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21ST CENTURY CHALLENGES

Transforming Government to Meet Current and Emerging Challenges

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Highlights of [GAO-05-830T](#), a testimony before the Subcommittee on the Federal Workforce and Agency Organization, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The daunting challenges that face the nation in the 21st century establish the need for the transformation of government and demand fundamental changes in how federal agencies should meet these challenges by becoming flatter, more results-oriented, externally focused, partnership-oriented, and employee-enabling organizations.

This testimony addresses how the long-term fiscal imbalance facing the United States, along with other significant trends and challenges, establish the case for change and the need to reexamine the base of the federal government; how federal agencies can transform into high-performing organizations; and how multiple approaches and selected initiatives can support the reexamination and transformation of the government and federal agencies to meet these 21st century challenges.

www.gao.gov/cgi-bin/getrpt?GAO-05-830T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

21ST CENTURY CHALLENGES

Transforming Government to Meet Current and Emerging Challenges

What GAO Found

Long-term fiscal challenges and other significant trends and challenges facing the United States provide the impetus for reexamining the base of the federal government. Our nation is on an imprudent and unsustainable fiscal path driven by known demographic trends and rising health care costs, and relatively low revenues as a percentage of the economy. Unless we take effective and timely action, we will face large and growing structural deficit shortfalls, eroding our ability to address the current and emerging needs competing for a share of a shrinking budget pie. At the same time, policymakers will need to confront a host of emerging forces and trends, such as changing security threats, increasing global interconnectedness, and a changing economy. To effectively address these challenges and trends, government cannot accept all of its existing programs, policies, functions, and activities as “givens.” Reexamining the base of all major existing federal spending and tax programs, policies, functions, and activities offers compelling opportunities to redress our current and projected fiscal imbalances while better positioning government to meet the new challenges and opportunities of this new century.

In response, agencies need to change their cultures and create the capacity to become high-performing organizations, by implementing a more results-oriented and performance-based approach to how they do business. To successfully transform, agencies must fundamentally reexamine their business processes, outmoded organizational structures, management approaches, and, in some cases, missions. GAO has hosted several forums to explore the change management practices that federal agencies can adopt to create high-performing organizations. For example, participants at a GAO forum broadly agreed on the key characteristics and capabilities of high-performing organizations, which can be grouped into four themes:

- a clear, well-articulated, and compelling mission;
- focus on needs of clients and customers;
- strategic management of people; and
- strategic use of partnerships.

A successful reexamination of the base of the federal government will entail multiple approaches over a period of years. The reauthorization, appropriations, oversight, and budget processes should be used to review existing programs and policies. However, no single approach or institutional reform can address the myriad of questions and program areas that need to be revisited. GAO has recommended certain other initiatives to assist in the needed transformations. These include (1) development of a governmentwide strategic plan and key national indicators to assess the government’s performance, position, and progress; (2) implementing a framework for federal human capital reform; and (3) proposing specific transformational leadership models, such as creating a Chief Operating Officer/Chief Management Official with a term appointment at select agencies.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss GAO's work on the transformation of government in the 21st century. The daunting challenges that face us in this new century establish the need for this transformation and demand fundamental changes in what the government should do, how the government should do business, and how we should finance government. Federal agencies will need to become flatter, more results-oriented, externally focused, partnership-oriented, and employee-enabling organizations.

In summary, I will discuss three areas today:

- how the long-term fiscal imbalance facing the United States, along with other significant trends, establish the case for change and the need to reexamine the base of the federal government;
- how federal agencies can transform into high-performing organizations, including GAO's own efforts to transform; and
- how multiple approaches and selected initiatives can support the reexamination and transformation of the government and federal agencies to meet these 21st century challenges.

This testimony draws upon our prior work and GAO's insights on 21st century challenges and the reexamination of the base of the federal government, organizational transformation and high-performing organizations, and federal programs and operations that GAO has designated to be high risk. We conducted our work in accordance with generally accepted government auditing standards.

The Case for Change: Long-Term Fiscal Challenges and Other Significant Trends Establish the Need for Reexamining the Base

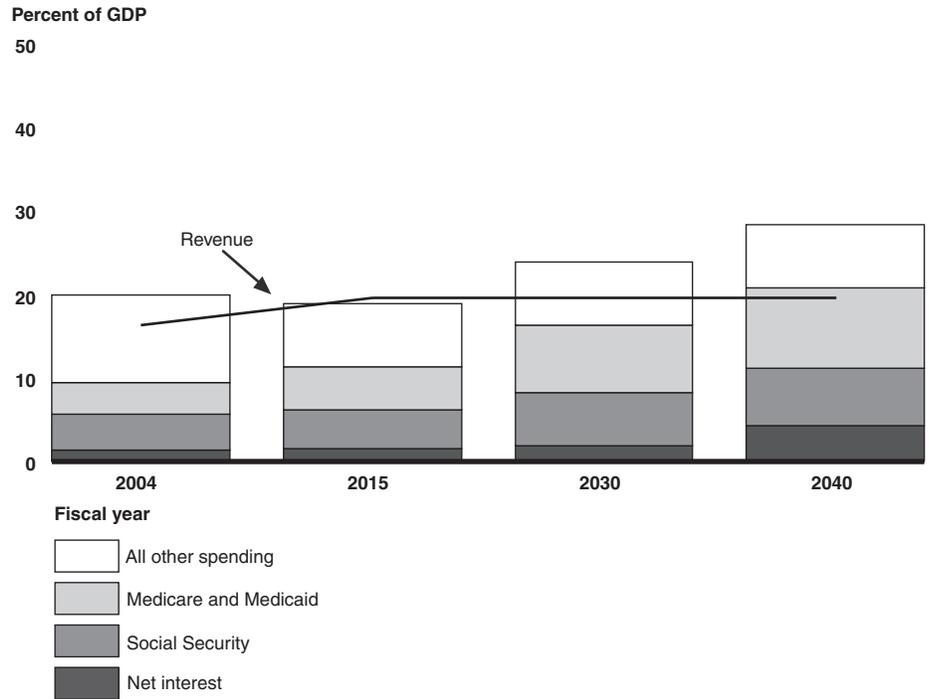
Let me begin by laying out the case for change. As Congress is well aware, the nation faces a number of significant forces that are already working to reshape American society, our place in the world, and the role of the federal government. Our capacity to address these and other emerging needs will be predicated on when and how we deal with our large and growing long-range fiscal imbalance. As I have said before, our nation is on an imprudent and unsustainable fiscal path driven largely by known demographic trends and rising health care costs. These trends are compounded by the presence of near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share

of the economy. Unless we take effective and timely action, we will face large and growing structural deficit shortfalls. Not only would continuing deficits eat away at the capacity of everything the government does, but they will erode our ability to address the wide range of emerging needs and demands competing for a share of a shrinking budget pie.

