

Executive Summary

California built a world-class educational system that spawned the technology revolution. Now the State must fortify that system to prepare all Californians for a global and information-based economy – and position California to lead in nanotechnology, biotechnology and frontiers beyond the horizon.

The State built a world-class highway system that serves nearly 37 million people. Now it must rethink transportation to move more than 50 million people and their commerce around the state and across the globe.

California led the nation in demanding energy efficiency and environmental excellence. And now it has ambitions to transform the use of energy, create innovative land use patterns, restore habitat and revitalize communities.

These are just some of the challenges facing the State of California. The State also cannot retreat from its war against poverty and addiction, or its efforts to ensure public safety and correct the prison system.

Success will require highly skilled leaders – men and women who in the California tradition want to make history. But the State does little to attract, develop and deploy the management talent needed to effectively lead essential public programs. Moreover, the State’s high-profile failures actively discourage talented people from even considering public service.

The Commission has reviewed dozens of state programs and documented the high costs and bad outcomes. Political and fiscal gridlock are partly to blame. But quality outcomes also are consistently compromised by insufficient leadership, weak management and inadequate training. The State will simply not be able to respond to the essential challenges of the 21st century without fundamentally improving its personnel system, and the management system in particular.

California’s Workforce
(Executive Branch Only)

The State workforce represents a tremendous potential to address public needs.

Total employees:	212,031
Management workforce	31,017
Political appointees.....	3,370
C.E.A.s.....	1,224
Managers	2,813
Supervisors	23,610

Total annual state payroll\$13.7 billion
(including estimated benefits)

Weekly work hours of
state employees8.5 million

Note: 2003-04 figures. Sources: State Personnel Board.
Governor’s 2003-04 and 2005-06 Budgets.

Government is a people business. High quality managers matter.

Whether policy is made in the Capitol or at the ballot box, successful implementation depends on skilled administrators. Passing bills and enacting budgets will not improve performance if the State also does not have skillful administrators who understand the goals to be achieved, are adept at using the tools of government and value success. But policy-makers have not even begun to focus on the personnel reforms needed to break the cycle of failure that has so shaken the public trust in state government.

To initiate reforms, the Governor and Legislature must provide leadership.

Both the executive and legislative branches must support efforts to improve the management of public programs. The Governor can initiate efforts to recruit, select and develop managers, and he can champion management reforms to improve performance and accountability. The Legislature must encourage reforms by supporting their implementation and providing sufficient discretion to allow managers to manage, while setting clear goals and monitoring outcomes.

Beyond the rules, the “culture” of public service also must be reformed.

Changing rules and procedures can pave the way for ongoing and strategic improvements. But the State cannot ignore the popular perception that mediocrity is “good enough for government work.” This perception influences who applies for jobs, how work gets done and whether improvements are made. State leaders must work with unions and employee organizations to reinvigorate the culture of public service to attract and motivate state employees to consistently provide high quality services with great efficiency.

State government plays a vital role in the lives of all Californians and many state programs are exemplary. But the public perception of all state programs is diminished by persistently poor service in some critical areas. California’s network of first responders is recognized for its professionalism and competency. But the public is more likely to recognize poor service at the Department of Motor Vehicles. California leads the nation in curtailing teen smoking. But the educational system persistently fails many students. The State has excelled in getting children into car seats and adults to wear seat belts. And the State has achieved one of the lowest infant mortality rates in the nation. But the public hears more about the failings of the correctional system.

Each stumble – each failure – compromises public confidence and undermines support for needed investments in essential public programs. The State must bolster performance, improve outcomes and lower costs.

In this report, the Commission examined the State's management workforce and strategies to build a corps of high-performing managers. Developing that corps in state government is essential to achieving systemic improvements. Reforms are needed in three areas:

Building a team of skilled managers. To translate policy into outcomes, the State must have a cadre of managers who can overcome obstacles to improve outcomes. Putting that team in place will require changes in how managers are recruited, hired and trained.

Managing for outcomes. Management practices must be goal-oriented, enable progress and monitor outcomes. Performance-oriented management will require changes in personnel practices, budgeting and oversight.

Rewarding for performance. Compensation must be strategic, tailored and part of an overall effort to re-craft the nature of public service. Public compensation can be competitive, rewarding and affordable to the taxpayers of California.

