delivery, training dollars can be redirected from the cost of travel that often accompanies classroom training to actual course delivery. The Service estimates that in the past, as much as 70 percent of the training budget was spent on travel and only 30 percent directly on training. The objective is to reverse those percentages by 2007. This, coupled with the significant increase in training dollars over the past five years, as shown in Figure 6, will result in a dramatic increase in training hours delivered.

O'Malley says that the new e-learning strategy has helped his organization cope with recent budget assessments. O'Malley commented:

> When we had to cut the training budget in FY 2002, we did not have to cut large portions of our CPE [continuing professional education] curriculum because it was delivered electronically. If we had certain sections delivered by a classroom, we would have had to cut CPE for maybe a quarter of our workforce in order to balance the books. We had a cost-efficient delivery medium in place, so we were able to protect most of the CPE from the budget cutters.

The new strategy also promotes the sharing of learning resources across business units via development of an electronic repository for training materials. For example, training in the tax treatment of depreciation is needed in six different occupations. Previously, a dozen different instructors might be developing courses on the subject. Pursuant to standards developed by a new curriculum design and development team, all course materials henceforth will be placed in a repository readily available for course developers.

Supporting Employee Development and Growth

In conjunction with a general expansion in training hours and dollars, the IRS has created a Human Resource Investment Fund (HRIF). The HRIF, established in partnership with the NTEU, is a source of funding for training that may not directly relate to an employee's current job. The intent, consistent with the human capital perspective, is to encourage employees to obtain new skills and knowledge that can help them progress to higher and more demanding positions. One official described the purpose of the HRIF as follows:

> This really says to our employees, "not only do we care about your development in your current job, we also want to give you the opportunity to develop the things

> that you think are your next career move." Right now, most of our training budget goes to developing people in their current jobs and, generally, that's how it's spent. What the HRIF allows us to do is, for example, if I'm a secretary and I say, "I have an interest one day in becoming a revenue agent," I can apply under the investment fund to get accounting credits.

Before the establishment of the HRIF, employees were provided training and educational assistance only in direct support of their current jobs. Pursuant to the agreement with NTEU, any training or educational program that is mission related can be funded. The fund is intended to help the agency gain new capacities and flexibility as a result of enhanced employee skills.

In FY 2000, the IRS set aside 2 percent of its training budget for the HRIF, amounting to more than $2 million. More than 4,000 employees applied for funding, of whom approximately 2,000 were accepted. These employees participated in one of three pilots: the Accounting Competency program, the Information Systems Investment Fund, or the Career Growth program. Pilots funded for 2001 are a Masters in Business Administration/Masters in Taxation program and a Foreign Language program to develop bilingual skills. The HRIF encourages employees to develop new skills and take ownership of their careers. As one official commented, "It's telling employees that education is important, and we really believe that it's not necessarily just tied to what you do today, but it's helping you choose a new career path for tomorrow."

The HRIF complements the Service's new recruitment initiative. Market research has shown that prospective employees place a high value on career development and, hence, on the types of opportunities that the HRIF provides. It further embodies the human capital concept that organizations stand to gain by treating employees as assets rather than as costs.

Heightening Performance and Maintaining Accountability

Developing Technical as well as Organizational Leaders: the Senior Leadership Service

In modernizing the structure and identifying and defining the roles and responsibilities of different units, it became apparent to IRS leadership that a number of new high-level positions would be required to accommodate the technical demands of modernization, including the modernization of data systems and the move to electronic forms of service delivery. Such a requirement usually would be addressed by seeking an increase in the allocation of SES slots from OPM. However, many of the new positions are technical and professional rather than executive in nature and, hence, are not technically "executive" level.

Rather than redefining the positions by adding supervisory and executive responsibilities, the IRS employed the "streamlined" demonstration project authority included in RRA '98 to create a separate category of senior executive position to be called "senior professional."[30] Both senior professional and senior executive positions will be combined in a new Senior Leadership Service. Positions with significant line management leadership responsibilities will be designated "senior executive," whereas executive positions with technical and professional leadership responsibilities would be designated as "senior professional." Most of those in senior professional positions will be in mission-support functions, such as IT, HR, research and analysis, and financial management. Pay levels for the two sets of positions will be comparable. Creating a "dual track" in this way will allow senior professionals to receive the compensation they deserve without creating a management structure around them. This helps hold down costs by avoiding the creation of unnecessary management layers. The Senior Professional Corps also will allow staffing and compensation flexibility and will provide a means of rewarding superior technical and professional expertise without imposing managerial leadership responsibilities. The IRS anticipates that the new structure will facilitate recruitment of senior technical leaders. Pay will be more closely tied to performance to facilitate the retention of high performers and the departure of poor performers.[31] The separate classifications also will serve to reinforce the original intent of Senior Executives as a corps of mobile, executive leaders. Under the demonstration project authority, the project has a life of five years, after which it will be reviewed and a determination made as to its future.

Linking Pay to Performance through Paybanding

The RRA '98 authorized the IRS to implement a paybanding system. Paybanding allows managers much greater flexibility in classification and pay decisions than does the traditional General Schedule (GS)—flexibility that can be utilized to reward and, hence, motivate high levels of performance. The system further creates direct linkages between pay, individual performance, and organizational performance and, hence, keeps employees focused on the agency's strategic objectives.

Figure 7: Senior Manager Compensation Plan (2003)

Senior Manager Payband	SM-1 72,381	SM-2 75,879		SM-3 79,545	SM-4 83,389		SM-5 87,419		SM-6 91,643		
G-15						15/1 85,140	15/2 87,978	15/3 90,816		15/4 93,654	
G-14	14/1 72,381	14/2 74,794	14/3 77,207	14/4 79,620	14/5 82,033	14/6 84,446	14/7 86,859	14/8 89,272	14/9 91,685	14/10 94,098	

Special Assistant for Compensation Strategy Chuck Grimes describes a design process involving a best practices study by the Hay group, gathering ideas about what people wanted in the pay system from monthly meetings of a Performance Management Executive Council, and focus groups of managers. Senior managers described in focus groups what they did not like about the pay system and repeatedly expressed what Grimes describes as "a fairly universal feeling": the managers felt that the excellent performers did not receive better pay increases than those who were "barely breathing." The Performance Management Executive Council also strongly endorsed the principle of rewarding better performance with better pay. At the time, there were provisions for quality step increases and bonuses, but these offered very limited rewards. There also was a strong emphasis on spreading the reward money around evenly. The OSHR team sought to design a system that would remedy this situation.

As shown in Figure 7, the IRS's new senior manager pay band consolidates two general schedule salary grades (GS-14 and GS-15) into one. The principles on which the new system is based include the following:

- Higher levels of performance will result in higher pay. Managers progress from step to step within the band only if their rating under the PMS meets or exceeds certain standards.
- The higher the pay, the higher the performance expectations. The standard for moving up a step within the band increases the higher up a manager is. A manager can move from step 1 to step 2 with two "met" expectations ratings over a two-year salary review period but can move from step 9 to step 10 only with a combination of "exceeded" and "outstanding" performance ratings over two years. Increasing the performance "bar" in this way will ensure that only outstanding managers advance to the top of the pay band.
- Longevity no longer matters in managerial compensation. The rules that govern the senior manager pay band contrast with the traditional approach, in which step increases were based primarily on longevity.

Traditionally, a disproportionate number of managers have been rated in one of the top two ratings categories, making the distinctions and the associated awards less meaningful. To address this problem, the IRS has provided each division with a "point budget" with four points awarded for each senior manager. For an "outstanding" rating, the division must spend six points of its budget. An "exceeded expectations" rating costs four points, and a "met expectations" rating costs two points. This system places restraints on the number of high performance ratings that can be awarded.

Barnett comments:

> It's still a cultural change. The reality in the IRS has been that if a manager got a 'met' appraisal, there was probably something lacking in the performance. The new reality is that a 'met' means a manager is doing everything expected—that is still a big cultural change. We're trying to enforce

SM-7 97,071		SM-8 100,713	SM-9 105,580		SM-10 110,682
15/5 96,492	15/6 99,330	15/7 102,168	15/8 105,006	15/9 107,844	15/10 110,682

> the new standard in W&I, but there is still some resistance.

Each division now has a Performance Review Board (PRB) made up of executives and senior managers to actively manage and monitor the pay-banding system. The PRBs review the performance ratings to ensure consistent application across the divisions, evaluate the ratings against the performance of the organizational unit, compare the ratings to the overall point budget, and forward reports to the commissioner of the division. Each commissioner, in turn, reviews and approves the PRB report. As necessary, the commissioner can reallocate points within the division, and request additional points from the deputy commissioner of the IRS, who can allocate additional points as warranted.