Over the next few decades, as the baby boom generation retires and health care costs continue to escalate, federal spending on Social Security, Medicare, and Medicaid is expected to grow dramatically. Other federal fiscal commitments, such as environmental cleanup and veterans' benefits, will also bind the nation's fiscal future. GAO's long-term budget simulations illustrate the magnitude of this fiscal challenge. Figures 1 and 2 show these simulations under two different sets of assumptions. Figure 1 uses the Congressional Budget Office (CBO) January 2005 baseline through 2015. As required by law, that baseline assumes no changes in current law, that discretionary spending grows with inflation through 2015, and that all tax cuts currently scheduled to expire are permitted to expire. In figure 2, two assumptions about that first 10 years are changed: (1) discretionary spending grows with the economy rather than with inflation and (2) all tax cuts currently scheduled to expire are made permanent. In both simulations discretionary spending is assumed to grow with the economy after 2015 and revenue is held constant as a share of Gross Domestic Product (GDP) at the 2015 level. Also, in both simulations long-term Social Security and Medicare spending are based on the 2005 trustee's intermediate projections, and we assume that benefits continue to be paid in full after the trust funds are exhausted. Long-term Medicaid spending is based on CBO's December 2003 long-term projections under their midrange assumptions.¹

¹ For additional discussion of our budget simulations, see GAO, *Our Nation's Fiscal Outlook: The Federal Government's Long-Term Budget Imbalance*, at <http://www.gao.gov/special.pubs/longterm/longterm.html>.

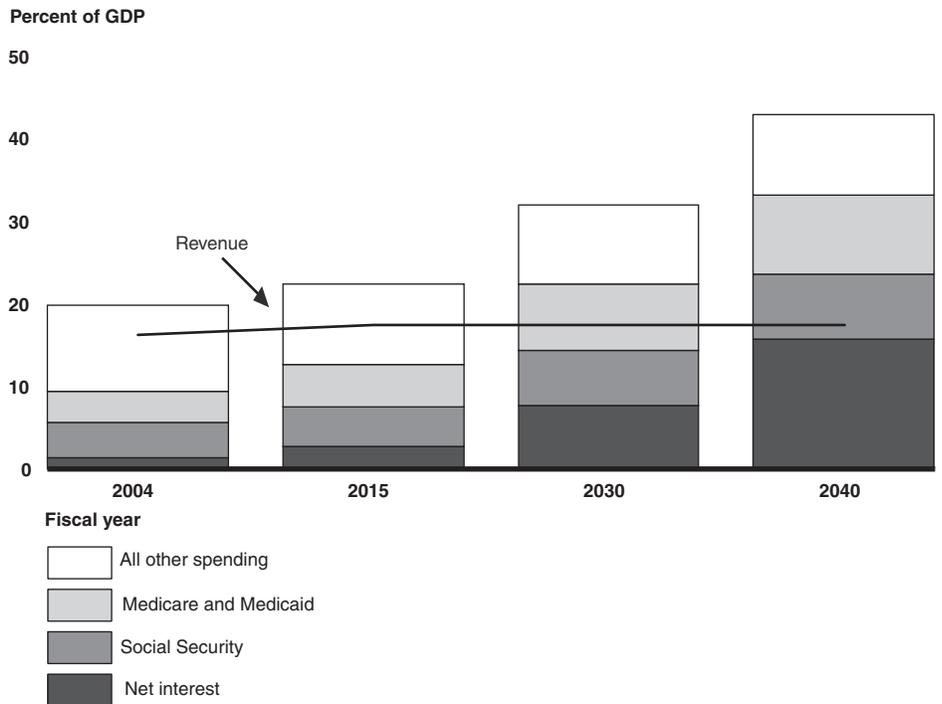
Figure 1: Composition of Spending as a Share of GDP, Under Baseline Extended



Source: GAO's March 2005 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the alternative minimum tax (AMT), and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Figure 2: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP After 2005 and All Expiring Tax Provisions Are Extended



Source: GAO's March 2005 analysis.

Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

As both these simulations illustrate, absent policy changes on the spending and/or revenue side of the budget, the growth in spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. Indeed, when we assume that recent tax reductions are made permanent and discretionary spending keeps pace with the economy, our long-term simulations suggest that by 2040 federal revenues may be adequate to pay little more than interest on the federal debt. Neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the imbalance. Although revenues will ultimately be part of the debate about our fiscal future, making no changes to Social Security, Medicare, Medicaid, and other drivers of the long-term fiscal gap would require at least a doubling of taxes in the future—and that seems both inappropriate

and implausible. Accordingly, substantive reform of Social Security, Medicare, and other major mandatory programs remains critical to recapturing our future fiscal flexibility.

The government can help ease our nation's future fiscal burdens through actions on the spending and/or revenue side that reduce debt held by the public, increase saving for the future, and enhance the pool of economic resources available for private investment and long-term growth. Economic growth is essential, but our long-term fiscal gap is simply too great to grow our way out of the problem. Closing the current long-term fiscal gap would require sustained economic growth far beyond that experienced in U.S. economic history since World War II. Tough choices are inevitable, and the sooner we act the better.

In addition to the nation's large and growing long-term fiscal imbalance, policymakers must confront a host of emerging forces and trends shaping the United States, which GAO highlights in its strategic plan for serving Congress.² We face a world in which national boundaries are becoming less relevant in addressing a range of economic, security, social, public health, energy, and environmental issues. The shift to a knowledge-based economy and additional productivity gains are having significant impacts on the job market. Scientific research and technological developments are improving and even extending life, but they are also raising profound ethical questions for society. Accompanying these changes are new expectations about the quality of life for Americans and how we should measure the nation's position and progress. Governance structures are evolving in order to contend with these new forces and an accelerating pace of change. These broad themes—changing security threats, increasing global interconnectedness, the changing economy, an aging and more diverse population, scientific and technological change, concern for quality of life, and evolving governance structures—present both challenges and opportunities to our economy and our society.