Many of these recommendations do not require statutory changes or additional funding. Several recommendations reflect strategies already in place in select departments or programs. But the Governor and Legislature should promote systemic improvements, and where necessary, lower the barriers to achieving excellence throughout state government.

The challenges to California's management reforms are significant and past efforts at civil service reform have faltered. But the federal government and numerous states have made personnel reforms a priority. Their experiences suggest that reforms – while difficult – are worth pursuit. And now California – starting with its management system – must make personnel reforms a priority.

Building the Team

California's personnel system is not designed or operated to ensure that state departments have in place the most skilled and effective managers. State rules encourage the promotion of existing staff into management positions, but the State does not have a management track or training initiative to ensure new managers have the skills to succeed. Of equal importance, the State has not promoted a culture of public service that could encourage a high-performing workforce.

To build a robust, high-caliber management team, the State must address five core problems:

Problem #1: Flawed hiring procedures thwart efforts to bring the best candidates into state service.

Over the next decade, the State will lose a significant portion of its veteran managers, providing a tremendous opportunity to build a team of talented, ambitious and experienced managers. But under existing practices, experienced managers from other public agencies and the private sector cannot compete for most management openings. And to avoid costly and time-consuming examination procedures, departments often avoid looking outside of even their own departments for management candidates. As a result, many skilled managers cannot even apply, and at best, positions go to the most qualified in-house candidate. Even when used as designed, the selection procedures are flawed; often failing to test a candidate's capacity to perform the required work. It is possible, however, to redesign selection procedures to make them efficient, open and accurate.

Public service is not public

Getting into state service is hard for recent college graduates. Of 7,600 staff service analysts hired between 1999 and 2004, 94 percent were promoted from other state positions.

Getting into state service is even harder for experienced managers. Out of 2,600 new hires into the core management classification since 1999, not a single job went to a manager from outside of state service.

Source: State Personnel Board.

Solution #1: The State must improve its hiring procedures to bring into state service the most skilled management candidates. The administration should:

- ❑ ***Identify management skills.*** To be successful, departments must determine the skills that managers need to improve outcomes and use those competencies to select, develop and manage the managers. The State should incorporate into the hiring process the core competencies used by the federal senior executive service.
- ❑ ***Establish performance exams.*** The State should develop efficient mechanisms for merit-based selection and explore the use of short-term contracts as an assessment tool prior to offering permanent civil service positions.
- ❑ ***Open the hiring process.*** Hiring procedures should not discriminate against non-state employees. The State Personnel Board should re-craft selection rules to expand applicant pools, reduce costs and improve the recruitment of mid-career and other management candidates into state service.
- ❑ ***Tap top graduates from California's colleges and universities.*** The State should reform exam rules so that top-tier baccalaureate graduates are automatically eligible for entry-level professional jobs such as Staff Services Analyst.
- ❑ ***Establish performance measures for the personnel system.*** The Department of Personnel Administration and the State Personnel Board, in consultation with human resource professionals, should adopt and report performance measures that reflect the accessibility,

clarity and reliability of the personnel system in bringing gifted managers into state service.

Problem #2: Poor public perception and a lack of recruiting keep the best and brightest from considering a career in public service.

Even if the State improves selection procedures, it must also expand the applicant pools for management jobs, and doing so will require changing how people view the State. The State does not recruit high-caliber managers; it advertises openings and hires from a list of those minimally qualified. In turn, potential employees are largely unaware of the value of state service and the real opportunities to contribute through public service to the well-being of Californians. The “culture” of public service has devolved from an asset to a liability. In reviewing the operations of individual departments, the Commission has recognized that the culture of state operations must change – in the Department of Corrections, for instance – if public agencies are going to recruit the best and improve outcomes.

Hiring pools are shallow

In 2003-04, managers were selected from hiring pools with an average of just 13 eligible candidates.

In 11 instances, departments hired from a candidate list that included just one qualified applicant.

Source: State Personnel Board.

Solution #2: To attract talented managers, the Governor should initiate a campaign to reinvigorate public service. The campaign should address two core issues:

- ❑ ***Establish a unifying vision of public service.*** The Governor must reinvigorate public service as a noble commitment to improve the quality of life of all Californians. The vision for public service should be embedded in the mission of state agencies, public policy and agency practices.
- ❑ ***Document the State’s contributions to quality of life.*** Each state agency should document its contributions to the people of California – providing clear information on the work they do and its value to Californians.

