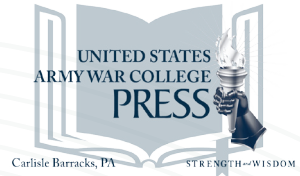




Executive Summary

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PAID TO PERFORM: ALIGNING TOTAL MILITARY COMPENSATION WITH TALENT MANAGEMENT

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Since the end of the Cold War, the very nature of armed conflict has changed significantly as the U.S. military has faced rogue and nonstate actors as primary threats to national security. These unconventional conflicts have showcased the importance of retaining uniquely talented problem solvers within the pool of military officers. In its attempts to maintain critical levels of the talents required in the provision of national defense, the military faces stiff competition from the external labor market for its officers' services. As the military moves away from an industrial era, interchangeable parts approach to officer career management and toward a management paradigm that matches uniquely talented officers to job requirements, it requires a compensation system allowing it to successfully compete for mission critical talent.

A compensation system that will adequately support a talent-based officer career management paradigm is governed by five critical principles. The system must be cost effective; competitive and equitable; flexible; performance driven; and supportable and executable. By adhering to these principles, the military's compensation system will better support the creation and retention of those talents critical to the national defense. Moreover, these principles also ensure a more efficient alignment of military compensation with the objectives of the system's major stakeholders: U.S. taxpayers, civilian leaders, military officials, and individual officers.

The current "pay table" compensation system is incapable of supporting a talent-based officer management approach. A system that pays all officers identically, conditional on rank and time in service, ignores crucial differences in productivity, experience, and potential. Furthermore, its close ties with the military promotion system prevent even minor adaptation of pay in order to accommodate changes to the military's force structure. As a result, the pay table system is often an impediment, rather than a tool, in shaping the military to meet changing requirements.

To adapt compensation to facilitate the use of a talent-based officer career management paradigm, it would be advantageous for the military to adopt several changes to the pay system. First, the military should alter base pay to reflect known changes in officer opportunity costs. For example, the current system overpays lieutenants but underpays senior captains. Second, the military should include nonmonetary benefit programs in the compensation discussion. Variable access to valuable career incentives (e.g., graduate school) would allow the military to get the most bang for its buck in the provision of these programs. Finally, the military should also consider the use of monetary performance bonuses based on accurate and meaningful performance assessments. These final two steps will create an individualized compensation contract for each officer, providing the military with an optimal compensation approach for supporting a talent-based career management paradigm.

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