Testimony of

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Chairman Davis, Ranking Member Marchant, distinguished members of the Subcommittee; I would like to thank you for the opportunity to testify on the subject of Personnel Reform in the Federal Government.

Congress gave the Secretaries of Defense and Homeland Security the authority to design and implement broad personnel reforms in their Departments. My remarks will focus on the attempt to implement a pay-for-performance system while limiting the role employees play through their unions to address and resolve the significant problems the federal government seeks to resolve.

INTRODUCTION TO PERFORMANCE MANAGEMENT REFORM

Achieving successful implementation of the broad Congressional authority to set organizational and individual employee goals, and provide financial incentives for increased performance, requires a change in the behavior of every employee in DHS and DoD. Failure to successfully implement the initiative will lead to decreased, not increased performance.

At this point, the broad grant of Congressional authority has been not been implemented. DHS recently announced it would delay implementing a pay-for-performance system until it gets its performance management system right, and DoD has only 11,000 employees currently covered in its pay-for-performance system.

The rationales for embarking on the significant organizational change effort necessary to define, design, implement and monitor a pay-for-performance system are many:

1. The best and brightest will be attracted to the federal sector, and they will stay if they are paid based on their performance.
2. Employees are motivated when their individual performance goals are linked to organizational goals.

3. Organizational performance will be increased by incentivizing those who perform well to continue increasing their performance.

Translating a pay for performance system into output/outcome in the workplace requires a two-step process.

First is the creation of a performance management system that enables supervisors to more objectively discern the differences between employees' performance based on outputs and outcomes, rather than applying the more subjective existing test of "works hard." Once the discernment process is completed, the reward attached to increased outputs and outcomes must be sufficient to motivate behavior that increases individual, and ultimately overall, organizational performance.

The steps must be sequential; it is not possible to bolt a successful pay-for-performance system onto an unsuccessful performance management system. Until a credible performance management system is in place, employees will continue to perceive bonuses and awards as arbitrary. Even if large sums were made available, the money would not increase performance because of the perceived unfairness of the performance management system.

It is imperative to establish a culture of performance in the federal government, with motivated employees focused on achieving individual and organizational goals – employees overseen by supervisors able to credibly discern differences in employee outputs and outcomes. We do not need legislation to accomplish the first step – a performance management system. In DHS, DoD, and across the federal government we need the recognition that achieving a performance management system requires a collaborative, long-term, disciplined effort, by Presidents, political appointees, SES executives, union leaders, and employees.

Both the promise of success and the cost of failure are large.

DESIGNING A PERFORMANCE MANAGEMENT SYSTEM

Defining the process for creating a performance management system that includes employees and their representatives is critical for transparency, mutual learning, and acceptability. The creation of a performance management system is extremely difficult, and includes the following steps:

1. defining organizational output and outcome goals,
2. creating a plan for translating the goals by supervisors into individual goals linked to organizational goals,
3. ensuring that supervisors spend time talking and listening to those they manage, coaching, evaluating performance, and monitoring organizational goal achievement, and
4. successfully implementing the system.

Goal Setting and Increased Performance

Before we examine what managerial characteristics are necessary to design, implement, and monitor a performance management system, let us first look at whether such a system actually increases performance.

A recent article by James Perry, Debra Mesch, and Laurie Paarlberg reviewed approximately 2,600 research studies concerning the factors that motivate employees in the public and private sector to increase their performance (Perry 2006).

According to them, it is virtually undisputed that goal setting does increase performance at all levels: individual, group, and organization. As Perry points out, "" . . . [S]pecific and challenging goals are associated with higher levels of performance, more so than either no goals or general 'do your best goals'" (Perry 2006 509).

It should be noted that goal setting in the public sector is more difficult than in the private sector (Perry 2006). Output and outcome goals are difficult to define credibly to those who seek to achieve them, to those managing the effort, and to those benefiting from the goal achievement.

Yet, if successful, goal setting increases employee engagement, individual and organizational performance, and taxpayer satisfaction. Thus it is an outcome worthy of pursuit.

Defining Performance Goals

Congress recognized the potential for goal setting when it enacted the Government Performance and Results Act (GPRA) of 1993. Under the GPRA, every federal agency must submit a five-year strategic plan containing a mission statement; "general goals and objectives"; and a description of how the goals are to be achieved, "including a description of the operations processes, skills and technology, and the human capital, information, and other resources, required to meet those goals and objectives." Observers believed that the passage of GPRA would lead Congress to take a more active oversight role in public policy implementation, rather than focusing almost totally on public policy creation.