Problem #3: The State’s management structure thwarts efforts to develop promising and proven managers.

The federal government and other states have built career ladders to hone the skills of promising managers and prepare them to assume new responsibilities. But California has not. The State’s merit and classification system, intended to identify the most qualified applicants and prevent favoritism, requires top university graduates to meet minimum qualifications and pass an exam before they can be considered for entry-level professional positions. But clerical staff already in state service can transfer into those positions – based solely on comparable

salaries – without meeting minimum educational or experience requirements or undergoing comparable review. Similarly, the State does not have a process to teach experienced managers from the private sector the unique requirements of public sector management.

Solution #3: The State must reform its management structure and actively develop stellar managers.

- ***Reform the classification system.*** The Department of Personnel Administration and the State Personnel Board should reform job classifications – and the rules governing transfers – to ensure that state employees have appropriate opportunities for upward mobility and that all hires are based on competency rather than comparable salaries.
- ***Establish a fast-track management development program.*** To develop promising employees into potential managers, the Governor should appoint an innovative leader to conceive, design and implement a management development initiative. Participation in the program should be highly competitive and open to employees from Staff Services Analysts to those in Career Executive Assignments. Participants should receive enhanced training, mentoring, and rigorous performance evaluation. Participating employees should be excluded from collective bargaining, subject to performance management and benefit from performance compensation.
- ***Establish a Governor’s mid-career management fellowship.*** The one- to two-year fellowship should be highly competitive and open to experienced managers from outside of state government who want to serve the public. The fellowship should provide participants with sufficient background in public sector budgeting, personnel, public process and public service to allow them to successfully lead a state program or department. Successful participants should be eligible for state management positions without further testing.
- ***Establish a student career experience program.*** The State should establish a program that provides work opportunities for highly skilled college students interested in temporary employment or transition into civil service positions. Modeled after federal programs, participation should be competitive and include performance evaluations. Successful participants should be eligible for state positions consistent with their internship responsibilities without further testing or review.

Problem #4: The State fails to invest in training to improve the skills of its managers.

California lacks a management training initiative that could ensure managers are well-versed in the skills needed to meet changing and

expanding challenges. With limited exceptions, training is discretionary and few departments invest in building the skills of their management corps. Other states and the federal government have incorporated training in their strategies for dealing with changing economies and difficult fiscal times, but California has cut training resources and shuttered the State Training Center.

PA's Training Continuum

Pennsylvania has a five-tier leadership development initiative serving employees in pre-supervisory positions through to senior executives. The initiative includes support for ongoing training at premier graduate schools and a Governor's Executive Symposia on leadership challenges.

Source: Commonwealth of Pennsylvania.

Solution #4: To improve outcomes, the State needs to make a commitment to management training and develop the capacity to train managers and leaders.

- ❑ ***Invest in management and leadership development.*** The State should establish a continuum for leadership and management development, starting with training for management trainees and capped by a strategic executive academy.
- ❑ ***Build training costs into allocations for positions.*** The State should incorporate in the budgets for individual positions the total costs of employee compensation, as well as professional development and training. Departments should be allowed to carry a limited surplus from year-to-year for training.
- ❑ ***Document value of training.*** As part of the budget process, departments should document training expenditures and the results of training investments to ensure its efficacy in improving public outcomes.

Problem #5: Departments do not know which skills their employees possess and which additional skills are required to meet public needs.

As governments change the way they do business, and calls for services increase, new demands are placed on the public workforce. Periodic assessments of the workforce – how it is organized, span of control and the needed mix of skills and abilities – can reveal deficiencies in recruitment, training and professional development. These assessments also can guide personnel decisions to better align the skills of public servants with the need for public services.

Solution #5: Each state agency should engage in workforce planning.

- ❑ ***Require workforce plans.*** To better meet current needs and prepare for future needs, each agency should document needed skills, inventory existing skills and develop strategies to address gaps.

Building the Team

To build its team of capable managers, the State must address the problems that impede its ability to recruit, hire, and train outstanding managers. But to sustain that team over time, the State also must appoint a leader, establish a supportive structure, and address the culture of state employment.