To enhance the effectiveness of the system, the IRS has made pay differentials more meaningful. "In 2002, outstanding managers could receive as much as $4,900 in bonuses, compared with only $2,400 in 2001.

In 2001, the payband structure used for senior managers was extended to managers in IRS service centers and call centers. Salary grades GS-11, GS-12, and GS-13 have been consolidated into a single 16-step department manager payband. The requirements for progressing to a higher step within the band are similar to those for senior managers.

The pay and classification flexibility afforded by the senior and department manager paybands expedited the reduction in management layers that accompanied the organizational restructuring.

IRS Senior Manager (SM) Payband Performance Awards

- Based on the SM's annual performance rating—payout expressed in terms of "shares"
- Award pool is established at 2% of aggregate SM salaries, divided into performance bonus (90%) and special act (10%) pools
- Share value is determined by dividing the SM performance bonus pool by 4 shares per SM
  - Example: SM bonus pool is $2.7M for 1,500 SM (6,000 shares)
  - $2.7M divided by 6,000 = $450 per share (this share value applies servicewide)
- Performance bonus and special act pools are allocated to business units on a pro-rata salary basis—the pool funds are fungible for a given payband
- Once the business unit has allocated minimum bonus shares for Outstanding ratings, the business unit can allocate remaining funds as it sees fit
- See chart below—using $450 per share, a Level IV SM with an Outstanding rating would receive a minimum bonus of 8 shares at $450 per share or $3,600

Performance Bonus Share Minimums by Rating, SM Level

Rating	Level I (Steps 1–2)	Level II (Steps 3–6)	Level III (Steps 7–8)	Level IV (Steps 9–10)
Outstanding	6 shares	6 shares	7 shares	8 shares
Exceeded	Optional—must be less than for Outstanding			
Met	No Bonus (Exceptions by Division Commissioner)			

Approximately 400 mid- and top-level management positions were eliminated in the process of collapsing management layers by half. Managers who had previously been segregated into separate GS-14 and GS-15 grades were placed into a single senior manager band, thereby eliminating hierarchical distinctions and permitting the agency greater flexibility in making assignments. Any manager in the senior manager band could be appointed to any senior manager position. A similar dynamic prevailed with regard to the department manager payband. As a result of the reduction in management positions, the IRS was able to fund additional frontline positions and thereby improve service to taxpayers.

In June 2002, the Hay Group completed an evaluation of the senior manager paybanding system.[32] The evaluation concluded that the new system does link compensation to performance, eliminates longevity-based increases in base pay, and supports the concept of equity by recognizing and rewarding high performance with biennial step increases and performance bonuses. The evaluation further concluded that the system provides better rewards than the GS system to those who meet or exceed their performance rating requirements. In addition, the new system assisted the Service's realignment from a geographically based structure to a business-based architecture and was cost neutral.

According to the Hay Group, senior managers have expressed some concerns about the new system, such as the concern that the higher requirements as one moves up the steps actually put the better performers at a disadvantage as they move up, compared with those at lower levels. The Hay Group evaluation also noted that it is too early to conclude that base pay increases and performance bonuses are linked to organizational performance.

It is a lot to ask that a new paybanding system, involving dramatic changes from the previous system, display immediate and striking success. The IRS paybanding system, clearly a very innovative one, has met some of its preliminary objectives and will require further evaluation in the long run.

Distinguishing Levels of Performance through the Performance Management System

The value of the new paybanding system is heavily contingent on the effectiveness of the IRS's new PMS, which provides a means of assessing individual performance. Consistent with the practice of leading private sector firms, the PMS is designed to "create a line of sight between the contributions of individual employees and the organization's performance and results."[33] Under this system, a manager's pay is increased in direct proportion to the contribution he or she makes to the achievement of organizational objectives. To ensure that pay decisions are based on a credible and accepted performance appraisal process, the implementation of paybanding was delayed a year pending development and implementation of the PMS.

Under the PMS, the performance of IRS executives and managers is appraised along two dimensions. "Responsibilities" correspond to the organization's core values and performance measures in the areas of employee satisfaction, customer satisfaction, business results, leadership, and equal employment opportunity. These link to the LCM and serve as the basis for assessing ongoing, day-to-day behaviors. In addition, executives and managers identify personal performance "commitments," which link directly to the business objectives of each unit and acknowledge individual accomplishments that promote those objectives. In essence, responsibilities relate to how the job is done on a day-to-day basis, and commitments pertain to what is done—often expressed in terms of specific projects or objectives. Under the new senior manager and department manager paybands, managers and executives are eligible for rewards exclusively on the basis of performance management outcomes.

Barnett said about the PMS and paybanding:

> What it is doing for us, I believe, is enabling us to drive to real pay for performance. I know in Wage and Investment we are actually looking at our ability to reward the people who perform all of the balanced

> measures to the highest degree. This means we're very seriously looking at how they performed in business results and customer satisfaction and employee satisfaction. Because of the payband structure, we look across the functions at our senior managers as a group, and I think that's very healthy.

Managers attempting to implement the PMS have to contend with provisions of RRA '98 that prohibit the use of "tax enforcement results" to evaluate employees.[34] That provision of the law was a direct consequence of findings during the 1997–1998 Senate Finance Committee hearings that revealed that numerical quotas imposed in some IRS offices had contributed to the abuse of taxpayers by revenue officers. The IRS has interpreted the law as prohibiting all use of numerical measures for evaluation purposes. As a result, managers' "commitments" must be expressed in terms of actions rather than results. One manager commented:

> We're trying to get away from numbers. And we're all learning how to evaluate people without absolute numbers. Sometimes in the attempt not to use numbers we get a little too general, I think. And I find my managers constantly saying, "What do they want?" "What do they want us to say?" It's been a learning process.

In partnership with the NTEU, the IRS has rewritten the performance standards for all nonmanagement employees. Frontline employees are being appraised according to new "critical job elements" (CJEs), which have been rewritten to reflect the strategic goals set forth in the new Balanced Management System. Previously, the principle focus was on "business results." Now, of the five categories of CJEs, two correspond to the "customer satisfaction" goal, two to the "business results" goal, and one to the "employee satisfaction" goal. The employee satisfaction goal states that "the employee supports the workplace climate where ethical performance is paramount and everyone is treated with honesty, dignity, and respect, free from harassment and discrimination."[35] Any employee not meeting this or the other CJE standards can be dismissed.

Lessons Learned and Recommendations

Over the last five years, the IRS has invested a large quantity of time, energy, and resources in developing a state-of-the-art HR program. That program, headed by the new OSHR, has provided critical support as the agency has gone through one of the largest and most comprehensive restructurings in the history of the federal government. Among the support functions provided have been those identifying the competencies associated with new jobs, developing the systems needed to support new objectives and new modes of operating, engineering the transfer of personnel from the old to the new structure, and finding and bringing on board individuals with the skills needed to bring the systems modernization to a successful conclusion.

The IRS has incorporated into its HR program elements identified by the GAO as critical to effective performance in the current environment. The IRS also has demonstrated how HR programs can be tailored to an agency's particular needs. Most of the programs described here were developed for the explicit purpose of enhancing the prospects for a successful outcome of the agency's modernization effort.

The IRS experience takes on larger significance in the context of efforts to reform the civil service system as a whole. One key IRS flexibility, category rating, has already been extended throughout the government with the Homeland Security Act of 2002. That same law provided agencies with permanent authority to offer buy-outs to their workers for workforce reshaping purposes. It is quite possible that the availability of other IRS flexibilities will be broadened as well. Both of the incoming chairs of the Senate Committee on Governmental Affairs and the House Committee on Government Reform have expressed an interest in overhauling the government's HR processes.

There are reasons for caution, however, in assuming that positive outcomes will necessarily result from simply granting agencies additional flexibilities. The GAO has noted that many agencies do not take full advantage of the flexibilities already afforded them. Apparent from the IRS experience is that structural flexibility is a necessary but not sufficient condition for effective performance. Of critical importance to the successes achieved at the IRS has been the leadership provided at multiple levels.

Former Commissioner Rossotti has played the most important role. He employed the flexibilities that Congress provided to create an executive team capable of bringing about the needed changes. This included both individuals from the private sector, such as Kehoe of SB/SE, Langdon of LMSB, Elaine Petschek of Tax Exempt/Government Entities, and Duder of W&I, as well as IRS career executives such as Deputy Commissioner Bob Wenzel, Assistant Deputy Commissioner David Mader, Dalrymple, Hart, and Nolan, who know the inner workings of the agency. In addition, Rossotti followed a practice of pairing the newcomers with experienced careerists in order to couple the new with the old and to bring to bear on the modernization initiative the knowledge and abilities of a highly talented workforce. Rossotti even recruited career civil servants with reputations for innovation from other agencies. Sanders, former chief HR officer, had previously served as head of the Civilian Personnel Management Service at the Department of Defense.

