Managing for Better Performance:
Enhancing Federal Performance Management Practices

Human Capital Management Series

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IBM Center for
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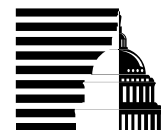Management Practices

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On behalf of the IBM Center for The Business of Government, we are pleased to present this report, "Managing for Better Performance: Enhancing Federal Performance Management Practices," by Howard Risher and Charles H. Fay.

Performance management is recognized worldwide as a critical success factor in helping individuals and organizations achieve their goals. When done correctly, performance management becomes a powerful and effective tool to drive individual and organizational performance. When done poorly, it can create an atmosphere of distrust between managers and employees—ultimately limiting performance and the organization's ability to achieve its full potential.

For this reason, the responsibility for the effective management of employee performance rests squarely on the shoulders of executives and frontline managers. In fact, the authors emphasize that the management of people needs to be a core responsibility of every manager. In view of this, it is critical that managers understand and effectively practice the fundamentals of performance management—planning, monitoring, developing, appraising, and rewarding employee performance.

In their report, Risher and Fay review the history of performance management efforts within the federal government and discuss the successes, challenges, and failures over the years. In addition, the report offers insights from other performance management experiences in both public and private sector organizations. The authors describe differences between private and public sector performance management practices, as well as present a comparative analysis of corporate and non-corporate use of good management practices. Finally, the authors—with over 50 years of experience between them—offer advice on immediate and long-term steps the federal government might undertake to improve performance management practices.

Albert Morales

Robert Bleimeister

This report builds upon the IBM Center for The Business of Government's previous research on this important topic. In 2004, the IBM Center published its first report by Risher, "Pay for Performance: A Guide for Federal Managers." In 2005, the IBM Center published a detailed case study of how the Government Accountability Office was implementing its new performance management system, "The Transformation of the Government Accountability Office: Using Human Capital to Drive Change." This year, the IBM Center published a report by James R. Thompson, "Designing and Implementing Performance-Oriented Payband Systems," which serves as an excellent companion piece to this report.

We hope that this new report by Risher and Fay will serve as a useful guide for the federal government to design and implement successful performance management systems and for managers across the federal government to better understand the importance of effective performance management practices.

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EXECUTIVE SUMMARY

A worldwide movement toward the use of performance management in both the public and private sectors has been occurring, especially over the past decade. "Performance management" focuses on planned performance and improvement over time. It applies to both organizations and individuals in the organization. This report reviews some of the conceptual challenges that have stymied more rapid acceptance and implementation of performance management practices in the federal government. It reviews similar attempts—both successful and unsuccessful—and derives some lessons learned. Based on this, the report offers advice on some immediate next steps as well as a set of longer-term recommendations that the federal government might undertake to broaden and deepen its efforts to put in place an effective approach to better managing performance.

A key conceptual challenge to date has been the interchangeable use of the terms "performance appraisal" and "performance management." Even human resource specialists often use the two phrases interchangeably. However, the distinction is critical. *Performance appraisals* focus on the year-end rating made by a manager of an employee who reports directly to him or her. Performance appraisals are based on judgment. They are an "event," generally "conducted" once a year. And they are backward looking. They are not designed to improve performance. In contrast, *performance management* is a broader, more comprehensive process that is future-oriented. It starts with performance planning discussions and focuses on planned performance, with a goal of improvement over the prior year. Appraisals are still a part of the process, but a natural step in the usual year-end review of organization performance.

A good performance management system is a tool to help managers improve the performance of their employees and, in so doing, achieve their organization's performance goals. In a good performance management system, an employee should be able to track how well he or she is doing as the year unfolds, take corrective action if needed to resolve performance weaknesses, and possibly renegotiate performance goals as circumstances change.

In contrast to the traditional performance appraisal approach, why is performance management potentially important? The reason is that the process is intended to clarify what employees are expected to accomplish and to help them understand how their efforts contribute to the organization's mission. Second, when the performance dimensions are job specific, it gives an employee and his or her supervisor a basis for objectively discussing performance, for coaching, and for modifying performance plans as circumstances change. Both can track how the employee is performing; there should be no surprises when the year-end appraisal evaluation is completed.

Performance management also gives the employee a basis for assessing his or her personal strengths and weaknesses, and provides a basis for individual development planning. And, of course, since the evaluation is specific to planned accomplishments, when the ratings are used in personnel decisions—such as pay increases, promotions, and terminations—they should satisfy legal requirements; they should be defensible.

The Bush administration's efforts to move to a pay-for-performance system met with resistance from some employees and federal unions. This reflects a lack of trust that they will be treated fairly within their own

organization and treated equitably with employees in other organizations. In the 2006 Federal Human Capital Survey, less than 30 percent of the respondents thought their performance was recognized in a meaningful way. The majority also did not believe promotions are based on merit. Their resistance is a clear indication that they are not confident they will be treated fairly. Pay increases, of course, will depend on performance evaluation ratings, which suggests the emphasis should be placed first on putting effective performance management practices in place.

The 2006 survey suggested that 40 percent of frontline employees do not believe recognition and rewards are linked to their performance. Conversely, over 80 percent of those in the Senior Executive Service (SES) believe it is linked. Until that gap can be bridged, moving to performance pay may be difficult. That is why the authors believe the emphasis should be placed first on putting effective performance management practices in place.

Simply stated, the management of people needs to be a core responsibility of every manager. The management of performance is not a duty that can be handled by simply completing a performance appraisal form at the end of the year. The Office of Personnel Management (OPM) has stated that managers need "to make distinctions in performance and link individual performance to agency goal and mission accomplishment." That is only possible if managers embrace effective performance management approaches.

The fundamental importance of effective performance management practices was reinforced in early 2007 when the Department of Homeland Security (DHS) cancelled its MaxHR pay initiative. Marta Perez, the DHS chief human capital officer, stated, "There was a conscious decision that this organization needs to have a good performance management program in place before pay can be linked to it. We have to get this right."

Near-Term Action Steps

Based on the lessons learned from prior governmental performance management efforts and the recent experiences of private industry, the authors have identified six immediate steps the federal government might take to improve performance management practices.

Action Step 1: Develop greater clarity about what constitutes performance management. It is hard to reach consensus on the solution to a problem if the people involved do not share a common language, especially if they are from different professional disciplines. A clearer definition of performance management will clarify that the key players are the executives and frontline managers, not the human capital officer, and that managers will need to be held accountable for actively managing the performance of their employees.

Action Step 2: Ensure the prerequisites for good performance management are in place. As the leadership at the Department of Homeland Security came to understand, an organization has to be ready to embrace performance management practices, and managers need to be ready to make tough but honest decisions about the performance of their employees. The authors offer eight practices that contribute to a performance culture. An organization's leadership has to be willing to embrace these practices as prerequisites to moving toward more effective performance management.

Action Step 3: Involve employees in defining "successful performance." One of the lessons from the failures of past performance management efforts was the importance of defining what successful or outstanding performance looks like. Employees want to be successful; it is essential that they be clear as to what the criteria for success looks like. Both managers and employees must accept the criteria as credible and realistic. When people play an active role in goal setting, they are far more likely to be committed to the goals. And the people that best know what constitutes success are those on the front line. After all, they know their jobs better than anyone.

Action Step 4: Start small. In both the public and private sectors, there have been numerous success stories of performance management. The most common thread among them, though, is that they were all relatively small in scale. It is much easier to gain acceptance to the introduction of performance management—and its ultimate link to performance pay—in smaller organizations. Changes that affect careers and working relationships are best addressed at the local level. High performance depends on the buy-in of frontline managers and

employees. It cannot be mandated or controlled from a distance.

Action Step 5: Create a Program Management Office for performance management initiatives. It would be advantageous to create a Program Management Office (PMO) that brings together the specialized, functional expertise from across the organization. The role of the PMO is to provide leadership, internal coaching and consulting, training, coordination, and project-related resources. Almost more important than the technical expertise, it raises the prominence of the initiative and stamps it as an organizational priority. The initiative is less likely to have the support it needs if it is managed as a human resources/human capital project. The Department of Defense created a PMO to manage the National Security Personnel System, and it has proven its value.

Action Step 6: Add incentives for middle management. When federal performance management practices are compared with corporate practices, one of the differences is the absence of incentives for managers below the SES level. Since they have primary responsibility for managing employee performance, they should be a primary focus of any initiatives to improve performance. Current cash award practices are inadequate for that group. The new program should be based primarily on the achievement of performance goals and flow from the SES program. The notion of cascading goals is central to performance planning and has been used widely for decades. Tying cash awards to achieving the goals can be a powerful incentive.

Longer-Term Recommendations

Based on the past experiences of organizations attempting to put in place effective performance management practices, the authors found it often takes years. For example, the Government Accountability Office (GAO) began its efforts in the late 1980s and only recently has been seen as reaching full implementation.

Recommendation 1: The federal government should continue moving toward improved performance management practices for both organizations and individuals. A key challenge facing both the current administration and future administrations will be linking or integrating the practices used to manage employee performance with those used to manage agency performance. Now they are essentially separate and disconnected. Research has shown that employees are more productive when there is a "line of sight" showing how their work efforts contribute to the success of their employer. Employee performance planning cannot be effective if it is not linked to organizational performance plans.

Recommendation 2: During the remainder of its term, the Bush administration should continue to fine-tune ongoing performance management practices and encourage new initiatives. The Senior Executive Service pay and performance system should be the capstone for performance planning and management at lower levels. Until the SES system is seen as effective, it is unlikely that lower-level systems will be successful. Likewise, the lessons learned at the SES level should be the basis for developing similar practices for frontline managers and supervisors. Frontline managers need to be treated more like their counterparts in industry and expected to assume responsibility for the performance of their units. That should be reflected in the way they are compensated.

The "beta" demonstration projects now in place to test new performance management systems should be continued. This approach is consistent with the finding that the success stories are typically based in smaller work groups. New systems and practices should conform to an overarching set of principles, but "locally grown" performance plans will serve managers better than anything dictated from headquarters.

Each agency should also invest in training to develop the skills executives and frontline managers need to manage performance effectively. Effective performance management involves a redefinition of the way some managers see their roles. They will need time to develop the necessary competencies and to make the transition. Starting now will help to ensure they are ready.

Recommendation 3: Each government organization should conduct a readiness assessment to determine if more rigorous performance management practices can be successfully integrated into its management process. This report offers a series of

building blocks or prerequisites that contribute to making the commitment to performance a shared priority. The results of the assessment may highlight current practices that may inadvertently send a message that performance in the organization is not a priority. If that is the shared sense across the organization, work needs to be done before a new performance system is implemented.

Recommendation 4: In planning and implementing new performance management practices, agencies should put in place several key practices before introducing pay for performance.

- Involve executives and frontline managers and employees in planning and implementing the system.

- Define performance expectations using "the what and the how" logic where the what encompasses planned results and the how describes the way results are achieved.

- Require periodic meetings throughout the year to discuss progress and problems.

- Use appropriate software to facilitate the management of the process.

- Create a "calibration committee" that will help to improve consistency across the organization and keep managers honest.

- Hold off implementing pay for performance until these elements are in place. Pay for performance should be the final step in the process. The linkage between performance and pay is essential. It helps to ensure managers and employees across a large organization take performance seriously. However, attempting to introduce this link too early typically leads to resistance that can result in the failure of the effort.

Recommendation 5: As organizations enhance their performance management practices, the responsibility for making the transition a success must rest squarely on the shoulders of executives and frontline managers. Increased responsibility must be placed on executives and frontline managers if performance management is to succeed in government.

Taken together, these performance management practices should contribute substantially to a more results-oriented government that can more effectively address the management challenges of the 21st century.

Introduction

A Worldwide Movement Toward Performance Management

A worldwide movement toward the use of performance management in both the public and private sectors has been occurring, especially over the past decade. "Performance management" focuses on planned performance and improvement over time. It applies to both organizations and individuals in the organizations.

The interest in performance management parallels the high degree of interest globally in improving government agency performance and accountability. These developments have been closely followed over the past decade by the Organization for Economic Cooperation and Development (OECD). There is little evidence that the worldwide movement toward performance management is viewed as "experiments," a word often used to refer to U.S. federal government initiatives, or that they will be reversed in the coming years. Some observers have expressed concern that U.S. federal efforts have faltered in recent years. The assessment of this report is that, while there may have been some missteps, the federal efforts are finally on the right track.

Steps in the Right Direction

The interest in pay for performance and employee performance management needs to be seen in the context of broader changes to improve government performance. From the beginning of his administration, President George W. Bush has called for better management and performance of the federal government. There have been a number of initiatives toward that end, starting with the President's Management Agenda (PMA) in 2001.

National Security Personnel System

The National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136) authorized the Department of Defense (DoD) to establish the National Security Personnel System (NSPS), an alternative personnel system. The act required DoD and the Office of Personnel Management to jointly develop regulations implementing the alternative personnel system. The regulations gave DoD the authority to establish a performance-based and market-sensitive pay system; an occupational classification system; a fair, credible, and transparent employee performance appraisal system; a staffing and workforce shaping system; and labor relations, adverse actions, and employee appeals systems. (The labor relations, adverse actions, and employee appeals systems are currently on hold pending resolution of a court case.)

DoD is implementing the NSPS using a phased approach (in stages referred to as "Spirals"). Spiral 1.1 was implemented in April 2006; Spiral 1.2 was implemented between October 2006 and February 2007; and Spiral 1.3 was implemented between March and April 2007. Schedules for the remaining phases have not yet been released. As of April 3, 2007, DoD had implemented NSPS for approximately 112,000 employees.

Additional information on the National Security Personnel System is available at the Department of Defense website located at www.dod.mil.

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The PMA made the strategic management of human capital the first of five government-wide management improvement priorities. The Office of Personnel

Management (OPM) was designated to lead the reform of human capital management, and that led to the creation of a strategic human capital management framework to provide guidance and direction to agencies.[1]

Other management initiatives include the PMA scorecard and the Program Assessment Rating Tool (PART), which have both been integrated into the ongoing management of federal agencies. In the aggregate, these initiatives have resulted in demonstrable improvements in the management capacity of many of the major agencies. However, despite this track record of success, the administration's attempts to extend the reforms in salary management and employee performance practice passed by Congress for the Departments of Defense and Homeland Security have been slowed.

Resistance to changing the current pay system continues among some employees. In many respects, it reflects a normal anxiety triggered by the unknown. Most federal employees covered by Title V (the section of the U.S. Federal Code that covers personnel law for civilian government employees) have never known anything but the General Schedule and its "living and breathing" step increases.[2] Realistically, under a pay-for-performance policy, the amounts budgeted for salary increases will not change, but the distribution of the increases will likely change.

In moving to a new performance management approach, there will be miscues and glitches. That is probably inevitable in any change effort as complex as the replacement of the GS system. The transition will not be perfect, but problems can be resolved. Pay and performance practices are living policies that can and should evolve over time. The approach the Defense Department has taken as it implements its revised personnel authority for its civilian workers, who are being taken out of the Title V system—called the National Security Personnel System (NSPS)—is instructive. It is being rolled out in phases and fine-tuned as the planners get feedback. The administration seems to be moving in the right direction. One might argue there is no other choice than using an incremental approach.

This report reviews some of the conceptual problems that have stymied more rapid acceptance and implementation of effective performance management

Acronyms and Abbreviations	
BARS	Behaviorally Anchored Rating Scales
BES	Behavioral Expectation Scales
CFR	Code of Federal Regulations
DHS	Department of Homeland Security
DoD	Department of Defense
GAO	Government Accountability Office
GS	General Schedule
HR/HC	Human Resources/Human Capital
LSE	London School of Economics
NAS	National Academy of Sciences
NSPS	National Security Personnel System
OECD	Organization for Economic Cooperation and Development
OPM	Office of Personnel Management
PART	Program Assessment Rating Tool
PIP	Performance Improvement Plan
PMA	President's Management Agenda
PMO	Program Management Office
PMRS	Performance Management and Recognition System
SCS	UK's Senior Civil Service
SEA	Senior Executives Association
SES	Senior Executive Service
TQM	Total Quality Management

practices in the federal government. It also reviews other similar implementation efforts, and then offers advice on some potential immediate next steps. It concludes with a set of recommendations on longer-term efforts the federal government might take to broaden and deepen its efforts to put in place an effective performance management approach.

Understanding the Differences Between Performance Appraisal and Performance Management

The interchangeable use of the terms "performance appraisal" and "performance management" has contributed to some of the problems with the development and implementation of performance-oriented efforts to improve government operations. Even human resource specialists often use the two phrases interchangeably. Throughout the literature, the phrases are not tightly defined. That is in sharp contrast to the standardized definitions of key concepts in many other fields such as finance and engineering.

The distinctions are important, however, and recognized in Title V of the Code of Federal Regulations (CFR).

- *Performance appraisal* is "the process under which performance is reviewed and evaluated" (5 CFR 430.203). It's best seen as a year-end event that covers the completion of the appraisal form and the performance discussion with the employee. *Performance* in the CFR is the "accomplishment of work assignments or responsibilities." It focuses on the job description

- *Performance management system* (not performance management) is defined in Title V as the "framework of policies and practices" established for "planning, monitoring, developing, evaluating and rewarding both individual and organizational performance and for using performance information in making personnel decisions." Interestingly, this is much broader in focus than a job description.[3]

Comparing Performance Appraisal and Performance Management

The language in Title V of the Code of Federal Regulations makes the point that performance appraisal and a performance management system are not the same, but the definitions are silent on the profoundly different implications for the management of employees. To be sure, there are features that are common to both. Managers naturally make judgments about the people who work under their supervision. Both approaches are intended to establish a common set of criteria so that managers make those judgments systematically and stay focused on job-related issues. Both are completed, more or less, when an employee is assigned a rating that governs his or her immediate rewards as well as career prospects.

Performance Appraisals

Performance appraisals focus on the year-end rating made by a manager about an employee that reports directly to him or her. The word *performance* can encompass many characteristics of employees and the way they carry out their job. As the definition suggests, the ratings should focus on criteria that are job-related, but, significantly, appraisal forms commonly fail to ask for information on specific results or work products. The more typical criteria focus on activities, behavior, and personality traits. The unstated goal is to confirm that the individual is a "good" employee. Performance appraisals have three characteristics:

- **Appraisal ratings are based on judgment.** The appraisal sets forth a set of performance criteria to guide the manager, but they are commonly "soft" dimensions or attributes that apply to a broad group of jobs. There are few objective measures of performance for the majority of workers. The ratings across the criteria are combined into an overall performance rating, expressed on an ordinal measurement scale, which is intended to summarize how an

For More Insights on Performance Management

The appendices to this report focus on the differences in the way performance is managed in the public and private sectors, and on the impact of those differences. The management of performance is a core corporate priority. The transformation of corporate management started roughly with the recession in 1990, with broad-based initiatives to be more competitive in global markets. Thousands of books and articles have been written on changes in management practices since then.

The public sector has been slower to adopt these practices, but when adopted they have contributed to improved agency performance. The balanced scorecard is an example; the interest in pay for performance is another.

The three appendices look at different aspects of the issues involved in managing performance in the private sector.

Appendix I: Research on Performance Management Practices looks at recent research confirming that proven management practices contribute to a company's financial success. Supplemental research by the authors shows those management practices are not widely used in non-corporate organizations.

Appendix II: Differences Between Private and Public Sector Performance Management Practices discusses key issues where private sector practices would augment management and employee focus on performance in federal agencies.

Appendix III: The Importance of Worker Engagement looks at research by The Gallup Organization and by a prominent human resources expert, Professor David Ulrich, that confirms positive employee attitudes are important to performance. This research shows a solid relationship between employee performance and the attitudes they hold about their organization, their supervisor, and their job.

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employee performed. Ordinal measures are best described as "buckets" for each level of performance.

- **Performance appraisal is an event.** The manager is expected to complete the appraisal form, secure whatever approvals are required, and communicate those decisions to the employee. Policy statements typically require a manager to discuss ratings and job prospects for the coming year, but often those conversations are perfunctory at best. A widely recognized problem is that managers often spend as little time as possible completing appraisals.

- **The appraisal ratings in concept are backward looking.** The question is: How did the employee perform over the past year? Ratings are supposed to be based on what the employee did over the full year, but it is a rare manager who keeps adequate notes for that purpose. It is not unlike the child who behaves better close to Christmas in hopes of receiving better presents.