- ❑ **Assigning a leader.** The Governor should designate a single leader for personnel management, including workforce planning, recruiting, hiring, career development, compensation, and retirement functions. That leader should improve existing personnel strategies, champion new approaches and identify the policy, funding and regulatory changes needed for long-term improvement.
- ❑ **Creating a structure.** The Governor should appoint an advisory council of human resource experts from the public and private sectors to guide the State's efforts to build and manage its workforce.
- ❑ **Enhancing a culture of public service.** The Governor, cabinet secretaries and department directors can refashion the culture of public service by highlighting the essential nature of state service, publicly valuing the contributions of the state's workforce and recognizing the accomplishments of state programs.

Managing the Team

Putting the right people in place is the first step to improving public outcomes. But the State also must ensure that managers have the tools, authority and incentives to improve state operations. Each department must be clear on what it is trying to accomplish and managers need to understand how their work contributes to public outcomes. They need to understand what is being accomplished now and what improvements are needed. And they must have the authority to leverage people, funding and technology to engineer improvements.

To put in place a performance management system, the State must address four explicit challenges:

Problem #6: Departments have not articulated clear goals to guide decision-making, inspire employees and focus attention on outcomes.

Department of Education

All employees must understand how their work supports the department's mission: creating a dynamic, world-class education system that equips all students with the knowledge and skills to excel in college and careers, as parents and citizens.

Few departments have clear strategic plans that outline goals, how they will be achieved and who is responsible for outcomes. And those that do have not consistently translated those goals into clear direction for each manager and employee. As a result, it is difficult to hold departments accountable for failure, reward them for success or invest in making improvements. In turn, the public and policy-makers are uncertain what changes are needed or where best to focus reforms.

Solution #6: The State must renew its commitment to planning strategically, defining goals, clarifying roles and setting priorities.

- ❑ ***Departments should undertake a strategic planning process.*** Planning should involve employees, clients and other stakeholders to define goals, clarify roles, develop performance measures and assess workforce, funding and technology needs.
- ❑ ***Planning should address crosscutting goals.*** Each cabinet agency should ensure that department strategic plans address crosscutting goals that involve multiple departments, such as reducing crime, expanding access to affordable health care, protecting the environment and ensuring sufficient, affordable energy to meet needs.
- ❑ ***Strategic plans should include program goals for individual managers.*** The process should provide managers with clear information on priorities, initial strategies for success, and the specific programs and goals for which they are individually responsible and accountable.

Problem #7: Departments are not gathering or using performance information to guide management decisions and direct reforms.

The State awards millions of dollars in crime prevention grants each year, but does not track which grants result in reduced crime and violence. The State requires hospitals to report certain diseases and conditions that threaten public health. But just 20 percent of cases that must be reported are actually reported, limiting the ability to reduce preventable illnesses and death.¹ And each year the State invests nearly half a billion dollars in drug treatment programs, but fails to track which providers offer the greatest potential for recovery. Performance monitoring – paired with state-of-the-art information on what works and what does not – would allow public agencies to dramatically improve outcomes and lower costs. But failure to monitor performance or respond appropriately can impose additional costs, delay benefits and deny people effective services.

Community College Performance

The State collects detailed data on community college students, including whether they complete coursework. But performance data are not used to shape reforms and improve outcomes. Between 1998 and 2004, student retention has hovered between 81 and 83 percent, indicating that students fail to complete about one-in-five courses. But that information has not lead to reforms to improve retention.

Source: Community Colleges Chancellor's Office.

Solution #7: The State must make a commitment to performance management.

- ❑ ***Departments should identify the public outcomes they will promote.*** Consistent with strategic planning, departments should establish outcomes that reflect their mission. Outcomes should be meaningful to the public and policy-makers and provide employees with guidance on department priorities.

- ❑ **Departments should identify the programs needed to achieve those outcomes.** Consistent with strategic planning, departments should link outcomes to specific programs or projects. Managers must be able to see the nexus between their daily work and desired outcomes.
- ❑ **Departments should identify measures for monitoring progress.** Measures should be designed to provide managers, employees, the public and policy-makers with clear information on whether progress toward goals is being made, where improvements are needed and how to proceed.

