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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

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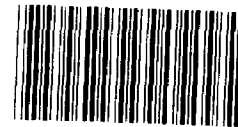
Does The Federal Incentive Awards Program Improve Productivity?

Continued use of the Government Employees Incentive Awards Program in its present form at most agencies may have a more negative impact on employee productivity than would having no awards program at all.

Some aspects of Federal agency awards programs should be modified; others should be strengthened to include the following essential components:

- A linkage with organizational goals and objectives.
- An objective performance evaluation system.
- Managers who know how to use and are motivated to use incentive awards.
- Awards that are timely and relevant.
- An annual evaluation of the program's results.

The Civil Service Reform Act of 1978 provides a framework for significant change, but its success will depend on individual managers and supervisors.



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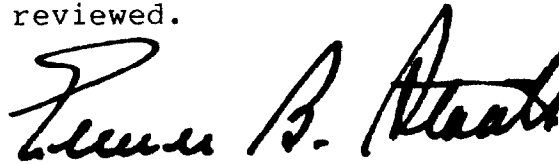
B-163762

To the President of the Senate and the
Speaker of the House of Representatives

This report is one of several responses to a request by the Chairwoman, Subcommittee on Manpower and Housing, House Committee on Government Operations, that we review various aspects of the Federal personnel system. It discusses a number of changes that should be made in the way Federal employees are rewarded for work contributions which exceed normal performance requirements. One potential change involves the quality step increase. Unless the ambiguities now plaguing the program can be corrected, we recommend eliminating Section 5336, United States Code which provides the authority to give additional within-grade increases for high-quality performance. We are also recommending that the Congress allow agencies to retain a portion of all productivity gains to be used for increasing incentive awards program funding.

As requested by the Chairwoman's office, we did obtain formal comments from the Office of Personnel Management but not from other Federal agencies mentioned in the report. However, we discussed our results with agency officials and considered their comments in preparing the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Director, Office of Personnel Management; the Chairmen, Senate Committee on Governmental Affairs and House Committee on Post Office and Civil Service; and the heads of the nine agencies whose incentive awards programs we reviewed.


Comptroller General
of the United States



D I G E S T

The Federal Government tries to encourage its employees to improve their work performance through the use of incentive awards and quality pay increases by

- recognizing work exceeding normal performance requirements and
- improving the effectiveness, efficiency, economy, or other aspects of Government operations.

A GAO questionnaire sent to employees determined that:

- Sixty percent felt their organization's program did little, or nothing at all, to change their job motivation.
- Forty percent said the current awards program makes little or no contribution to their specific work group's productivity.
- One-third believe that improving their performance would probably not affect their opportunity to receive an award.
- Sixty percent are not sure cash awards are usually presented to those who are the most deserving.

GAO's analysis of the performance characteristics of employees receiving sustained superior performance awards and quality step increases also showed that 16 percent of the average performers and almost 2 percent of the below-average performers received awards.

The problems exist because agency programs do not provide for these basic, but essential components:

- A direct linkage with specific organizational goals and objectives.
- An objective system for setting and communicating employee work expectations and measuring performance contributions.
- Managers who know how to use, and are motivated to use, the program.
- Awards that are timely and relevant to employees' needs but do not become part of the basic salary rate.
- An annual evaluation of the program's results.

Despite these indications of an ineffective program, 58 percent of the employees said they would substantially improve their performance if incentives were meaningful and properly administered, understandable, relevant to their values, fair in proportion to their contribution, predictable according to performance, administered equitably, and timely. These employees will be motivated to seek ways of improving their performance, and the agencies will benefit through higher productivity and achievement of organizational goals.

While promotions are generally considered the most useful award, quality step increases were the most commonly granted forms of cash recognition at the activities reviewed. GAO's work has found that many managers indiscriminantly substitute quality increases for incentive awards without regard for the more stringent quality increase requirements.

GAO believes the misuse of quality step increases should be corrected. If not, quality step increases should be discontinued.

The Civil Service Reform Act of 1978 is a positive step in the formal linkage of incentive awards and employee performance. However, this new legislation provides only a framework for change, not the change itself.

It will still be incumbent upon each supervisor and manager to make a conscientious effort to directly tie incentive awards to employee performance--a responsibility that is not new, but one that has not always been effectively carried out.

R/C

RECOMMENDATIONS

The Director, Office of Personnel Management, should take immediate action to improve the Government Employees' Incentive Awards Program. Specifically, he should revise Chapter 451 of the Federal Personnel Manual as follows:

- Require that agency incentive awards plans be reviewed and approved by the Office; and that a condition of approval be that the plan include, as a minimum, the criteria for an effective program as discussed in this report.
- Provide that an agency shall take whatever corrective action that may be required by the Director, Office of Personnel Management, if the Director determines that agency's incentive awards plan does not comply with Office guidance.
- Update provisions which suggest appropriate cash award amounts for different grade levels and provide necessary technical assistance to agencies so that more relevant award scales can be established.
- Provide guidance for developing different types of awards as alternatives to conventional cash and honorary awards.