Researchers have studied how rating judgments are made and how those decisions can be improved. The ratings indicate the employee performed better

(or worse) than expected, but there is no indication of how much better. Since there are few facts, it can be difficult even for managers to explain how they arrived at their decisions. Research has shown there can be serious problems of rating accuracy.

Not surprisingly, human judgments are sometimes biased, and the goal of researchers has been to reduce or control those biases. Studies have been done on the impact on rater bias of the purpose of the appraisal, the relationship between the rater and the ratee, and the demographics of raters and ratees, as well as the impact of training, control systems, and other interventions, and on and on.

One popular answer intended to increase the accuracy of ratings is the involvement of additional or even substitute raters. Peers, subordinates, and customers have been suggested as supplements to or substitutes for the manager. The argument is that managers often cannot observe an employee interacting with others. Self ratings are now also commonly included as additional input. This has led to the use of 360° or multi-rater approaches, in which additional raters provide input.

The other major thrust in performance appraisal research and in practice has been the search for the perfect rating format (to generate more accurate ratings). Specialists have developed a number of different formats—for example, Behaviorally Anchored Rating Scales (BARS), Behavioral Expectation Scales (BES), Forced Choice Scales—that can lead to increased accuracy but are more costly to develop. Arguments have raged in the literature over rating versus ranking, the number of scale levels that should be used, negatively versus positively stated scales, and other psychometric esoterica. But nothing has proven to be a universal remedy.

A key point that almost jumps out of the authors' review of the research on performance appraisal systems is that improved performance has not been a goal of performance appraisal systems. Thousands of studies have been done, but none has focused on the improvement of performance. The unstated assumption has been that with the right form and the right rater(s), performance ratings will be accurate, and because employees now know how they are doing, they will initiate the steps to get better at it.

Performance Management

Performance management is a much broader, more comprehensive process that is future-oriented since it starts with performance planning discussions at the beginning of the year. It focuses on planned performance, with a goal of improvement over the prior year. Ratings are still required in the process, but are a natural step in the usual year-end review of organization performance.

Performance management at its core is basic to effective people management in any arena. The idea is simple: A supervisor needs to decide, ideally in discussion with each direct report, what he or she is expected to accomplish over the year. The performance system is planned to facilitate and provide structure to the planning and then to the monitoring of the employee's progress over the year. It has a lot in common with a budget management system.

A good performance management system is a tool to help a manager improve the performance of employees who report directly to him or her and, in so doing, achieve departmental performance goals. New business plans introduce new priorities and problems, and the idea, of course, is to develop work plans to achieve higher-level goals. Business plans generally reflect planned improvements or changed tactics, and all of that should be reflected in individual goals. Many good managers would apply a variety of performance management practices in their day-to-day supervision even if the system did not exist.

Individual performance plans are used in the same way, but there is a key difference: An employee can track how well he or she is doing as the year unfolds, take corrective action to solve performance problems, and possibly renegotiate performance goals if circumstances warrant. The year-end ratings are essentially a scorecard; there should be no surprises. In this context, the appraisal form is now only the place to document results and conclusions.

The typical life cycle of key performance management practices are summarized in several stages described in the sidebar "Best Practices in Performance Management" on pages 16–18.

The final stage in the performance management process is an analysis of the relationship of the department's goal achievements to staff performance ratings. There should be a strong relationship between the performance ratings of the employees in a department and the effectiveness of that department.

In hindsight, it is clear that critics of federal pay reform and performance management initiatives have focused narrowly on the recognized problems with traditional appraisal practices. The same is true of the surveys focusing on the effectiveness of performance practices in organizations. They typically have been silent on the distinctions between performance appraisal and performance management. Before survey responses can be interpreted, it is important to confirm that the respondents are reacting to and comparing similar practices. The people responding on behalf of organizations may indicate they have a performance management system when, in fact, they do not.

The research over the years has focused almost exclusively on performance appraisal practices. There have no doubt been thousands of academic studies here and overseas, but they were narrowly focused on technical design issues and failed to open the door to better practices.

Performance appraisal practices have had defenders, but often their hearts are not in it—every human capital manager knows there are problems. Managers and employees may not be embittered or dejected, but their experience is often not a positive one. W. Edwards Deming may have been correct in his conclusion: The problems may well offset any benefits.

Performance management, in contrast, has not been subject to the same research scrutiny. The notion that people need to plan what they expect to do and accomplish is accepted in all walks of life, including our homes. The idea of setting performance goals is similarly accepted. Goal setting is at the foundation of business life. People may not want to be held accountable for achieving goals, but it is hard to imagine an organization of any type where this is not deeply entrenched in the management process.

Moving from Performance Appraisal to Performance Management

As noted earlier, the traditional annual performance appraisal meeting is often perfunctory. If all that happens is that a supervisor checks off a few boxes at year-end to indicate how an employee rated on a series of generic dimensions loosely related to performance, it is not worth the time or the problems that inevitably surface. That approach is not likely to affect an employee's performance, even if the ratings are linked to a pay increase, nor will the ratings be defensible if they govern decisions affecting the employee's career.

Organizations can, of course, eliminate performance reviews. That is an option the critics have often suggested. The overwhelming majority of employers, most of which are quite small, already operate with no formal review process. The mom-and-pop businesses all survive without the forms and the training.

In contrast to the traditional performance appraisal, why are performance management practices potentially important? The reason is that the process is intended to clarify what employees are expected to accomplish and to help them understand how their efforts contribute to the organization's mission. Second, when the performance dimensions are job specific, it gives the employee and the supervisor a basis for discussing performance, for coaching, and for modifying performance plans as circumstances

change. Both can track how the employee is performing; there should be no surprises when the evaluation is completed.

Performance management also gives the employee a basis for assessing his or her personal strengths and weaknesses, and provides a basis for individual development planning. And, of course, since the evaluation is specific to planned accomplishments, when the ratings are used in personnel decisions—such as pay increases, promotions, and terminations—they should satisfy legal requirements; they should be defensible.

The Bush administration's plan to move to pay for performance makes this shift in approach a priority. Successfully implementing its plan depends on an effective performance management process. That is a clear lesson from a failed attempt to introduce performance pay for managers in the 1980s (see the next section, "Insights from Other Performance Management Experiences" for further details). The performance management process has to identify the star performers—and the group that stands out is small, not 80 percent of the covered workforce. That takes discipline and rigorously defined performance criteria.

People need feedback if they want to improve. People feel better when they know they've earned promotions and pay increases. Companies need to identify their stars and their poor performers, and to develop effective policies for managing these groups.

Supervisors are going to evaluate their people under any circumstances. That's true in every organization. The performance system is intended to focus their assessment and ensure that it is more systematic and consistent across the organization. It also helps employees understand what the organization considers to be important.

There is an argument for providing the feedback people need without recording performance ratings. The focus then is supposedly on coaching and mentoring. However, if there are no ratings and thus no way to document individual strengths and weaknesses, some managers are more likely to ignore the responsibility to provide feedback. It is also going to be virtually impossible to defend the

Best Practices in Performance Management

Planning

- **At the beginning of the year, managers are responsible for determining what they think their direct reports need to accomplish, based on the business plan and assigned job duties.** This is usually a good occasion to update job descriptions. Outcomes and deliverables are the preferred performance measures or criteria, but for many jobs, outcome measures that really capture performance are not available. For these, behaviors that are believed to lead to desired outcomes can be used as proxies.

- **Standards of performance for each of these performance criteria must be set.** For any given outcome or behavior, what performance level should be the standard? What performance level would be considered as excellent or outstanding? What performance level would be considered unsatisfactory? The basis for measurement or verification should also be documented. It takes time, but defining three levels of performance tells the employee what he or she needs to accomplish to realize their aspirations and for the manager makes it much easier to defend year-end performance ratings.

- **Performance expectations are best set in consultation with the direct report, but however set, managers must make sure that their staff understand what they are expected to accomplish.** Anytime an incumbent does not fully understand the criteria that will be used to assess his or her performance, it should be seen as a management failure. That undermines a primary purpose of performance management. The recent SEA [Senior Executives Association] survey suggested this is a problem among the SES [Senior Executive Service] members who participated.

- **Understanding performance criteria and standards is not enough.** The direct report needs to have goals for each criterion. Goals represent a commitment by the individual. The idea of "stretch" goals is widely used in industry. Research has repeatedly established that a person setting high, specific goals (or who agrees to high, specific goals suggested by others) reaches a higher level of performance than one who does not set goals. At the time goals are discussed, direct reports should be encouraged to note any anticipated impediments, and managers should commit to providing support within the budget to overcome problems.

- **One problem that can occur in the use of goals is the confusion between performance and goal achievement.** The notion behind a stretch goal is that it is difficult to meet. The "stretch" comes from having a goal that goes beyond the normally expected performance. High performance—that is, performance that exceeds the standard—should be celebrated and rewarded even if the goal is not achieved.

- **The performance plan developed by a manager and a direct report becomes a performance "contract."** As with all performance plans, changing circumstances may trigger a need to change expectations. Both manager and direct report need to agree on the nature of the changes that might prompt them to modify performance factors and agreed-upon goals.

- **Different managers may be much tougher than others in defining performance criteria and setting performance standards, especially when a performance management system is first implemented.** Senior managers need to see that the managers reporting to them directly and indirectly use appropriate performance criteria and set similar performance standards. Calibration committees of managers who have similar jobs reporting to them can also be used to make sure that performance criteria and performance standards across the organization converge.

Monitoring and Measuring

- **With the beginning of the performance period, the manager must be in a position to observe performance or, when that is not feasible, obtain feedback from others who have a reason to observe an employee's performance.** This can be anyone impacted by the employee's performance. The individuals who are asked to provide feedback should have direct knowledge.

- **Whenever verifiable performance information is available, there should be a tracking system to document progress.**

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Best Practices in Performance Management *(continued)*

- **"Managing" performance comes about through feedback either to correct poor performance or reinforce good performance.** Coaching and mentoring focuses on increasing performance levels, overcoming obstacles, and choosing among alternatives. Inadequate performance should be handled as a problem to be solved rather than recognition of a personal flaw or inadequacy.

- **Positive feedback is important in managing performance.** The performance contract and goals set should be the basis for the feedback so that it is not merely cheerleading but contains specific content about what was observed and how and why it is good performance. The traditional "atta boy" is frequently just confusing, but effective coaching leads to higher levels of performance.

- **Observation and feedback as the performance period unfolds makes it possible to provide "real time" coaching.** Advice and feedback when a problem or impediment arises makes an incident a learning opportunity.

- **Better managers schedule multiple mini-appraisals at regular times, when problems are encountered, or when projects are completed.** Then the feedback can be handled as coaching, and more specific to recent events. Regular feedback means there will be no surprises at year-end.

Developing

- **The transition from over-the-shoulder, close supervision to more of an empowerment style of management changes the role of the supervisor.** That makes it important when occasions arise to provide coaching advice and career guidance. The performance management process should identify the knowledge, skills, and abilities that an employee needs to develop for continued career success, and that provides a good framework for discussions.

- **The coaching should include guidance toward job assignments and special projects to help the employee develop or enhance important competencies.** Managers should be able to look to their human resources/ human capital (HR/HC) specialists for help with development planning.

- **Managers and direct reports have to recognize that high performance on the current job does not necessarily translate into high performance on the next level job.** Organizations are filled with poor managers who were great individual contributors. In counseling a direct report on career development, a manager should discuss how current performance would translate on the higher-level job. What may be a minor issue on the current job may become a major flaw on the higher job, and developmental plans should address fixing these flaws now rather than later.

- **Nearly all managers would benefit from training to develop their coaching and mentoring skills.** Those skills have become more important as organizations move away from close, over-the-shoulder supervision.

Rating

- **A brief period before the final ratings are due, managers should solicit input from individuals who have had reasons to observe and interact with the employee.** The employee should be asked for a list of the people who should be contacted, the list of relevant others. This feedback should follow a previously developed format so that it can be assembled and evaluated easily.

- **While self appraisals are useful, managers should not ask direct reports to fill out their own appraisal form.** Instead, a manager should fill out a "draft" appraisal and share it with the direct report, asking the direct report to consider its completeness and accuracy before the formal appraisal feedback. This gives the direct report a chance to consider the appraisal in a low-pressure environment and bring errors or omissions to the attention of the manager. Supporting data for the changes can be collected and accompany the revisions.

- **Toward the end of the performance period, a summary appraisal is made.** While this is superficially very similar to the traditional appraisal, it is a much lower-key event. Feedback throughout the performance period gives both manager and direct report a good picture of performance levels relative to goals and expectations. There should be no surprises.

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Best Practices in Performance Management *(continued)*

- **If ratings are high or low, the manager should describe the reasons for the ratings.** Ratings at both extremes warrant special plans for the employee, and it is quite possible that the manager will be asked to justify and defend the ratings.

- **When the rating is linked to a salary increase or other human resource decision, it is important for all consequences of the performance level achieved to be discussed at the same time.** People are interested first and foremost in "what's in it for me," and until the "what" is discussed, any other performance or development issues will take a backseat.

- **Since promotions and advancement are important outcomes of performance, it is important to discuss what kind of developmental efforts are needed in that context.** For the employee, development alone is irrelevant—the critical issue is development to prepare for what. This is an appropriate time to discuss the employee's career goals and possible advancement opportunities.

- **Performance ratings should be based on agreed-upon criteria and verifiable information whenever possible.** The performance plan should provide the criteria, and observation of the manager and relevant others should provide the verifiable information.

- **Before ratings are communicated with an employee, they should be reviewed and approved by at least one level of management.** The best practice would also have at least the high and low ratings reviewed by a "calibration committee" of managers. The committee idea has been used in several DoD lab demos and is seen as a best practice in industry. The committee's role is to review the validity of ratings.

- **The summary appraisal meeting is the time for an initial discussion for next year's performance planning.** To the extent that the business plan and organizational goals have changed, these changes will need to be factored into a new performance contract.

Rewarding

- **As the CFR definition notes, the final element of the performance management process should be the reward(s) linked to an employee's performance.** When salary increases, promotions, and other rewards are unrelated to performance, it sends a clear message that performance does not matter. Rewards are realistically never limited to cash. They should, however, be valued and managed consistently so that employees know what to expect.

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dismissal of a poor performer. For the same reason, it's going to be difficult to decide who to promote or otherwise reward. With no ratings, executives and managers not knowledgeable about the immediate work group would have trouble reviewing personnel actions and evaluating candidates for job openings.

Simply stated, the management of people needs to be a core responsibility of every manager. The management of performance is not a duty that can be handled by simply completing a form at the end of the year. The Office of Personnel Management has stated that managers need "to make distinctions in performance and link individual performance to agency goal and mission accomplishment." That is only possible with true performance management. But as the Senior Executives Association survey suggests, it is

not an easy transition for even small, readily managed groups. It is much more likely if it is consistent with and supported by other management practices.

The Link to Pay and Bonus Decisions

This report is not about pay for performance, but based on worldwide trends in both government and industry, the shift to such a policy is inevitable and has significant ramifications for performance management. When performance appraisal ratings are not linked to pay and bonus decisions—and therefore have no real consequences—it is all too easy for supervisors to fall into a pattern of rating people higher than warranted. That avoids potential uncomfortable and candid assessments of performance. Managers and employees alike know this practice is common. This makes it difficult to make

meaningful distinctions in performance. The government-wide 2006 OPM Federal Human Capital Survey shows employees are satisfied with their rating; only 16 percent are dissatisfied.

OPM no longer makes summary data available on government-wide performance ratings, but the majority of people have consistently been above the "fully successful" level. Somehow "fully successful" is synonymous with "below average." Realistically, federal agencies are using only three rating levels (which relates to one of the recommendations in this report).

The reliance on three levels is more or less consistent with many employers. The difference here is that the words describing each level have lost meaning.

The pattern would be a problem if it continues under a pay-for-performance policy. In the private sector, employers tend to base the management of pay increases on two factors: a budget and defined increases at each rating level. Currently, salary-increase budgets are typically in the 3.5 to 4.0 percent of payroll range. That means all increases are limited by the budget. (Corporations typically allocate the budgeted funds pro rata based on payroll to managers, who are expected to manage the funds within policy.) Above-average increases have to be offset by below-average increases.

The textbook practice is to plan the allowable increases around the pattern of ratings in prior years. If the average performer (based on the average rating) gets an average increase, it would mean all the 4's (or "exceeds fully successful") in a 5-point rating scale would be granted a below-average increase (since the average rating in many agencies has exceeded 4). That would be essential for budget management.

An issue that is unique to the public sector is the lack of confidentiality. In the private sector, one supervisor might use his budget differently than another, resulting in somewhat different increases for employees rated at the same level—and the employees would be unlikely to ever learn differences exist. But in government, differences in rewards can be a problem. That was previously cited as a problem with the Performance Management and Recognition System (PMRS) implementation, which

Federal Human Capital Survey

The Federal Human Capital Survey measures federal employees' perceptions about how effectively agencies manage their workforce. The survey, which is administered by the U.S. Office of Personnel Management, was first conducted in 2002, and then again in 2004 and 2006. In 2006, the survey was administered to full-time permanent employees from 29 agencies represented on the President's Management Council and 59 small and independent agencies. More than 220,000 federal employees responded to the 2006 survey. The results of the 2006 survey, including trends since 2002, are available at www.fhcs2006.opm.gov.

Survey questions address personal work experiences and job satisfaction focusing on employee perceptions of leadership, learning, performance culture, and talent management, as well as satisfaction with employee benefits. By looking at trends, agency leaders can assess their human capital status, and identify issues and challenges that need to be addressed.

Source: *OPM 2006 Federal Human Capital Survey Report*

—Solly Thomas

is further discussed in the next section. It can be avoided only if the permissible increases are tightly controlled.

Somehow the use of ratings has to change if performance management is ever going to be credible. The rating process has to be seen as credible—and employees have to believe they will not be disadvantaged if their supervisor is honest. An employee who is basically meeting the expectations of his or her job—in other words, doing the job—should be able to expect an average increase. The majority of employees generally fall into that group. It is only the limited number of employees who exceed the expectations of the job who deserve an above-average increase.

Insights from Other Performance Management Experiences

Anecdotal stories suggest the transition to a more effective performance management process is inevitably fraught with problems. Researchers and practitioners have examined performance appraisal practices endlessly over the years, but the problems still arise. In the federal community there have been all too many committees asked to assess the alternatives and initiatives to develop better practices. Each time they concluded existing practices are not working, but few of the new recommendations solved their problems. The experience over the years has contributed to a climate where the skeptics outnumber the proponents.

The most recent and perhaps the most important initiative is the revised requirements implemented in 2004 governing the pay and performance of members of the Senior Executive Service. The requirements were based solidly on the best practice thinking from the private sector. Two years later, the results of a survey of SES members conducted by the Senior Executives Association suggested the new practices still needed fine-tuning.

The SES experience is instructive. The group is relatively homogeneous and small enough to be manageable (about 7,000 executives). In the private sector at the executive level, the practices governing performance management are well established and logically transferable to the entire federal government—or to any organization that wants to plan and manage its operations. The framework established by the regulations is based on ideas and practices that are widely used. The lessons from the feedback obtained in the survey are threefold:

1. It takes more time than anticipated to replace entrenched practices.

2. Policies and practices need to be fine-tuned with experience.

Senior Executives Association Survey

The Senior Executives Association is a professional association representing Senior Executive Service members and other career federal executives. Founded in 1980, the association's goals are to improve the efficiency, effectiveness, and productivity of the federal government; to advance the professionalism and advocate the interests of career federal executives; and to enhance public recognition of their contributions.

In 2006, the Senior Executives Association conducted a survey of its members to assess the impact of the new Senior Executive Service pay and performance management program among the career executive ranks of the federal government. The survey asked federal executives to provide information regarding their experience with and views of the Senior Executive Service performance management system. Approximately 850 career Senior Executive Service members responded to the survey. The results of the survey can be found at the Senior Executives Association website located at www.seniorexecs.org.

Source: *Senior Executives Association press release, September 18, 2006, Federal Executive "Pay for Performance" Survey Results (www.seniorexecs.org).*

—Solly Thomas

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3. There is value in involving the people who will be affected by new practices.

In the end, the perception of SES members is a key to the success or failure of the practices.

