

Performance Management: New Opportunities To Integrate and Invigorate

**Doris Hausser, U.S. Office of Personnel Management
Timothy Dirks, U.S. Department of Energy
George McDonald, U.S. Department of Transportation**

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Performance Management: New Opportunities to Integrate and Invigorate

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The Federal Government's new performance management regulations create flexibility for agencies and allows them to decentralize appraisal and awards to the right organizational context. A need to establish individual accountability for meeting a retention standard now can be balanced with an opportunity to establish performance goals that generate commitment and focus energy among hard-working employees, who are in the majority. Permitting a variety of performance assessment techniques for individuals, groups, and agencies can create the opportunity to integrate employee performance planning, feedback, and appraisal with an organization's overall performance-oriented management strategy. And establishing credible reward schemes triggered by measured outcomes and results can give those measures meaning and utility for all levels of an organization.

Performance Management in the Federal Government

A new era of performance management has arrived. Final rules that deregulate the key personnel systems of performance management—appraisal and awards—were effective September 22, 1995. OPM's intent in the new regulations is to give agencies a great deal of flexibility for designing their appraisal and awards systems to support the effective management and improvement of agency and employee performance. Flexible policies establish a decentralized environment where the performance management procedures for planning, monitoring, developing, appraising, and rewarding individual, team, and organizational performance can be tailored to local work technologies and cultures.

Background

The Centralized Federal Performance Management System. The Civil Service Reform Act of 1978 brought performance appraisal to the center of many aspects of personnel management. The Governmentwide system was standardized in the mid-1980's to use five rating levels and establish strict links between ratings and related personnel actions such as cash awards. Over the years, dissatisfaction with this one-size-fits-all approach increased. Rating inflation grew steadily and the entire system lost its credibility for all its stakeholders.

Previous Studies on Performance Appraisal. Several committees studied and recommended changes for the Federal performance appraisal system. The Committee on Performance Appraisal for Merit Pay, a National Research Council committee established at OPM's request, reviewed current research on performance appraisal and merit pay and supplemented the research findings with an examination of the practices of private-sector employers. In 1991, the Pay-for-Performance Labor-Management Committee examined ways to strengthen the linkage between the performance of Federal employees and their pay. Also that year, the Performance Management and Recognition System (PMRS) Review Committee was established to review and recommend improvements to the PMRS system of merit pay for the Government's mid-level managers. All three committees concluded that an appraisal approach must be flexible and

decentralized so that it will be able to fit its context of both work technology and organization culture. Consensus was also clear about the value of involving employees in the design and implementation of appraisal and awards systems for increasing credibility and acceptance.

Additional Recommendations for Change. In its initial report, *From Red Tape to Results*, the National Performance Review recommended a decentralized approach to performance management that would encourage employee involvement in system design, focus on improving performance, and maintain individual accountability. In its more detailed accompanying report, *Reinventing Human Resource Management*, the NPR was more specific, proposing that decentralized systems should be developed by managers and employees and their representatives; policies should be revised to support team structures; and that pass/fail appraisal should be possible. The National Partnership Council also supported the NPR recommendations and noted the shared interest of both labor and management to foster high performance organizations. The President's Management Council called for more flexibility and decentralization, while emphasizing using appraisal to establish and maintain individual accountability.

Stakeholder Interests. Many stakeholders had voiced concerns about the Federal performance management system as it operated prior to the new regulations. Employees were dissatisfied with the old system; it was the single greatest source of grievances. Unions expected change to the system based on the recommendations in the Pay-for-Performance Labor-Management Committee report. Management associations expected change based on the recommendations in the PMRS Review Committee report. Taxpayers wanted to see pay-for-performance and individual performance accountability systems for Federal employees in part because many believe that service is poor, that mediocre performance is tolerated, and that pay raises are automatic. Federal managers had been demanding change and expressing growing frustration with the system that did little to add value or help them actually manage performance. And Congress has expressed the strong need to maintain individual accountability through the appraisal process and to ensure that rewards are allocated appropriately and can be justified.