If government is to address these challenges and trends effectively, it cannot accept all of its existing programs, policies, and activities as “givens.” Many of the federal government's programs, policies, functions, and activities were designed decades ago to address earlier challenges. Outmoded commitments and operations constitute an encumbrance on the

² GAO, *GAO's Strategic Plan for Serving the Congress and the Nation (2004-2009)* (Washington, D.C.: March 2004).

future that can erode the capacity of the nation to better align its government with the needs and demands of a changing world and society. Accordingly, reexamining the base of all major existing federal spending and tax programs, policies, functions, and activities by reviewing their results and testing their continued relevance and relative priority for our changing society is an important step in the process of assuring fiscal responsibility and facilitating national renewal. Reexamining the base offers compelling opportunities to redress our current and projected fiscal imbalance while better positioning government to meet the new challenges and opportunities of this new century.

In our recent publication *21st Century Challenges: Reexamining the Base of the Federal Government*, we focused on these challenges and trends, along with GAO's institutional knowledge and issued work, to identify reexamination areas and suggest some questions to use for this reexamination.³ The specific questions were informed by a set of generic evaluation criteria which are useful for reviewing any government program, policy, function, or activity; these are displayed in table 1.

Table 1: Generic Reexamination Criteria and Sample Questions

Relevance of purpose and the federal role	Why did the federal government initiate this program and what was the government trying to accomplish? Have there been significant changes in the country or the world that relate to the reason for initiating it?
Measuring success	Are there outcome-based measures? If not, why? If there are outcome-based measures, how successful is it based on these measures?
Targeting benefits	Is it well targeted to those with the greatest needs and the least capacity to meet those needs?
Affordability and cost effectiveness	Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?
Best practices	Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Source: GAO.

³ GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

In the report, we also describe 12 broad reexamination areas, based in large measure on functional areas in the federal budget, as shown in figure 3.

Figure 3: Twelve Reexamination Areas

Mission Areas	
Defense	Natural Resources, Energy and Environment
Education and Employment	Retirement and Disability
Financial Regulation and Housing	Science and Technology
Health Care	Transportation
Homeland Security	
International Affairs	
Crosscutting Areas	
Governance	Tax System

Source: GAO.

Since health policy is both a driver of our long-term trends and a new area of oversight for this subcommittee, I will use it to illustrate the reexamination challenges and questions. Between 1992 and 2002, overall health care spending rose from \$827 billion to about \$1.6 trillion; it is projected to nearly double to \$3.1 trillion in the following decade. This price tag results, in part, from advances in expensive medical technology, including new drug therapies, and the increased use of high-cost services and procedures. Many policymakers, industry experts, and medical practitioners contend that the U.S. health care system—in both the public and private sectors—is in crisis.

Despite the significant share of the economy consumed by health care, U.S. health outcomes continue to lag behind many other industrialized nations. The United States now spends over 15 percent of its gross domestic product on health care—far more than other major industrialized nations. Yet relative to these nations, the United States performs below par in such measures as rates of infant mortality, life expectancy, and premature and preventable deaths. Moreover, evidence suggests that the American people are not getting the best value for their health care dollars.

Given this picture, there are a number of important questions that need to be addressed. Among them are the following:

- How can we perform a systematic reexamination of our current health care system? For example, could public and private entities work

jointly to establish formal reexamination processes that would (1) define and update as needed a minimum core of essential health care services; (2) ensure that all Americans have access to the defined minimum core services; (3) allocate responsibility for financing these services among such entities as government, employers, and individuals; and (4) provide the opportunity for individuals to obtain additional services at their discretion and cost?

- How can we make our current Medicare and Medicaid programs financially sustainable? For example, should the eligibility requirements (e.g., age, income requirements) for these programs be modified?
- How can health care tax incentives be designed to encourage employers and employees to better control health care cost? For example, should tax preferences for health care be designed to cap the health insurance premium amount that can be excluded from an individual's taxable income?
- How can technology be leveraged to reduce costs and enhance quality while protecting patient privacy?

Health care is not, of course, the only area in which fundamental change is necessary. All of our federal agencies must become high-performing organizations. I will turn now to a discussion of the elements that can help to make such a transformation a reality.

Transforming Federal Agencies into High-Performing Organizations: Key Elements of Transformations

Government is being transformed by the challenges and trends I discussed previously. As a result, federal agencies must change their cultures and create the institutional capacity to become high-performing organizations that can adapt to the changing demands of the 21st century, by implementing a more results-oriented and performance-based approach to how they do business.

Unfortunately, in many cases, the government is still trying to do business in ways that are based on conditions, priorities, and approaches that existed decades ago and are not well suited to addressing 21st century challenges. For example, some agencies do not yet have sufficient abilities, leadership, and management capabilities to transform their cultures and operations. As you know, on a biennial basis, GAO updates its list of high-risk areas for the federal government, and most recently did so in January

of this year.⁴ Increasingly, GAO also is identifying high-risk areas to focus on the need for broad-based transformations to address major economy, efficiency, or effectiveness challenges. To illustrate, several of these high-risk areas include the U.S. Postal Service transformation efforts and long-term outlook, implementing and transforming the Department of Homeland Security (DHS), and the Department of Defense's (DOD) approach to business transformation, as shown in table 2. GAO will continue to use the high-risk designation to highlight additional areas facing major transformational challenges.

⁴ GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

Table 2: GAO's 2005 High-Risk List

2005 High-Risk Areas

Addressing Challenges In Broad-based Transformations

- Strategic Human Capital Management^a
- U.S. Postal Service Transformation Efforts and Long-Term Outlook^a
- Managing Federal Real Property^a
- Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
- Implementing and Transforming the Department of Homeland Security
- Establishing Appropriate And Effective Information-Sharing Mechanisms to Improve Homeland Security
- DOD Approach to Business Transformation^a
 - DOD Business Systems Modernization
 - DOD Personnel Security Clearance Program
 - DOD Support Infrastructure Management
 - DOD Financial Management
 - DOD Supply Chain Management (formerly Inventory Management)
 - DOD Weapon Systems Acquisition

Managing Federal Contracting More Effectively

- DOD Contract Management
- DOE Contract Management
- NASA Contract Management
- Management of Interagency Contracting

Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws^{a, b}
- IRS Business Systems Modernization^c

Modernizing and Safeguarding Insurance and Benefit Programs

- Modernizing Federal Disability Programs^a
- Pension Benefit Guaranty Corporation Single-Employer Insurance Program^a
- Medicare Program^a
- Medicaid Program^a
- HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs

Other

- FAA Air Traffic Control Modernization

Source: GAO.

^aLegislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^bTwo high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

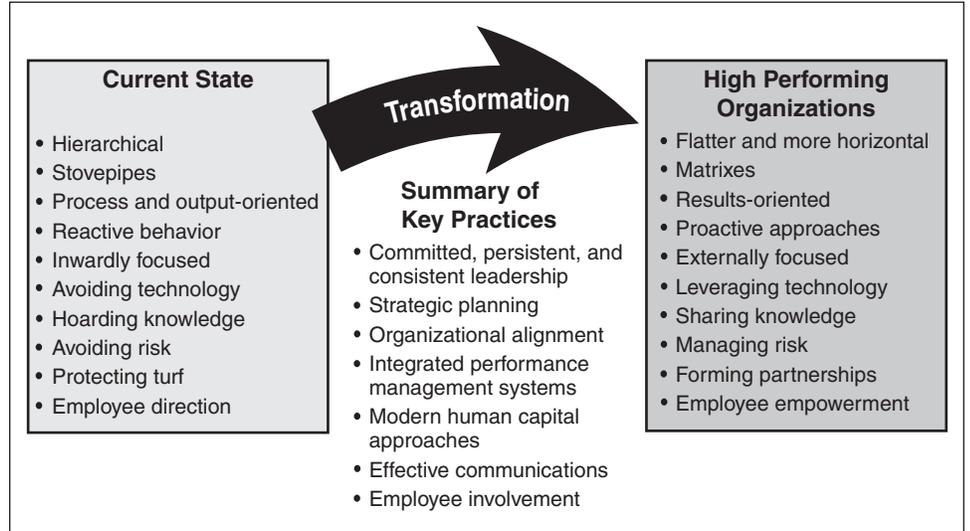
^cThe IRS Financial Management high-risk area has been incorporated into this high-risk area.

To successfully navigate transformation across the government, these and other agencies must fundamentally reexamine not only their business processes, but also their outdated organizational structures, management approaches, and in some cases, missions. GAO has hosted several forums bringing together senior leaders from the federal sector, executives from the private and not-for-profit sectors, and members of academia, to explore the specific change management practices that federal agencies can adopt to create high-performing organizations. In September 2002, in anticipation of the creation of DHS, we convened a forum of these leaders to identify useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations that federal agencies could implement to successfully transform their cultures.⁵ These key practices are summarized in the broad categories displayed in figure 4. In a follow-on report, we identified the specific implementation steps for the key mergers and transformation practices raised at the forum.⁶

⁵ GAO, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, [GAO-03-293SP](#) (Washington, D.C.: November 2002).

⁶ GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2003).

Figure 4: Cultural Changes and Key Practices Necessary for Successful Transformation



Source: GAO analysis.

In November 2003, GAO held a related forum on the metrics, means, and mechanisms to achieve high performance in the 21st century public management environment.⁷ There was broad agreement among the forum participants on the key characteristics and capabilities of high-performing organizations, which can be grouped into the following four themes:

- *A clear, well-articulated, and compelling mission.* High-performing organizations have a clear, well-articulated, and compelling mission; the strategic goals to achieve it; and a performance management system that aligns with these goals to show employees how their performance can contribute to overall organizational results.
- *Focus on needs of clients and customers.* Serving the needs of clients and customers involves identifying their needs, striving to meet them, measuring performance, and publicly reporting on progress to help assure appropriate transparency and accountability.

⁷GAO, *High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment*, [GAO-04-343SP](#) (Washington, D.C.: Feb. 13, 2004).

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- *Strategic management of people.* Most high-performing organizations have strong, charismatic, visionary, and sustained leadership; the capability to identify what skills and competencies the employees and the organization need; and other key characteristics including effective recruiting, comprehensive training and development, retention of high-performing employees, and a streamlined hiring process.
 - *Strategic use of partnerships.* Since the federal government is increasingly reliant on partners to achieve its outcomes, becoming a high-performing organization requires that federal agencies effectively manage relationships with other organizations outside of their direct control.

GAO has used these tools, and others, to fundamentally change our organization. Shortly after I was appointed Comptroller General, I determined that GAO should undertake a major transformation effort to better enable it to “lead by example” and better support Congress in the 21st century. To provide the foundation for GAO’s transformation, we first developed a set of core values and a strategic plan for the 21st century. We used our strategic plan as a framework to align our organization, allocate its resources, and determine appropriate priorities and performance measures. For example, we streamlined and realigned the agency to eliminate a management layer, consolidated 35 issue areas into 13 teams, and reduced our field offices from 16 to 11. We also reallocated our resources to focus more on matrixing internally and partnering externally. In the human capital area and in all other management functions, we seek to lead by example in modernizing our policies and procedures. For example, in the human capital area, we have adopted a range of strategic workforce policies and practices, such as recruiting and succession planning strategies, as a result of a comprehensive workforce planning effort. We have also updated our performance management and compensation systems and our training and development programs to maximize staff effectiveness and fully develop the potential of our staff.

Given these challenges and trends, and the need for federal agencies to transform, where do we go from here?

The Way Forward: Multiple Approaches to Reexamine the Base of Government and Selected Initiatives to Support Government Transformation

In our system, the reexamination of programs and the transformation of agencies are not easy processes—there is little “low hanging fruit,” or few easy, quick fixes. Although resistance can be expected, there are cases where program areas and agencies have been reformed in the past that we can draw lessons from in going forward. A successful process to reexamine the base of the federal government will in all likelihood rely on multiple approaches over a period of years. The reauthorization, appropriations, oversight, and budget processes have all been used, on some occasions in the past, to review existing programs and policies. Adding other specific approaches and processes—such as temporary commissions to develop policy alternatives or executive reorganizations—has been proposed. Each approach needs to be considered separately for each program area and organizational problem to determine which set of approaches is best tailored for each.