The challenge of goal setting is to craft individual and organizational outcome goals that are both consistent with agency mission and set at a level that drives innovation.

Since 1993, agencies have been struggling to identify outcome rather than output or "working hard" goals. There has been a great deal of well chronicled difficulty and resistance in Government Accountability Reports.

Agencies and agency leaders find it difficult to reduce their mission achievement or outcome to clear and measurable standards. To complicate matters, President Bush created the Program Assessment Rating Tool (PART) to evaluate more than 1,000 programs across the federal government. Both GPRA and PART

Program Managers have had a great deal of difficulty defining measurable program outcomes.

Creating a Plan to Implement the Goals

Assuming an agency is willing and able to set organizational outcome goals, the next step is for supervisors to link individual performance plans to agency goals: Once again, no easy task.

Managers must then communicate the individual goals to employees, and provide them with regular feedback on progress, coaching and development opportunities, and an evaluation based on results.

It is very easy to write a policy to achieve these goals; however, it is extremely difficult for 1.8 million federal supervisors and employees to redefine their relationship with each other in order to implement the policy.

Currently, supervisors generally evaluate an employee's performance on whether the employee "works hard." If an employee "works hard," he/she is likely to be rated highly. Under a performance management system, the standard would be "achieves results." This would entail a change from a subjective evaluation of performance to a significantly increased focus on the achievement of objective performance results.

Long term supervisor/employee relationships have been built on one set of expectations. Those relationships would have to evolve to accommodate another set of expectations. Supervisors will have to be trained to expect "results" and evaluate employees' work accordingly, and employees will want and expect support.

These respective expectations are rarely fulfilled in today's federal workplace, and changing them will not occur by decree, a policy issuance, or training based on learning about a new performance management system. Behavioral or culture change is not easy for anyone, and must be consistently led and supported for a five to seven year period of time.

Achieving the desired change is further complicated by the fact that many supervisors spend the majority of their time "doing" rather than leading, leaving little time or energy for employee performance discussions, development and coaching. And it is the "doing" rather than the leading portion of their job that is often rewarded by the supervisors' superiors. For many managers, leaving a career of "doing" would be difficult, and would not occur unless they were convinced they had to give up what has made them successful and provided satisfaction for something that is unknown and difficult.

Involving Employees in Goal Setting and Implementation Planning

If increased individual and organizational performance is the goal of a performance management plan, active, meaningful involvement of employees – either through their elected representative in an organized workplace, or by non-supervisory employees in an unorganized workplace -- is critical to its success.

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

1. When employees understand the linkage between their efforts and desired agency outcomes, their engagement in their work and productivity increase. 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). In existing systems, many agencies' failure 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 showcase any difficulty in achieving

those goals, and will show employees how they can contribute to the goals' attainment.

2. Employee participation will lead to a more accurate mutual understanding of the work. 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. Once both employees and managers understand the linkages between a given job and agency goals, the program will have more credibility.
3. Employee participation allows managers a chance to leverage their employees' desire to make a difference to improve agency goal achievement. With dialogue, managers will learn how the work is performed, and employees will see 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, statements of stakeholders' interests rather than of their positions, and sharing of all information used for decision-making are all critical to making the best possible decision -- and having that decision accepted and readily implemented.

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 such 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.

Implementing a Performance Management System

It is a cliché that successful implementation of any large cultural change effort -- like the implementation of a performance management program -- depends on support from the top. In the Executive Branch, I suggest, support from the President, the Chief Executive Officer of the Executive Branch, is critical to success. Congress also has a critical role to play.

If the importance of increasing governmental performance is measured by Presidents' rhetoric, we would know that such improvement matters greatly. If importance were measured by actions, however, Presidents Clinton and Bush have apparently cared the most about performance improvement. President Clinton created his "reinventing government" initiative, and President Bush, his President's Management Agenda, augmented by the PART process.

However, these initiatives aside, best way to measure Presidential commitment is to add up the amount of a President's most precious commodity – personal time – spent on performance improvement. Using that yardstick, we find that Presidents Clinton and Bush, like all Presidents and political appointees before them, spend almost all of their time on creating public policy. They have typically been engaged in the traditional activities of marshalling support for new legislation, issuing new regulations that distinguish their ideas from those of their opponents, and resisting the legislative thrusts of their opponents.

Presidents Clinton and Bush have not changed their behavior to spend large amounts of their personal time setting performance goals, monitoring goal achievement, identifying best practices, and holding political appointees responsible for public policy implementation performance goals.