Problem #8: Managers do not have the tools needed to improve outcomes.

In addition to performance measures, improvements often will require changes in the deployment of people, funding or technology. State employees contribute 8.5 million work-hours each week. The State spends the equivalent of just under \$2 billion each week. And new technologies – new ways of doing things – are developed almost daily. But without sufficient authority to change how the State’s work gets done, these resources cannot be used to improve outcomes.

Solution #8: Managers must be given the authority and responsibility to manage.

- ❑ **Departments need discretion in the deployment of personnel.** The administration should assign a personnel leader to identify needed reforms to enhance the capacity of departments to assign, reassign, train, mentor, discipline and promote managers and rank-and-file workers to better meet policy goals.

Redeploying Managers

To ensure the efficient deployment of managers, departments should periodically assess and refine their management ranks, ratios of managers to employees and distribution of authority. The State’s personnel leader should advise departments on how best to undertake these reviews and provide assistance to overcome obstacles to success.

- ❑ **Managers must make better use of technology to achieve policy goals.** Partnering with personnel and financial management leaders, the State CIO should identify and champion reforms that would give managers improved capacity to leverage technology to improve the efficiency and effectiveness of state operations and improve public outcomes.

❑ **Managers must have improved authority to manage limited public funds.** The director of the Department of Finance should identify state-of-the-art tools to manage public finances and develop and champion reforms that would enhance the ability of managers to apply those funds in ways that produce improved outcomes.

- ❑ **Limit the impact of collective bargaining on management capacity.** Collective bargaining should not unduly restrict management

capacity. Proposed collective bargaining agreements should be subject to independent analysis and available for public comment.

Problem #9: Oversight and accountability mechanisms push compliance and ignore outcomes.

In the absence of clear goals and performance measures, policy-makers and oversight agencies cannot assess performance. Instead, they focus on whether managers follow the rules, adhere to procedures and continue traditions. To make full use of goals and performance information, policy-makers and oversight agencies must shift their attention away from rule compliance and toward outcomes.

Solution #9: Oversight activities should focus on outcomes, not compliance with rules.

- ❑ ***Policy-makers should focus on the outcomes that are expected.*** Budget hearings, legislative briefings and policy discussions should be predicated on desired outcomes, performance measures and the progress to be expected.
- ❑ ***Control agencies should rely on strategic plans.*** The Department of Finance and other control agencies should review budget, personnel and policy proposals in the context of departmental goals and strategic plans.
- ❑ ***The Department of Personnel Administration should guide the reinvention of employee performance reviews.*** In consultation with employee organizations, the department should improve the strategy for assessing employee performance. The strategy should provide rank-and-file workers and managers with clear information on how employee performance is linked to public goals and how improvements can be achieved.

Managing the Team

To manage its team of capable managers, the State will need to put in place a system that recognizes goals, provides management tools and values performance. But to ensure that California's management team improves immediately and over time, the administration also must put in place a leader and a structure to guide improvements, and develop a culture that values performance.

- ❑ **Enabling leadership.** The Governor and Legislature should charge the State's personnel leader with implementing a performance management initiative and bolstering the quality of management throughout the administration.
- ❑ **Promoting a structure for cooperation.** The Governor should establish a labor-management workgroup to provide a healthy and honest forum for driving and monitoring improvements and preventing and resolving conflicts.
- ❑ **Elevating the culture of public service.** To re-craft the culture of public service, the Governor, cabinet secretaries and department directors must publicly and consistently declare the goals to be achieved through state programs, the progress being made and the accomplishments of public servants.

Rewarding the Team

California's compensation system is designed to recruit people early in their careers, retain them when they are most productive and reward their longevity. But policies and practices that benefit the majority of the workforce fail to support the State's ability to bring in the most qualified managers, reward short-term contributions and recognize excellence. To attract the best and the brightest, leverage their potential, and promote ongoing improvement, management compensation must be redesigned.

Problem #10: Management compensation is not competitive, hindering efforts to hire and retain the best and brightest managers.

The State's Competition

County governments often pay senior managers more than is offered by the State, for far fewer responsibilities. And federal executives in Sacramento earn between \$107,550 and \$162,000. In comparison, state employees serving as CEAs, a comparable class, earn between \$69,216 and \$117,960.