Performance and analytic tools can play a vital role in facilitating reexamination. In this regard, the performance metrics and plans ushered in by the Government Performance and Results Act of 1993 (GPRA) have led to a growing supply of increasingly sophisticated measures and data on the results achieved by various federal programs. Agencies and the Office of Management and Budget (OMB) have been working over the years to strengthen the links between this information and the budget. Under the Administration’s Program Assessment Rating Tool (PART), for example, OMB is rating the effectiveness of each program in the budget over a 5-year period. Since the fiscal year 2004 budget cycle, OMB has applied PART to 607 programs (about 60 percent of the federal budget).

In conjunction with the multiple reexamination approaches that can be used, GAO has, in the past, recommended or asked Congress to consider certain initiatives to assist in government and agency transformations. These include (1) requiring a governmentwide strategic plan and developing a set of key national indicators to help inform the plan; (2) implementing a governmentwide framework for federal human capital reform; and (3) proposing specific leadership models to address transformation challenges, such as creating a Chief Operating Officer (COO)/Chief Management Official (CMO) at select agencies.

Governmentwide strategic plan and key national indicators

We have previously recommended that Congress consider amending GPRA to require the President to develop a governmentwide strategic plan to provide a framework to identify long-term goals and strategies to address issues that cut across federal agencies.⁸ A strategic plan for the federal government, supported by key national outcome-based indicators to assess the government's performance, position, and progress, could be a valuable tool for governmentwide reexamination of existing programs, as well as proposals for new programs.⁹ Developing a strategic plan can help clarify priorities and unify stakeholders in the pursuit of shared goals. Therefore, developing a strategic plan for the federal government would be an important first step in articulating the role, goals, and objectives of the federal government. If fully developed, a governmentwide strategic plan can potentially provide a cohesive perspective on the long-term goals of the federal government and provide a much-needed basis for fully integrating, rather than merely coordinating, a wide array of federal activities.

Similar to GPRA's requirement that agencies consult with Congress as they develop their strategic plans, OMB should also be required to consult with Congress as it develops the governmentwide strategic plan. If fully implemented, the governmentwide strategic plan could also provide a framework for congressional oversight and other activities. To that end, we have also suggested that Congress consider the need to develop a more systematic vehicle for communicating its top performance concerns and priorities; develop a more structured oversight agenda to prompt a more coordinated congressional perspective on crosscutting performance issues; and use this agenda to inform its authorization, appropriations, and oversight processes. One possible approach would involve developing a congressional performance resolution identifying the key oversight and performance goals that Congress wishes to set for its own committees and for the government as a whole. Such a resolution could be developed by modifying the current congressional budget resolution, which is already organized by budget function. Initially, this may involve collecting the "views and estimates" of authorization and appropriations committees on priority performance issues for programs under their jurisdiction and working with crosscutting committees.

⁸ GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004).

⁹ GAO, *Informing Our Nation: Improving How to Understand and Assess the USA's Position and Progress*, [GAO-05-1](#) (Washington, D.C.: Nov. 10, 2004).

The development of a set of key national indicators that would provide information on a core set of information regarding the economic, environmental, social, and cultural condition of the nation over time, including safety and security, could be used as a basis to inform the development of a governmentwide strategic plan. The indicators could also link to and provide information to support outcome-oriented goals and objectives in agency-level strategic and annual performance plans. Currently, the National Academies are facilitating the development of a framework for a key national indicator system. As currently planned, this framework will include a description of the indicators in many areas, without the data, by the end of 2005.

Federal human capital reform

As I have repeatedly stated, people are an organization's most important asset, and strategic human capital management should be the centerpiece of any effort to transform the cultures of government agencies. However, the existing federal personnel system is outmoded, and in some ways serves as a barrier to government transformation. GAO first placed strategic human capital management on the high-risk list in 2001 to focus attention on needed reforms. More progress in addressing human capital challenges was made in the last several years than in the previous 20, and additional significant changes in how the federal workforce is managed are underway.

To help advance the discussion concerning how governmentwide human capital reform should proceed, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum on whether there should be a governmentwide framework for human capital reform and, if so, what this framework should include.¹⁰ There was widespread recognition among the forum participants that a "one size fits all" approach to human capital management is not appropriate for the challenges and demands government faces. However, a reasonable degree of consistency across the government is still desirable in a governmentwide framework that would include principles, criteria, and processes. We believe that future human capital reform should be put in operation only when an

¹⁰ GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, [GAO-05-69SP](#) (Washington, D.C.: Dec. 1, 2004).

agency has the institutional infrastructure in place to use the new authorities effectively. This infrastructure includes, at a minimum,

- a strategic human capital planning process linked to the agency's strategic plan;
- capabilities to design and implement a new human capital system effectively; and
- a modern, effective, credible, and validated performance management system that includes adequate safeguards to ensure the fair, effective, and nondiscriminatory implementation of the system.

Importantly, it is possible to enact broad-based human capital reforms that would enable agencies to move to a more market-oriented and performance-based system. However, any such effort should require that the agency not implement key reforms until after it meets certain procedural management assessment and independent certification requirements relating to the above-referenced criteria.

Transformational Leadership

We have reported that the personal involvement of top leadership in organizational transformation provides an identifiable source for employees to rally around during the tumultuous times created by dramatic reorganizations and transformations. Leadership must set the direction, pace, and tone for the transformation and should provide sustained and focused attention over the long term. This is because the experience of successful transformations and change management initiatives in large public and private organizations suggests that it can take at least 7 years until such initiatives are fully implemented and cultures are transformed in a substantial manner.

As DHS, DOD, and other agencies embark on large-scale organizational change initiatives to address 21st century challenges, there is a compelling need for leadership to provide the continuing focused attention essential to completing these multiyear transformations. We have reported that creation of a COO or CMO with term appointments at selected agencies could help to (1) elevate attention on management issues and transformational change, (2) integrate various key management and transformation efforts, and (3) institutionalize accountability for

addressing these issues and leading this change.¹¹ As I have testified on several occasions, one way to ensure sustained leadership over DOD's business transformation efforts would be to create a full-time executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management, or Principal Undersecretary. I have also stated that establishing a term that spans administrations underscores the importance of a professional, nonpartisan approach to this business management-oriented position. In April 2005, Senators Ensign, Akaka, and Voinovich introduced legislation (S. 780) to create a CMO/Deputy Secretary of Defense for Management position for DOD. The Deputy Secretary of Defense for Management would report to the Secretary of Defense and serve for a term of 7 years with an annual performance agreement.