Significantly, the United Kingdom's Senior Civil Service (SCS) implemented a similar performance and pay model in 2001. Their pay system is actually more results-oriented than the SES approach. They have fine-tuned their system a couple of times. One independent observer believes the system "is working well." An assessment of their experience by an independent consultant seems to validate that a pay-for-performance policy can work at the senior levels of government. The SCS system is discussed below.

The SES pay and performance system should be the vanguard for performance practices across government. It could be seen as fair to cascade the same principles now being applied to the SES to lower levels of management and supervision. Using a cascading approach when implementing a new pay-for-performance system is routine in well-managed corporations. The principles can and should be the framework for managing the performance of the knowledge workers in non-management positions as well.[4] These principles are based on textbook logic. But the kinks have to be worked out before that can happen.

Insights from the Failed U.S. Performance Management and Recognition System

The only true failure among attempts by the U.S. federal government to move to pay for performance was the Performance Management and Recognition System, which was authorized by law in 1984. PMRS covered supervisors and managers in what were then grades GM-13 through GM-15 from 1985 to 1993. While PMRS was terminated over a decade ago, it continues to be seen as evidence that pay for performance cannot work in government. Unfortunately, the solution was to revert back to the traditional step increases under the Title V General Schedule.

Assessments of the PMRS system attribute the failure to basic system management problems.[5] One reported problem was that agencies did not communicate adequately how PMRS worked and how the

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SES Pay for Performance

The National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136) authorized a new performance-based pay system for members of the Senior Executive Service. Under the SES performance-based pay system, an agency must set and adjust the rate of basic pay for an SES member on the basis of the employee's performance and/or contribution to the agency's performance.

Under the law, an agency's senior executive performance appraisal system is certified by the Office of Personnel Management, with the concurrence of the Office of Management and Budget, on a calendar year basis. Agencies that have certified performance appraisal systems for senor executives are permitted to pay their highest-performing SES members above the rate for Level III of the Executive Schedule. Only those agencies that have their SES systems certified can set pay rates under the new SES pay system.

In 2004, the Office of Personnel Management issued final regulations on the administration of the SES performance-based system and prescribed criteria for establishing and adjusting SES rates of basic pay and paying performance awards.

The certification criteria require an agency to demonstrate that:

- Performance expectations are aligned with agency performance plans.

- Expectations are based on executive input.

- Expectations are measurable and focus on tangible outputs, outcomes, or mileposts.

- Expectations are balanced among results, customer feedback, employee feedback, quality, timeliness, and cost effectiveness.

- Assessments must be made in the context of agency performance.

- Pay and awards must make meaningful distinctions among executives.

- Agency heads or their designees are responsible for overseeing implementation.

Additional information on the SES Pay for Performance Program is available at the Office of Personnel Management website located at www.opm.gov.

—Solly Thomas

performance rating and pay decisions were made. Another is that it permitted employees with the same grade and performance rating to receive significantly different award amounts. Also, the PMRS policy existed side-by-side with the GS system, which prompted many employees to spend time thinking about what they had "lost." The comparisons were too easy to make. Ideally, the GS system should have been terminated for everyone at all grade levels.

A mechanical problem related to the combination of three requirements—setting aside a maximum of 1.5 percent of covered aggregate salaries for performance awards, mandating that every employee two levels above fully successful receive an award, and the ban on limiting the employees in the top two levels—resulted in awards that observers thought were too small to be an incentive. The payments in hindsight failed to make distinctions that mattered.

The highly skewed distribution of ratings, which got worse over the years, was a red flag and a clear sign of a failed policy. Performance ratings will never fall into a normal or bell-shaped distribution (it is common to find an upward bias), but no work group has that many employees—over 80 percent—performing that far above a fully successful level. It shows either that the performance expectations were extremely low or more likely that the criteria were too loosely defined. Whatever the reason, the obviously invalid ratings undermined, if not destroyed, the credibility of the policy.

When the policy is evaluated in light of what we know today, it is also apparent that agencies failed to define linkages between the agency's mission and performance goals and the expected contributions of managers and supervisors. The PMRS experience, of course, predates the Government Performance and Results Act of 1993—which required agencies to develop strategic plans and program performance measures—and the focus it created on results and accountability. It is also clear that agencies did not invest adequately in training and in the steps to manage the change process. Finally, the policy was planned and implemented with no input from the managers who were expected to make it work. The failure to involve them was a fundamental mistake.

These problems are not unique to government. In fact, performance appraisal practices in the private sector have been similarly problematic. Researchers and management experts have addressed the problems over several decades, back at least to the post-World War II era. Significantly, recent research has taken a new direction. Now the focus is on the organizational context for people at work and their work management systems. Studies have shown that it is possible to increase performance dramatically. Throughout the past decade, frequent articles in the business press described companies that switched to new work management ideas and realized significant performance gains. Many companies now are confident they have solved the problems. At the same time, it is all too obvious that the public sector is still searching for answers.

Insights from the Successful United Kingdom Senior Civil Service Pay and Performance Management System

It is interesting to note that the United Kingdom's equivalent to the SES—the Senior Civil Service— relies on a pay and performance system. The features of the system are summarized in the box "Overview of UK Senior Civil Service Performance Management and Reward Principles" on pages 23–24.

Significantly, the UK system is based on ranking, with executives assigned to one of three "tranches" or performance categories. The percentage of executives expected to be in each category is very similar to the practice at GE and other companies known to have adopted a forced distribution policy. The highest performers are limited to 25 percent of the SCS cadre, and 5 to 10 percent are classified in the bottom category. A key difference, when compared with the typical corporate policy, is that the bottom performers are not forced to resign but rather are supported with coaching and additional training.

Significantly, the distribution of funds budgeted for incentive awards are linked to the performance categories. Virtually every executive in the top category earns an award while few in the bottom category receive awards.

In the most recent survey of SCS members, the five questions with the highest favorable scores all related to performance management as follows:

- "I am committed to seeing my department succeed." (98 percent favorable)

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**Overview of UK Senior Civil Service
Performance Management and Reward Principles**

- **Effective performance management is critical for creating a high performance culture which has a focus on service delivery to customers.** It comprises rigorous individual performance planning and assessment together with personal development.

- **Performance management is at the heart of how managers and their staff work together and with others.** It is a core business process that involves building a shared understanding of what success looks like and how it can be delivered and maintained.... Everyone needs to be clear about expectations and required outcomes and how these will be assessed and rewarded.

- **There are four basic blocks in the annual performance management process:**

  1. Performance Planning

  2. Performance Assessment

  3. Performance Differentiation

  4. Reward

- **At the beginning of the year the individual and their line manager identify appropriate performance and development objectives, as follows:**

  1. Business/Delivery objectives—that reflect departmental priorities for the year

  2. Capability/Capacity objectives—that reflect any activities that may need to be undertaken specifically to enhance the capability of the department

  3. Personal development objectives—that reflect the core skills, leadership qualities, and expertise required of the individual in their current role

- **Normally four to six objectives should be appropriate for business and capability objectives.**

- **The performance agreement ... should show objectives together with targets and success criteria.**

- **Performance in relation to business and capability objectives determines bonus.**

- **In respect of individual performance management and reward, our commitment to continuous improvement involves recognizing our best performers and supporting our weakest.** This involves a relative assessment of how individuals compare with their peers.

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- "I understand how my work contributes to the objectives of the department." (98 percent)

- "I have challenging work objectives." (93 percent)

- "I am willing to put in a great deal of effort beyond what is normally expected to help my department succeed." (91 percent)

- "My job gives me a feeling of personal accomplishment." (90 percent)

As with any survey, the respondents may not be totally honest, but it would seem that they hold positive views of their pay and performance system.

The UK system has been in place since 2001, yet it continues to be refined. For example, in late 2006, a study by an executive compensation firm assessed the SCS bonus payment approach in comparison with similar private sector companies. It recommended clarifying the criteria by which payments are made so that the emphasis is not on meeting an absolute standard but on being ranked relative to peers (Towers Perrin, 2006).

Insights from Private Sector Efforts

Management practices that dominated the 20th century originated in manufacturing and in owner-

**Overview of UK Senior Civil Service
Performance Management and Reward Principles** *(continued)*

- **Managers inform relative assessment by making recommendations to senior management to place each job holder in one of three tranches [or categories]:**

  — **Top tranche** comprises 25 percent of the SCS

  — **Middle tranche** comprises 86–70 percent of the SCS

  — **Bottom tranche** comprises 5–10 percent of the SCS

- **The recommendations on tranche are based on an assessment of contribution relative to others operating broadly at the same level....**

- **Lower tranche performers should be considered for a Performance Improvement Plan (PIP) but there is no quota attached.**

- **The SCS pay structure comprises three simple, broad paybands. Payband ceilings and minima are informed by our ability to recruit, retain, and engage talent.**

- **Base salary rewards value or contribution which is marked by:**

  — The individual's overall growth in competence

  — The challenge associated with the job

  — Confidence in the individual's future performance based on past performance

- **Bonuses are allocated by departments from a "pot" expressed as a percentage of the SCS salary bill [which is determined by policy makers each year].** For 2004–05, bonus pot distribution to individuals in the three tranches were (percentages are the proportions of the SCS cadre receiving incentive awards):

  — **Top tranche—**94.9 percent

  — **Middle tranche—**74.1 percent

  — **Lower tranche—**16.9 percent

  — **Overall—**75.6 percent

- **The actual awards for 2005 averaged 6.9 percent and for 2006, 9.3 percent.**

Source: *UK Cabinet Office document, dated March 2006.*

managed companies started prior to World War I. It was a time when Frederick W. Taylor was promoting his principles of scientific management. His focus was on improved productivity and efficiency. Workers were essentially seen as extensions of the machines. Those principles remained important to the organization and management of work until the end of the century. The early employment scene was often harsh; it spawned the union movement along with the laws meant to protect workers and their rights. Performance appraisal practices started in this era.

The view of organizations as "machines" emerged from this thinking. Raw materials come in one side and come out the other as finished products. The key to success in this model is the management of work systems to minimize costs and maximize productivity. People were seen as the problem—they make mistakes and occasionally shirk their assigned tasks. The quality movement was an answer to the people problems. Automation is another answer. The organization-as-machine model is still important in some industries.

Toward the end of the century, a series of phenomena occurred across the private sector that influenced new ways of thinking about performance management:

- **The idea of "participative management" became a popular theme in the HR literature.** W. Edwards Deming, founder of Total Quality Management (TQM), should be credited with convincing industry leaders that workers have more to contribute than a "strong back." Deming and a long list of management consultants, such as Tom Peters, have since argued for relying on frontline workers to communicate with suppliers and customers, and for playing a role in improving service. Today that's taken for granted, but it was a revolutionary idea when introduced. Many now credit Deming with opening the door to what is now referred to as worker empowerment.

- **The emergence of knowledge organizations and knowledge workers mushroomed.** Information systems became an essential management tool. For the first time, the value of workers depended more on what they had in their heads than their physical strength and agility.

- **Global competition became the norm.** In the 1980s, the business press began to pay attention to the growing problems U.S. companies were experiencing competing in world markets. Labor costs were comparatively high, organizations had become overstaffed, and bureaucratic practices made it difficult to react quickly to markets and customers. Companies responded with downsizing, delayering, and outsourcing. Reengineering became a hot management topic, and workers at all levels got involved in improving work systems and practices. Starting in the mid-1990s, the press carried periodic stories of companies that had adopted new work practices and realized unparalleled gains in performance.

- **Organizations are no longer described with the machine analogy.** It is somewhat of an exaggeration, but organizations now have a lot in common with living organisms. They are anything but static. The phrase "supply chain" is now used to describe the organization of businesses, people, and resources used to transform raw materials into finished products that are delivered to customers. The significance is that the people involved may be working side by side but employed by separate entities. And those partnerships can change over time in response to market opportunities.

- **Information technology has had a dramatic impact.** It is now common to see people stationed around the globe all reporting to the same boss. The textbooks on organization theory at one time contended supervisors should have a span of control of no more than six or seven direct reports, but today a single manager might keep track of the performance of 60 or 70 people through a performance measurement system. Technology also enables businesses to be responsive to global business opportunities on a 24/7 basis. Employees now complain because there is an expectation that they will communicate with customers and business partners anytime and anywhere.

- **The workforce has undergone similarly dramatic changes.** The most important change is the aging of the baby-boomer generation. As a group, boomer families had fewer babies, so the next cohort—Generations X and Y—of the population is smaller, and that triggered a "war for talent" (to use a popular phrase from the business press). The full-time, career employee is or, perhaps more correctly, has been replaced by part-timers, contract workers, leased workers, temporary staff, and casual/seasonal labor. Home-based workers are another growing segment of the workforce.

The thread that runs through all of these phenomena is that people and their contributions are now seen as the key to an organization's future prospects. When organizations were simple and slow moving, a single owner/manager or a small team of executives controlled the decision making. But that's not true anymore. Now people at all levels are expected to play a role in making decisions that affect their work. Many companies would not survive without an empowered workforce.

Research has shown that when people work in "empowering" organizations, they are more productive. One study found that with an integrated strategy of new work management practices, employers typically realized increases in productivity of at least 30 to 40 percent. Looking back at traditional work management practices, it is clear that the emphasis on narrowly defined jobs, detailed job descriptions, and close supervision prevented people from using all of their capabilities. People may work harder and feel more stress in empowered organizations, but few

would elect to return to the era when jobs were boring and tedious and workers were not expected to think.

There is solid evidence that with the changed work management paradigm, employees can and will perform at significantly higher levels. The thrust of the work practices studied is to empower workers to assume a more active role in decision making that affects their jobs. They are more accountable, but they also have opportunities to use more of their capabilities. Their relationships with management and with co-workers will change. They may end up working harder, but the focus is on working smarter. They will need to be more flexible in the way they approach their jobs and more responsive to changes that affect their activities. They will, for the most part, work under looser supervision. More is expected of employees.

An overriding and often forgotten issue is that the changes will force managers and supervisors to rethink the way they approach their roles. That may prove to be a more difficult impediment to change. Managers are going to be asked to develop new skills, particularly those related to coaching and mentoring.

The research on high-performing organizations opens the door to the development of more effective work management practices to fit the emerging paradigm. Hindsight suggests the traditional practices were never very effective. It's not a simple problem or a simple answer. People and the circumstances that affect their behavior are complex. When the circumstances are right, however, they are able and more than willing to perform at extraordinary levels.

Central to this is the recognition that performance appraisal systems—those developed and controlled by a human resource/human capital office—are not a primary driver of improved employee performance. As this report highlights, the management of employee performance is not a human capital office responsibility. Significantly, the books written on high-performance themes never discuss the performance appraisal policy, practices, or systems. Every large organization has something in place so that managers can evaluate their people—very few would even consider ending that practice—but the reasons their employees perform at high levels is related to other management practices.

The studies of high-performing organizations highlight several characteristics of companies that stand out as leaders in their industries. These are basic management practices that should be considered by public agencies:

- **High-performing organizations have clearly stated goals and strategies,** and these goals and strategies are widely and frequently communicated throughout the organization.

- **High-performing organizations communicate regularly with employees** to make certain they know how their work efforts relate to the organization's success.

- **High-performing organizations drive decision-making authority downward** to the people who are in the best position to make decisions. Decentralization and empowerment are key characteristics of high-performing work organizations.

- **Top executives are outspoken champions for high performance.** The work practices are owned by line managers, and they enjoy the visible support of top management. The human capital offices serve as internal consultants rather than as enforcers or auditors.

- **The culture of high-performing organizations makes high performance a priority.** The culture perpetuates the use of high-performance practices and encourages employees to embrace better practices. In less successful companies, the culture tolerates the use of less effective practices and makes substandard performance acceptable.

- **Flexibility is characteristic of high-performing organizations.** Two kinds of flexibility are important. First, their management processes are flexible so they are more responsive to changes in the business environments and in their business plans. Second, their employees have to be flexible so that they can and will take on new tasks and acquire new skills as necessary.

High performance emerges from a bundle of management practices. No practice by itself is sufficient to raise the bar of performance or to create a performance culture. In the same way, there is no single bundle of practices that triggers high performance. The practices as discussed in the business press appear generic, but in reality every company develops its own unique combinations.

Near-Term Action Steps to Improve Performance Management Practices

Federal agencies are at an important juncture. They are moving haltingly toward pay for performance. However, there continues to be employee resistance to the change in policy, including a series of concerns from employee unions. The resistance reflects a widely recognized problem: Pay for performance depends on credible performance management practices. Federal employees are not confident that performance ratings will be fair. Getting over that hurdle is critical to the eventual transition to pay for performance.

The fundamental importance of performance management practices was reinforced in early 2007 when the Department of Homeland Security cancelled its MaxHR pay initiative, which was intended to introduce a pay-for-performance system. Marta Perez, DHS's chief human capital officer, stated, "There was a conscious decision that this organization needs to have a good performance management program in place before pay can be linked to it. We have to get this right."[6]

Significantly, there is solid support for the pay-for-performance philosophy across the United States. Workers want their value and their contribution to be recognized. Rags-to-riches stories are prominent in our history. We regularly recognize and reward star performers for everything from selling Girl Scout cookies to winning the Super Bowl. The idea of rewarding performance is deeply entrenched in American values and culture.

The skepticism surfaces when employees are concerned about how the change will affect them as individuals and are uncertain about how they will be evaluated as employees when their supervisor is more "honest." Every federal employee understands

that performance ratings, when there are no consequences, are inflated. They also understand that the ratings have little relevance to their day-to-day work activities. They will have to give up the virtually guaranteed salary increases. That, however, has not been a major impediment in organizations where pay for performance has already been adopted.

The debate on pay for performance in the federal community has now been under way for almost three decades. The China Lake Naval Weapons Center demonstration project, begun in 1980, is often cited because of the introduction of the then new idea of paybanding, but it's sometimes forgotten that pay increases in this successful demonstration project are based on performance. From the time it was first evaluated, it has been seen as a success. The same is true for the National Institute of Standards and Technology in the Department of Commerce demonstration, as well as for a number of Department of Defense demonstration projects.

More recently, the Government Accountability Office (GAO) moved to market-based pay and pay for performance. The change is clearly a success despite the concerns expressed by a few employees. The GAO transformation is described in a report published by the IBM Center for The Business of Government, "The Transformation of the Government Accountability Office: Using Human Capital to Drive Change" (Walters and Thompson, 2005). Several agencies that deal with financial markets (such as the Federal Deposit Insurance Corporation) have also switched successfully to a pay-for-performance philosophy. The history of implementing payband systems in the federal government is presented in a recent report published by the IBM Center for The Business of Government, "Designing and

Implementing Performance-Oriented Payband Systems" (Thompson, 2007).

Whenever a pay system change occurs, there are inevitably a small percentage of disgruntled employees who are adversely affected because they are seen as poor performers or, as in the GAO situation, found to be overpaid relative to market rates. The China Lake experience, as described in the Thompson report, suggests that the level of employee acceptance will increase over time. The disgruntled group has been very small in each agency that moved to pay for performance.

A solid body of knowledge supports the arguments for the change in policy and can serve as the foundation for a successful transition. One such finding is from the National Academy of Sciences (NAS), which in 1991 recommended the change to pay for performance (Milkovich and Wigdor). The NAS panel concluded that where pay for performance is most successful, it is "firmly embedded in the context of other management systems" that focus on performance. That is consistent with subsequent research, including the research reviewed for this report.

The most well-known management system cited by NAS is the process for managing employee performance. The decision by DHS after more than two years of work to cancel MaxHR is evidence of both the importance and the difficulty of "getting this right." Pay for performance cannot go forward successfully until the performance management process is accepted by managers as a tool that enhances their prospects for success.

That is not the only management system, of course. The research review for this report confirms that there are a number of best practices that work in concert to drive the performance of successful organizations. There are, to be sure, practices that are applicable only in certain industries (such as lean manufacturing techniques), but "good management is good management." The management practices proven to contribute to success in other sectors can and should be adopted by federal agencies.

Moreover, the management of employees cannot and should not be addressed separately from broader agency management issues. It can be

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Near-Term Action Steps to Improve Performance Management Practices

1. Develop greater clarity about what constitutes performance management.

2. Ensure the prerequisites for good performance management are in place.

3. Involve employees in defining 'successful performance.'

4. Start small.

5. Create a Program Management Office for performance management initiatives.

6. Add incentives for middle management.

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argued that everything achieved by government is a product of human effort. From this perspective, performance management is a necessary step in the process that starts with goal setting for the organization and cascades down to the work products expected from each employee.