Conflicting Purposes. A principal source of these problems and stakeholders concerns lay in the underlying conflict between two purposes system designers intended for the performance management procedures and requirements. First, performance appraisal was to be the means of establishing and maintaining individual accountability and the basis for making decisions about rewards and sanctions. But it was also supposed to lead to improved employee and agency performance. Experience has demonstrated that the hard links between ratings and rewards have led inexorably to inflated ratings against standards that do not serve as effective performance targets and stretch goals. While the private sector has not solved the problems this dual use of performance management systems can produce, it does appear that organizational commitment to the performance management system reduces the problems that occur when the summary appraisal is the focus of the system. When the emphasis is on managing—rather than primarily judging—performance, frequent feedback to performers allows for correction of performance deficiencies before the summary appraisal is made.

Credibility Requires Improved Measurement. As important as achieving a more effective balance between the reward allocation and performance improvement purposes of performance appraisal may be, the real key to increasing the credibility and utility of performance management processes lies in improving the performance measures that are used. Emphasizing individual accountability led to agencies establishing performance elements and standards that extracted process-input tasks and responsibilities from position descriptions. Although they were appropriate and usable for sustaining performance-based adverse actions before the Merit Systems Protection Board, such elements and standards often did not lend themselves to results measurement or goal setting. Also, although measuring individual outputs and results is usually measuring group or team outputs and results.

Governmentwide Performance Initiatives that Link to Performance Management. Fortunately, several Governmentwide initiatives are leading agencies to reexamine and improve their performance measures. The new performance management regulations are primed to use those measures for managing and rewarding employees. Key performance initiatives require agencies to set goals and standards and to measure their performance in terms of results. When employee and group performance plans are aligned with these agency goals, everyone's efforts are focused on goal achievement, improving organizational performance. Setting goals and measuring performance are part of an effective performance management process. The Government Performance and Results Act of 1993 (GPRA) provides for the establishment of strategic planning and performance measurement in the Federal Government. It requires agencies to develop strategic plans and performance plans for program activities. Those performance plans establish objective, quantifiable, and measurable goals; establish performance indicators; and provide a basis for comparing program results with plan goals. And on September 7, 1993, President Clinton issued Executive Order 12862, "Setting Customer Service Standards," which requires agencies to identify and survey their customers; post customer service standards and measure results against them; and publish a customer service plan that includes customer service standards and describes future plans for customer surveys.

The New Performance Management Regulations Bring New Opportunities

The new performance management regulations were carefully crafted to address these problems and concerns and to capitalize on and support the related initiatives that are underway. The regulations allow agencies to tailor their programs to fit their culture, their mission, the way they do their work, and the other systems they use.

Performance Redefined. The definition of performance itself was broadened in the new regulations to go beyond a traditional position-based orientation to encourage the use of employee performance management and assessment with other work restructuring and reengineering approaches that may be more process oriented. In particular, employee performance management programs can be integrated with other performance-based management approaches such as those being implemented under GPRA. For example, agencies have been directed to establish customer service standards, which tend to be more like goals than job-retention standards. Including these service targets in employee performance plans and providing ongoing feedback could give them far more meaning for employees than simply posting them in the lobby. At agency option, meeting (or not meeting) those customer service standards could even affect employee performance ratings to some degree. (The regulations

would not permit measures of customer service at the aggregate level to be used as grounds for removing an employee.)

Flexible Performance Elements. The new regulations introduce the flexibility to mix performance elements that establish the retention standard necessary to maintain individual accountability with elements that are used to communicate performance targets. It must be noted that in many contexts a performance goal is not necessarily the same as a performance standard. Ideally, the goal should be to exceed or greatly exceed the standard. One reason most management by objective programs (whether in the public or private sector) have been failures is confusion between goal and standard. Goal setting promises higher performance, not necessarily goal achievement. If employees really commit to stretch goals, they are likely to perform above standard, but will frequently not achieve the stretch goal. If they are punished for this, they will attempt to set easily achievable goals, particularly if they have seen other employees who have been rewarded for goal achievement against easy goals.