R/C

GAO recommends that the Congress require the Director, Office of Personnel Management, to either (1) ensure the granting of quality step increases in accordance with the Federal Personnel Manual and demonstrate that this has been accomplished or (2) if unable to so demonstrate, terminate quality step increases and merge the funds previously available for this purpose with funds for the incentive awards program for those not covered by the Senior Executive Service and Merit Pay provisions of the Civil Service Reform Act.

The Congress should also allow agencies to retain a portion of all productivity gains to be used for increasing incentive awards program funding.

AGENCY COMMENTS

As requested by the Subcommittee, GAO did obtain written comments from the Civil Service Commission, (predecessor to the Office of Personnel Management), but not from other agencies referred to in the report. GAO did, however, informally discuss its findings with agency officials and has included their comments, as well as those of the Commission, where appropriate.

Although the Commission agrees that the effectiveness of the Federal Incentive Awards Program in contributing to improved Government operations can be increased significantly, it did not concur with two of the recommendations included in the draft report. The recommendations to (1) suspend an agency's authority to grant awards and (2) pass legislation to repeal authority to grant quality step increases have been reconsidered and modified.

Civil Service Commission comments are included in appendix VII.

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Incentive awards can improve productivity	1
	Review purpose	3
	Review scope	4
2	INCENTIVE AWARDS PROGRAM COULD HAVE A GREATER IMPACT ON IMPROVING PRODUCTIVITY	6
	Productivity gains result from an effective awards program	7
	Employees' attitude affects performance	9
	Performance recognition is inconsistent	11
3	AGENCY PRACTICES THAT CONTRIBUTE TO AN INEFFECTIVE INCENTIVE AWARDS PROGRAM	14
	Need to link awards program to agency goals and objectives	14
	Need to improve performance evaluation system	16
	Need for managers and supervisors to use awards program	21
	Need for relevant and timely awards	25
	Need for awards program evaluation	32
4	CONCLUSIONS AND RECOMMENDATIONS	35
	Conclusions	35
	Recommendations to the Office of Personnel Management	36
	Recommendations to the Congress	37
	Agency comments and our evaluation	37
APPENDIX		
I	History of incentive awards in the Federal Government	39

		<u>Page</u>
II	Other GAO reports discussing employee performance, pay, and Government productivity	42
III	GAO questionnaires and statistical methodology	47
IV	Private organizations contacted by GAO regarding incentive awards program	60
V	Civil Service Reform Act of 1978	61
VI	Performance measurement	64
VII	Agency comments	82

ABBREVIATIONS

CSC	Civil Service Commission
EPA	Environmental Protection Agency
FBI	Federal Bureau of Investigation
FHLBB	Federal Home Loan Bank Board
GAO	General Accounting Office
GS	general schedule
OMB	Office of Management and Budget
OPM	Office of Personnel Management
QSI	quality step increase
SEC	Securities and Exchange Commission
SSA	Social Security Administration
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Simply put, productivity is the ratio of resource inputs (capital, material, and labor) to production outputs. As resources are used more efficiently, this ratio is improved. In the public sector where service delivery is the primary output, the predominant input is human resources. Accordingly, a major determinant of productivity gains is improved employee work performance.

Federal Government performance is one critical part of our national productivity improvement effort. It has a pervasive impact, both directly, through ongoing programs administered by various agencies, and indirectly, through taxes, subsidies, regulations, fiscal policies, and the like. Between 1967 and 1977, the Federal Government's productivity increased an average of 1.3 percent annually. With Federal civilian employee compensation and benefits approaching \$50 billion, this limited growth is a concern to the President, the Congress, and the general public.

Few will disagree that Government productivity can be improved. But the question, "why aren't greater improvements being made?" remains. In our opinion, it is not because Government employees do not want to work or be more productive, but that managers and employees are not always effectively working together to improve the way work is accomplished and then sharing in the increased productivity benefits.

INCENTIVE AWARDS CAN IMPROVE PRODUCTIVITY

A 1975 National Science Foundation-supported study at New York University investigated worker motivation, productivity, and job satisfaction and found that the principal factor which helped to create highly productive and satisfied workers was recognition and reward for effective performance. The study concluded that the reward should be whatever is meaningful to the employee, be it financial or psychological, or both. Independently, for the same reason, the Federal Government has established an incentive awards program to encourage its employees to improve their performance by giving both cash and honorary awards.

The two basic laws that provide for this recognition are the Government Employees' Incentive Awards Act of 1954 and the Federal Salary Reform Act of 1962. Both laws recognize that employees should be rewarded for work contributions which substantially exceed normal performance requirements

and improve the effectiveness, efficiency, economy, or other aspects of Government operations. A history of the use of incentive awards in the Federal Government is included in appendix I.