Traditionally, organizations have treated new performance management systems in the same way as they might treat a travel reimbursement policy. Top management may occasionally listen to a presentation arguing for the planned change in a personnel system. If they supported the planned change, they would have delegated responsibility to the human resource/human capital staff. It's been viewed as a people problem, and those issues are routinely handled by that function. That thinking comes out of an era when senior management did not get involved in "personnel problems." After all, the appraisal form was clearly not a top management issue. But that was before it became a business necessity to find ways to improve performance.

Over the past two decades there has been a virtual revolution in the way work is organized and managed that has triggered very different expectations at the senior management level. The pressure for improved performance affects every organization. Throughout the years prior to September 11, the business press carried frequent stories of companies that adopted new practices and realized what can only be described as dramatic performance gains. These changes have altered management's thinking about the way employees should be managed.

The lessons learned have triggered new theories, principles, and practices that promote much higher levels of employee performance than would have been expected in the decades after World War II. Management in the corporate world is typically quicker than government to adopt new practices when they are shown to contribute to better performance. It is important to emphasize that the thrust of the changes helps employees to "work smarter, not harder," and to more fully use their capabilities.

Action Step 1: Develop Greater Clarity About What Constitutes Performance Management

A very real part of the problem in addressing performance issues is the use of poorly defined and loosely used words and phrases. It is always hard to reach consensus on the solution to a problem if the people involved do not share a common language. In this case, the problem is twofold. First, it involves practitioners from different professional fields, each with its own use jargon. Second, the field that deals with people management—loosely known as personnel, human resources, and now human capital—suffers from a failure to develop tightly defined concepts.

In government today, as well as in many private and nonprofit organizations, two separate groups of practitioners address performance management issues—one concentrates on the planning, measurement, and evaluation of performance at the organization level, and the second focuses on these same issues for people working within organizations. These have effectively been separate professional fields, with their own expertise and their own literature. This report argues for bringing the two fields together and developing a framework for using the proven practices to manage employee performance.

As noted earlier, the problem is compounded by the confusion over what is meant by performance management. To some, it means the system or process that results in performance appraisal ratings, and to others it refers to the management of employee performance based on an ongoing interaction between supervisors and their people. This confusion is more than a simple semantics problem. Historically, the idea of performance appraisal originated as a way to impose centralized control on personnel actions, primarily terminations and

pay adjustments. It was for years a "personnel" or "human capital" policy, and the appraisal forms were used to satisfy the policy. The day-to-day management of performance has always been separate. Managers completed the appraisal form to satisfy the human capital office; it had little to do with the supervision of employees.

The confusion is compounded by the way pay for performance has been touted. Originally, it was the threatened denial of the pay increase that was seen as the motivator. The threat at its simplest level was, "If you don't behave and satisfy your supervisor, you won't get a pay increase." When the policy is seen as a threat, it gives the idea a very negative connotation. More recently, employers have gotten a little more sophisticated and rely on policies that provide for different increase percentages at each rating level. Under that scenario, the difference between, for example, a 4 percent and a 6 percent increase is expected to be motivational enough to drive performance. Those policies are controlled by a human capital specialty known in corporations as the "compensation function." Within the community of specialists who focus on people management concerns, there has been an ongoing debate over the effectiveness of that thinking.

Realistically, however, human motivation is a much more complex question than how much of a pay increase is possible. Top management or the human capital office can overlay systems and policies and require at least minimal compliance by supervisors, but it is all too clear that those requirements often do not have much effect on the relationship between supervisors and their people. The organization's policies and systems affect employees' attitudes toward the organization, but it is the working relationship with a supervisor and with co-workers that influences their commitment to being valued employees. That is a more practical view of performance management. The practices used by supervisors are pivotal issues in initiatives to improve performance.

Perhaps the most important point of confusion relates to who is responsible for the problem. The intent was to move away from words that are too often not highly regarded. In most situations, when someone says "personnel" or now "human capital," they are referring to the function. When they refer to "human capital management," their meaning is not

so clear. In some contexts, that phrase refers to the systems, initiatives, and policies under control of the human capital function.

However, that understanding too often implies that the management of human capital—that is, employees—is the responsibility of the human capital function. The point is that executives and frontline managers are responsible for the management of people. The responsibility for performance and for performance improvement rests squarely on their shoulders. The human capital function is in no way responsible for the management of human capital. Human capital specialists may provide the tools and be available as coaches or counselors, but in the end they are not accountable for results.

Action Step 2: Ensure the Prerequisites for Good Performance Management Are in Place

The problems that continue to undermine federal efforts to introduce more effective performance management practices have troubled employers in both the private and public sectors. As DHS apparently came to realize, the organization has to be ready to embrace more rigorous performance management practices, and managers need to be ready to make tough but honest decisions about the performance of their employees. In any work group, a few employees normally stand out; their performance is head-and-shoulders above (or in a few cases below) their peers. In organizations where those distinctions have not been recognized—or worse, discouraged—the change can be difficult to accept. It is difficult for both managers and their direct reports.

An old phrase comes to mind: "You can't live with it and you can't live without it." Performance practices have had severe critics, the most prominent of whom was Deming. He referred to performance appraisal as "one of the seven diseases of management." Deming contended that employers should eliminate the annual evaluation of an employee's performance, but as prominent as he was, virtually no employer accepted his advice. If anything, performance management is more important in organizations today than in the era when Deming's Total Quality Management efforts were prominent.

The revolution was triggered by pressure for improved performance at a time when U.S. companies were struggling to compete in the world economy. Employers initiated reassessments of many widely used practices. The shift in focus to work systems and processes meant all aspects of the employer-employee relationship were scrutinized. This was also the era when phrases like "knowledge organization" and "knowledge workers" came into common use. The focus was on adopting policies and practices that encouraged employees to become more committed to their company's success.

The research on high-performing companies—those that consistently perform better than the norm in their industry—has highlighted three conclusions relevant to federal agencies:

1. High performance is attributable to a combination of policies and management practices; this is not a "flavor of the month."

2. Employees are capable of performing at much higher levels than traditionally expected.

3. Employees like to be challenged, to grow and progress in their fields, and to feel they are contributing to their employer's success.

High-performing companies have a culture that makes success and achievement a priority. The easiest understanding of culture is "the way things get done around here." The phrase "performance culture" is now often mentioned as a goal of government reform and refers to organizations with a shared commitment to good performance. In a corporation, the focus on performance is almost taken for granted since it is reinforced continually by widely used management practices.

Over time, the way an organization and its employees are managed defines the culture. People who are not comfortable in that culture tend to leave. Organizations that want to change their culture risk resistance from employees who anticipate they will be less comfortable or disadvantaged by the changes. Anticipating and dealing with the uncertainty is a good way to reduce resistance.

The notion of culture is intuitively understood by anyone who has worked in more than one organization. In referring to a performance culture, it is

understood to mean one where employees have a shared commitment to high performance. That focus on performance evolves over time and is reinforced by management practices. It is possible to develop a long list of practices in the corporate world that focus on performance. No single practice by itself is powerful enough to create a strong culture, but in combination they promote high performance.

The 2006 government-wide OPM Federal Human Capital Survey confirms that performance management has not been viewed by employees as a priority. The survey results show that employees are satisfied with federal jobs, with their immediate supervisors, and with most aspects of federal employment. However, the survey recorded the highest levels of *dissatisfaction* on questions related to performance and performance appraisal ratings, for example, promotions, recognition, and rewards. The results suggest that they want to have more recognition but also that they are not accustomed to practices that "make distinctions in performance," to use an OPM phrase, which is at the heart of effective performance management.

For federal managers and their people, the traditional performance appraisal has been a brief blip in their day-to-day working relationship. For many supervisors, the less time they spent on it, the better. They have been required by the human capital office to comply, but they and their staff knew it had little impact on anyone. Ideally, the next day was back to business as usual. Managers and supervisors are appropriately anxious about how any new practice will affect them. It should not be surprising to find few people ready to embrace the new practices.

Experience shows clearly the transition to new performance management practices, and at some point to pay for performance, cannot be done quickly or without preparing the people who will be affected. A number of building blocks or prerequisites need to be in place so the new practices are accepted. The building blocks are the foundation for managing employee performance. The research review for this report highlights a list of management practices that contribute to an organization's success and govern the shared focus on performance (see the sidebar "Eight Management Practices That Contribute to a Performance Culture" on page 32). The broader the foundation, the more likely it is that a more

rigorous approach to performance management will be accepted.

These practices are best viewed as prerequisites. It is doubtful that any organization would score high on the full list of practices. However, the more important these practices are across an organization, the more likely it is that a new performance system will be accepted. Managers and employees will be comfortable with the idea since it fits their shared beliefs about how the organization should be managed. DHS, with more than 170,000 employees, apparently concluded it was not ready. GAO, a dramatically smaller organization with 3,500 employees, had its initial discussions more than five years before the final changes were rolled out.

For federal agencies, this framework of practices can serve as the basis for assessing the readiness to adopt a more rigorous approach to performance management. The assessment will highlight possible actions to prepare the organization for the new system. The sidebar "Assessing an Agency's Readiness for the Adoption of Effective Performance Management Practices" on pages 33–34 includes a checklist agency leaders can use to assess their readiness to move toward a performance management system.

Action Step 3: Involve Employees in Defining 'Successful Performance'

As a tool for managers, a performance system has to focus on issues that are directly germane to job requirements and expectations. Ideally, the system will help managers define success in terms specific to a job. It needs to reflect the differences across occupations and job levels. To highlight this point, the criteria for success as an accountant will naturally be different from those for an engineer. In the same way, our expectations for a senior professional are different from those for a new hire, and the differences should be apparent in the criteria used to assess performance at each career stage.

One of the mistakes from the past is the failure to define outstanding performance. It may not be a goal of every employee, but many aspire to be stars or role models, to use the phrase from GAO's performance criteria. They want to know what they have to accomplish or demonstrate to be rated at that level. Adding the definition also reduces the

Eight Management Practices That Contribute to a Performance Culture

- **Leaders as champions.** Leaders across the organization need to explain, in most cases repeatedly, why the new practices are necessary, how they are expected to benefit the organization, and how they are expected to affect employees. This is a walk-the-talk, beat-the-drums mission to convince people that change is necessary.

- **Linkage of work to mission.** Employees want to feel their work efforts are contributing to the success of their organization. That means they need to understand the mission and to have a "line of sight" that enables them to see how their work output is linked to the achievement of goals. Cascading goals help to solidify that linkage.

- **Performance tracking and dialogue.** The common practice in a goal-based environment is to track performance over time, to take corrective action when necessary, and to communicate the results widely. Employees want to know how their employer is performing, and regular communication keeps employees involved. The TQM movement prompted employers to post performance data so everyone could keep track of how well they were doing. Practices like that reinforce the focus on performance.

- **Cascading goals.** This argument has been in management textbooks for decades. Each level of an organization defines goals that are linked to the goals above and below. It may be difficult to define performance goals at lower levels, but even the lowest-level employees will be more engaged if they see the cascading goals.

- **Investment in talent.** Organizations that want to perform at high levels need well-qualified people. They need to invest in the development of individual skills, and they need to ensure that the most qualified people are promoted. Organizations that commit to talent management send the message that performance is important.

- **Recognition and rewards.** It may be difficult to gain adequate support for pay for performance, but every organization has a reasonably long list of ways that employees are recognized and rewarded. Recognition and reward practices should be evaluated occasionally to decide if they are serving the needs of the organization. One purpose is to recognize that high-performing employees and their accomplishments are to be celebrated.

- **Manager accountability.** Managers should be held accountable for managing the performance of their people. That has to be a primary role for frontline managers, and that is reinforced when their pay increases (and other rewards) depend on how well they perform this role. That should be a theme throughout their training. They need to understand the performance management process, but even more important is their commitment to help their people improve. They need to provide guidance and coaching advice, and those competencies should be a priority.

- **Employee engagement.** Finally, we know from research by The Gallup Organization (see Appendix III) that employee engagement is associated with significantly better performance. A survey to learn how employees feel about their organization, their jobs, and their supervisors will provide a picture related to employee engagement.

Assessing an Agency's Readiness for the Adoption of Effective Performance Management Practices

It is often argued that an organization needs to be ready to make the transition to pay for performance success-fully. That depends on a number of factors, by far the most important being the credibility of the employee performance management system. But that is a chicken-and-egg problem—the performance management process is much more likely to be effective when there are consequences for good and bad performance. As long as salaries are administered under the General Schedule, that will be an issue.

One of the key issues in assessing readiness is understanding what the organization is trying to accomplish. Surprisingly, perhaps employees are more likely to accede to the change if the proposed changes are credible and intended to benefit the organization. They also need to understand that the intent is not to hold down future pay increases or to deny increases. Their willingness to acquiesce to the change is going to depend on what they expect. That should be assessed in focus groups conducted in the early stages of the planning.

A related consideration is the way employees view the existing performance management process. The 2006 government-wide OPM Federal Human Capital Survey shows that a relatively high percentage, 64 percent, feels their appraisal is an accurate reflection of their performance. Their responses on a couple of questions suggest they are comfortable with the way their supervisor handles performance management. At the same time, there is a belief that performance ratings are inflated. No one, it seems, is confident that existing performance systems (in Title V agencies) are ready for pay for performance. The introduction of a new system, particularly if it is to be linked to salary increases, will change that picture, perhaps dramatically.

As this report argues, performance systems do not exist in a vacuum. They are intertwined with other manage-ment practices that serve to reinforce the importance of performance. The other management practices contribute to a culture where good employee performance is valued. That is a dimension of an organization's culture. The assessment should include an evaluation of at least the following:

• Employees' understanding of top management's employee relations philosophy and goals for the policy changes

• The process used to track and measure performance, and the communication of results to staff

• The frequency and regularity of management meetings to review performance

• The balance and credibility of organizational/unit performance goals in light of the mission

• The importance of human capital management and the creation of a well-qualified workforce

• The consequences for good and bad performance, including the use and prevalence of non-financial rewards, management's interest in identifying and retaining the better performers, the rationale for promotions, and the handling of poor performers

The issues around employee engagement raised by Gallup are also important. This research is further explored in Appendix III. New policies are much more likely to be accepted if the workforce is dominated by engaged workers. Conversely, if too many workers are actively disengaged, their acceptance is very unlikely. The issues covered in the Gallup Q[12]® questions can be covered in focus groups. It would be useful to initiate changes in practices to strengthen and increase employee engagement.

Perhaps the most important consideration is the status of the SES pay and performance. If there are rumors that suggest the new policy is not working well at that level, it will make lower-level employees reluctant to go along with the change. They need to be confident their supervisors are on board.

It would also be useful to analyze turnover and absentee data to see if there is a relationship with performance ratings. If the people who are quitting or frequently absent are the better performers, performance management is part of the problem. If that is the case, the organization would be advised to introduce better performance management practices.

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Assessing an Agency's Readiness for the Adoption of Effective Performance Management Practices *(continued)*

A key system planning issue is the role of employees and supervisors. Employees are much more likely to accept a change in policy if they are asked to take part in the planning. Research confirms the obvious—they know their jobs best. Moreover, the better performers in most organizations are often eager to contribute to better management. Management, however, has to be ready to listen and act on their feedback, and that is sometimes an impediment. Their buy-in is a paramount consideration.

If there are notable weaknesses in the culture—that is to say, performance is not currently seen as a high priority—it would be highly advantageous to incorporate appropriate policy or practice changes and take a year or more to modify the culture. If it is a leadership issue, top management should find ways to walk the talk; a superficial statement or an out-of–the-ordinary message will create suspicion. Employees need to be convinced this is a high-priority commitment of the organization.

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number of inflated ratings since few employees will truly perform at the star level.

The bottom line is that the performance criteria need to define success for each job. It is fully possible that different managers will have different expectations for what is supposedly the same job. Employees want job and career success, and they want to grow and progress in their fields; it is essential that they know what's expected for success. That is the intent in selecting and defining performance criteria.

Performance criteria fall into a limited number of categories. There is some overlap and the distinctions are not all that important, but for the record the list includes:

- Results relative to individual performance goals

- Results relative to performance standards

- Job duties, responsibilities, and tasks (as stated in job descriptions)

- Job-specific skills

- Core competencies (that communicate shared or desired values)

- Generic competencies (that define desired organization-wide behaviors)

- Job- or occupation-specific competencies (associated with job success)

- Job-specific behaviors (e.g., Behaviorally Anchored Rating Scales)

- Traits and attitudes (desired in "good" performers)

Since appraisal systems are treated under employment law in the same way as tests, employers are required to base performance criteria on an analysis of the job and be job specific. That should eliminate or downplay the use of any generic criteria, although many employers ignore this requirement.

From a more practical perspective, a key is that managers and their employees accept the criteria as credible and realistic for the job in question. Ideally, managers and incumbents will both play a role in defining the criteria. People always like to play a role in planning an event or a system if it affects them. That's the notion of buy-in, and it is fundamentally important to a successful performance management system. When people play an active role in goal setting, it is far more likely that they will be committed to the goals. It is one of the reasons why performance systems based on goals are rarely challenged.

Another key issue in selecting performance criteria is that they need intuitively and causally to be related to desired outcomes or results. That is important under the law—a claim that an employee is a poor performer has to be substantiated with evidence that the ratings are in fact a valid indicator of poor performance. More importantly, employees who are rated highly should be seen by others as outstanding contributors.

That is a problem in using the traditional traits as rating criteria. To illustrate the point, many of the traits used in older appraisal forms, such as adaptability, dependability, loyalty, and resourcefulness,

Understanding the Influence of Law on Performance Management

Performance management practices always have the potential to trigger legal problems. The first hurdle is satisfying the CFR requirements and any OMB or OPM requirements. Those are design issues. Once the practices are in place, the potential legal problems are related to the way individual managers handle their role. Since performance management is so decentralized, any problems that arise are usually attributable to managers who either do not have adequate skills or do not approach their role in a professional manner.

Performance systems are covered by several employment laws: Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, and the Equal Pay Act. Appraisal ratings affect an employee's compensation and career prospects, so the broader protections of these laws are applicable. Under the Uniform Guidelines on Employee Selection Procedures (41CFR60, 1978), any process or device used as the basis of a selection, promotion, layoff, or other similar human resource decision is a test. Because performance appraisals are frequently used as the basis of such decisions, they are considered tests and must meet the validity and reliability standards set forth in the guidelines. That is a high standard.

The problems arise, of course, when an employee(s) in a protected group claims his or her performance evaluation and/or decisions related to the performance ratings were discriminatory. There are two ways the performance rating (or performance management) process can be discriminatory. The first way is when members of a protected group are treated differently during the process. If the process used to rate members of a protected group is different from that used to rate members of other groups, that is *disparate treatment* under the law. In its worst form, disparate treatment is intentional, but disparate treatment can occur even without an intent to discriminate. Employer policies with regard to performance rating and performance management should be spelled out, and an effort should be made to ensure consistent treatment of all employees in line with stated policies.

Problems can also arise when a decision, policy, or practice has a disproportionately negative effect on a protected group. That is *disparate impact*. Disparate impact is focused on the outcomes resulting from a policy or practice and may be unintentional. In the narrow context of performance management, it might seem that disparate impact would be unlikely. However, if ratings of a protected group are significantly lower than those of the majority group, the employer may have to defend against charges of disparate treatment. This defense will center on the demonstration of the reliability and validity of the system.

To defend against claims of discrimination—or perhaps, more correctly, to reduce the risk of claims—employment policies and practices need to satisfy three conditions: (1) they must be job-related, (2) there must be a business necessity for relying on the practice, and (3) there must be comprehensive training for any employee who rates the performance of employees. It is also helpful to have a documented process that can be shown to be applied consistently by all managers.

This means that any criteria or standards used to evaluate an employee's performance have to be based on an understanding of the job and the specific job responsibilities. That normally depends on an analysis of the job and job requirements. The traditional practice is to document the information in a job description. A strict interpretation of the law would suggest that generic, broadly applicable standards may not be defensible. For example, a clerk typist in one department may perform different duties than one in another department.

One of the broad problems across industry is that many employers have job descriptions that are badly out of date. Many have also started relying on job incumbents or supervisors to draft job descriptions. Another common practice now is to rely on generic descriptions.