With Rossotti's leadership and the sense of urgency with which he approached the modernization effort, the new executive team took on projects that few other executive teams would be willing to face. It is unprecedented for a government agency to require its entire contingent of senior managers to compete for their jobs. With the Senior Leadership Service, the IRS team took an idea that had languished since first being put forth by OPM and made it happen. Although other agencies have put pay-banding, category rating, or workforce planning initiatives into effect, none has managed all these initiatives simultaneously while undergoing one of the most extensive structural reconfigurations in the history of the federal government.

Lessons Learned

Based on the IRS experience, there are four valuable lessons for other government organizations:

- **It is important to accompany flexibilities with measures that enhance chances for effective implementation.** Foremost among these is the appointment of a leader who has an interest in and knowledge about management issues as well as the fortitude to promote new organizational values and processes. Also key are the resources to enable the retention of contractors and consultants to both provide technical expertise and drive the change process internally.
- **The accomplishments of IRS are in no small part attributable to the creation of a knowledgeable, engaged, and effective leadership cadre.** This cadre was built, not born. Commissioner Rossotti and Deputy Commissioner Wenzel effectively leveraged the structural changes to redefine jobs and to put in place a set of players who actively supported the transformation. The critical pay authority, as well as the job recompetition, was critical in this regard.
- **An early determination to have an open and transparent implementation process proved vitally important.** Important stakeholders, including those representing IRS employees, were involved in all key HR policy decisions through the Human Resources Executive Committee. This helped promote acceptance among employees.
- **The comprehensiveness and coherence of the program were critical factors. The overriding lesson of the IRS experience is the importance of an integrated, coherent, and comprehensive organizational strategy in support of which an HRM system can be designed.** By employing the various devices identified in this report, Commissioner Rossotti and the top leadership team ensured that the HRM changes were consistent with and in support of the organizational changes. Whether or not they personally supported all the changes, employees and managers throughout the organization understood the direction that Rossotti was taking the organization and the rationale behind it.

Recommendations to Policy Makers

1. Provide new tools but make sure those for whom the tools are intended are skilled in their use.

1a. Support agency reform initiatives with specific legislative mandates that are designed participatively.

The IRS experience thus highlights the importance of coupling structural flexibilities with measures that enhance prospects for getting leaders who know how to put those flexibilities to effective use. Many of the measures that Congress included in IRS RRA '98, such as personnel flexibilities and the five-year term for the Commissioner, were important enablers in this regard. Some of these measures, such as the personnel flexibilities, were proposed by an IRS task force and accepted by Congress, in an example of participative decision making between the administrative and the legislative branches.

1b. Consider extended, fixed terms of appointment for agency reform leaders.

1c. Emphasize management qualifications in evaluating candidates for agency leadership, especially where reform and modernization are priorities.

The five-year term for the Commissioner provided in the legislation made it more likely that an individual of Rossotti's caliber would take the job and provided sufficient time for him to get the modernization off to a successful start. Similar provisions should be extended to other agencies in which modernization considerations are preeminent.

Rossotti was the first IRS Commissioner whose primary qualification for the position was management rather than tax law expertise. The acknowledgement on the part of policy makers that individuals heading agencies in which management issues are of preeminent importance should have a high degree of management expertise is itself an important step. The IRS Oversight Board, which played a role in the selection of a replacement for Rossotti, has been an important advocate for professionalism in the position. The nomination by President Bush of OMB Deputy Director for Management Mark Everson as the new IRS Commissioner is a positive step in this regard.

Senator George Voinovich has also promoted the idea that those appointed to high-level positions in the major government agencies should have management qualifications. His initiative to have nominees for these positions questioned about management issues is a good one. It not only makes it more likely that qualified individuals are appointed to these positions but sends a message to the President and the executive branch generally that Congress cares about these matters.

2. Congress and the President should make critical pay positions available to other agencies that are engaged in large-scale organizational modernization.
The IRS experience indicates important provisos for the dissemination of critical pay authorities. In the IRS, top leadership devoted careful attention to the utilization of these authorities and aligned the use of the authorities with strategic vision and priorities. As described earlier, there were extensive provisions for checks and reviews to ensure accountability in the use of the authorities. IRS leadership carefully integrated the critical pay appointees into the organization, in part by pairing them with experienced career executives.

Recommendations to Agencies

1. Partner with outsiders to obtain new competencies or to extend existing ones.

In upgrading personnel policies and practices, policy makers and agency heads should take full advantage of the expertise available from the private sector. The IRS made extensive use of consultants to assist in identifying and implementing best practices from the corporate community. For example, the IRS brought in a marketing consultant to help develop a strategy for recruiting recent college graduates. The consultant organized focus groups with IRS employees, professors, and students to identify those aspects of IRS employment that would appeal to potential recruits. The university consortium has proved an effective vehicle by which the IRS has been able to leverage the teaching and knowledge resources of the university sector for its own training and development purposes. In most instances, the consultants have worked in partnership with IRS employees and have thereby helped the agency gain important and new competencies.

2. Change the entire system, not just individual pieces.

To change how people in an organization think about and approach their jobs is a daunting challenge. A key element of the successes achieved at the IRS is the comprehensiveness of the changes that have been made. Change in any one element of the HR system, such as pay, succession planning, or performance appraisal, is unlikely to cause participants to change deeply rooted attitudes. It is unlikely, however, that these attitudes can withstand simultaneous change in all elements of the HR system as well as changes in management systems, job responsibilities, reporting relationships, and technology.

Comprehensive change is more difficult to manage than are more incremental approaches. Organizations choosing this approach need to enhance management capacity by taking full advantage of both internal and external resources. Internal resources include rank-and-file employees. Many of those working in the OSHR were pressed to the limit to keep up with all the varied initiatives they were asked to manage. Consulting groups provided important support for these efforts.

3. While changing the entire system, pay careful attention to the pieces.

Thinking and working systematically, of course, means working skillfully on the components of the system. The previous sections of this report describe numerous lessons and challenges in the

IRS experience in overhauling various components of its HRM system. These, in turn, were coordinated with changes in the broader organizational system (such as the structural redesign). Space and time constraints preclude a restatement and summarization of all of them, but among many examples are the following:

3a. Separate the strategic HRM functions from the more routine and widely shared functions.
As described previously, IRS executives said that the separation of strategic HRM from Agency-Wide Shared Services (AWSS) enabled strategic HRM to focus more clearly on long-term and comprehensive strategic issues. This, in turn, facilitated the development of strategic approaches to workforce planning and development. At the same time, strategic HRM functions were "mirrored" in offices in the new operating divisions. The managers reported feeling more enabled to stay in touch with people in the field in their divisions. Still, the new HRM design posed challenges, such as those encountered in establishing AWSS.

3b. Adopt the Agency-Wide Shared Services approach, but prepare for the challenges.
The new AWSS unit caused some IRS managers and employees concern over not knowing where to go for services and not getting the level of service to which they were accustomed. Also, IRS did not go ahead with early plans to have AWSS operate on a fee-for-service basis. Some IRS executives said in retrospect that this might have facilitated a more effective implementation of the design. In planning for an AWSS unit, agencies should make sure people in the organization understand the new system and its advantages and should work toward a fee-for-service arrangement to ensure responsiveness.

3c. In developing the "competency-based" approach to evaluation and development, concentrate on clarifying the competencies.
As described earlier, IRS executives considered the competency-based approach valuable in dealing with such responsibilities as designing training, managerial, and workforce development programs. On the other hand, some managers expressed concern over the sheer number of competencies and uncertainty about the meaning of some of them. As obvious as it sounds, it is essential that other agencies adopting this approach invest heavily in developing competencies that are as clear and convincing as possible to the members of the organization.

In addition to these examples, the sections of this report have described lessons learned from the IRS experience about implementing critical pay authority, using the Internet for training, establishing a Senior Leadership Service that differentiates between senior executives and senior professionals, implementing a category rating system, implementing a paybanding system for managers, as well as other HRM initiatives that afford valuable lessons and experiences for other agencies to consider.

3d. Implement critical pay authorities only with careful attention from top leadership, investments in successful integration of the new appointees into the organization, and provisions for accountability in the use of the authorities.
Of all the flexibilities Congress afforded the IRS in RRA '98, none has been more important than that of critical pay. The critical pay appointees have played an important role in promoting modernization. They have brought high levels of skill and experience to the transformation of large organizations and technical expertise in upgrading the IRS's massive data systems.

4. Take a participative approach to the design and implementation of new HR systems.
The IRS took a highly participative approach to the modernization. The union representing the majority of IRS employees, the NTEU has been a full partner in the changes. It has been a partnership in substance as well as in form. NTEU head Colleen Kelly cites many instances in which decisions were changed or even reversed based on suggestions, ideas, and information brought forth by union representatives.