Focus on Teams or Groups as Well as Individuals. The regulations that establish the new system carefully avoided terms that denoted traditional hierarchical organizations of first-line supervisors and direct reports. Performance is almost never given an individual connotation and can be planned, measured, monitored, and summarized almost entirely at the group or team level. This should enhance the prospects of aligning existing work planning processes and systems, which rarely apply to the individual level, to performance management. The exception, of course, is the legal requirement to maintain individual accountability by establishing at least one performance element and standard at the individual level. That individual element, however, can be a minor facet of the organization's overall performance planning, assessment, feedback, and development that otherwise focuses substantially on group or team goals and standards.

Broad Choice of Rating Technologies. With respect to planning and assessment, performance management regulations permit the widest possible range of approaches and techniques. Once the minimum requirements for establishing individual accountability are met, organizations are free to adopt and apply all kinds of performance information to performance management processes. Everything from traditional supervisory assessment of individual behavior and outcomes to 360-degree assessment to statistical process control information could be used as appropriate within a particular context. The new system offers flexibility to rebuild the credibility of performance measurement. For internal credibility, context, culture, and work technology should be considered. For external credibility, performance outcomes and results should be included in the measurement system as well as the process inputs on which individual accountability rests.

Broad Choice of Performance Management Processes. Having opened up the performance measures that can be used, the new system clears the way for tailoring the fundamental management processes of planning, providing ongoing feedback and development, and periodically recording a formal review. The system leaves particular design choices and emphases up to agencies. For the organization that has developed effective work planning and measurement techniques it wishes to keep separate from its human resource management systems, employee performance management can use a minimalist approach that simply assures that individual employees continue to meet basic expectations. On the other hand, performance management programs can be designed to integrate individual, team, and organizational performance goal setting, measurement, feedback, and rewards.

Acceptance Through Employee Involvement. Involving employees through their elected representatives is strongly supported, especially through interest-based labor-management cooperative approaches. Performance management is a natural arena for labor-management partnership as both managers and employees share an interest in developing employee performance capacity and improving organizational performance. Assuming that performance “management” is a process only supervisors and managers participate in is a common misconception. All employees are constantly “managing” their own and their colleagues’ performance. Improving the planning, feedback, development, and reward systems will benefit every performer.

Focus on Good Performers Rather than Poor Performers. Encouraging the use of performance measures other than those that could support a removal action is one of the greatest changes that the new system brings. The old centralized system, operated out of the personnel office with its roots in individual accountability, saw little benefit from spending energy on performance assessments that could serve no purpose for fundamental personnel administration. If a performance element and standard couldn’t be taken to MSPB to sustain an adverse action, why bother with it? The fact that the organization’s performance might actually be managed more effectively out on the line (e.g., by using group results measures or emphasizing goals over retention standards) did not serve the objectives that were being emphasized for the old system. Clearly, the new system leaves a place for identifying and dealing with poor performers, but it allows a significant shift in emphasis from the rare poor performer to the legions of average and good performers in agencies everywhere.

Greater Flexibility in Awards. The new performance management system’s flexibility for performance planning and measurement is matched by more flexibility for designing reward and incentive schemes. This remains an area where significant improvements can be made in aligning an organization’s systems to support mission accomplishment. Each agency would do well to examine the kinds of values, behaviors, and actions that get rewarded and look for opportunities to reinforce those that contribute the most to mission achievement and serving external and internal customers. In the past, the regulations called for agencies to “make maximum use” of their authority to grant cash awards on the basis of performance ratings, which as noted earlier typically summarize a year’s worth of process inputs. Such exhortations have been removed and agencies are free to use or not use the various authorities available. The new possibilities for introducing more credible measures of organizational accomplishment lead very naturally to creating new links between such measures and recognition and rewards. As measures are redefined and their credibility grows, they can form the basis of a wide variety of incentive and reward approaches.

- Goalsharing and gainsharing will withstand public scrutiny far better than inflated summary ratings. The question “*Why were those awards given?*” that had been answered “*Because it was legal to give awards to people who came to work for another year and didn’t screw up,*” could be answered “*Because we met our goal to reduce unit costs by 5 percent.*”
- An agency could bring its GPRA strategic plan to life and give it real meaning for employees very quickly by establishing an incentive scheme where meeting a GPRA (stretch) target could “sweeten” individual or group awards by some percentage of the amount that would otherwise be granted.