Conclusions

In establishing more results-oriented and performance-based cultures, government organizations and their leaders need to carefully select the best solution for their organizations in terms of structure, systems, and processes. Supporting new and more adaptable ways of doing business will be vital to successful transformation. Though progress is being made on many fronts, much remains to be done.

Regardless of the specific combination of reexamination approaches or selected initiatives adopted to transform the government and agencies, the ultimate success of this process will depend on several important overarching conditions:

- Sustained leadership to champion changes and reforms through the many stages of the policy development and subsequent implementation process.
- Broad-based input by a wide range of stakeholders.

¹¹ GAO, *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, [GAO-05-520T](#) (Washington, D.C.: Apr. 13, 2005); GAO, *Department of Homeland Security: A Comprehensive and Sustained Approach Needed to Achieve Management Integration*, [GAO-05-139](#) (Washington, D.C.: Mar. 16, 2005); GAO, *The Chief Operating Officer Concept and Its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, [GAO-04-876R](#) (Washington, D.C.: June 28, 2004); and GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, [GAO-03-192SP](#) (Washington, D.C.: Oct. 4, 2002).

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- Reliable data and credible analysis from a broad range of sources that provide a compelling fact-based rationale for changing the base of programs and policies for specific areas.
 - Clear and transparent processes for engaging the broader public in the debate over the recommended changes.

Policy and organizational change is not an easy process, but one that we have no choice but to embrace to reclaim our fiscal future and make government relevant for this new century. We at GAO stand ready to help Congress address these challenges.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have at this time.

For future information on this testimony, please contact J. Christopher Mihm, Managing Director, Strategic Issues, at (202) 512-6806 or mihmj@gao.gov.



Highlights of [GAO-03-669](#), a report to congressional requesters

RESULTS-ORIENTED CULTURES

Implementation Steps to Assist Mergers and Organizational Transformations

Why GAO Did This Study

The Comptroller General convened a forum in September 2002 to identify useful practices and lessons learned from major private and public sector mergers, acquisitions, and organizational transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security merge its various originating components into a unified department. There was general agreement on a number of key practices found at the center of successful mergers, acquisitions, and transformations. In this report, we identify the specific implementation steps for the key practices raised at the forum with illustrative private and public sector examples.

To identify these implementation steps and examples, we relied primarily on interviews with selected forum participants and other experts about their experiences implementing mergers, acquisitions, and transformations and also conducted a literature review.

www.gao.gov/cgi-bin/getrpt?GAO-03-669.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm, (202) 512-6806 or mihmj@gao.gov.

What GAO Found

At the center of any serious change management initiative are the people. Thus, the key to a successful merger and transformation is to recognize the “people” element and implement strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes. Building on the lessons learned from the experiences of large private and public sector organizations, these key practices and implementation steps can help agencies transform their cultures so that they can be more results oriented, customer focused, and collaborative in nature.

Key Practices and Implementation Steps for Mergers and Organizational Transformations

Practice	Implementation Step
Ensure top leadership drives the transformation.	<ul style="list-style-type: none"> Define and articulate a succinct and compelling reason for change. Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	<ul style="list-style-type: none"> Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	<ul style="list-style-type: none"> Embed core values in every aspect of the organization to reinforce the new culture.
Set implementation goals and a timeline to build momentum and show progress from day one.	<ul style="list-style-type: none"> Make public implementation goals and timeline. Seek and monitor employee attitudes and take appropriate follow-up actions. Identify cultural features of merging organizations to increase understanding of former work environments. Attract and retain key talent. Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	<ul style="list-style-type: none"> Establish networks to support implementation team. Select high-performing team members.
Use the performance management system to define responsibility and assure accountability for change.	<ul style="list-style-type: none"> Adopt leading practices to implement effective performance management systems with adequate safeguards.
Establish a communication strategy to create shared expectations and report related progress.	<ul style="list-style-type: none"> Communicate early and often to build trust. Ensure consistency of message. Encourage two-way communication. Provide information to meet specific needs of employees.
Involve employees to obtain their ideas and gain their ownership for the transformation.	<ul style="list-style-type: none"> Use employee teams. Involve employees in planning and sharing performance information. Incorporate employee feedback into new policies and procedures. Delegate authority to appropriate organizational levels.
Build a world-class organization.	<ul style="list-style-type: none"> Adopt leading practices to build a world-class organization.

Source: GAO



Highlights of [GAO-04-343SP](#).

Why GAO Convened This Forum

As we face the challenges of the 21st century, the federal government must strive to build high-performing organizations. Nothing less than a fundamental transformation in the people, processes, technology, and environment used by federal agencies to address public goals will be necessary to address public needs. In high-performing organizations, management controls, processes, practices, and systems are adopted that are consistent with prevailing best practices and contribute to concrete organizational results. Ultimately, however, the federal government needs to change its culture to become more results-oriented, client- and customer-focused, and collaborative in nature.

On November 6, 2003, GAO hosted a forum to discuss what it means for a federal agency to be high-performing in an environment where results and outcomes are increasingly accomplished through partnerships that cut across different levels of government and different sectors of the economy. The forum included discussions of the metrics, means, and mechanisms that a federal agency should use to optimize its influence and contribution to nationally important results and outcomes. The forum included representatives of the public, not-for-profit, and for-profit sectors as well as academia who are knowledgeable of what it takes for organizations to become high-performing.

www.gao.gov/cgi-bin/getrpt?GAO-04-343SP.

To view the full product click on the link above. For more information, contact J. Christopher Mihm, Managing Director, Strategic Issues on (202) 512-6806 or mihmj@gao.gov.