4a. Include the unions and partner with them.

4b. Maximize participation by managers and their associations.
Managers also have been consulted on the changes. The new paybanding system represented a less radical change to the status quo than some executives would have preferred, but general acceptance among managers of the new system

seems to have been achieved. Top leadership made clear throughout the modernization process that jobs would be protected. Even during the job recompetition among senior managers, everyone was guaranteed a job with no loss of pay, whether or not they were selected for a position in the new structure. Representatives of the two management associations, the Professional Managers Association and the Federal Managers Association, as well as NTEU all serve on the HRPC where all the various initiatives were vetted.

5. Make apparent the link between HR system changes and mission accomplishment.
IRS employees share an understanding of their common mission to collect taxes, to collect them fairly, and to do so with minimum disruption to the lives of citizens. To the extent that the initiatives described here have helped promote that mission, they have been able to garner internal support. It is critical for agencies undertaking change of this magnitude to repeatedly demonstrate to employees how proposed changes make it possible for the agency to better support its mission.

Within the framework that former Commissioner Rossotti set forth in "Modernizing America's Tax Agency," those links were generally easy to make. His vision, as set forth in that document, made it apparent that enhanced education and training for employees was vital to effectively serving taxpayers. The new PMS has been linked closely to the system of "balanced" measures that Rossotti instituted, with managers now accountable for performance in the three critical areas of business results, employee satisfaction, and customer satisfaction. The technology changes that he envisioned required expertise from outside the agency, which the critical pay provision made possible.

6. Make leadership development a priority.
Leadership considerations are central to many of the HR activities described here. A set of leadership competencies specific to the IRS has been defined, and every manager is now assessed according to how well those competencies are demonstrated. These competencies include some that have not historically been associated with government management, such as "uses communication in a strategic manner," "solicits and understands internal/external customer needs," and "takes calculated entrepreneurial risks." Agencies seeking to transform their HR systems need not only to define leadership but to help those in leadership positions develop in areas where they are weak. That effort should be accompanied by a program to identify and develop future leaders.

7. Sequence HR changes strategically.
We found the development of the leadership competency model as a critical early step in the changes undertaken by the IRS. The competencies included in that model provided the basis for selection during the job recompetition among senior managers. Sanders further emphasizes the importance of allowing employees to gain familiarity with the new performance appraisal system before pay decisions were linked to it. Says Sanders, "Since the latter depends on the former, if the former isn't any good, the latter isn't going to work. That was a deliberate strategic sequence."

In highlighting the importance to the success of the PMS of having in place a set of balanced measures according to which managers could be assessed, Sanders says:

> We couldn't build a performance management system for executives without our balanced measures system for the organization and without a strategic planning and budgeting system that led to business plans that executives could be held accountable for. Only when those things are working reasonably well did we move to the next phase, which was linking pay to them. If you did it prematurely, if we didn't have organizational measures in place, if we didn't have a business planning system in place, if we didn't have a performance appraisal system that linked to those things, then pay for performance becomes much, much more difficult to sell and to implement.

As a pioneer in HRM modernization in the federal government, the IRS has taken a few arrows. Some elements of its program have had to be rethought and revised. On balance, however, a remarkable degree of progress has been made, and even the arrows, to the extent that they facilitate learning by others, will have served an important purpose.

Appendix I: The IRS Leadership Competency Model (LCM)

Competency Index

Source: *Internal Revenue Service, April 2001*

Leadership

Demonstrates integrity, sound judgment, and the highest ethical standards of public service. Successfully leads organizational change, effectively communicating the Service's mission, core values, and strategic goals to employees and other critical stakeholders and engaging them in the development of objectives that contribute to those goals. Motivates employees to achieve high performance by facilitating a positive workplace that fosters diversity, innovation, initiative, open and honest communication, and teamwork among employees and peers.

Adaptability

Demonstrates openness to change and to receiving new information; readily changes behavior and work methods in response to new information, changing conditions, or unexpected obstacles. Adjusts rapidly to new situations warranting attention and resolution. Modifies tactics or the overall strategy based on requirements of the situation.

1. **Demonstrates Adaptability:** Is able to shift behaviors and priorities based on changing work demands. Alters normal procedures to fit specific needs of team or situation, to get the job done, and/or meet goals (e.g., adjusts own schedule, shifts workload).
2. **Modifies Behavior in Reaction to New Situations:** Rapidly adjusts to frequent changes and modifies behavior or management style in response to new situations. Decides what to do based on the situation or people involved.
3. **Adapts Approach to Achieving Goals:** While maintaining the same overall plan or goal, changes *how to accomplish* the plan or goal. Is able to anticipate new situations and move into unfamiliar organizations (internal and external) or functional/program areas in an effort to achieve an established plan, goal, or project.
4. **Adapts Overall Strategy:** Changes the overall plan, goal or project to fit the situation. May involve making temporary changes to the structure or goal of a program/organization to meet the overall needs of the situation.

Communication

Engages others and facilitates two-way communication through oral and written presentations to individuals and groups. Expresses facts and ideas clearly and in an organized manner. Adapts oral and written communication to the needs, interests, and style of the audience. Connects with employees and helps to create a cohesive work environment through effective listening. Uses open communication strategically to achieve an objective. Is tactful, compassionate, and sensitive when communicating, treating others with respect.

1. **Fosters Open and Honest Communication:** Engages audience in two-way communication. Presents ideas—either verbally or in writing—in a way that engages others. Selects the appropriate medium for communicating issues. Listens effectively to others' ideas and opinions.
2. **Clarifies or Emphasizes the Message:** Conveys the importance of the message clearly and confidently. Shares information (e.g., competitive comparisons, appropriate financials) openly with the team. Listens and responds to others' reactions and uses appropriate methods (e.g., examples, visual aids) to effectively clarify or emphasize the message.
3. **Addresses the Needs, Interests, and Style of the Audience:** Adjusts communication in accord with audience's mood and emotional reaction. Considers and responds appropriately to the needs, feelings, and capabilities of different people in different situations. Tailors written communication to the type of content and audience. Allows others ample opportunity to react and express themselves. Exchanges information in a constructive, noncritical, and nondefensive manner.
4. **Uses Communication in a Strategic Manner:** Develops an integrated communication approach to support a vision or strategy. Strategically uses communication (e.g., medium, timing, message, presenter) to produce enthusiasm and foster an atmosphere of open exchange and support.

Decisiveness

Exercises good judgment by making sound and well-informed decisions; perceives the impact and implications of decisions; makes effective and timely decisions, even when data are limited or solutions produce unpleasant consequences. Exhibits an optimistic and persistent approach when facing business challenges. Acts proactively.

1. **Acts Responsively and Makes Timely Decisions:** Recognizes and acts upon present opportunities. Overcomes obstacles to address present problems.
2. **Acts without Complete Information:** Stops excessive debate and makes a decision. Sees and acts decisively upon opportunities in the face of ambiguous circumstances or in the midst of a confusing situation.
3. **Makes Decisions in Challenging Business Environments:** Willingly takes the lead and makes tough decisions in times of crisis. Has confidence to make bold decisions quickly.
4. **Persists and Holds Firm on Tough Decisions:** Makes and stands by sound decisions when faced with resistance from others.

Integrity/Honesty

Instills mutual trust, respect, and confidence; creates an environment that fosters high standards of ethics and insists on total integrity; behaves in a fair and ethical manner toward others; and demonstrates a sense of organizational responsibility and commitment to public service.

1. **Is Candid and Honest about Work Situations:** Behaves in a fair, ethical manner toward others. Expresses thoughts even when it would be easier not to be candid about the situation.
2. **Acts Consistently with the Organization's Guiding Principles:** Behaves consistently with the guiding principles of the organization. Takes pride in being trustworthy. Follows through on promises. Maintains credibility by honest communication and fair treatment of others.
3. **Acts with Integrity, Even When It Is Not Easy to Do So:** Acts in a fair and ethical manner even when there is a significant risk. Readily admits to having made a mistake and takes action to correct it. Confronts unethical actions in others.
4. **Fosters Integrity and High Ethical Standards in Others:** In work situations, encourages others to conduct themselves in a fair and honest manner. Creates and supports an environment in which compassion, support, trust, and ethical treatment are valued and practiced.

Service Motivation

Creates and sustains an organizational environment that motivates others to provide the quality of service essential to high performance. Shows a commitment to public service and serves as an ambassador for their organization. Influences others toward a spirit of service and meaningful contributions to mission accomplishment.