Political appointees have traditionally been evaluated by Presidents, history, colleagues, and prior political appointees based on public policy created. If a President is serious about creating a performance management system, however, he must model the behavior he seeks from his appointees by spending his personal time on performance improvement. I suggest few political appointees will change their attention from public policy creation to public policy implementation without changed behavior from the President. Unless a President takes the same risks he is asking his political appointees to take, the threat of failure looms too large, and the reward for implementing a performance management system too small.

Similarly, unless Presidents and their political appointees change their behavior, agencies' senior executives do not have either the authority or the incentive to make the changes necessary to implementing a performance management system. Even if they did, few would take the risk unless they were supported by the agency's political appointees.

Congress, as a coequal branch of government, has a role to play in creating a performance management culture in the Executive Branch.
Congress has appropriately spent time telling the Executive Branch what it does not want in connection with significant program failures (e.g. Katrina); however, the legislature has not spent much time telling agencies what specific performance it wants in the future – and, as important, providing the funds to achieve it.

Comptroller General David Walker urged Congress to change this:

> We [the GAO] have long advocated that congressional committees of jurisdiction hold oversight hearings on each of the major agencies at least once each Congress and preferably on an annual basis. Information on the linkages among plans, programs, budgets, and program results – which should become available as agencies' implementation of performance based management moves forward – could provide a consistent starting point for each of these hearings (Walker 1999, 27).

Risks of Implementing a Performance Management System

Given the fact that the cultural change effort envisioned will require an effort of at least a five to seven years, it will generate predictable resistance. There may not be enough interest and skill to create the program, and the probability of achieving a successful performance management system without these factors is not large.

Once begun, however, failure in such an effort could lead to (1) the potential loss of the recruiting ability at a critical time in the nation's history – over the five-year period when the largest number of federal employees ever will be retiring; and (2) a decrease in productivity. In short, organizational output could decline if the implementation of a performance management system failed.

Despite the substantial risks, however, I believe that we must find a way, working collaboratively, to define, design, and implement a performance management system that challenges employees to help achieve agency mission by working better.

PAY FOR PERFORMANCE

The Perry, Mesch and Paarlberg research discovered that financial incentives improve task performance in a private sector organization moderately to significantly in a successful performance management system. But in government, however, they found that "individual financial incentives are ineffective in traditional public sector settings" (Perry 2006, 507). The authors speculate that the failure "is likely due to a lack of adequate funding for merit pay and an absence of the organizational and managerial characteristics that are necessary to make pay for performance work in traditional government settings" (Perry 2006, 507).

There is some evidence that the federal government can successfully link performance management and pay for performance. For example, OPM noted that approximately 85,000 employees in 12 demonstration projects it approved (OPM 2005) "reported a much stronger link between pay and performance than under the General Schedule system." Similarly, after four years, the Air Force Research Laboratory reported that "[p]erformance accounted for 25 percent of differences in pay, compared to 0 percent under the General Schedule system" (OPM, 2005, 3).

Notwithstanding the successful linkage of performance management and pay-for-performance systems in the small, homogenous work forces (OPM 2005, 3) in OPM's Demonstrative Projects, implementing a pay-for-performance system on the scale of DHS and DoD has yet to be tried in the federal government. A recent survey of Senior Executives concerning the two-year-old SES pay-for-performance system clearly describes how an inadequate performance management system -- coupled with lack of funding for performance achievement – actually decreases productivity:

Performance Management:

1. Agency executive performance management plan not available to them 49%
2. Agency executive compensation/pay policy not available to them 67%
3. Agency executive rating distributions not

	available to them	72%
4.	No discussion with superior about performance rating	17%

Pay for Performance:

1.	Of those who received the highest rating, percentage who received no pay increase	15%
2.	Of those rated above "fully successful" percentage who received no pay increase	33%
3.	Ratings reflect a preconceived quota or goal of fewer higher ratings.	53%

Impact:

1.	New system has had no or negative impact on their motivation	85%
2.	New system has worsened their morale	47%
3.	New system has worsened peers' morale	52%

Much of the learning from this small scale effort can be applied to the DHS and DoD effort. The SES project, however, does reinforce the basic proposition advanced by the Perry research: *that that there must be the successful implementation of a performance management system, before the implementation of a pay-for-performance system.* And, more importantly, a successful pay-for-performance system must be fully funded every year.

LABOR MANAGEMENT RELATIONS

In an organized workplace, and 80 percent of the employees eligible to be represented by a union have chosen union representation in the federal government, both unions and managers are in the workplace every day. The have a relationship, and the question for leaders of agencies is what kind of a labor management relationship do I want in order to maximize my chance of achieving my performance goals and objectives. Do I want a relationship that limits employee involvement and increases the chance of hostility in the workplace, or do I want a relationship that is inclusive, giving me a chance at making better decisions, and reduces formal grievances, unfair labor practices, and time spent in formal bargaining?