HIGHLIGHTS OF A GAO FORUM

High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment

What Participants Said

There was broad agreement among participants at the forum on the key characteristics and capabilities of high-performing organizations, which comprise four themes as follows:

- **A clear, well-articulated, and compelling mission.** High-performing organizations have a clear, well-articulated, and compelling mission, the strategic goals to achieve it, and a performance management system that aligns with these goals to show employees how their performance can contribute to overall organizational results.
- **Strategic use of partnerships.** Since the federal government is increasingly reliant on partners to achieve its outcomes, becoming a high-performing organization requires that federal agencies effectively manage relationships with other organizations outside of their direct control.
- **Focus on needs of clients and customers.** Serving the needs of clients and customers involves identifying their needs, striving to meet them, measuring performance, and publicly reporting on progress to help assure appropriate transparency and accountability.
- **Strategic management of people.** Most high-performing organizations have strong, charismatic, visionary, and sustained leadership, the capability to identify what skills and competencies the employees and the organization need, and other key characteristics including effective recruiting, comprehensive training and development, retention of high-performing employees, and a streamlined hiring process.

During the forum, the Comptroller General offered several options that the Congress, the executive branch, and others could pursue to facilitate transformation and to achieve high performance in the federal government. Several of the participants provided their views and experiences with these options. These options included:

- establishing a governmentwide transformation fund where federal agencies could apply for funds to make short-term targeted investments, based on a well-developed business case;
- employing the Chief Operating Officer concept or establishing a related senior management position, such as a Principal Under Secretary for Management and/or Chief Administrative Officer, to provide long-term attention and focus on management issues and transformational change at selected federal agencies; and
- examining certain federal budget reforms, such as a biennial budget process, which could encourage the Congress and federal agencies to focus on long-range issues and possibly provide more time for oversight of existing government programs, policies, functions, and activities.



Highlights of [GAO-04-38](#), a report to congressional requesters

RESULTS-ORIENTED GOVERNMENT

GPRA Has Established a Solid Foundation for Achieving Greater Results

Why GAO Did This Study

Now that the Government Performance and Results Act (GPRA) has been in effect for 10 years, GAO was asked to address (1) the effect of GPRA in creating a governmentwide focus on results and the government's ability to deliver results to the American public, (2) the challenges agencies face in measuring performance and using performance information in management decisions, and (3) how the federal government can continue to shift toward a more results-oriented focus.

What GAO Recommends

GAO recommends that the Office of Management and Budget (OMB) improve its guidance and oversight of GPRA implementation, as well as develop a governmentwide performance plan. GAO also believes Congress should consider amending GPRA to require that (1) agencies update their strategic plans at least once every four years, consult with congressional stakeholders at least once every new Congress, and make interim updates to strategic and performance plans as appropriate; and (2) the President develop a governmentwide strategic plan. OMB generally agreed with our recommendations, but stated that the President's Budget can serve as both a governmentwide strategic and annual plan. However, we believe the budget provides neither a long-term nor an integrated perspective on the federal government's performance.

www.gao.gov/cgi-bin/getrpt?GAO-04-38.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Patricia A. Dalton at (202) 512-6806 or daltonp@gao.gov.

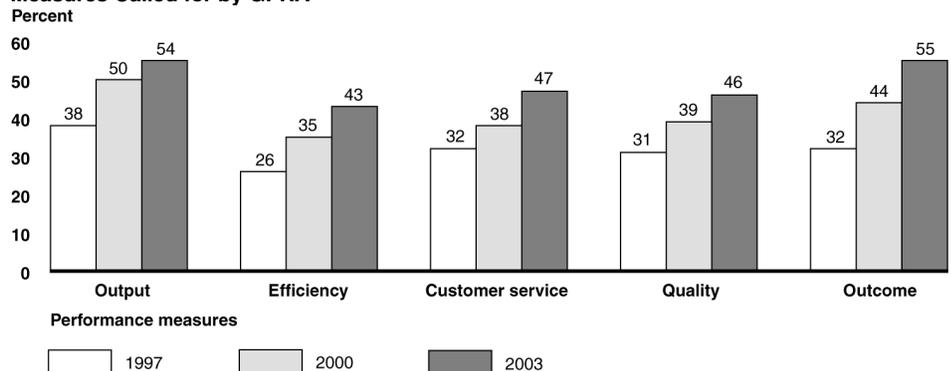
What GAO Found

GPRA's requirements have established a solid foundation of results-oriented performance planning, measurement, and reporting in the federal government. Federal managers surveyed by GAO reported having significantly more of the types of performance measures called for by GPRA (see figure below). GPRA has also begun to facilitate the linking of resources to results, although much remains to be done in this area to increase the use of performance information to make decisions about resources. We also found agency strategic and annual performance plans and reports we reviewed have improved over initial efforts.

Although a foundation has been established, numerous significant challenges to GPRA implementation still exist. Inconsistent top leadership commitment to achieving results within agencies and OMB can hinder the development of results-oriented cultures in agencies. Furthermore, in certain areas, federal managers continue to have difficulty setting outcome-oriented goals, collecting useful data on results, and linking institutional, program, unit, and individual performance measurement and reward systems. Finally, there is an inadequate focus on addressing issues that cut across federal agencies.

OMB, as the focal point for management in the federal government, is responsible for overall leadership and direction in addressing these challenges. OMB has clearly placed greater emphasis on management issues during the past several years. However, it has showed less commitment to GPRA implementation in its guidance to agencies and in using the governmentwide performance plan requirement of GPRA to develop an integrated approach to crosscutting issues. In our view, governmentwide strategic planning could better facilitate the integration of federal activities to achieve national goals.

Percentage of Federal Managers Who Reported Having Specific Types of Performance Measures Called for by GPRA



Source: GAO.



Highlights of [GAO-05-1](#), a report to the Chairman, Subcommittee on Science, Technology, and Space, Committee on Commerce, Science, and Transportation, U.S. Senate.

Why GAO Did This Study

There has been growing activity and interest in developing a system of key national indicators that would provide an independent, trusted, reliable, widely available, and usable source of information. Such a system would facilitate fact-based assessments of the position and progress of the United States, on both an absolute and relative basis. This interest emerges from the following perspectives.

- The nation's complex challenges and decisions require more sophisticated information resources than are now available.
- Large investments have been made in indicators on a variety of topics ranging from health and education to the economy and the environment that could be aggregated and disseminated in ways to better inform the nation.
- The United States does not have a national system that assembles key information on economic, environmental, and social and cultural issues.

Congressional and other leaders recognized that they could benefit from the experiences of others who have already developed and implemented such key indicator systems. GAO was asked to conduct a study on: (1) The state of the practice in these systems in the United States and around the world, (2) Lessons learned and implications for the nation, and (3) Observations, options, and next steps to be considered if further action is taken.

www.gao.gov/cgi-bin/getrpt?GAO-05-1.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Christopher Hoenig at (202) 512-6779 or hoenigc@gao.gov.