1. **Makes a Personal Commitment to Public Service:** Expresses and demonstrates loyalty and commitment to the organization. Demonstrates pride in the contributions of self, team, and the organization. Personally serves as an ambassador for the organization.
2. **Acts to Support the Organization's Mission and Goals:** Aligns own activities and strategies with those of the larger organization. Understands, makes choices, and sets priorities to fit with the mission, goals, and guiding principles of the organization. Instills public trust. Officially interacts with the community as an organization representative.
3. **Encourages Others to Commit to the Organization:** Inspires others to buy into the organization's mission, goals, and guiding principles. Fosters enthusiasm and passion for organizational and individual excellence. Promotes "corporate sponsorship" in community activities.
4. **Promotes a Positive Image of the Organization:** Represents the organization in national and international venues. Promotes a positive image of the organization through marketing strategies. Encourages and supports outreach programs as the world class leader in tax administration.

Strategic Thinking

Formulates effective strategies that take into account the external influences on an organization from a national and global perspective. Examines policy issues and strategic planning with a long-term perspective leading to a compelling organizational vision. Determines objectives, sets priorities, and builds upon strengths. Anticipates potential threats or opportunities.

1. **Understands the Organization's Strategic Goals:** Comprehends organizational goals and strategies developed by others. Prioritizes work in alignment—and acts in accordance—with set strategies, objectives, or goals.
2. **Links Daily Tasks to Strategies, or Long-Term Perspectives:** Assesses and links short-term, day-to-day tasks in the context of long-term tax administration strategies or a long-term perspective. Considers whether short-term goals will meet long-term objectives.
3. **Develops Work Plans Based on Strategic Priorities:** Analyzes long-term issues, problems, or opportunities, and uses this information to develop broad-scale, longer-term objectives, goals, or projects that support the larger organization strategy.
4. **Develops Strategies in Support of the Mission:** Develops and implements tax administration and financial strategies and allocates resources in support of the organization mission. Deals with emerging issues, business trends, and changes as a result of strategic changes. Prepares and reviews contingency plans for problems and situations that might occur.

Customer Satisfaction

Demonstrates the importance of customer focus as a critical component of the Service's mission. Listens to customers, constantly gathering their feedback, actively seeking to identify their needs and expectations and effectively communicating those needs and expectations to employees. Ensures that employees do the same and that they are prompt, professional, fair, and responsive to the circumstances of individual customers, to the extent permitted by law and regulation. Continuously valuates organizational performance from a customer's point of view.

Customer Focus

Understands the internal and external customers' points of view and uses this understanding to prevent and solve problems and provide quality services. Solicits internal and external customers' interests and adjusts priorities to meet changing customer needs. Anticipates and meets the needs of customers by delivering and continuously improving quality services.

1. **Solicits and Understands Internal/External Customer Needs:** Solicits and understands customers' points of view. Strives to balance interests of the taxpayers with the interests of the government.
2. **Responds to Internal/External Customer Needs:** Personally interacts with customers to correct problems promptly without being defensive. Works to make self fully available to customers and protect taxpayers' rights.
3. **Takes Action for the Internal/External Customer:** Makes concrete attempts to add value for customers, to make things better for them in some way. Seeks information about the real, underlying needs of the customers beyond those expressed initially and matches these to available or customized services. Collaborates to develop mutually acceptable outcomes with customers.
4. **Uses a Long-Term Perspective:** Works with a long-term perspective in addressing customer problems and issues. May trade off immediate costs for the sake of the long-term relationship. Looks for long-term benefits to the customer.

Entrepreneurship

Creates innovative solutions. Identifies opportunities to develop and market services and new products within or outside of the organization. Manages risks; initiates actions that involve a deliberate risk to achieve a recognized benefit or advantage. Encourages others to develop new ideas and take risks.

1. **Develops Solutions to Meet Needs/ Opportunities:** Identifies needs and opportuni-

ties and develops new services within or outside the organization. Will consider the radical or unconventional. Is prepared to look beyond the data for solutions.

2. **Encourages Risk Taking in Others:** Promotes an entrepreneurial environment within the work unit. Supports risk taking by employees in an effort to increase effectiveness (e.g., uses mistakes as learning opportunities).

3. **Experiments with Solutions:** Sets priorities or chooses goals on the basis of calculated inputs and outputs. Makes explicit considerations of potential cost savings and return on investment. Develops and implements varied solutions to increase program and workplace effectiveness.

4. **Takes Calculated Entrepreneurial Risks:** Commits significant resources and/or time (in the face of uncertainty) to increase benefits (i.e., improve performance, reach a challenging goal, etc.).

External Awareness

Identifies and keeps up to date on key policies and economic, political, and social trends that might impact the organization. Understands near-term and long-range plans relating to tax administration in a global economy. Interacts with key stakeholders in industry and the public sector.

1. **Identifies Trends in External Environment:** Identifies and keeps up to date on technical improvements; key policies; and economic, political, business, and social trends that might impact the organization.

2. **Acts on Current Trends in the External Environment:** Understands and addresses the underlying problems, opportunities, or political forces affecting the organization (e.g., tax practitioners, taxpayers, other governmental agencies). Positions the organization's services to take advantage of current trends.

3. **Understands Future Developments in the External Environment:** Understands the direction of government and industry and how changes might impact the organization; considers how present policies, processes, and methods, as well as ongoing issues, might be affected by future developments and trends.

4. **Uses Knowledge of the External Environment to Improve the Organization's Position:** Makes strategic decisions based on emerging trends in the external environment. Uses the understanding of future trends to devise plans to restructure the organization's ability to meet stakeholders' needs.

Influencing/Negotiating

Influences others; builds consensus through give and take; gains cooperation from others to obtain information and accomplish goals; seeks common ground that leads to mutually satisfying solutions.

1. **Persuades Based on Facts and Reason:** Uses factual arguments to persuade and influence others (e.g., appeals to reason or data). Prepares thoroughly for presentations.

2. **Adapts Style and Approach:** Adapts a presentation or discussion to anticipate and appeal to the interest and sophistication of others (e.g., appeals to others' self-interest, identifies others' sources of concern, and addresses those concerns). Adapts an approach to find mutually beneficial solutions.

3. **Influences through Others:** Gains the support of influential parties and enlists their help in convincing others and getting agreement.

4. **Uses Complex Influence Strategies:** Uses complex strategies, tailored to individual situations, to sell and implement ideas (e.g., gets people to take ownership of ideas/plans by involving them). Assembles political coalitions or "behind-the-scene" support to increase persuasive impact.

Partnering

Builds strong alliances, engages in cross-functional activities; collaborates across boundaries, and finds common ground with a wide range of stakeholders. Employs contacts to build and strengthen internal support bases. Resolves conflicts and disagreements in a positive and constructive manner.

1. **Makes Informal Contacts and Builds Rapport:** Identifies and uses opportunities to meet new people and develop new relationships. Builds or maintains rapport and trust with a wide circle of associates, customers, and others. Uses

conflict management techniques for achieving win-win results.

2. **Develops Networks and Builds Alliances:** Actively develops and maintains positive relationships with key individuals and organizations (e.g., private sector, NTEU, executives, and employee and management organizations).

3. **Uses Networks to Strengthen Internal and External Organization Support:** Strategically uses a network of relationships (across business units, government, industry, community, etc.) to support and create opportunities and ensure the success of the organization's long-range goals.

4. **Enables the Use of Cross-Functional Activities and Collaboration:** Actively supports others in building and maintaining cross-functional relationships. Establishes policies and supports partnering and collaboration with NTEU representatives, customers, stakeholders, community, etc.

Employee Satisfaction

Demonstrates the importance of employee satisfaction in successfully accomplishing the Service's mission. Promotes cooperation, flexibility, and teamwork among employees. Ensures that, to the extent possible, employees have the tools and training to do their jobs. Provides continuous, constructive feedback to employees concerning individual and group performance, including timely evaluations of performance. Coaches and develops employees so that they realize their full potential as members of the Service. Supports labor–management partnership, responding to employee concerns promptly, identifying trends, and taking corrective action to maintain a safe, high-quality work environment in which everyone is treated with respect.

Continual Learning

Creates and values new learning opportunities; grasps the essence of new information; masters new technical and business knowledge; recognizes own strengths and weaknesses; pursues self-development; seeks feedback from others and opportunities to master new knowledge so that customer service and business processes are improved.

1. **Is Aware of Own Strengths and Limits:** Has a realistic sense of own abilities. Willing and able to receive both positive and developmental feedback from others.

2. **Keeps Current in Own Field of Expertise:** Takes initiative to stay current with new approaches in tools, methods, or technologies in own discipline by reading, talking to others, attending courses, or by experimenting with innovative approaches.

3. **Makes Long-Term Self-Development Plans:** Develops long-term goals for self-improvement that will be beneficial to the organization. Seeks out feedback regarding areas for improvement and incorporates into own development planning.