Over the last 50 years the government has changed from a workforce of 70 percent clerks to a workforce of 70 percent knowledge workers. Knowledge workers are hired because the government faces evermore complex problems and solutions. Yet, every survey indicates that the knowledge workers bring to the workplace is not being maximized by agencies (Best Places to Work 2005). However, instead of creating opportunities for including these highly sought workers, we see a policy of exclusion of their energy, thoughts, and insights.

Rather than finding new, creative ways to expand the opportunities to use the talented employees in their Departments, while protecting their management rights, they defined ways to limit the use of talented employees and expanded management rights.

The Circuit Court of Appeals rejected the DHS limitations, and is considering the similar DoD limitations. Notwithstanding the Court decisions, we need policies that tap the knowledge, skill, and ability of the federal employee workforce to assist in making better decisions and implementing change at a faster rate. Neither of these goals can be achieved with limited involvement of employees and an adversarial labor management relationship.

CONCLUSION

We need a performance management system that stimulates an increase in individual and organizational performance. The systemic organizational change effort envisioned needs disciplined support over an extended period of time. And that will not occur without the collaborative involvement of the President, political appointees, members of the Senior Executive Service, Mid-level managers, union leaders, and employees.

Similarly, collaboration is needed to involve employees through their union leaders to address the complex public policy implementation issues facing the government today.

It is possible.

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Robert M. Tobias is currently the Director of Public Sector Executive Education at American University. He teaches and administers the Key Executive Leadership Programs that involve over 100 federal leaders seeking a Masters Degree in Public Administration or a Certificate in Leadership for Public Policy Implementation. He is also the Director of the Institute for the Study of Public Policy Implementation at American University. The Institute brings together members of Congress, political appointees, career executives, union leaders, academics, and the consulting community to discuss and attempt to resolve public policy implementation issues.

Mr. Tobias was nominated by President Clinton and the Senate confirmed him for a five-year term as a member of the Internal Revenue Service Oversight Board. The Board has broad strategic and budget oversight responsibility for the Internal Revenue Service.

Mr. Tobias was selected by Thomas Ridge, Secretary, Department of Homeland Security (DHS) and Kay Coles James, Director, Office of Personnel Management (OPM) to the Human Resource Management System Senior Review Advisory Committee which was charged with reviewing the work of the Department of Homeland Security/Office of Personnel Management Design Human Resource team and providing options to the Secretary and the Director for their consideration. Comptroller General David Walker appointed Mr. Tobias to the Congressionally created Commercial Activities Panel, which studied privatization in the federal government and issued its report and recommendations to Congress on April 30, 2002.

Mr. Tobias is a Fellow in the National Academy of Public Administration and was selected to be the Chair of NAPA's Standing Panel on Public Service. In addition, he serves as the President of the Federal Employees Education and Assistance Fund (FEEA). Mr. Tobias is also a frequent contributor to *Federal Times, Government Employees Relations Report,* and *Government Executive* magazine on current federal sector public policy implementation issues.

Mr. Tobias also consults with a number of private sector and government clients on a broad variety of issues including strategic planning, leadership development, alternative dispute resolution, interest based problem solving, and training.

Prior to his work at American University, Mr. Tobias served for 31 years with the National Treasury Employees Union (NTEU) and from 1983-1999 as its President.

As NTEU's General Counsel from 1970-1983, Mr. Tobias focused NTEU on creating employee rights through aggressive negotiation and litigation. After becoming NTEU's President, Mr. Tobias used the newly created rights as the infrastructure for establishing more cooperative/collaborative labor management relationships with federal agencies.

Mr. Tobias believes that collaborative labor management relationships are critical to a union's ability to address the needs of 95% of the organized workforce interested in participating in creating a workplace that is more satisfying, productive and delivers better service to the public. A collaborative labor management relationship is also critical to management's ability to enlist and inspire a workforce to regularly transform itself in light of changing goals, new technology, and increased demands for performance.

Mr. Tobias served on the government-wide labor management partnership council that was established to support and nurture collaborative labor management relationships throughout the federal government.

Mr. Tobias received his bachelor's degree in pre-legal studies and a master's degree in Business Administration from the University of Michigan. He graduated from the George Washington University Law School where he served as a professor on the adjunct faculty for 22 years.

Mr. Tobias resides in the District of Columbia with his wife Susan and has three adult children, Rachel, Christopher, and Lindsay, and two grandchildren, Sadie and Nolan.