INFORMING OUR NATION

Improving How to Understand and Assess the USA's Position and Progress

What GAO Found

GAO studied a diverse set of key indicator systems that provide economic, environmental, social and cultural information for local, state, or regional jurisdictions covering about 25 percent of the U.S. population—as well as several systems outside of the United States. GAO found opportunities to improve how our nation understands and assesses its position and progress.

Citizens in diverse locations and at all levels of society have key indicator systems. Building on a wide array of topical bodies of knowledge in areas such as the economy, education, health, and the environment, GAO found that individuals and institutions across the United States, other nations, and international organizations have key indicator systems to better inform themselves. These systems focus on providing a public good: a single, freely available source for key indicators of a jurisdiction's position and progress that is disseminated to broad audiences. A broad consortium of public and private leaders has begun to develop such a system for our nation as a whole.

These systems are a noteworthy development with potentially broad applicability. Although indicator systems are diverse, GAO identified important similarities. For example, they faced common challenges in areas such as agreeing on the types and number of indicators to include and securing and maintaining adequate funding. Further, they showed evidence of positive effects, such as enhancing collaboration to address public issues, and helping to inform decision making and improve research. Because these systems exist throughout the United States, in other nations, and at the supranational level, the potential for broad applicability exists, although the extent of applicability has yet to be determined.

Congress and the nation have options to consider for further action. GAO identified nine key design features to help guide the development and implementation of an indicator system. For instance, these features include establishing a clear purpose, defining target audiences and their needs, and ensuring independence and accountability. Customized factors will be crucial in adapting such features to any particular level of society or location. Also, there are several alternative options for a lead entity to initiate and sustain an indicator system: publicly led, privately led, or a public-private partnership in either a new or existing organization.

Observations, Options, and Next Steps

Key indicator systems merit serious discussion at all levels of society, including the national level, and clear implementation options exist from which to choose. Hence, Congress and the nation should consider how to

- improve awareness of these systems and their implications for the nation,
- support and pursue further research,
- help to catalyze discussion on further activity at subnational levels, and
- begin a broader dialogue on the potential for a U.S. key indicator system.



Highlights of [GAO-05-69SP](#)

Why GAO Convened This Forum

There is widespread agreement that the federal government faces a range of challenges in the 21st century that it must confront to enhance performance, ensure accountability, and position the nation for the future. Federal agencies will need the most effective human capital systems to address these challenges and succeed in their transformation efforts during a period of likely sustained budget constraints.

More progress in addressing human capital challenges was made in the last 3 years than in the last 20, and significant changes in how the federal workforce is managed are underway.

On April 14, 2004, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum with selected executive branch officials, key stakeholders, and other experts to help advance the discussion concerning how governmentwide human capital reform should proceed.

www.gao.gov/cgi-bin/getrpt?GAO-05-69SP

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

HIGHLIGHTS OF A FORUM

Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform

What Participants Said

Forum participants discussed (1) Should there be a governmentwide framework for human capital reform? and (2) If yes, what should a governmentwide framework include?

There was widespread recognition that a “one size fits all” approach to human capital management is not appropriate for the challenges and demands government faces. However, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of beliefs that entail fundamental principles and boundaries that include criteria and processes that establish the checks and limitations when agencies seek and implement their authorities. While there were divergent views among the participants, there was general agreement that the following served as a starting point for further discussion in developing a governmentwide framework to advance needed human capital reform.

Principles

- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
- Ability to organize, bargain collectively, and participate through labor organizations
- Certain prohibited personnel practices
- Guaranteed due process that is fair, fast, and final

Criteria

- Demonstrated business case or readiness for use of targeted authorities
- An integrated approach to results-oriented strategic planning and human capital planning and management
- Adequate resources for planning, implementation, training, and evaluation
- A modern, effective, credible, and integrated performance management system that includes adequate safeguards to ensure equity and prevent discrimination

Processes

- Prescribing regulations in consultation or jointly with the Office of Personnel Management
- Establishing appeals processes in consultation with the Merit Systems Protection Board
- Involving employees and stakeholders in the design and implementation of new human capital systems
- Phasing in implementation of new human capital systems
- Committing to transparency, reporting, and evaluation
- Establishing a communications strategy
- Assuring adequate training



HIGHLIGHTS OF A GAO ROUNDTABLE

The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges

Highlights of GAO-03-192SP

Why GAO Convened This Roundtable

The federal government is in a period of profound transition that requires a comprehensive review, reassessment, reprioritization, and reengineering of what the government does, how it does business, and, in some cases, who does the government's business. Agencies will need to transform their cultures so that they are more results oriented, customer focused, and collaborative in nature. At the same time, GAO's work over the years has amply documented that agencies are suffering from a range of long-standing management problems that are undermining their abilities to efficiently, economically, and effectively accomplish their missions and achieve results.

On September 9, 2002, GAO convened a roundtable to discuss the application and the related advantages and disadvantages of the Chief Operating Officer (COO) concept and how it might apply within selected federal departments and agencies as one strategy to address certain systemic federal governance and management challenges. The invited participants have current or recent executive branch leadership responsibilities, significant executive management experience, or both.

What Participants Said

At the roundtable, participants generated ideas and engaged in an open dialogue on the possible application of the COO concept. There was general agreement that the following three themes provide a course for action.

Elevate attention on management issues and transformational change. The nature and scope of the changes needed in many agencies require the sustained and inspired commitment of the top political and career leadership.

Integrate various key management and transformation efforts. While officials with management responsibilities often have successfully worked together, there needs to be a single point within agencies with the perspective and responsibility—as well as authority—to ensure the successful implementation of functional management and, if appropriate, transformational change efforts.

Institutionalize accountability for addressing management issues and leading transformational change. The management weaknesses in some agencies are deeply entrenched and long standing and will take years of sustained attention and continuity to resolve. In addition, making fundamental changes in agencies' cultures will require a long-term effort. In the federal government, the frequent turnover of the political leadership has often made it difficult to obtain the sustained and inspired attention required to make needed changes.

Within the context of these generally agreed-upon themes, the participants offered a number of ideas to help address management weaknesses and drive transformational change.

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