4. **Keeps Current with Business Changes:** Stays current on new tools, methods, technologies, or approaches that may potentially impact the business, even when these areas are outside of own area of expertise.

Developing Others

Develops leadership in others through coaching, mentoring, rewarding, recognizing, and teaching employees. Guides subordinates as they do their work. Creates an environment for continuous learning that encourages short- and long-term self-development.

1. **Gives How-To Directions:** Gives detailed instructions and/or on-the-job demonstrations; tells how to do the task; makes specific and helpful suggestions. Works patiently with others who may be struggling.

2. **Informally and Formally Develops Others:** Gives directions or demonstrations with reasons or rationale as a means to develop skills and expertise. Guides others as they do their work without doing the work for them. Supports developing others by serving as an instructor.

3. **Provides Feedback to Encourage Development:** Gives specific positive or developmental feedback for developmental purposes. Reassures others after a setback. Gives individualized suggestions for improvement. Explains on an ongoing basis what was done well and how to improve on technical and business skills.

4. **Does Long-Term Coaching or Training to Create Leaders:** Creates an environment and strategy to support continuous learning (e.g., teaching assignments, on-the-job instruction). Creates and communicates a long-term plan for the development of subordinates' skills, abilities, and competencies. Systematically builds a solid talent pool for the organization. Develops high-potential people to ensure effective succession planning.

Group Leadership

Informs people and ensures that the practical needs of the group are met. Develops a motivating environment by involving group members in decision making and goal accomplishment. Develops and implements a shared vision. Leads through personal example and through communication of a compelling vision.

1. **Informs and Involves People:** Lets people affected by a decision know what is happening. Makes sure the group has all of the necessary information about a decision or change. Explains the reasons for a decision or change. Effectively shares information and resources within a workgroup or project team. Contributes to and supports the decision-making processes used by the group.
2. **Supports and Empowers Group Members:** Empowers group members to take accountability and authority for the overall productivity of the group. Involves employees appropriately in the decision-making process. Makes sure the practical needs of the group are met by obtaining needed personnel, resources, and information for the group. Models behavior that supports nonhierarchical relationships. Communicates the organization's mission, guiding principles, and strategic business goals. Leads through personal example within the work group. Leads through personal example within the territory/operation.
3. **Promotes Group and Cross-Functional Effectiveness:** Uses strategies to improve group productivity (e.g., group assignments, cross-training). Obtains cooperation from other areas of the organization to minimize obstacles to goals. Promotes organizational effectiveness by encouraging employees to share information and resources with other areas of the organization in an effort to enhance decision making, solve mutual problems, and achieve strategic business goals.
4. **Communicates a Compelling Vision:** Develops and implements a shared vision that integrates organizational goals, priorities, and values with innovative programs and processes. Communicates a vision that produces clarity, excitement, enthusiasm, and commitment. Models the organization's mission and guiding principles.

Teamwork

Fosters commitment, team spirit, pride, and trust. Consistently develops and sustains cooperative working relationships. Continuously and openly communicates with team members. Respects and cares for team members. Encourages and facilitates cooperation within the organization.

1. **Cooperates:** Participates willingly and supports team decisions; is a good team player; does his/her share of the work. Treats others as equals.
2. **Keeps Team Members Informed:** As a member of a team, keeps other team members informed and up to date about the group process, individual actions, or influencing events; shares all relevant or useful information.
3. **Expresses Positive Expectations of the Team:** Expresses positive expectations of others in terms of their abilities, expected contributions, etc. Speaks of team members in positive terms. Shows respect for others. Demonstrates compassion and empathy for team members.
4. **Builds Teams:** Acts to promote a friendly climate, good morale, and cooperation (e.g., holds team get-togethers). Resolves team conflicts. Uses knowledge of goals, roles, interpersonal relationships, and work processes to build effective teams and improve team performance.

Diversity Awareness

Values and embraces diversity. Demonstrates confidence in self and others; considers different perspectives and experiences of the workforce and customers. Ensures that the organization builds on these differences and that employees and customers are treated in a fair and equitable manner.

1. **Is Willing to Learn from Others:** Solicits ideas and opinions to help form specific decisions or plans. Demonstrates self-confidence. Promotes team cooperation showing positive regard for others who are different from oneself.
2. **Is Open to Diversity:** Respects, treats with courtesy, and relates well to people of diverse backgrounds. Is sensitive to and shows tolerance for others' views. Applies knowledge of EEO rules and regulations to promote and maintain a fair work environment.
3. **Values Diverse Perspectives:** Encourages group members to contribute. Values and encourages contributions from others who have varying perspectives, experiences, or needs. Understands the underlying causes for someone's feelings, behavior, or concerns. Promotes consensus decision making.
4. **Fosters Diversity:** Uses understanding of others to create an environment that values/encourages/learns from various perspectives and experiences. Works to resolve conflicts between individuals with diverse perspectives. Models behavior that demonstrates the importance of diversity and supports diversity efforts.

Business Results

Effectively develops and executes plans to accomplish strategic goals and organizational objectives, setting clear priorities and acquiring, organizing, and leveraging available resources (human, financial, etc.) to efficiently produce high-quality results. Constantly reviews and analyzes performance measures, consults and collaborates with stakeholders, and takes decisive action, in accordance with law, regulation, and Service policy. Continuously seeks to improve business processes, sharing those efforts with other units to better overall Service performance.

Achievement Orientation

Pushes self and others to set and meet goals. Strives to improve performance through balanced measures. Uses creative and innovative techniques for producing quality work and surpassing a standard of excellence. Takes on challenging assignments and persists until significant performance improvements are attained.

1. **Focuses on Doing Well:** Consistently strives to produce quality work. Feels good about accomplishments and is frustrated with inefficiency, waste, or internal issues that slow down achieving results.
2. **Sets and Meets Goals:** Sets goals and uses own methods of measuring outcomes against a standard of excellence. May focus on new or more precise ways of meeting goals set by others.
3. **Improves Performance:** Pushes self and team to do better; is not satisfied with current performance levels. Makes specific changes to the system or own work processes in order to improve performance (e.g., does something faster, more efficiently; improves quality, uses creative and innovative techniques).
4. **Accepts Challenges, Persists, and Makes Large-Scale Performance Improvements:** Takes on difficult assignments and is excited by the challenge. Creates goals for improvement and measures performance against those goals; compares current performance with baseline (e.g., past) performance to track improvements. Persists until large-scale performance improvements are achieved.

Business Acumen

Applies core management area (financial, human resources, and technology) principles and approaches to increase program and workplace effectiveness. Takes steps to prevent waste, fraud, and abuse. Manages available resources, makes cost/benefit decisions, and develops and implements strategies to make sound business management decisions in a manner that instills public trust.

1. **Understands Core Management Areas:** Demonstrates a fundamental understanding of the principles of financial management, marketing, human resources management, and technology applications in day-to-day activities.

2. **Uses Knowledge of Core Management Areas to Increase Workplace Effectiveness:** Assesses current and future resource (financial and human resource) requirements and uses cost/benefit approaches to set priorities and identify ways to effectively and efficiently satisfy anticipated needs. Considers and uses technology appropriately to increase workplace productivity. Manages programs and budgets in a cost-effective manner.

3. **Understands and Addresses the Most Current Thinking and Practices in Core Management Areas:** Uses a broad perspective of the dynamic shifts in the fields of financial management, human resources management, and technology applications to identify opportunities for new programs or services.

4. **Anticipates Future Trends and Appropriate Applications of Core Management Areas:** Uses in-depth knowledge of the organization and the core management areas to identify and design new strategies for the organization. Determines how the organization can best position itself to add value to the public over the long term.

Political Savvy

Recognizes and acts upon the internal politics that impact the work of the organization. Approaches each problem situation with a clear perception of organizational and political reality; recognizes the impact of alternative courses of action. Uses the most effective channels to accomplish organizational goals.

1. **Understands Formal Structure:** Recognizes the current formal structure or capabilities of the organization and how they relate to balanced measures. Uses the formal structure of the organization, rules and regulations, internal policies and procedures, etc. to accomplish work objectives.

2. **Understands Informal Structure:** Understands and uses informal structures (identifies key actors, decision influencers, etc.) and applies this knowledge when formal structure does not work as well as desired. Understands organizational realities, networks, and accepted practices and knows how these informal structures relate to balanced measures.

3. **Leverages Underlying Organizational Environment:** Understands the relationships within and between various groups and how the actions of one group impact others. Recognizes unspoken organizational limitations (what is and is not possible at certain times or in certain situations). Uses the organizational environment and the language, etc. that will produce the best response.

4. **Leverages Organizational Politics:** Uses ongoing influence and political relationships within the organization (alliances, rivalries) in order to achieve a desired result that will benefit the organization. Identifies opportunities for significant organizational improvement by utilizing personal relationships within the organization.