- Ranking techniques and other means of limiting eligibility are generally permissible for distributing rewards. The idea that only the top 15 percent of an employee group will receive awards may be quite sensible; the real issue is how that top 15 percent will be identified. As measurement is refined and expanded, those answers may come more easily.
- Peer nomination and award review committees could also be instituted to support a shift to granting larger awards to fewer people.

Agency Experience

New Systems Approved. Agencies throughout the Federal Government are redesigning their performance appraisal systems. Some large departments permit their subcomponent organizations maximum flexibility to design programs within very broad parameters, including allowing them to use between two and five summary rating levels. Others have a more centralized agencywide system. Many agencies are looking at multi-rater assessment processes as a way to increase employee involvement and make the appraisal process more valid.

Department of Energy (DOE). The Department of Energy has been using innovative appraisal and award methods for several years. For example, DOE has found that 360-degree appraisal is an excellent tool for career development and performance improvement. In fiscal year 1995, more than 5,000 DOE employees at 9 sites were involved in 360-degree processes. By the end of fiscal year 1996, 7,000 employees at 14 sites will use this method. Senior Executive Service (SES) employees will also use feedback from multiple sources for developmental and performance improvement purposes.

DOE also has used many of the flexibilities available through the awards regulations.

- One DOE organization has established a gainsharing program that identifies measurable areas of cost saving/revenue enhancement and shares equally among all employees a monetary award based on the degree of goal attainment. Feedback on levels of performance against the goals is given throughout the year to keep employees focussed on the targets.
- Several DOE organizations have eliminated annual awards tied to the performance appraisal process. Instead, they are using a “just in time” approach which recognizes and rewards accomplishments at the time they are completed, which has resulted in more frequent positive reinforcement of productive performance.
- One DOE organization is eliminating all individual performance awards. Instead, work teams self-nominate themselves for awards based on specific accomplishments, and against a set of pre-publicized criteria. A committee which broadly represents all segments of the organization makes award recommendations, and awards are shared equally among all group members.

These types of appraisal and awards programs fit DOE’s culture, which includes a commitment to quality management, customer service, teamwork and a “people first” attitude.

Department of Transportation (DOT). Performance management at DOT has changed significantly. The President has established a performance agreement with the Secretary of Transportation. The goals and objectives established in this agreement cascade down through the agency, effecting performance plans at all levels of the organization. For example, to promote achievement of the performance agreement and GPRA goals, SES performance plans must have three to five results-oriented objectives with performance targets that are aligned with agency goals. In addition, a new performance management system for non-SES employees was approved by OPM for DOT on September 26, 1995. In this new system, DOT requires that non-SES employee performance plans be aligned with agency and GPRA goals. DOT firmly believes that an organization can be more effective if all its employees are clear on the goals they are working toward. It has ensured in all of its performance management tools that its employees know what they have to do for the agency to reach its target.

Summary. With the new performance management regulations giving greater flexibilities to agencies in designing their programs, agencies now can design better tools for improving individual, group, and organizational performance. Initial experience suggests that agencies are ready to use these flexibilities to end their own frustrations and make performance management a value-added system and process properly aligned with other mission planning and management systems.

Biographies

Doris Hausser is the Chief of the Performance Management and Incentive Awards Division of the U.S. Office of Personnel Management and is responsible for developing Governmentwide regulations, policies, and programs regarding performance management systems for the Federal workforce, including pay-for-performance systems. This responsibility involves administering existing performance appraisal, incentive awards, and performance-related pay policies.

Timothy Dirks is the Deputy Assistant Secretary for Human Resources at the U.S. Department of Energy. In this position, he is responsible for directing the personnel and training programs for DOE, including policy development, program planning, and evaluation. He and his staff provide support to programs managers throughout the Department in implementing sound human resources management practices and career development, recruitment and staffing, pay administration, performance management, employee and labor relations, and executive personnel.

George McDonald is Deputy Director of the Office of Budget and Program Performance within the Office of the Secretary at the U.S. Department of Transportation. The newly-created office has overall responsibility for budget formulation and implementation of the Government Performance and Results Act throughout the Department. From 1985 until 1995, he had been Director of Programs and Evaluation in the Office of the Secretary, with responsibility for review and evaluation of Federal Programs in all modes of transportation.