Keeping job descriptions updated is costly and time-consuming and represents an imposition that many managers try to avoid. It is not clear if the courts will accept job descriptions that are not based on adequate job analysis. It is also not clear if federal agencies could satisfy this requirement.

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Understanding the Influence of Law on Performance Management *(continued)*

Performance standards should be clearly recorded in writing and focus on job elements that are obviously important to the job. Whenever possible, the standards should incorporate objective performance information. Each standard should define at a minimum the fully acceptable or satisfactory level of performance. That is critical in cases where an employee is to be terminated. Standards should also avoid vague or general words or phrases, such as "reasonable," "seldom," or "rapidly."

It is also important that job incumbents, supervisors, and other "subject matter experts" (people who are familiar with the job and understand how it fits into the operation of the unit) help develop performance criteria and standards. It will make for a better performance management system, and courts will generally accept this approach as ensuring content validity of the system.

An overriding consideration is that the employee should understand what is expected. Moreover, the concept of "face validity" (although not a legal defense) depends on appraisal standards or criteria that appear to be related to job performance on their face. If employees believe the criteria are logical and reasonable, they are less likely to claim unfair treatment. For this reason, whenever feasible the employee should play a role in establishing the standards. Communication is a key. Ongoing feedback is a very effective way to avoid claims of discrimination.

Behind the scenes, the human capital function should periodically analyze the pattern of ratings for evidence that individuals in one of the protected groups have not been evaluated fairly. It would be decidedly advantageous to alert a manager or supervisor to evidence of discrimination in advance of legal claims and provide coaching to address the problem.

Employees should also have the right to respond to poor ratings orally and in writing. An internal appeals system (whether union or non-union) helps solve problems before they rise to the level of a filing of discrimination. Additionally, discrimination watchdog agencies and the courts will be less likely to challenge the conclusions of a properly designed appeals system.

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cannot be shown as linked to measures of performance. That is to say, an employee rated a 4 on loyalty or dependability cannot be shown to be a better performer than a 2. Traits appear superficially to be credible but are largely abstract, very difficult to measure in defensible terms, and difficult to demonstrate they are linked to desired outcomes.

The problem with traits is also illustrated by the federal experience with pass-fail rating systems. Yes, employees should be dependable or loyal, and it is to their detriment if there is evidence to the contrary. Both traits warrant yes/no or pass-fail ratings. Employees are either loyal or they are not. Several federal agencies tried pass-fail ratings for a period of years and concluded it was not satisfying the needs of the organization or the employees. The ratings are meaningful only for the few who fail. It ignores the possibility that an employee might be an outstanding contributor.

That experience also highlights a very real difference between the thinking in government and in the corporate world. Corporations emphasize and celebrate

success. They want to encourage individual responsibility. They reward contributors generously. The focus of their practices is on identifying the star performers and making certain that they know they are valued. In contrast, the pass-fail idea focuses on the few employees whose performance fails to meet expectations. Government tends to spend considerably more time and energy on identifying poor performers. Corporations have their share of poor performers—typically less than 5 percent are rated at the lowest level—but they are handled quietly and confidentially. The focus is on the stars.

The critics argue that performance management is not objective. They are obviously questioning the performance criteria, and they are largely correct, except where performance goals are the basis for evaluating performance. A well-managed goal-based performance system is easy to defend. The same is true of criteria like skills that can be evaluated with tests or work samples.

There are, of course, many jobs in government where objective criteria are either not available or

The Argument for Increased Employee and Union Involvement in Designing and Implementing Performance Management Practices

By Robert Tobias, Director of Public Sector Executive Education, American University, and former President, National Treasury Employees Union

If increased individual and organizational performance is the goal of a performance management plan, active, meaningful involvement of employees through their union is critical to its success.

Why is it important for agency heads to involve employees and their union representatives in creating and managing their performance management systems? Because engaging the employee representative in all stages of such a system—initial planning, implementation, monitoring, and any subsequent modifications—will yield improved program design and employee acceptance; will increase the likelihood of devoting less time to impact and implementation negotiations; and, finally, creates a better chance of achieving the goal of a performance management system: improved individual and organizational performance.

Implementing a successful performance management system requires, among other things, a change in the current performance test from "works hard" to an evaluation of whether the evaluatee "achieves pre-determined output and/or outcome goals." This will represent a change from a subjective evaluation of performance to a significantly increased focus on an evaluation of the achievement of objective performance results.

Using such a measure, performance will be more objectively measured. This in turn requires that agency output and outcome goals be clearly defined, and that every employee's work be clearly linked to advancing those goals. It further requires creating an effective evaluation system where supervisors convey expectations, coach performance improvement, and accurately represent results. Each of these elements calls for a significant organizational change effort affecting every employee in an agency.

It is unlikely, if not impossible, to achieve the organizational change needed to improve agency performance without employees' active involvement for the following reasons:

1. Employees want their work to be clearly linked to agency goals, according to an analysis of the Office of Personnel Management's Federal Human Capital Survey conducted by American University's Institute for the Study of Public Policy Implementation. When employees understand the linkage between their efforts and desired agency outcomes, their engagement and productivity increase. In existing systems, the failure of many agencies to clearly identify output and outcome goals has left employees unsure of the impact of their efforts. Employee involvement in identifying agency output goals will bring to light any difficulty in achieving those goals, and will show how employees can contribute to their attainment.

2. Because most employee position descriptions are woefully outdated, any manager beyond the first level of supervision has little understanding of what employees do day-to-day. Only the employees who do the work can clearly describe it. If position descriptions were clearer and more accurate, both upper-level management and employees would understand better how their work is linked to that of others, and whether it impacts agency goals. Employee participation will lead to a more accurate, mutual understanding of the work. Once both employees and managers understand the linkages between a given job and agency goals, the program will have more credibility to both.

3. Employee participation allows managers a chance to leverage the employee desire to "make a difference" with agency goal achievement. With dialogue, managers will learn how the work is performed, and employees learn how their work affects the achievement of agency goals. In addition to being "active," employee participation must be meaningful. It is not good enough for managers to listen to employee suggestions, retire to their offices, make a decision, announce it, and expect acceptance and enthusiastic implementation. Employees must be actively involved in the decision-making process. Dialogue, mutual listening and learning, descriptions of interests rather than positions, and sharing of all information used for decision making are critical to making the best possible decision and having that decision accepted and readily implemented.

The Argument for Increased Employee and Union Involvement in Designing and Implementing Performance Management Practices *(continued)*

Although many substantive issues in the creation of a performance management plan are outside the mandatory scope of bargaining in the federal sector, a union does have the right to negotiate the impact and implementation of any performance management plan. The union also has the right to negotiate "the appropriate arrangements of employees adversely affected" by the creation of such a plan. Further, the plan may not be implemented until all bargaining—including all appeals to the Federal Service Impasses Panel, which has the authority to resolve all negotiating impasses—is completed.

When employees through their union representatives are actively and meaningfully involved, fewer issues will be submitted to impact and implementation negotiation, and those issues bargained will take less time to resolve. The net result is faster implementation with better results.

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not attributable to individual employees. A job that illustrates the latter is a community supervision officer (CSO) overseeing people convicted of crimes. An agency goal is to help offenders get back on track and to reduce the rate of recidivism or repeat crime. Since the best performers are assigned the most difficult cases, it is not fair to evaluate them on their successes. The fallback is focusing on the knowledge, skills, and abilities—or competencies—associated with becoming a successful CSO.

For those criteria where measurements are soft, such as competencies, it is important that they be job specific. If they pertain to a broad group of job families, they necessarily have to be defined in generic, sometimes abstract terms. Where that's the case, managers and employees find it difficult to understand performance expectations—a key issue.

However, competencies can also be defined to be job specific. As an example, "flexibility" is typical of many generic competencies. In the abstract, it's almost meaningless. But, using the CSO example, it means the ability to switch between the two primary roles, law enforcement official and social worker, almost instantaneously when meeting with an offender. The goal with all criteria is that they be credible to job incumbents and useful as verifiable or measurable indicators of job success. At a minimum, it should be clear from the description of the criteria what success looks like for a particular job.

The final and most important point is that research has confirmed the obvious: Employees know their jobs better than anyone. That conclusion came out of research conducted by Air Force psychologists years ago. Top-performing incumbents know what's

required for success and, if brought together as a group, can be expected to define performance criteria in a couple of reasonably short meetings. With guidance, they will be able to define a realistic and highly credible profile of the criteria for evaluating people working in their field. Experience suggests they will set the performance bar high. Criteria developed by job incumbents are much more likely to be accepted by their co-workers than anything mandated by management.

Action Step 4: Start Small

The business press carried stories through the 1990s of companies that transformed elements of their work practices and realized dramatic gains in performance. In addition, a few companies have been categorized as high-performance organizations. Southwest Airlines is perhaps the most frequently mentioned. The thread that is common to virtually all of these stories is that the changes were limited to a relatively small work unit or initiated very early in the company's history when it was in a startup stage.

In the early 1990s, Xerox was one of the organizations with breakthrough performance in a couple of its plants. In an interview, the then senior vice president for human resources excitedly talked about their successes. However, toward the end of the discussion he admitted that they had been unable to replicate their successes in other plants. They had tried cloning and it failed. They had not found the key to gaining acceptance for the changes.

In the federal community, there have been a number of reform success stories, starting of course with the

China Lake demonstration project. The most recent perhaps is GAO. The common thread for these successes is that they are all relatively small. The UK government has initiated somewhat similar reforms, and the successes there have been in smaller work units as well.

The lesson from this history is that it is much easier to gain acceptance for reforms in small organizations. The fact is that department-wide policy mandates are unlikely to gain acceptance and influence performance. Changes that do not trigger an emotional reaction can always be mandated by headquarters. A new budget management system, for example, may run into resistance, but at some point it will be accepted. However, it is all too obvious that new pay and performance systems trigger strong emotions.

Changes that affect careers and working relationships are best addressed at the local level. This is not to suggest the policies in each work site should be locally determined. Department-wide policies will always be needed on some issues, such as new salary grades or leave policies, but local leaders should have some level of control over any practice that affects day-to-day working relationships. High performance rides on the buy-in of frontline managers and employees; it cannot be mandated or controlled from a distance.

In this regard, it is also difficult to take practices that are tested and found to be effective locally and then extend those same practices to other work sites. That was the problem that Xerox was unable to resolve. People will accept changes that are important to their organization, but they will do so much more readily when they have an opportunity to play a role in the planning.

Another aspect of this problem is that the "right" answers will not always be apparent or readily developed by people who are not experienced in implementing performance management practices. The planning and implementation of a new performance management system is a complex challenge. For the most part, federal managers have not worked with the practices that are accepted in industry.

Action Step 5: Create a Program Management Office for Performance Management Initiatives

In keeping with the argument that this is not strictly an HR/HC initiative, it would be advantageous to create a Program Management Office (PMO) that brings together the specialized, functional expertise from across the organization. The role of the PMO is to provide leadership, internal coaching and consulting, training, coordination, and project-related resources. Almost more important than the technical expertise, it raises the prominence of the initiative and stamps it as an organizational priority.

The PMO should be led by someone who has had prior hands-on experience with the planning and implementation of new pay and performance systems. They will at times need to "beat the drums" and generate internal support from people who would, under other circumstances, be reluctant to get involved. They will need to have the support of people with experience relevant to planning and implementation. They will also need the support of legal advisors, financial/budget specialists, a congressional liaison, and public affairs.

The Department of Defense has relied on a PMO to plan and implement the National Security Personnel System since its earliest stages. They refer to it as a Program Executive Office, or PEO. The office has a formal charter and is led by Mary Lacey, who reports to Deputy Defense Secretary Gordon England. The PEO has a staff—some assigned to the PEO and some on detail—responsible for:

- Planning the HR/pay-for-performance systems

- Developing a strategy for collaborating with unions and stakeholders

- Planning and establishing an appeals procedure

- Planning the communications strategy

- Defining training needs, developing common training materials, and overseeing the training

- Identifying the IT requirements and coordinating the development, planning, testing, and installation of new systems

- Providing operational guidance to managers/ supervisors, employees, and HR specialists

- Evaluating the program evaluation

- Drafting internal regulations relevant to implementation

Each of the major DoD components in turn has a "dual-hatted" program manager and staff who are responsible for deployment of the new policies and systems.

The idea is based on the DoD acquisition model, which is used to manage large, complex systems acquisitions. It has proven its value in that context. It is also used widely in the IT field to manage enterprise-wide systems installation projects. The transition to new pay-and-performance systems is perhaps arguably more complex and involves a broader set of issues, which makes effective management essential.

The alternative to a PMO is managing the initiative out of the headquarters HR/HC office. That may be adequate for smaller agencies. However, it stamps it as an HR/HC project and unfortunately reduces the prospects that managers and employees will truly get on board. It also means the HR/HC staff may end up splitting their time between their "normal" job and the special initiative.

The PMO ideally should report to the organization's chief operating officer (COO) or equivalent position. Someone at or close to the COO level should assume the role of champion for the initiative.

Action Step 6: Add Incentives for Middle Management

A notable difference in comparing federal and private sector practices is the absence of cash incentives for managers below the SES. That is essentially the same group covered under the failed PMRS system for managers in GS 13–15 from 1985 to 1993. Since they have primary responsibility for managing employee performance, they should be prominent in initiatives to improve performance.

Corporations create at least the illusion that middle managers are part of the "management team." They participate in the same incentives and stock options, and as members of the team they benefit when the company is successful. In contrast, many federal managers are known to identify more with the workers

they supervise. Unfortunately, federal policies reinforce that notion.

It goes without saying that agencies should be working to create an environment where all managers and supervisors are committed to achieving goals related to their agency's mission. Toward that end, an important step would be to extend the use of cash incentives below the SES level. That is possible now under current regulations (5 CFR 451.102-107). However, since the regulations govern all non-SES awards, it will be important to specify the limited coverage and to set aside funds.

Title V provides specifically for an "award program" based on "performance goals, measurement systems, award formulas, or payout schedules." For managers, the program should be based primarily on the achievement of performance goals. Logically, any new program should be compatible with and flow from the SES program. The notion of cascading goals is central to performance planning and has been used widely for decades. Tying cash awards to achieving the goals can be a powerful incentive.

This is not a new idea. The District of Columbia under former Mayor Anthony Williams added a Performance Management Program starting in 2000 based on cascading goals, with ties to both salary increases and cash awards. At the time, that was a dramatic change for the District government. Over time, District government managers have embraced the change.

The practice is the basis for the new approach to performance management in the Department of Defense's National Security Personnel System. It is also central to the performance planning and management process being implemented across the intelligence community. There are other pockets across government where managers rely on goal setting to manage their staff.

Currently, each agency commits a small amount to cash awards (OPM records show average awards are roughly 1 percent of aggregate salaries), but the amounts are not adequate to be an incentive. Incentive awards should be treated as a normal business expense and budgeted. If the budget is based on the suggested 5 percent target awards, the budgeted amount would be 5 percent of aggregate covered salaries.

Adding cash award opportunities to the compensation package for middle managers will:

- Reinforce the tie between a manager's work effort and agency results. With cascading goals, the "line of sight" to agency performance is made explicit.

- Provide an incentive for improved performance planning. To use an old saying, goal setting is "more art than science." It is a skill that needs to be developed. It will place more emphasis on planning.

- Contribute to improved manager and agency performance. Another old saying is "you get what you pay for—or reward." Performance will improve over time. In fact, it is highly likely that the improvement will offset the increased payroll costs.

- Provide an incentive for employees to move to supervisory positions. Under current policy, employees are often reluctant to move into supervisory positions. This should make those positions more attractive career alternatives.

- Give managers experience with pay for performance. If pay-for-performance policies are to gain acceptance, managers are a key. That is much more likely if they live with the change in culture for a year or two.

Every manager should be able to outline what he or she is expected to accomplish. The goals might relate to new problems to be resolved, new initiatives, or simply desired improvements over current performance levels. Using the S.M.A.R.T. (specific, measurable, attainable, realistic, and timely) goal-setting process, managers can quickly learn to set goals related to their performance. The process is basic to good management.

Goal setting, however, only works in an environment where managers have the discretion to make changes in the way work is organized and managed to address issues that arise. Goal setting goes hand in glove with individual accountability and the authority to take necessary actions to overcome obstacles.

As proposed, the cash award program can be superimposed on the GS salary system. Special legislation or regulations are not needed. The only requirement is that recipients must have a rating of "fully successful" or higher.

Longer-Term Recommendations for Improving Federal Performance Management Practices

The following set of longer-term recommendations for improving performance management practices in the federal government is based on an extensive literature review, selected interviews, and the authors' previous research on performance management practices.

Recommendation 1: The federal government should continue moving toward improved performance management practices for both organizations and individuals.

A key challenge facing the Bush administration and future administrations will be linking or integrating the practices used to manage employee performance with those used to manage agency performance. Now they are essentially separate and disconnected, but to tap fully the capabilities of its workforce, the federal government needs to align the planned performance of employees with the goals of their agency. It is essential that the two be linked to achieve effective agency-wide performance management systems.

Research has shown that employees are more productive when there is a "line of sight" showing how their work efforts contribute to the success of their employer. They want to be seen as contributing employees. This is consistent with the focus on performance planning at the executive level and the argument for cascading performance goals to lower levels. Employee performance planning cannot be effective if it is not linked to organizational performance plans.

Recommendation 2: During the remainder of its term, the Bush administration should continue to fine-tune ongoing performance management practices and encourage new initiatives.

- *The Senior Executive Service pay and performance system should be the model for performance*

planning and management at lower levels. It is argued later that until the SES system is seen as effective, it is unlikely that lower-level systems will be successful. The recent Senior Executives Association survey of its members suggests fine-tuning is needed.

- *With the lessons learned at the SES level, agencies should be encouraged to develop similar practices for frontline managers and supervisors.* Frontline managers need to be treated more like their counterparts in industry and expected to assume responsibility for the performance of their units. That should be reflected in the way they are compensated.

- *Continue the "beta" site efforts now in place to test new performance management systems and also encourage new initiatives.* This approach is consistent with the finding that the success stories are typically based in smaller work groups. New systems and practices should conform to an overarching set of principles, but "locally grown" performance plans will serve managers better than anything dictated from headquarters.

- *Each agency should track and communicate performance progress and successes widely among staff.* The goal should be to highlight performance results and to recognize those individuals who play a role. To set the stage for more rigorous performance management practices, agencies need to make performance a shared priority within their culture.

- *Each agency should also invest in the training to develop the skills executives and frontline managers will need to manage performance effectively.* The need for training has been cited frequently

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Performance Management 'Beta' Site

One of the standards in the Human Capital Assessment and Accountability Framework developed by the Office of Personnel Management is for agencies to have a results-oriented performance culture. As part of this standard, agencies are expected to have performance management systems that differentiate between high and low levels of performance and link individual/team/unit performance to organizational goals and desired results effectively.

The Office of Personnel Management has issued guidance, as well as an assessment tool, for agencies to use to improve their performance management systems. The guidance requires agencies to have employee performance plans that align with and support organizational goals, hold employees accountable for achieving results, and include credible and appropriate measures. Agencies are making changes, consistent with this guidance, and implementing test or "beta" sites for a portion of their agency. This provides an opportunity for agencies to assess the success of the new performance management systems, as well as identify problems that need to be addressed before expansion. Each year, the beta site is to be expanded to include other parts of the agency.

—Solly Thomas

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by the Merit Systems Protection Board, the National Academy of Public Administration, and others. Effective performance management involves a redefinition of the way some managers see their roles. They will need time to develop the necessary competencies and to make the transition. The competencies are largely independent of the details of a performance system. Starting now will help to ensure they are ready.

Recommendation 3: Each government organization should conduct a readiness assessment to determine if more rigorous performance management practices can be successfully integrated into its management process.

This report discusses a series of building blocks or prerequisites that contribute to making the commitment to performance a shared priority. Agencies should ask themselves:

- *Is a prominent and respected senior agency official ready to serve as the champion/leader of the initiative?* Students of organization change argue that the champion should be supported by a guiding coalition of senior leaders.

- *Is there is an effective performance-planning and goal-setting process in place?* That process should be central to the management of the organization. There should be ongoing dialogue on actions needed to stay on track. Executives responsible for specific goals should be expected to report regularly on their progress.