Problem Solving

Identifies and analyzes problems; distinguishes between relevant and irrelevant information to make logical decisions; provides solutions to individual and organizational problems.

1. **Breaks Down Problems, Issues or Challenges into Parts:** Sorts out tasks in order of importance. Can separate an issue or problem into its pros and cons and clarify issues.

2. **Solves Routine Problems:** Understands how each part of an issue affects another (i.e., A impacts B) and uses this information to solve specific/routine problems and issues.

3. **Analyzes Complex Problems and Proposes Solutions:** Analyzes complex or large amounts of information and identifies potential solutions. Weighs the value of each solution to improve program and workplace effectiveness.

4. **Anticipates and Prevents Problems:** Understands the relationships between work processes, systemic barriers, and needs. Understands how several parts of an issue or part of a chain of events affect each other (e.g., understanding how relationships and work processes impact other work processes that are only indirectly related). Uses this information to anticipate obstacles and take steps to prevent potential problems.

Technical Credibility

Performs and continuously learns about current and emerging issues/developments in own field of expertise. Applies this knowledge to make technically sound operational decisions and helps expand knowledge of area throughout their organization.

1. **Utilizes Knowledge in Own Area:** Is thoroughly conversant regarding major aspects of own area, technical developments, systems, etc. Demonstrates this understanding by applying technical knowledge, experience, and information to impact decisions and efforts in own area of expertise.
2. **Demonstrates Deep Understanding of Expertise Area:** Possesses a deep understanding of developments, innovations, and changes in field of expertise. Uses this knowledge and understanding to make technically sound operational decisions that serve internal and external customers well.
3. **Actively Contributes to Enhancing Level of Expertise within the Organization:** Expands levels of expertise by creating opportunities (e.g., cross-functional assignments, outreach efforts, teaching opportunities) that contribute to increasing the expertise within the work group, business unit, and organization.
4. **Recognized as an Expert in the Field:** Is invited to represent the organization in Congressional committees, panels, research consortiums, etc. Is sought out by others to solve problems of a highly technical nature. Attracts new talent into the organization based on credible personal reputation.

EEO

Takes steps to implement the EEO and affirmative employment goals established by the bureau. Supports staff participation in special emphasis programs. Promptly responds to allegations of discrimination and/or harassment and initiates appropriate action to address the situation. Cooperates with EEO counselors, EEO investigators, and other officials who are responsible for conducting inquiries into EEO complaints. Assigns work and makes employment decisions in areas such as hiring, promotion, training, and developmental assignments without regard to sex, race, color, national origin, religion, age, disability, sexual orientation, or prior participation in the EEO process. Monitors work environment to prevent instances of prohibited discrimination and/or harassment.

Appendix II: Category Rating—Revenue Agents

Introduction

The category rating authority granted the IRS as part of the IRS Restructuring and Reform Act of 1998 was employed by the agency to facilitate the hiring of over 350 Revenue Agents in Fiscal Year 2001. A two-phase process was employed whereby applicants were initially categorized as “Superior,” “Exceptional,” or “Qualified” based on their grade point average, experience, and professional certification. Each applicant was rerated subsequent to an on-site assessment of job knowledge, writing skills, and “soft” skills such as communication. Of the total 1,784, 441 applicants were rated as “Superior.” Three hundred sixty-one of those were actually hired.

CATEGORY “C”/QUALIFIED CATEGORY RATING

All applicants must meet basic qualification requirements (i.e., possess the required 30 semester hours [SH] in accounting) and demonstrate knowledge of principles of accounting, intermediate accounting, advanced accounting, cost accounting, and auditing through education and/or experience. Note: Up to 6 SH similar to business law, economics, statistical or quantitative methods, computerized accounting or financial systems, or finance may be substituted for the required accounting.

Applicants must meet ONE of the education, experience, OR certification indicators below AND successfully complete the assessment process (i.e., writing verification plus both parts of the structured interview—job knowledge and soft skills) at the levels identified below.

BENCHMARK INDICATORS

<table>
<tr><th>Education</th><th>Experience</th></tr>
<tr><td rowspan="3">4 years of progressive post-secondary education leading to a degree supplemented by or including 30 credits in accounting or supplemented by or including 24 SH in accounting and 6 SH in business law, economics, statistical or quantitative methods, computerized accounting or financial systems, financial management, or finance.</td><td>Applicant has performed, for at least 1 year, assignments under close supervision designed to provide training in the application of professional accounting theory and concepts. Decisions regarding what needs to be done follow well accepted accounting practices and specific guidelines.</td></tr>
<tr><td>Applicant has a combination of 4 years of education and any type of professional, administrative, technical investigative, or other responsible experience. Must include 30 SH in accounting, of which 6 hours may be in business law, economics, statistical or quantitative methods, computerized accounting or financial systems, financial management, or finance.</td></tr>
<tr><td>Applicant has performed a variety of training assignments that require applying a professional knowledge of accounting and auditing principles and techniques in order to gain experience in conducting financial reviews of organizational and functional activities. Specific instructions are given and work is closely reviewed.</td></tr>
</table>

Source: Internal Revenue Service

STRUCTURED INTERVIEW

Competency Area	Required Level
Writing Assessment	Pass two out of four assessed dimensions; provided two opportunities to pass
Experienced Based Questions	Five questions assessing six dimensions; four-point rating scale
Accounting Knowledge Questions	Pass four out of six

CATEGORY "B"/HIGH CATEGORY RATING

All applicants must meet basic qualification requirements (i.e., possess the required 30 semester hours [SH] in accounting) and demonstrate knowledge of principles of accounting, intermediate accounting, advanced accounting, cost accounting, and auditing through education and/or experience. Note: Up to 6 SH similar to business law, economics, statistical or quantitative methods, computerized accounting or financial systems, or finance may be substituted for the required accounting.

Applicants must meet ONE of the education, experience, OR certification indicators below AND successfully complete the assessment process (i.e., writing verification plus both parts of the structured interview—job knowledge and soft skills) at the levels identified below.

BENCHMARK INDICATORS

Education	Experience	Certification
4 years or higher of progressive postsecondary education leading to a degree (120 SH/180QH) with an overall accounting course GPA of 2.45.	Applicant has performed for at least 1 year a range of audit/accounting activities that include planning the approach, gathering data, conducting analysis and report of findings. Independently makes decisions regarding what needs to be done to require the use of standard audit/accounting techniques to analyze accounting and control systems and program activities or operations.	Applicant must have successfully passed all associated examinations for any of the following national professional certification programs: Accreditation Council for Accountancy and Taxation (ACAT)
Bachelors or higher with an overall accounting course GPA of 2.45.		

STRUCTURED INTERVIEW

Competency Area	Required Level
Writing Sample	Pass two out of four assessed dimensions; provided two opportunities to pass
General Competency Questions	Five questions assessing six dimensions; four-point rating scale
Technical Knowledge Questions	Pass four out of six

CATEGORY "A"/SUPERIOR CATEGORY RATING

All applicants must meet basic qualification requirements (i.e., possess the required 30 semester hours [SH] in accounting) and demonstrate knowledge of principles of accounting, intermediate accounting, advanced accounting, cost accounting, and auditing through education and/or experience. Note: Up to 6 SH similar to business law, economics, statistical or quantitative methods, computerized accounting or financial systems, or finance may be substituted for the required accounting.

Applicants must meet ONE of the education, experience, OR certification indicators below AND successfully complete the assessment process (i.e., writing verification plus both parts of the structured interview—job knowledge and soft skills) at the levels identified below.

BENCHMARK INDICATORS

Education	Experience	Certification
Bachelors or higher in accounting, or business degree, including finance, with an overall accounting course GPA of 3.0 or higher.	Applicant has at least 1 year of experience in the examination of several tax liability issues from a broad variety of cases, which must include individual, business, and fiduciary income tax returns. Uses knowledge of accounting concepts, systems, and procedures; tax law; and business and financial practices to recognize, develop, and analyze relevant issues necessary for a correct determination of tax liability. Prepares detailed work papers and examination reports that support the techniques used in the examination and technical conclusions.	Applicant must have successfully passed all associated examinations for ONE of the following national professional certification programs: Certified Public Accountant (CPA); Certified Mgmt Accountant (CMA); Certified Financial Accountant (CFA); or Certified Internal Auditor (CIA).
Masters or higher in accounting or taxation with no GPA requirement	Applicant has performed for at least 1 year independent assignments that require analyzing accounting systems and functions and applying conventional accounting principles to tackle ongoing operations, study the relationship between accounts, and resolve problems. Judgment is required to choose applicable guidelines or precedent situations and make decisions from among many alternatives, assignments.	