Sources: U.S. Office of Personnel Management.
Department of Personnel Administration.

Local, federal and regional agencies offer more lucrative pay, comparable benefits and often greater opportunities for success than the State. Sacramento County pays its director of social services 31 percent more than the director of the state Department of Social Services.² The county director of the Department of General Services earns just 2 percent less than his state counterpart, but manages a budget and staff that are one-sixth the size.³ And private sector pay can far exceed state pay. For the highest paid managers, private sector compensation surpasses public sector compensation by over 40 percent.⁴

Solution #10: The Governor and Legislature should ensure the State provides competitive compensation that attracts, retains and rewards managers and executives of national caliber.

- ❑ ***Develop competitive pay packages.*** Tapping federal efforts, the State should ensure that total management compensation, including retirement benefits, is comparable with the private sector, the federal government and local governments for each rung of the State's management ladder.
- ❑ ***Enhance compensation for senior executives.*** Pending the development and implementation of compensation reforms, the Department of Personnel Administration should explore alternative strategies to increase executive compensation, including tapping foundations or other sources of funding to ensure the State can attract national caliber executives.

Problem #11: Compensation rules are rigid and options limited, preventing the State from tailoring compensation packages to motivate improvement.

The State's compensation system is one-size-fits-all. Managers are compensated based on how well rank-and-file unions perform at the bargaining table. And some managers earn less than their subordinates. As a result, some workers elect not to enter management ranks despite their potential contributions. But compensation can be tailored, allowing the State to leverage the value of release time, additional salary, training or other offerings that would better compensate and motivate state employees. A dynamic compensation strategy might offer subsidized child care or tuition credit at state colleges and universities to parents, paid sabbaticals to senior professionals who could use the time to share their knowledge with peers or hone their skills. High performing organizations recognize the diverse needs of their employees and deploy a range of compensation opportunities that appeal to different individuals.

Solution #11: To motivate improvements and attract a strong management team, the State's compensation system for managers and executives should be transformed into a flexible and innovative strategy that aids recruitment, retention and performance.

- ❑ ***Promote tailored compensation.*** The administration should periodically survey employees on their needs and interests and develop reforms leading to tailored compensation packages for individual managers.

Problem #12: The State’s compensation system fails to recognize performance.

Compensation is a powerful tool to motivate performance. But the State does not use compensation to promote improvement and recognize excellence. Merit awards intended to recognize maturing skill levels are routinely granted; 99 percent of state workers receive merit raises on a regular basis. And performance awards go unused, unpublicized or are so small as to be insignificant.⁵ The Sustained Superior Accomplishment Award is intended to recognize the contributions of the top 1 percent of managers. The very best managers who contribute sustained superior job performance over a two-year period are eligible for a certificate and a cash award of no more than \$250. Compensation that recognizes top performance motivates top performance.⁶

Solution #12: The State should craft and adopt a performance compensation strategy for managers and executives.

- ❑ ***Develop a performance compensation strategy.*** DPA, in consultation with state employees, other departments and the Legislature, should develop a compensation strategy that recognizes performance and supports improved public outcomes.
- ❑ ***Require performance contracts.*** All managers, including exempt appointees, should be hired under limited-term performance contracts that outline goals, establish performance metrics and include provisions for termination. Performance contracts should be phased in, beginning with the upper echelon of management ranks.

Rewarding the Team

To reward the team, the State must replace uncompetitive and rigid compensation packages with innovative and tailored compensation that recognizes and rewards excellence. And to ensure that California’s compensation strategy supports improved public outcomes, the administration also must designate a leader on compensation, build a structure to guide improvements, and promote a workplace culture that values performance.

- ❑ ***Tapping leadership.*** The Governor should direct the State’s leader for personnel management to develop specific proposals for effectively using compensation tools to improve performance.
- ❑ ***Establishing a structure.*** The Governor and Legislature should establish a mechanism to ensure the State’s compensation strategy is competitive and recognizes performance.
- ❑ ***Recognizing the culture of public service.*** The Governor, agency secretaries and department directors should regularly recognize the contributions of state workers by granting and highlighting merit awards, publicizing the accomplishments of individuals and departments and celebrating state workers who personify the ethic of public service.