- *Has the agency created an effective performance tracking system? Does the agency communicate progress in achieving goals to lower levels?* Such a tracking system serves to highlight the importance of performance and lets employees want to know how their organization is performing. Silence sends the message that results are not important or not of interest to employees.

- *Are executives and managers seen as accountable for the performance of their people?* Their performance plans and year-end performance ratings should reflect their responsibility for staff performance. Ideally, any financial rewards should be linked in part to how well they manage performance.

- *Is an effective career planning system, as well as an effective succession planning process, in place?* Both give emphasis to the importance of performance as a determinant of career success. The best performers should realize career progress as a reward for their performance.

- *Does the agency have a record of taking corrective action to deal with unsatisfactory performers?* Performance ratings have to have consequences for employees. When there are no consequences, it is too easy for supervisors to inflate ratings.

- *Does the agency have a record of managing financial and non-financial rewards effectively?* Employees want to be valued and to have their contributions recognized. Too often public employers either fail to recognize their star

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Longer-Term Recommendations for Improving Federal Performance Management Practices

1. The federal government should continue moving toward improved performance management practices for both organizations and individuals.

2. During the remainder of its term, the Bush administration should continue to fine-tune ongoing performance management practices and encourage new initiatives.

3. Each government organization should conduct a readiness assessment to determine if more rigorous performance management practices can be successfully integrated into its management process.

4. In planning and implementing new performance management practices, agencies should put in place several key practices before introducing pay for performance.

5. As organizations enhance their performance management practices, the responsibility for making the transition a success must rest squarely on the shoulders of executives and frontline managers.

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performers or send mixed or contradictory messages in the way rewards are handled. Rewards should be used to reinforce the importance of performance.

The results of such an assessment may highlight current practices that send a message that performance in the organization is not a priority. If that is the shared sense across the organization, work needs to be done before a new performance system—especially one tied to pay—is implemented. Any initiatives should focus on reinforcing the importance of performance.

Recommendation 4: In planning and implementing new performance management practices, agencies should put in place several key practices before introducing pay for performance.

- *Involve executives and frontline managers and employees in planning and implementing the system.* They know the jobs and any limitations on performance better than anyone. Performance planning is all local; it cannot be mandated from headquarters. They should be involved in planning the system so it becomes their "tool."

- *Define performance expectations using "the what and the how" logic where the what encompasses planned results and the how describes the way results are achieved.* The how criteria or dimensions are now commonly defined with a set of job competencies. The best practice is to define expectations at three levels—outstanding (or role model, to use the phrase used by GAO in its system), meets expectations, and failed to meet expectations. That meets the needs of the employee as well as the manager.

- *Require periodic meetings throughout the year to discuss progress and problems.* The essence of performance management is regular discussions of performance, feedback and coaching, and adjustments in work plans to reach performance goals. People need to know where they stand.

- *Use appropriate software to facilitate the management of the process.* Technology is not the solution to effective performance management. However, it can help to keep everyone on schedule, facilitate the gathering of information and the recordkeeping, and increase consistency across a large organization.

- *Create a "calibration committee" that will help to improve consistency across the organization and keep managers honest.* GAO notes that this is a best practice. When managers need to justify their decisions, the committee is a quality check. It can help to avoid inflated ratings and ensure equity across the organization.

- *Hold off implementing pay for performance until these elements are in place.* Pay for performance should be the final step in the process. The linkage between performance and pay is essential. It helps to ensure managers and employees across a large organization take performance seriously. It is important to reward those whose efforts and results stand out. In lieu of a true pay-for-performance salary-increase policy, an alternative would be to set aside a small budget, perhaps 0.5 percent of payroll, to be used as bonus awards to the star performers. (If the awards are limited to 20 percent of the workforce, the awards will average 2.5 percent of base pay.) That will set the stage for a more aggressive policy that promotes performance-related distinctions in pay.

Recommendation 5: As organizations enhance their performance management practices, the responsibility for making the transition a success must rest squarely on the shoulders of executives and frontline managers.

Increased responsibility must be placed on executives and frontline managers if performance management is to succeed in government. All executives and frontline managers should:

- *Commit to make the management of their people an important element of a manager's job*. This will be a change for some managers, but that is the essence of management. The criteria for evaluating their performance should address this responsibility.

- *Understand that the intent of performance management is to encourage employees to perform at high levels*. Too much energy is spent on poor performers. The theme in moving to new pay and performance systems should be improved performance for everyone. The focus should shift to celebrating successes and encouraging employees to grow and succeed in their careers.

- *Have adequate training to develop the competencies to handle performance discussions with direct reports*. The planning and feedback discussions between managers and their direct reports are fundamental to good performance. Both sides need to be comfortable that they have the skills to make the meetings productive. Although not a specific recommendation, agencies may want to make coaches available to managers.

- *Have adequate training, along with their employees, to utilize the new system effectively*. Everyone needs to be able to use a new performance system. Both managers and employees need to understand what's expected of them.

- *Rewrite employee position descriptions to focus on the performance-related expectations of the job*. This is often seen as a questionable use of time, but managers and their people need to agree on job responsibilities. The "PD" can be a place to document performance-related information such as customers and their expectations.

- *Concentrate on defining criteria and standards for assessing performance that are job specific*. The idea of agency-wide standards or goals is not credible. Each job is to some degree different and that should be reflected in individual goals. Goals should include a specific basis for evaluating or measuring performance. The planning process follows from and should be tied to agency planning at the beginning of the year.

- *Work to ensure that during the planning discussions with employees, each individual understands what's expected, what it will take to be rated as outstanding, and what level of performance will be unacceptable*. This understanding is the foundation of performance management. There is no more important step in the process.

- *Consider the value of collecting input from peers, direct reports (for supervisors), managers in other units, and "customers."* The idea of multi-rater or 360º feedback has been used for years. It is not relevant to every job, but it can be useful to supervisors looking for a complete picture of their people.

- *Make sure that individual development plans flow from the evaluation process*. A focus on individual capabilities sends an important message: We want to help you have a successful career. It also confirms the organization wants employees to be as good as they can be. Investing in employees' capabilities is a key to the future.

- *Provide feedback to help employees understand their strengths and weaknesses so they can prepare for expanded job duties*. Everyone needs feedback to improve. It, of course, should be honest. When people start their careers, they generally want feedback. If it is constructive, they will accept it.

- *Use non-financial recognition and rewards*. Employees want to be recognized for their accomplishments. It can be a powerful tool when it is used consistently. Actions as simple as a pat on the back send an important message. Employers have developed a long list of ways to recognize and reward employees.

Final Thoughts: Building the Commitment to Improved Performance

This is not a simple problem. If there were a straightforward, "silver bullet" solution, this report would not be necessary. The solution will not be found in the format of the traditional form used to appraise an employee's performance. Nor will it be suddenly discovered if pay-for-performance is implemented. As this report has tried to point out, it is a far more complex problem.

The steps to raise employee performance levels naturally start with the process used to manage and reward employee performance. Those practices are central to the problem and yet there are no universally accepted answers. Yes, corporations inevitably reward performance with salary increases and/or cash awards. Only a small percentage of employees—and a diminishing percentage—in the private sector are paid on a basis similar to the federal government's General Schedule pay system. And, yes, virtually every corporation evaluates employee performance at some point during the year.

Of course, those practices are important, but the obvious point is that they do not explain why employees in some companies perform better than those in others. A number of state and local public employers also evaluate employee performance and tie salary increases to the ratings, but they still have performance concerns.

Building on What We Know

The starting point is clear: All the evidence confirms current practices are not working. A contradiction in the OPM Federal Human Capital Survey and the "Best Places to Work" survey conducted by the Partnership for Public Service provides useful insight. Federal employees are "satisfied" with virtually every aspect of their jobs. Nearly two-thirds of the respondents are "satisfied" that "my performance appraisal is a fair reflection of my performance." At the same time, employee ratings for reward and recognition practices are by far the lowest of all the categories.

We also know from history that the focus with federal appraisal practices has been on pass/fail—in other words, meeting minimum standards. That orientation continues to influence managers and employees. Agencies have switched to rating scales that permit differentiation, but when ratings are known to be severely inflated, that feedback is not a meaningful form of recognition and employees apparently understand that.

Inflated ratings need to be brought under control. One step discussed in this report is to define the standards for being an outstanding performer. GAO's "role model" expectations are the first in the federal service. A related step is to require managers to explain and defend high ratings before a committee of peers.

However, the ratings are peripheral to the more fundamental problem. Performance management has to be more than checking off boxes on a form. To quote Clay Johnson, OMB's deputy director for management:

> In performance evaluation, we need managers who can sit down with an employee and say mutually, "Here are what our expectations are for the next year. Here is the definition of 'exceeds expectations.' Let's agree on this. And let me help you get to where you want to be." You need clear goals and lots of feedback—both informal and formal—to help the employee get there.[7]

The problem is not the ratings per se. It's the need for performance planning, ongoing feedback, coaching, a focus on results, and year-end rewards that reinforce the importance of performance. It is also about understanding that the process serves two purposes—contributing to better organizational performance and helping employees to realize their career aspirations. Their motivation comes in part because good performance is to their benefit. That is a new orientation for performance management in many federal agencies.

Recognition and reward practices need to reinforce that orientation. Managers need to be rewarded for their performance, both for results achieved and for how well they manage staff performance. Employees need to be recognized for their contributions. The focus on contributions should be limited to those that have value for the organization. The surveys suggest that is not happening. That is central to an employee's feelings of engagement or disengagement.

Currently each agency is expected to develop a beta site (as described on page 43) where the intent is "to demonstrate through an organizational unit ... the linking of performance-related outcomes and accountability through all levels of the unit."[8] That may be an instructive experience. It should, at a minimum, confirm the potential for improving performance. If survey findings are meaningful, however, it will be important to define performance management practices in the broadest terms. The beta site strategy should be to integrate organizational performance and employee performance management practices. It is not enough to focus on employee performance.

Getting Managers and Employees on Board

As described earlier in this report, initiatives to change pay and performance systems have met some resistance. That is not surprising. People generally resist change; that is especially true when it promises to affect their careers and working relationships. There are too many reasons for them to be suspicious. For both managers and employees, new pay and performance systems require somewhat different behavior as well as adjustments in their work relationships, so it is unrealistic to expect an immediate acceptance. In the planning

stages, employees cannot be certain how the new policy will affect them.

The only proven strategy to gain employee buy-in or acceptance is to involve them and their managers in the planning process. Realistically, new practices could be mandated. The how-to answers are readily available in textbooks and workshops. A number of off-the-shelf software systems are available for purchase for managing pay and performance. However, there is always somewhat of a "not invented here" reaction that is a hurdle to acceptance.

It is particularly important for managers to accept any new practice that they will be expected to use in managing their people. Performance management is or should be an ongoing process, so any system needs to be credible and easy to use. As the project moves forward, opportunities for input from managers are essential.

Appendix I: Research on Performance Management Practices

Research is now increasing its focus on high-performing organizations—those that realize levels of performance above what might be expected in a more traditional organization. The goal of the research is to identify the management practices that contribute to improved performance. One of the early experts on this topic is Mark Huselid, a professor at Rutgers and co-author of *The Workforce Scorecard: Managing Human Capital to Execute Strategy.*[9] The consulting firm Watson Wyatt has also studied the practices that contribute to high performance. The Watson Wyatt conclusions are discussed in the book *The Human Capital Edge.*[10] The study identified 21 people management practices that resulted in increased shareholder value (the most meaningful measure of how well a company is performing).

More recently, a team of researchers led by Nick Bloom, head of the Centre for Economic Performance at the London School of Economics (LSE), completed an extensive analysis of the management practices that contribute to business success.[11] Their focus was on "middle management" practices—the day-to-day practices used by managers. Significantly, the researchers are economists, not HR specialists. They looked at the impact of 18 widely discussed management practices on the financial success of over 700 manufacturing firms based in four countries (the United States, the United Kingdom, France, and Germany). They scored or rated the firms (using a five-level scale) on their use of the practices and then analyzed the relationship between the scores and a firm's financial success.

They found that the businesses that scored the highest on the practices were more successful on the financial measures. The success of these companies confirms that management matters. The conclusion

that selected management practices contribute to a company's success is not surprising. The pundits have made similar claims for years. It follows that those practices might contribute to improved performance in other sectors, including government.

Of the 18 practices, three are relevant only in manufacturing, but the other 15 could be used in any organization. Significantly, all 15 affect the staffing of the organization or the way managers and employees handle their jobs. That is to say, they are involved in people management.

The authors of this report adopted the survey used by Bloom and his team to develop a comparative understanding of corporate and non-corporate use of the practices. The three questions relating to manufacturing practices were omitted. Rather than using a survey instrument to collect information, the authors used graduate students to conduct phone interview with respondents. The respondents were asked about their practices in each area using "funneling" techniques, rather than closed-end questions that presuppose what information is relevant.

The wording of several questions was modified slightly to facilitate the use of a survey instrument rather than conduct interviews to collect data. Several questions related specifically to performance management systems were added. The organizational performance variables were not used because organizational performance is not easily measured across a mixed group of non-corporate employers and because the purpose was to compare management practices.

In addition to corporate respondents, information was collected from colleges and universities and

A Survey of Management Practices Linked to Company Success
Conducted by Nick Bloom, et al., London School of Economics

A research team led by Nick Bloom at the London School of Economics studied the linkage between company financial success and good management practices. Their goal was to learn if the way a company is managed contributes to its success. Their focus was on the impact of a series of 18 often-cited middle—that is to say, day-to-day—management practices. Members of the research team conducted interviews in each company and scored them on their use of the practices. Their research findings confirm that the way an organization is managed is important to its success.

Their study looked at the practices in over 700 medium-sized manufacturing firms in four countries—the United States, the United Kingdom, France, and Germany. That allowed them to compare and isolate the impact of the management practices across different legal and market environments, and to avoid the extraneous factors associated with the differences across industries and across company size.

They found a strong relationship between the way an organization is managed and its success. More specifically, those firms that scored high on their use of the management practices were more successful. Those that scored low were less successful. In business, of course, firms that are not financially successful tend to fail, so their sample of companies does not include many companies that were badly managed.

The management practices can be grouped into four areas: shop floor management, performance monitoring, use of performance measures, and the management of human capital. The shop floor management issues are, except in rare situations, not relevant to government. The others are all potentially applicable in any organization, public or private. The 15 practices are listed below.

Since there was variation in the product markets served by these companies, the researchers were able to conclude that the level of competition affects the use of the management practices. In those industries where there is less competition, there is also less pressure to adopt the better management practices. Stated differently, competition triggers a need for better management, but, of course, the absence of competition does not preclude a firm from adopting the practices.

In France and to a lesser degree in Germany, there are tough labor regulations, specifically making dismissal costly and difficult. The research team learned that tough labor regulations impede an organization's adoption of better management practices.

They also collected data on the average hours spent by managers, use of sick leave, and a self-reported measure of managers' "work/life balance." None of these questions were found to be associated with company success.

Significantly, all of the 15 management practices affect an organization's management of its people and all are available for adoption by public agencies. The following is the list of management practices whose descriptions capture the "Best Practice."

Performance Monitoring

- Performance is tracked and communicated, both formally and informally, to staff.

- Performance is continually reviewed, with follow-up actions to ensure continuous improvement. Results are communicated to staff.

- Regular performance conversations focus on problem solving and addressing root causes. Meetings are used for constructive feedback and coaching.

(continued in box on next page)

A Survey of Management Practices Linked to Company Success *(continued)*

Performance Targets

- Targets balance financial and non-financial performance targets.

- Corporate goals focus on shareholder value, and cascade with increased specificity to lower levels of management.

- Long-term targets are translated into specific short-term "staircase" targets.

- Targets are genuinely demanding and grounded in solid economic facts.

- Performance measures are well defined, strongly communicated, and reinforced at all reviews.

- Failure to achieve targets drives retraining in areas of weakness or a job change to where skills are more applicable.

Human Capital Management

- Managers are evaluated and held accountable on the strength of the talent pool they develop. Training and development opportunities are available for top performers.

- Ambitious stretch performance goals with clear performance accountability and rewards are established.

- Company does whatever it takes to retain top talent. Managers are responsible for trying to keep desirable staff.

- Company tries to provide a unique "value proposition" to attract talented people. Company HR practices are planned to achieve this goal.

- Company actively works to identify, develop, and promote top performers. Managers are assessed on the basis of succession plans for individuals.

- Company moves poor performers out of the company or to less critical roles as soon as weakness is identified.

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from state and local governments. These organizations were surveyed because their cultures and missions have characteristics in common with federal agencies. The authors specifically did not survey federal agencies because they did not want the results interpreted as a direct assessment of federal practices. The types of respondents are reflected in Table A.1.

The results of the survey (see Table A.2) indicate that the non-corporate organizations scored lower than the corporate organizations in all cases. Table A.2 indicates questions and response levels and whether observed differences were statistically significant.

Several conclusions can be drawn from our survey. As might be expected, the corporate participants indicated consistently higher responses across the questions that involve management practices. That suggests that corporations, in the way they manage these issues, are making a more concerted commitment to performance and to the practices that reinforce performance as an organizational priority.

The average scores on the management practice questions are very similar to those reported by the companies in the Bloom study.

The response pattern for two questions stands out and warrants comment. First, the managers in the non-corporate organizations are not rewarded for how well they manage the performance of their direct reports. Second, these organizations also do not place much emphasis on tracking and communicating organizational performance to staff. Both practices are typically not emphasized in these organizations. That is consistent with the authors' experience as consultants to these types of organizations.

Table A.1: Types of Respondents to the Risher-Fay Survey on the Use of Good Management Practices

Corporations	32
Colleges and Universities	25
State Governments	5
City/County Governments	8

Table A.2: Comparison of Corporate vs. Non-Corporate Responses to the Survey on the Use of Good Management Practice

Question	Corporate Mean	Non-Corporate Mean	Difference Between Corporate and Non-Corporate
Degree to which organizational performance is tracked and communicated to staff	3.69	2.11	1.58*
Degree to which managers are rewarded for managing the performance of their direct reports	3.49	2.03	1.46*
Degree to which organizational success drives individual and group rewards	3.78	2.57	1.21*
Degree to which employees set stretch goals but are rewarded against performance standards	3.65	2.57	1.08*
Degree to which the organization does whatever it takes to retain top talent	3.63	2.55	1.08*
Degree to which the organization offers a unique "value proposition" to attract the most talented people	3.75	2.73	1.02*
Degree to which managers are evaluated on the strength of the talent pool they build	3.50	2.55	0.95*
Degree to which organizational performance is reviewed, evaluated, and used as a basis for continuous improvement	3.75	2.84	0.91*
Degree to which performance system is automated	3.34	2.49	0.85*
Degree to which top performers are identified, developed, and promoted	3.63	2.89	0.74*
Degree to which discussions focus on problem solving, constructive feedback, and coaching	3.78	3.05	0.73*
Degree to which long-term goals are translated into short-term goals	3.80	3.19	0.61*
Degree to which poor performers are moved to less critical roles or out of the organization	3.63	3.05	0.58*
Degree to which senior executives champion the performance management system as a priority	3.59	3.03	0.56*
Degree to which both managers and direct reports are trained in performance management techniques	3.56	3.03	0.53**
Degree to which decision-making authority is driven as far down into the organization as practical	3.69	3.21	0.48**
Degree to which failure to achieve goals triggers added training or movement of individuals to new positions	3.63	3.18	0.45**
Degree to which the performance management system is evaluated in terms of improved performance	2.84	2.45	0.29***
Degree to which individual goals are related to organizational strategy	3.59	3.24	0.35***
Degree to which legal issues were critical in designing the performance management system	3.81	3.51	0.30***
Degree to which performance targets include both financial and non-financial goals	3.66	3.49	0.17***
Degree to which the performance management system was developed with input from both managers and employees	3.53	3.42	0.11***

*   Difference between Corporate/Non-Corporate is statistically significant.
**   Difference between Corporate/Non-Corporate is marginally significant.
*** Difference between Corporate/Non-Corporate is not statistically significant.

Although not as low, these organizations also place less emphasis on building a talent pool and retaining top performers. That again is consistent with the authors' experience.

However, on the questions related to the planning and design of the employee performance management system, the differences are not significant. That suggests the systems are based on the same basic principles. Since the system planning is typically handled in all the organizations by the human capital function, it may be that they rely on the same theories and textbooks, which would lead to similar systems.