STRUCTURED INTERVIEW

Competency Area	Required Level
Writing Sample	Pass two out of four assessed dimensions; provided two opportunities to pass
General Competency Questions	Five questions assessing six dimensions; four-point rating scale
Technical Knowledge Questions	Pass four out of six

Appendix III: Critical Job Elements for Performance Appraisal

Employee Satisfaction—Employee Contribution

This individual performance critical job element describes how the employee's actions contribute to the overall office working conditions. The employee supports the workplace climate in which ethical performance is paramount and everyone is treated with honesty, dignity, and respect, free from harassment and discrimination.

Customer Satisfaction—Knowledge

This individual performance critical job element describes how the employee promotes the satisfaction of taxpayers and customers by providing the technical expertise to serve the customers with professional and helpful service. Accurate identification and resolution of issues and the correct interpretation of laws, rules, regulations, and other information sources are key components of this critical job element.

Customer Satisfaction—Application

This individual performance critical job element describes how the employee promotes the satisfaction of taxpayers and customers through professionally and courteously identifying customers' needs and/or concerns and providing quality products and services. Communication to the customer is appropriate for the issue and encourages voluntary compliance.

Business Results—Quality

This individual performance critical job element describes how the employee promotes the achievement of business results by completing assignments thoroughly and accurately within established guidelines. The use of proper research and analytical tools and the protection of taxpayer privacy are key components of this critical job element

Business Results—Efficiency

This individual performance critical job element describes how the employee promotes achievement of business results by completing assignments in a timely manner within established guidelines. The use of proper workload management and time utilization techniques is a key component of this critical job element.

Endnotes

1. See J. Thompson, "The Civil Service Under Clinton: The Institutional Consequences of Disaggregation," *Review of Public Personnel Administration*. 2001; 21:508–521.

2. See *Human Capital Management: FAA's Reform Effort Requires a More Strategic Approach* (GAO-03-156).

3. The GAO has issued a number of reports on the subject of human capital, including the following: *A Model of Strategic Human Capital Management (GAO-02-373SP); Human Capital: A Self-Assessment Checklist for Agency Leaders (OCG-00-14G);* and *Human Capital: Managing Human Capital in the 21st Century* (T-GGD-00-77).

4. K. C. James, Director of the Office of Personnel Management, "A White Paper: A Fresh Start for Federal Pay: The Case for Modernization," April 2002.

5. The authority to "permit agencies to experiment, subject to Congressional oversight, with new and different personnel management concepts in controlled situations to achieve more efficient management of the Government's human resources and greater productivity in the delivery of service to the public" (5 USC 1101) was provided OPM by the Civil Service Reform Act of 1978.

6. The demonstration project was initiated at the Naval Air Warfare Center in China Lake, California, in 1981. The paybanding system was made permanent by Congress in 1994. See http://www.opm.gov/demos/index.htm; September 2002.

7. The demonstration project covered new hires in the Forest Service and the Agricultural Research Service. See http://www.opm.gov/demos/index.htm; September 2002.

8. See the list of "Human Capital Standards" at http://apps.opm.gov/HumanCapital/standards/index.cfm.

9. See, for example, *Report to the President: The Crisis in Human Capital*, prepared by Senator George V. Voinovich, Chairman, Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, U.S. Senate, Committee on Governmental Affairs; December 2000.

10. See Sections 1303 and 1304 of the Homeland Security Act of 2002 (HR 5005; P.L 107-296).

11. For a highly informative and carefully balanced analysis of the IRS's struggles and successes with tax systems modernization and the adoption of information technology, see B. Bozeman, *Government Management of Information Mega-Technology: Lessons from the Internal Revenue Service's Tax Systems Modernization.* Arlington, VA: The IBM Endowment for The Business of Government; March 2002. Concerning the growing emphasis on customer service, see A. Gore and R.E. Rubin, *Reinventing Service at the IRS: Report of the Customer Service Task Force.* Internal Revenue Service Publication 2197(3-98), catalog number 25006E. Washington, D.C.: Department of the Treasury; 1998. The first page of this booklet contains the following statement from Vice President Gore: "For the vast majority of Americans who want to do the right thing, the IRS should do right by them, and that means treating them with respect and trust. And, it means recognizing that taxpayers are its customers." Also see *Building a Foundation for Culture Change: A Report Prepared for the Human Resources Phase II Design Team, Internal Revenue Service Modernization*. Washington, D.C.: Organization Development Services of the U.S. Internal Revenue Service; March 4, 1999. This document describes several studies of the IRS "culture" during the decade of the 1990s that tended to conclude that IRS employees and the IRS incentive system placed a heavy emphasis on tax collection and tax law enforcement, frequently accompanied by an attitude of distrust toward taxpayers.

12. See *Reinventing Service at the IRS*, National Performance Review, 1998.

13. See *Modernizing America's Tax Agency* at http://www.irs.gov/irs/article/0,,id=98170,00.html.

14. See Public Law 105-206 at http://thomas.loc.gov/cgi-bin/bdquery/z?d105:HR02676:|TOM:/bss/d105query.html.

15. RRA '98 provides that the implementation of changes affecting members of the bargaining unit must be negotiated.

16. Note that with the Homeland Security Act of 2002, category rating authority is now generally available.

17. See *Human Capital: A Self-Assessment Checklist for Agency Leaders* (OCG-00-14G).

18. *Embedded Human Resources Concept of Operations: A SHR/AWSS Joint Design Team Product.* July 11, 2000:2.

19. Call sites handle telephone inquiries from taxpayers on questions about tax law as well as on issues relating to individual accounts.

20. To assist with the selection of new customer service representatives, W&I and OSHR developed a new Telephone Assessment program (TAP). With the TAP, customer service behaviors are rated based on each applicant's performance in a typical, job-related scenario. This assessment instrument shortens the time required to make hiring decisions and helps ensure that only individuals with the appropriate skills and demeanors for telephone assistor positions are selected. Once hired, a competency assessment battery is used to assess training needs and ensure that training resources are targeted for maximum effect.

21. *Internal Revenue Service Career Development Guide for the Customer Service Job Family* [no date].

22. See *Human Capital: A Self-Assessment Checklist for Agency Leaders* (OCG-00-14G):17.

23. In the behavioral event interviews, each interviewee identifies specific actions that he or she has taken that exemplify the types of leadership behaviors being sought.

24. There were approximately 2,000 GS-14 and GS-15 top- and mid-level managers before the restructuring. There will be an estimated 1,500 top- and mid-level managers in the new structure.

25. Although senior managers and executives had to compete for jobs in the new structure, all were assured of no loss in pay or status. Those not placed were designated as "transition" employees and assigned meaningful work pending workforce attrition and position availability.

26. For more description and evaluation of the IRS critical pay authority, see Hal G. Rainey, *A Weapon in the War for Talent: Using Special Authorities to Recruit Crucial Personnel*. Arlington, VA: The IMB Endowment for The Business of Government; 2001.

27. See *Human Capital: A Self-Assessment Checklist for Agency Leaders* (OCG-00-14G):17.

28. The LCM is shown in Appendix I.

29. A summary of the category rating process is shown as Appendix II.

30. The IRS demonstration project is modeled after a draft "Framework for Improving the Senior Executive Service," developed by OPM in 1998.

31. Under the demonstration project, the bonus pool potential will be increased from 5 percent to 10 percent of the total, senior executive/senior professional payroll. In addition, the bonus range will be extended from the previous 5 percent–20 percent to 0 percent–30 percent. Both base pay increases and bonuses will be tied to performance. Further, the performance "bar" will be higher for each successive step on the pay scale: moving from step 1 to step 2 will require a "met" rating; from step 2 to step 3 and from step 3 to step 4 an "exceeded" rating; and from step 4 to step 5 and from step 5 to step 6 will require an "outstanding" rating.

32. U.S. Internal Revenue Service, *Senior Manager Payband Evaluation: First Year Report.* Washington, D.C.: Department of the Treasury; June 2002.

33. See *Human Capital: Managing Human Capital in the 21st Century* (GAO/GGD-00-77):10.

34. Section 1204 of the law states: "The Internal Revenue Service shall not use records of tax enforcement results—(1) to evaluate employees; or (2) to impose or suggest production quotas or goals with respect to such employees."

35. Appendix III lists the five critical job elements that cut across all IRS occupations.

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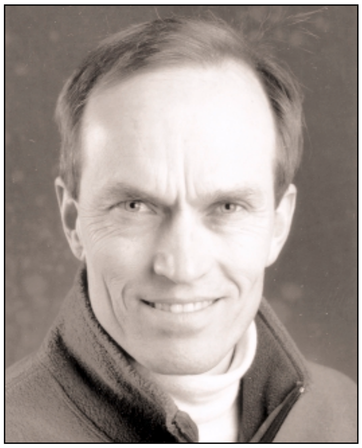

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