Corporations claim to invest somewhat more time in training, although both groups score relatively high on this question. Neither group makes the evaluation of the performance system a priority. Both groups were similar in their concern for legal issues. Again, these issues are commonly controlled by the human capital function.

Several additional questions that were asked offer additional insights. Respondents were asked, "If you were to survey senior management, what percentage would agree that the performance management system is meeting the organization's needs?" Corporate respondents had higher scores on this question than did non-corporate participants, and the difference was statistically significant. As an educated guess, based on personal experience, the responses may suggest that employee performance management is more likely to be seen as ineffective in the non-corporate organizations. Their expectations are not high.

Overall, these survey results prompt an important but not surprising conclusion. First, the typical performance management system has little impact on either corporate or non-corporate organizations. Second, high performance is attributable to the way employees are managed; the performance appraisal system is almost tangential. A manager who uses effective performance management practices can achieve high performance from his or her staff despite an ineffective performance appraisal system.

Appendix II: Differences Between Private and Public Sector Performance Management Practices

This appendix summarizes the authors' observations about the key differences between public and private sector performance management practices in three areas: how managers are developed, how executives are compensated, and how a performance culture is created and sustained. Understanding these differences is especially important for political appointees who come to government from the private sector and want to introduce private sector performance management approaches.

Developing Managers

Companies have a decided advantage in identifying and developing managers and supervisors, and that carries over to their commitment to managing performance. All organizations struggle to identify and develop managers who will prove to be successful. The advantage is that companies have a compelling reason to invest in the next generation of leaders: The continued success and even existence of the organization depends on having effective leaders, and that success can translate into healthy returns for owners and investors.

The difference starts with the career orientation of most private sector executives. Many started their careers with the goal of becoming successful and highly paid executives. They sat in the classrooms of a graduate business school thinking about their careers. They tend to pursue their career goals aggressively. They focus on the competencies needed for success as managers and executives early on in their careers. Their career ladders are a series of steps to take them to higher levels of management.

It is not certain what value, if any, a business degree has for an individual who graduated years

ago, but corporations commonly have more executives and managers who have studied business and management than the typical federal agency. They were exposed to business thinking in those courses and again in refresher workshops and developmental experiences at each career stage. That is very different from asking, for example, an engineer or a law enforcement specialist to take a course or two on management principles after they are selected as managers.

The typical corporate career path is in decided contrast to that in the federal government, where the decision to become a manager is often not made until mid-career when the individual reaches the GS 12–15 level. For many, the switch from their technical field is made reluctantly. They enjoy the technical work, but the promotion to management is necessary if they want to earn higher incomes.

Well-managed corporations have successful managers who are role models throughout the organization. They may not be perfect, but they have achieved success in the business world. They are also focused, if not obsessed, with maintaining a successful track record. The management of performance has been a "job duty" throughout their career as managers and executives.

Corporate managers grow up in an environment where individual accountability and responding to business demands is routine. They review performance information several times a day; there is in some cases too much performance data to interpret effectively. The frequent conversations with other managers regularly touch on recent performance news. It is central to their business lives. They take concerns with performance problems home with

them, and have frequent telephone conversations with colleagues in the evening.

This is not to suggest that federal managers do not share many of the same pressures or long workdays. But corporate executives and managers know their careers and the lifestyles they enjoy depend on keeping their companies successful. They could quickly lose their jobs and their income if performance turns down.

The pressure for good performance in a corporation cascades down to all levels of the organization. Everyone working for the company understands that good financial performance is essential. They may not have training in accounting, but they have a good sense of the profit goal. One of the goals of the internal communications function is to keep employees aware of the company's performance. That sense of direction is shared and discussed by people at all levels. It makes the job of management much easier.

The pressure for performance is elevated by the linkage to financial rewards. The introduction of group and team incentives at lower levels has been an important trend now for a decade. But it is at the executive level where compensation is used widely as a tool to focus individuals on company success. Salaries are high, but the big money comes in the form of incentives and stock options. Well-designed compensation systems provide both a focus on current performance and a carrot for the most junior managers to prove themselves and move up to higher levels of management.

Corporations have obvious reasons to develop effective practices to manage organization and employee performance. The pressure to remain competitive and successful creates a shared commitment to good performance. It is not as automatic or natural in organizations that do not have the profit motive or the same incentives. However, the same problem affects all not-for-profit organizations—healthcare providers, colleges and universities, as well as public agencies. There are real differences between for-profit and not-for-profit organizations, but the strategies for creating high-performance organizations have been proven in every sector. Those strategies are behind the creation of great hospitals and great universities. There is no reason federal agencies cannot take advantage of that experience.

Compensating Executives

Corporate executive compensation is a political as well as social issue. The potential for a high income is no doubt a powerful incentive. But that is not the topic of this report. Corporations have well-established and proven models for linking pay to performance that could be adopted by federal agencies. The levels of compensation can be criticized, but the approaches used to link pay and performance are widely used and generally taken for granted. There are no books or articles arguing for changes in these aspects of corporate practice. These practices reinforce the importance of performance with solid links to rewards.

The corporate model is reflected in the recently promulgated Senior Executive Service pay and performance regulations. Federal regulations give agencies considerably more discretion than is common in a corporation, but the logic is the same. A summary of the requirements includes:

- Individual performance expectations must be linked to or derived from the agency's mission, strategic goals, program/policy objectives, and/or annual performance plan.

- The expectations must be developed with executive involvement and must be communicated at the beginning of the appraisal cycle.

- The expectations must encompass results that are measurable, demonstrable, or observable.

- The expectations must include measures of results, employee and customer/stakeholder satisfaction, and/or competencies and behaviors associated with outstanding performance.

The regulations effectively capture the performance criteria or standards used to measure or assess executive performance. GE is credited with what is now the best practice framework for assessing executives and managers—"the what and the how" where the what encompasses planned results and the how describes how the results are achieved. The latter is now commonly based on a profile of competencies. For executives, defining a set of criteria consistent with the regulations should be straightforward. However, the recent Senior Executives Association member survey indicates that at least among the survey participants, there is a question about how well the new process is working.

The SES pay system also differs in another important dimension: the linkage of performance to the payment of bonus awards. In the business world, the linkages are generally explicit, similar to a mathematical formula. For corporate executives, bonus or incentive payments are an integral component of the pay package and delivered for meeting planned performance expectations. For the SES, bonuses are paid for exceeding performance expectations and based largely on subjective judgments. The two approaches reflect very different philosophies.

The linkage between pay and performance in the widely used corporate model is based on the following framework. Adopting the corporate approach would strengthen the ties between SES bonus payments and performance, and could be adopted for managers at lower levels as well:

- **Corporate compensation levels depend on company performance.** At the executive level, incentive systems started years ago to make sure executive and owner interests were aligned. This initially took the form of profit sharing and that philosophy still prevails. When a company performs well, every executive and manager typically benefits. "We're all in this together"—that reinforces the importance of team performance. It would be highly advantageous for SES compensation to be related in part to the success of the agency.

- **When company performance justifies the payment of awards, virtually every eligible executive can expect to receive an award.** Studies shows that 95 to 99 percent receive an award. Individual performance affects the size of each award, but few are denied an award.

- **Incentive awards are planned as an integral element of the cash compensation package, with the totals aligned with total cash levels in the market for executive talent.** Each executive has a target or guideline award, expressed as percentage of salary. To illustrate the idea, if the target award is 25 percent and the planned cash compensation is $100,000, the base salary would be $80,000 and target award $20,000.

- **The amounts defined by the target awards are earned for meeting performance expectations.** Incentive awards would increase over the target amounts when an executive's results exceed

his goals. There may be a maximum payout, but it is to the executive's benefit to beat the goals. When an executive fails to meet expectations, the payout is less than the target amount. Executives know they can earn more if they perform at high levels.

- **Companies typically weight individual performance goals or criteria (with a total of 100 percent).** Performance relative to each goal is measured and the results combined, using the weights, into an overall performance rating. That approach has been in use for decades. In many companies, the measurement of performance and the basis for determining the final performance rating is handled almost like a mathematical equation.

- **The use of measurement scales and formula-driven approaches represent a significant psychological difference when compared with the SES bonus awards.** The corporate approach makes it straightforward to track performance and anticipate incentive payouts throughout the year. There is little, if any, subjectivity. Using the old donkey-and-carrot analogy, the carrot is in sight at all times. SES bonus awards cannot be anticipated.

- **Corporations budget for incentive payouts.** The amounts are determined simply by multiplying each participant's salary by his or her target award percentage. That creates an incentive pool. As the year unfolds, the budgets can be changed to reflect projected performance. These are not special payments; incentives are a routine, planned business expense. It would be a significant improvement if each agency budgeted 10 percent for SES bonus awards (which is roughly equal to the average actual award).

- **The basis for the budget is the same across the company.** The target awards are the same for executives at the same level. Final awards will vary with profit center and individual performance, but they are planned to provide consistent opportunities.

- **That basic approach cascades down through the management ranks and typically to the balance of the exempt ranks.** Target awards are progressively smaller (down to perhaps 10 percent of salary), but it is common for employees at roughly the $50,000 salary level

and above to participate in a company-wide incentive plan.

- **The totals actually awarded are determined by formula.** Executive pay is typically a very small percentage of overall operating costs and treated as a normal business expense. Only a company in a dire financial situation would deny the payment of awards—and, of course, if performance is bad, the formula for awards will generate low awards. The CEO and board of directors reserve the authority to adjust awards, but payments are routinely approved.

- **The importance of subjectivity is perhaps the most manifest difference between corporate and federal practice.** Corporate policies typically reserve the right to make subjective adjustments, but those adjustments are minimal. Federal practice is based on a high level of subjectivity.

Although not communicated as such, the incentive system serves as a control mechanism to keep everyone focused on company success. People generally behave in a manner that is in their best interest, and the prospect of the awards helps them to focus on specific goals and achievements. They know what they will earn if they meet their goals.

There are clear and obvious differences in the total compensation levels earned by executives in large corporations that will never be matched in government. But the motivation value is not related to the level of compensation; executives work just as hard in small companies for substantially lower pay. The differences that make corporate practices effective are:

- The explicit linkages between results and amounts earned

- The built-in potential swing in income tied to results; cash awards might, for example, swing between 10 percent and 30 percent of base pay depending on results

- Executives' knowledge of what they need to accomplish. They can largely control how much they earn through their performance, and that drives their performance.

The SES pay and performance regulations focused on performance criteria that emulate corporate practice but failed to include the mechanisms that link pay to the results. There is no reason that federal agencies cannot now add and adapt the linkage mechanism to its circumstances. It would in concept work well with all levels of management and address several of the concerns express in the SEA survey.

On a related issue, it should be possible to define job-specific performance criteria for highly paid senior-level and scientific and professional specialists. These individuals should be measured on what they are expected to accomplish and/or their professional competence. The market value of their expertise is reflected in higher salaries, but they need to justify their pay with continued solid performance.

Creating and Sustaining a Performance Culture

For the most part, the research over the years has focused on practices in the private sector. That's also true for the initiatives to develop better practices. What we know or think we know is based on private sector experience. Public employers have typically adopted practices that come out of the corporate world. That's been true for both organizational performance (for example, the balanced scorecard was conceived for the private sector) and employee performance (pay for performance is a private sector practice).

Day-to-day management practices contribute to what has been referred to as a performance culture. The idea of organizational culture is often discussed, but there is no widely agreed upon definition. One concise and practical definition is "the way things get done around here."[12] A more academic but still practical definition is:

> the collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with contacts outside the organization. The culture dictates the beliefs and ideas about what kinds of goals members of an organization should pursue and ideas about the appropriate kinds or standards of behavior organizational members should use to achieve these goals. From organizational values develop the norms, guidelines, or expectations that

prescribe appropriate kinds of behavior by employees in particular situations and control the behavior of organizational members towards one another.[13]

People who have worked in several organizations or have reasons to go in and out of organizations appreciate that there are always discernible differences in the way people behave. Collectively those differences are the culture.

A performance culture is one that focuses on or emphasizes the importance of good performance. In their lunchrooms or in the informal conversations before or after meetings, the organization's performance, recent achievements, and problems would be regular topics. Internal memos and communications from organizational leaders would also frequently focus on performance. Employees are very much aware that they are expected to concentrate their efforts on improving performance. The practices studied by Bloom and the London School of Economics team all contribute to and strengthen a performance culture (see Appendix I).

The concept of a performance culture has been discussed in numerous GAO reports and OPM publications. The creation of a performance culture has been an ongoing theme for federal agencies. That is clearly a worthy goal, but it is also apparent from the experience with the new SES performance regulations that it is yet to be realized.

Important differences exist between the public and private sectors in implementing performance management practices and creating a performance culture. These differences are central to understanding the hurdles that appear to impede the introduction of performance management practices in federal agencies. The differences should be discussed in initial planning and, where possible, dealt with in any policies or procedures. The differences include the following:

- **Corporations have a long history of planning, measuring, and managing performance.** Performance information is collected and disseminated within a company every day. Managers and employees are inundated with performance data. Employees at all levels discuss how the company is performing. It is common to look at comparative performance

data—this year versus last year, this month versus last month, and so on. It's a deeply entrenched element of the culture. Federal agencies have started this journey but there is work to be done.

- **Corporate managers have grown up with performance management and with pay for performance.** It's accepted. It's part of corporate life. The idea that the U.S. is a meritocracy is very much alive in the private sector. There are to be sure problems with these practices, but they would rarely be discussed in open forums. Until federal agencies are able to move away from the "living and breathing" step increases, individual performance will not be consistently valued.

- **Corporations have investors who stand to make significant returns if the company is successful.** Those same investors may lose money as well. For publicly traded firms, the stock markets track performance and make the information readily available to investors. Analysts assess the company's prospects for the future. The external stakeholders create terrific internal pressure to maintain a track record that makes the company attractive to investors. Federal agencies do not feel the same pressure.

- **Business is about competition.** Companies win and lose every day. The executives have a lot in common with athletic teams. They want to be winners.

- **Corporations understand that better-qualified people can command higher salaries.** The increasing importance of knowledge work makes it essential to identify and invest in better-qualified people. Public employers, in contrast, have been slow to develop the systems to assess individual capabilities and to adopt pay strategies that recognize the value of well-qualified people. These policy changes will be essential to enable public agencies to compete in the war for talent.

- **In corporations, an employee's personnel file is confidential, so managers have less reason to be concerned about a direct report's reaction to his or her performance rating and salary increase.** It is also far less likely that co-workers in the private sector will discuss their ratings or pay increases, so managers can be somewhat more honest. In contrast, in government individual

performance ratings and salaries are public information.

- **Corporate employees are far less likely to join together to complain to management.** They know their actions could adversely affect their career prospects. Unions are no longer an issue except in a few industries. Interestingly, the emphasis on pay for performance tends to fragment any possible support for group action since it does not affect everyone in the same way. This is one reason that unions generally oppose performance management and performance-based pay.

- **In corporations, the personnel system emphasizes performance and adaptation.** In contrast, the civil service system "promotes protection over performance and compliance over adaptation."[14] A number of groups look out for the interests of federal employees, including several unions, a long list of professional associations, and selected members of Congress. Throughout the history of the civil service system, everyone has been treated the same. That mind-set is deeply entrenched. Practices that deviate from that tradition, especially those that would favor one group over another, are suspect. This makes it difficult to develop broad support for change.

- **Corporate executives and managers are rewarded generously—some would argue far too generously—when their company is successful.** Many companies make stock options available to broad groups of managers and employees. Cash incentives paid to corporate managers are far more lucrative than those paid to government executives, and in many companies these cash payments are extended down to the professional staff. They all stand to benefit if the company is successful. Profit-sharing plans often cover all employees in smaller companies. That creates a shared interest in the company's success.

- **While senior corporate executives are agents of the board of directors, the interests of the two groups are closely aligned by executive compensation schemes.** Some in fact argue that boards are merely a creature of the chief executive and that real power lies with the CEO. In contrast, in the federal system power is divided between the three branches of government,

and even senior-level career employees are frequently caught in the political conflicts between legislative and executive interests.

- **The corporate commitment to profitability is a constant.** Executives and managers may adopt new tactics but their primary goal is always the same. Government executives are buffeted by changes in political goals and policies that make it difficult to develop and follow through with long-term strategies.

The bumpy track record that performance management has had across the public sector should not be surprising. The differences that are apparent when the two sectors are compared mean the strategies that work well in the corporate world may not have the same impact or prospects for success in government. The typical corporate culture is very different from that which exists in many federal agencies.

An important lesson that comes out of the corporate experience is that the system used to manage employee performance does not exist in a vacuum. The focus on performance has to be consistent with the management philosophy and compatible with the culture. The practices highlighted in the London School of Economics study, cited in Appendix I, are all available to public employers. The authors' recommendations reflect a strongly held belief that public agencies need to be ready for performance management and that rides on shared commitment to performance across an agency.

Appendix III: The Importance of Worker Engagement

Research has repeatedly shown that the attitudes employees hold about their organization, their supervisor, and their job are solidly linked to their performance. The Gallup Organization, perhaps the best known of the employee research organizations, has interviewed over 10 million managers and employees worldwide and analyzed how their attitudes relate to their performance.

They found strong linkages between how employees feel about their jobs and their performance. The research led them to classify employees into one of three groups (with the Gallup descriptions of the employees in each group):

- *Engaged* employees work with passion and feel a profound connection to their employer. They feel involved in and enthusiastic about their work. They move the company forward.

- *Not Engaged* employees are essentially checked out. They're sleepwalking through their workday, putting in time—but not energy or passion—into their work.

- *Actively Disengaged* employees aren't just unhappy; they're busy acting out their unhappiness. Every day these workers undermine what their co-workers try to accomplish.

Every organization probably has some of its people in each group. Even the publicized great places to work like Southwest Airlines no doubt have a few people who are not happy campers. No organization is a perfect employer, nor for that matter could an organization survive if everyone was actively disengaged. Overall, Gallup surveys have found 38 percent of employees are engaged in their work, 46 percent are not engaged, and 16 percent are actively disengaged.

Government organizations have a similar pattern, although there is what may be a key difference. The actively disengaged group is basically the same size, 18 percent of the survey participants. The difference is that only 30 percent are engaged while 52 percent are not engaged. These data reflect all levels of government. It would be interesting to see survey results from the agencies that have a compelling mission like the National Aeronautics and Space Administration and the National Institutes of Health. The data suggest that almost three-quarters of the workforce are either simply putting in time or actively trying to undermine the work efforts of their co-workers.

The relationship between the percentage of employees who are "engaged" and the overall performance of the organization is a powerful illustration of how important employee attitudes are. When the analyses are done at the individual level (rather than at the organization level), the results are just as compelling. Engaged employees consistently perform at significantly higher levels.

Gallup has identified 12 key survey statements that are predictive of employee engagement. They are listed in the sidebar on page 62.

Significantly, nine of the 12 are related directly or indirectly to the management of performance. The first ("I know what is expected of me at work") stands out in every study as central to good performance. Those that are indirectly related to performance are linked to employee development.

The Gallup questions focus on day-to-day management practices (for example, "This last year, I have had opportunities at work to learn and grow.") Seven of the questions involve the supervisor/direct

report relationship. That makes supervisors a key to high performance. The questions make it very clear what practices they should adopt. It also makes it very clear that poor supervision contributes to employee disengagement.

One prominent academic researcher, David Ulrich, has taken the research in a slightly different direction. He emphasizes the importance of employee commitment—that is, an employee's emotional commitment to the success of the organization. Commitment is a "soft" notion that is broadly understood but not well defined. Ulrich defines commitment at the individual level as "engagement and dedication." He does not like the word *loyalty* because it implies a blind commitment. For him, commitment means "intentional engagement"— employees identify with the goals of the organization and are proud to work there.[15]

A second measure of commitment for Ulrich is "discretionary energy." Committed employees "put energy behind a task without being monitored." Working hard when someone is watching is best seen as compliance. That is very different from working hard because a worker believes in the mission and goals of the organization.

Ulrich's research has identified seven elements that build employee commitment.[16] They differ from the issues uncovered in the Gallup research, which paint a picture of the employee at work. His elements include:

- "Vision—People want to find vision or purpose in their work

- Opportunity—People want a chance to learn, grow and advance, and become better at what they do.

- Incentives—Money can still be a motivator as long as there's enough available and it's tied to specific goals. To deny that is naïve.

- Impact—People want to do work where they see the impact of what they do.

- Community—Work is a social system. Employees are more committed when they feel part of a team and work with people they know and feel connected to.

- Communication—People feel more committed when they know what's going on.

- Entrepreneurship—People are more committed when they have a chance to control how and where the work is done."

Ulrich's factors along with his argument are intuitively relevant. It is easy to see why an employee would be inclined to feel a commitment to his or her organization. These factors could be used to develop an integrated strategy for fleshing out an employee relations philosophy. Each identifies a possible management initiative. His research generally has a practical focus, and in this case it could serve as the foundation for creating a high-performance organization.

Significantly, the recent Federal Human Capital Survey looks at a number of the same issues. Although broader in scope, it includes a number of questions that are similar to those used in the Gallup surveys.

From a practical perspective, the Human Capital Survey results are interesting, but they do not serve to identify either problems or solutions. Since federal agencies cannot rely on a common set of organizational performance goals or measures, it is impossible to analyze the survey data in the same way that Gallup has. Two of the performance measures could be correlated with the survey data—turnover and absenteeism—but those are peripheral to the achievement of strategic goals.

It is also important to appreciate that the fact that an employee is satisfied has not been found to be a good predictor of job performance. That is to say, satisfied workers are less likely to quit or to have excessive absenteeism, but as satisfaction levels go up or down, there is no reason to expect performance to follow. To illustrate the point, a work group where 85 percent say they are satisfied is not necessarily going to perform better than a similar group where 70 percent are satisfied.

People are satisfied with a purchase like a car or perhaps with a dinner at a restaurant. That might mean they would buy the car again or go to the same restaurant. In the same way, they can be satisfied with their jobs. They can also be satisfied with their salary or their benefits. But that does not mean they are willing to work harder or put in longer hours.

Satisfaction is different. In a work context, it is triggered by feelings of accomplishment and the challenge of the job as well as a sense of growth and advancement. Recognition also gives employees a sense of satisfaction. That is confirmed by Gallup's research that effectively links satisfaction with a sense of engagement.[17] Maintaining policies and practices that satisfy employees is certainly important, but it is not a key to addressing performance problems.

This may seem to be a semantics argument, but the Human Capital Survey asks if employees are "satisfied" with their job, which is somewhat different from gaining satisfaction from their job. A now retired consultant used to make a joking comment that "if more than 38 percent of the workers are satisfied with their pay, the company must be overpaying them." That comment was his way of making the point that the level of pay does not generate satisfaction and that the goal should not be to make every employee satisfied. Satisfied employees are unlikely to resign, but they may be simply putting in their time and going home each night.

From a different perspective, it can be misleading to compare survey response data across very different organizations. There are too many factors, including recent history in each organization, that affect performance on even simple measures like turnover and absenteeism. It is more useful to compare response patterns across time for an organization. In other words, if turnover (as an example) goes up or down over time, it may be that trends in the survey data help to explain the changes. The trends can also be a good predictor of future outcomes.

Employee Engagement Does Not Happen by Accident

The analysis and interpretation problems, however, should not inhibit the use of survey data. The evidence is solid that employees' emotional feelings about their job affect the way they perform. When they have the "right" attitudes—and the right knowledge and skills—they often perform at extraordinary levels. When they have the "wrong" attitudes, they can seriously undermine the best plans and prevent success.

Management would be much easier if that were not the case. Emotions make behavior messy and unpredictable. Someone in the academic world years ago

compared the productivity of normal workers with that of an individual affected by the symptoms of autism—a very limited awareness of others. Productivity was dramatically higher when the work was done by persons unaffected by what was going on around them. As much as employees behaving this way might sound like the best workers, this is not a realistic solution. Managers and supervisors have no choice—people and their emotions are important considerations.

Fortunately, most employees start their work lives as engaged; they want to be successful and to become a valued member of the organization. For many, it is an exciting venture and they are ready to work hard to be successful. From the day they start, it is up to management to foster and promote their enthusiasm. If they become disengaged, it is likely to be the way they are managed that is the problem. They did not expect that to happen or want that to happen, but it does for some employees.

We know what employees are looking for at work and what leads them to become engaged or, regrettably, to become actively disengaged. One of the overriding problems, according to the Gallup surveys, is that employees do not know what's expected of them. They want to understand their supervisor's expectations so they can meet or exceed them. That is a performance management problem, and one that is easily addressed.

Employees also want to find meaning or purpose in their work. Many look for an employer that is involved in a business or service that is consistent with their values. That's obviously true for volunteers and frequently a priority for people working in government. They are serving a cause they value, so they start with a strong sense of commitment.

They also want opportunities to grow and advance, and to become "as good as they can be." They look for employers who will support their career aspirations and where they will be able to develop their capabilities. Developmental opportunities are a key to continued commitment.

In that regard, they want feedback on their performance and on their strengths and weaknesses. That is essential to their career planning and it serves as recognition of their contribution. When they understand

Employee Engagement and Business Outcomes
The Gallup Organization

Organizations have traditionally relied on financial measures or "hard" numbers to evaluate their performance, value, and health. However, by themselves, metrics such as profitability, revenues, return on capital, and cash flow are inadequate for developing and implementing strategies for the future because they are trailing indicators, not leading ones.

Proactive leaders have come to rely more and more on the "soft" numbers—metrics related to brand, customer loyalty development, and employee engagement—to help them plan organizational direction and action. Gallup's research confirms that there are indeed strong links connecting organizational effectiveness, customer loyalty, and brand loyalty to important business outcomes. Therefore, business leaders should use soft numbers for direction in their efforts to drive sales and profits.

Gallup has interviewed more than 10 million managers and employees worldwide. Analysis of employee attitudes revealed in those interviews demonstrates that across companies and cultures, 12 key elements consistently relate to employee retention, productivity, profitability, customer loyalty, safety, absenteeism, and shrinkage. These 12 elements have been distilled into 12 statements that, on the basis of employee agreement or disagreement, provide insights into the health of a company. These statements are listed below:

The Gallup Q[12]®

- I know what is expected of me at work.

- I have the materials and equipment I need to do my work right.

- At work, I have the opportunity to do what I do best every day.

- In the last seven days, I have received recognition or praise for doing good work.

- My supervisor, or someone at work, seems to care about me as a person.

- There is someone at work who encourages my development.

- At work, my opinions seem to count.

- The mission or purpose of my company makes me feel my job is important.

- My associates or fellow employees are committed to doing quality work.

- I have a best friend at work.

- In the last six months, someone at work has talked to me about my progress.

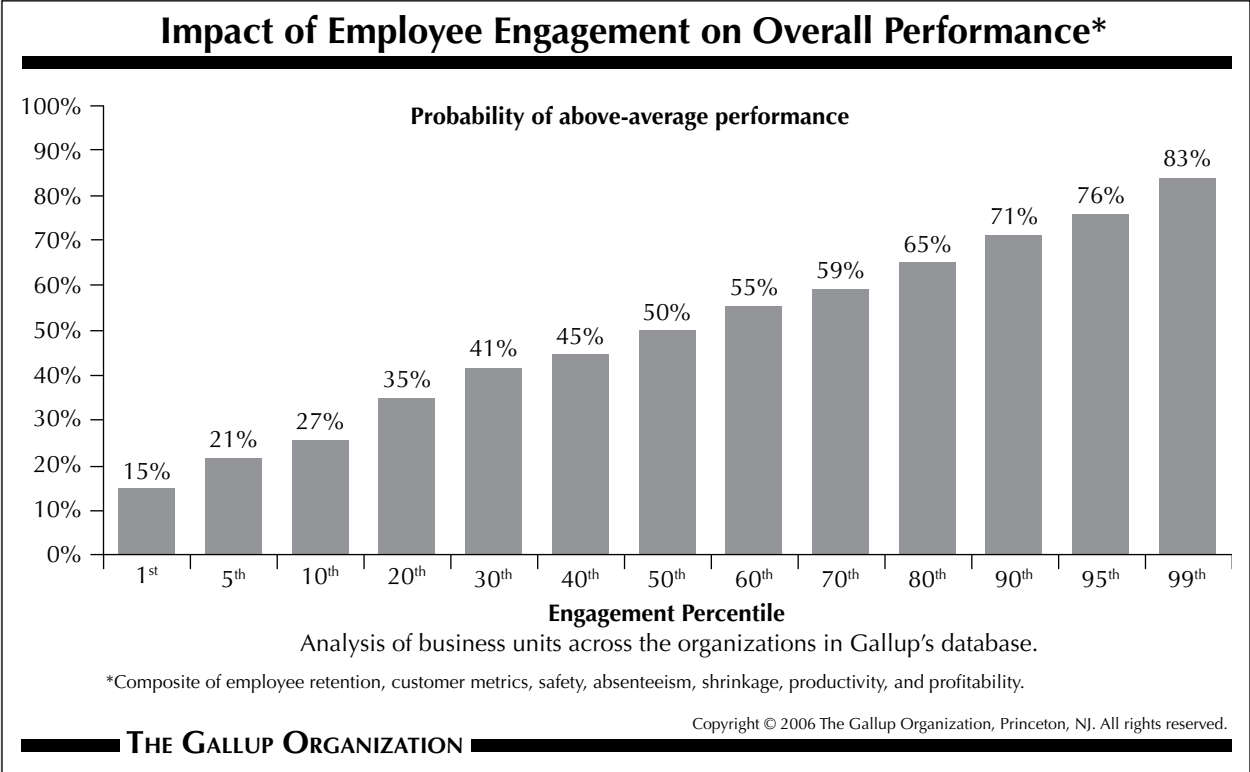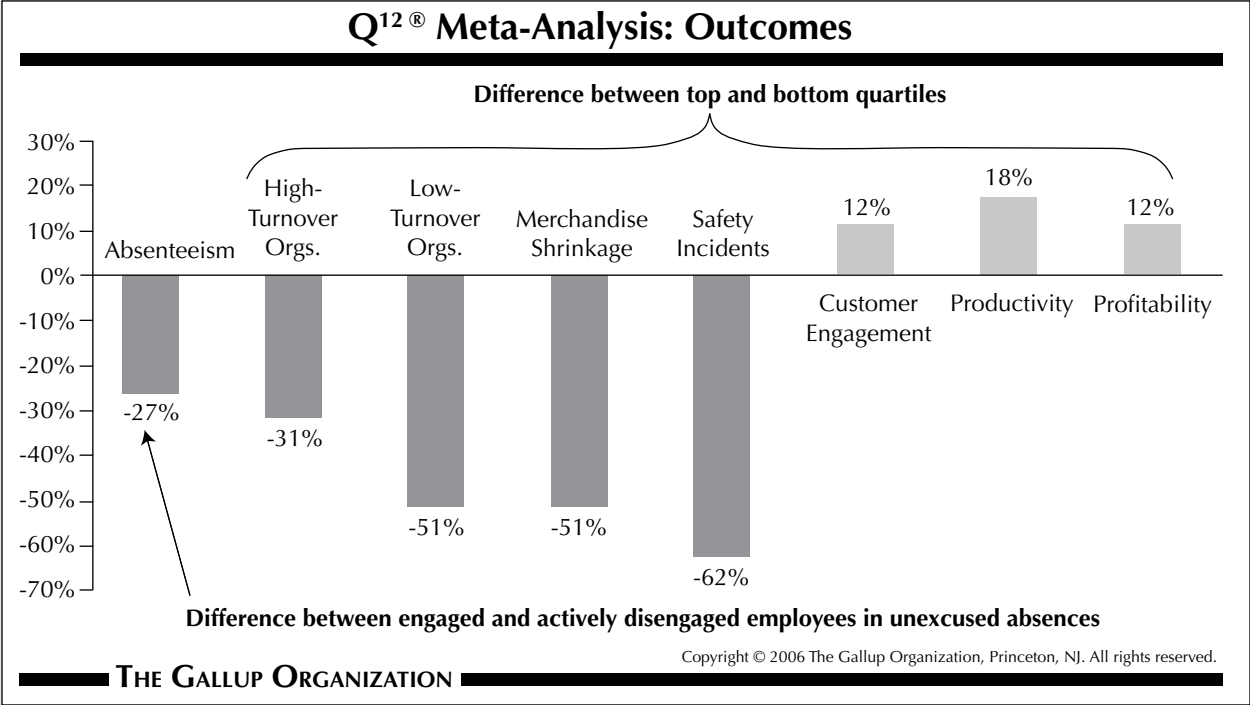- This last year, I have had opportunities at work to learn and grow.

Gallup researchers recently conducted a meta-analysis study across multiple organizations with similar outcome metric types. In this 2006 study, data from 681,799 employees, 23,910 business units, 125 organizations, and 37 industries were analyzed. The study included business units in Asia, Central/South America, Europe, and North America, and 20 of the organizations were exclusively outside of the United States. Gallup scientists studied differences in performance between engaged and actively disengaged units and individuals.

Absenteeism was studied at the individual level, where engaged employees were compared to actively disengaged employees on unscheduled absences. This individual-level study was conducted across 27,880 employees in 13 organizations in a variety of industries. It showed that engaged employees have 27 percent less absenteeism, on average, in comparison to actively disengaged employees.

The remaining analyses pertain to business or work units. Gallup scientists conducted utility analysis and compared the outcomes of top and bottom employee-engagement quartiles. Top-quartile employee-engagement business or work units achieve substantially lower turnover, lower merchandise shrinkage, fewer safety incidents, higher customer engagement, higher productivity, and higher profitability.

The Impact of Employee Engagement on Overall Performance chart shows the difference in success rates for business or work units at various levels in Gallup's database. Composite performance is determined by combining information on success patterns across numerous outcomes, including profit, productivity, customer perceptions, turnover, safety, theft, and absenteeism. The bottom line: *Engagement drives performance.*

For more in-depth discussion of the 12 elements and their impact on outcomes, see Gallup's new book *12: The Elements of Great Managing.*

Q^{12} ® Meta-Analysis: Outcomes

Difference between top and bottom quartiles

	Value
Absenteeism	-27%
High-Turnover Orgs.	-31%
Low-Turnover Orgs.	-51%
Merchandise Shrinkage	-51%
Safety Incidents	-62%
Customer Engagement	12%
Productivity	18%
Profitability	12%

Difference between engaged and actively disengaged employees in unexcused absences

THE GALLUP ORGANIZATION

Impact of Employee Engagement on Overall Performance*

Probability of above-average performance

Engagement Percentile	Value
1st	15%
5th	21%
10th	27%
20th	35%
30th	41%
40th	45%
50th	50%
60th	55%
70th	59%
80th	65%
90th	71%
95th	76%
99th	83%

Engagement Percentile

Analysis of business units across the organizations in Gallup's database.

*Composite of employee retention, customer metrics, safety, absenteeism, shrinkage, productivity, and profitability.

THE GALLUP ORGANIZATION

what's expected, and feedback and coaching is ongoing throughout the year, the year-end evaluation should have no surprises. The performance evaluation conversation can be a time to reinforce an employee's commitment.

Significantly, experts on the attitudes of the younger Generation X and Y workers contend that growing up with video games has changed their expectations. Those games commonly provide instantaneous feedback and rewards for reaching goals. They also place the individual in control of their performance. Another key point is that they are not going to be interested in working for organizations where tenure governs career progress.

Employees also want to know their work has an impact, that they are seen as contributors. That makes the linkages from an employee's work efforts to the organization's goals and results key. The experience with TQM and the idea of recording daily or weekly results on wall charts served this purpose. Committed workers like to see how their team or group is doing, and, if they are empowered to take action, that information will trigger a desire to do whatever is necessary to ensure desired results. The actively disengaged workers couldn't care less.

That makes communication a key. Employees have a need to know what's going on, how the organization is performing, and how their work efforts contribute to its success. They want to understand future plans—it helps them to feel like they are trusted and a member of the team—even if the plans are not to their advantage. When problems arise, committed employees will work hard to resolve them.

All of this occurs in a social context. The feelings expressed by co-workers commonly have much more influence on employees than what is heard from a supervisor. People are more committed when they are part of a team that shares their commitment. It's advantageous to build a sense of team spirit and camaraderie.

Finally, the prospects of financial as well as non-financial rewards contribute to employees' commitment, but only when the rewards are seen as fair and explicitly linked to their performance. If team performance is important, the rewards should reflect what the team accomplishes. When employees feel

their value is not recognized, or when rewards are believed to depend on factors unrelated to employee performance, they start to feel their commitment is pointless.

Too often managers end up spending too much time dealing with the problems attributable to the actively disengaged workers, and ignoring or minimizing the contribution of the people who are committed to the organization. If employees begin to feel they are not valued, the cost can be significant. Managers also spend too little time with the unengaged workers—those who have the potential to make a much greater contribution if they join the team. In the long run, the less time spent with the actively disengaged workers, the better. The best approach is to get rid of those people.

The most effective strategy is to recognize the importance of employee commitment with all new employees and to work aggressively to sustain their excitement and to give them opportunities that satisfy their goals. The proverbial golden rule is a simple but effective management philosophy. Supervisory practices that are contrary to the way a supervisor would want to be treated should be ended. It's not difficult to understand. However, every organization has people working as supervisors who should have never been moved into the role. The best way to solve the problem is often to move them out of supervisory positions. The difference in performance when an employee is engaged is too important to allow poor supervisory practices to continue.

Endnotes

1.   Office of Personnel Management, "Human Capital Assessment and Accountability Framework," which can be accessed at: http://apps.opm.gov/HumanCapital/tool/toolhtml.cfm.

2.   Each grade level in the federal GS system is divided into 10 "steps." Within-grade increases or step increases are periodic increases in a GS employee's rate of basic pay from one step of the grade of his or her position to the next higher step of that grade. These increases occur on the basis of how long an employee serves in that grade.

3.   Under CFR, for unexplained reasons, performance management is specifically limited to the SES (5 CFR 430.203).

4.   We use the phrase "knowledge workers" to refer to the two grade-interval job series where college degrees are commonly expected. In the private sector, these jobs are classified as exempt (from overtime requirements) and paid under separate pay systems from non-exempt employees.

5.   The GAO released reports in 1987 and 1989 that assessed the PMRS implementation challenges: *Pay For Performance: Implementation of the Performance Management and Recognition System*, GAO/GGD-87-28 (January 1987); *Pay For Performance: Interim Report on the Performance Management and Recognition System*, GAO/GGD-89-69BR (May 1989).

6.   Steve Barr, "A Symbolic Setback to Linking Pay With Performance," *Washington Post*, February 26, 2007, p. D01.

7. Clay Johnson, quoted in "Conversations with Leaders," *The Business of Government,* IBM Center for The Business of Government, Spring 2007, p. 9.

8. OPM Fiscal Year 2006 Performance and Accountability Report, p. 49.

9.   Co-authored with Brian Becker and Richard Beatty (Boston: Harvard Business School Press, 2005).

10.   Bruce Pfau and Ira Kay (New York: McGraw Hill, 2002).

11.   Nick Bloom et al., "Management Practices Across Firms and Countries," June 2005 (n.bloom@lse.ac.uk).

12.   T. E. Deal and A. A. Kennedy, *Corporate Cultures: The Rites and Rituals of Corporate Life* (Penguin Books, 1982).

13.   Charles W. L. Hill and Gareth R. Jones, *Strategic Management*, 5th edition (Houghton Mifflin, MeansBusiness, 2001).

14.   Donald Kettl, Patricia Ingraham, Ronald Sanders, and Constance Horner, *Civil Service Reform* (Washington, DC: Brookings Institution Press, 1996).

15.   The research/consulting firm Corporate Leadership Council refers to "purposeful engagement" as employee commitment to something or someone in the organization.

16.   Ulrich interview reported in *Strategy & Leadership*, Vol. 30, 2002, pp. 23–29.

17.   Correspondence with Gallup, dated January 30, 2007.

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A B O U T   T H E   A U T H O R S

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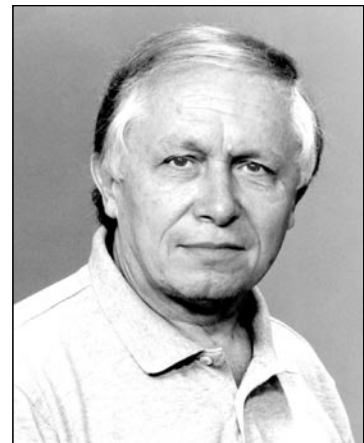
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