The Government Employees' Incentive Awards Program provides for recognizing and rewarding all civilian employees for performance exceeding job requirements. These special achievement awards are either honorary or one-time, lump-sum cash awards. Although permanent within-grade salary increases for quality performance, authorized by the Federal Salary Reform Act of 1962, are not officially part of the Incentive Awards Program, they also are considered by most managers to be a performance award similar to those provided for under the 1954 Incentive Awards Act. However, unlike awards provided under the 1954 act, quality increases do not apply to all categories of civilian employees.

Criteria for granting these awards

The Federal Personnel Manual defines a "special achievement award" as an award granted for performance exceeding job requirements, either on a particular assignment or over a sustained period. It defines a "quality increase" as an award to an employee who displays continuing high-quality performance--performance of all the most important job functions in a manner that substantially exceeds normal requirements. The manual states that a major distinguishing factor between the two awards is whether the high performance is continuing.

Program administration and responsibilities and costs

The Commission establishes principles and standards for administering the awards program, delegates to agency heads the authority to establish and operate programs, assists agency officials in developing them, and reviews their operation.

During fiscal year 1977 Federal employees received about \$34.6 million in quality pay increases (estimated first-year cost 1/; 62,700, or about 3.1 per 100 employees, were granted)

1/Although the eventual cost of a quality increase cannot be computed because it depends on such variables as grade level, step-in-grade, and subsequent promotions, the Civil Service Commission estimates the costs will continue for an average of 4 years. Accordingly, the quality increases given during fiscal year 1977 could cost as much as \$138.4 million.

and \$28.5 million in special achievement awards (147,170, or about 4.4 per 100 employees, were granted. According to the Civil Service Commission 1/ about \$900,000 of the achievement awards can be directly related to measurable benefits to the Government of \$150.9 million. The balance of the award money was given for employee contributions that had produced intangible benefits. The Commission also reports that during fiscal years 1975 through 1977, first-year measurable benefits from employee achievements beyond job responsibilities averaged \$156 million.

Neither the agencies nor the Commission maintain records from which award program administration costs can be readily identified. Such costs would include supplies and salaries of full- and part-time personnel involved in the program. The most recent estimate of Government-wide administration costs was made in 1967 by the House Committee on Post Office and Civil Service. At that time, the costs for fiscal year 1966 were estimated to be about \$12.3 million.

The Commission has indicated that they have made attempts to determine administrative costs, but have been unsuccessful because of differences in program administration throughout the Government. However, we were told a further effort to determine program costs is underway. The Commission believes there is a net return to the Government of tangible benefits at the rate of almost \$4 for every \$1 granted in awards.

REVIEW PURPOSE

The statutory framework for Federal agencies' incentive awards programs is almost 25 years old. Because of our continuing concern for productivity in Government, and at the request of the Manpower and Housing Subcommittee of the House Committee on Government Operations, we reviewed 13 awards programs to determine if the

- law is providing a workable legislative framework in today's Federal personnel management environment, and
- Federal agencies' awards programs are effectively meeting the congressional objective of improved Government operations.

1/The new Office of Personnel Management.

This report discusses the progress made since November 1973 in rewarding employee meritorious work performance. We issued a report then entitled, "Improving the Effectiveness of the Government Employees' Incentive Awards Program" (B-166802), which also reviewed various aspects of the program. We will identify program improvement opportunities which we believe will stimulate employee motivation and improve Government productivity. Other GAO reports related to matters discussed in this report are summarized in appendix II.

REVIEW SCOPE

We reviewed Chapter 45, Title 5, United States Code, the legislative history, and Civil Service Commission regulations and instructions for administration of the Government Employees' Incentive Awards Program. We also evaluated the awards program (except suggestion awards) and their implementation in 13 Federal activities. The programs were used during fiscal year 1977 by organizational units of the Environmental Protection Agency (EPA), Federal Bureau of Investigation (FBI), Federal Home Loan Bank Board (FHLBB), Geological Survey, Department of the Navy, Patent and Trademark Office, Securities and Exchange Commission (SEC), Social Security Administration (SSA), and the Veterans Administration (VA).

We selected these agencies because they each (1) represent organizations of varying size, (2) differ in the number of awards given, and (3) seem to represent the following four general categories of Government activity identified by McKinsey & Company, Inc., in a January 1977 report prepared for the National Center for Productivity and Quality of Working Life.

- Workload-driven production and service activities which are similar to private sector activities where the work required to be done is not controllable but is readily measurable.
- Level of effort service activities where the desired optimum level of service vs. costs is made by judgment during the planning and budgetary cycle.
- Grant and loan administration activities where the Federal Government is the financier for recipients or third parties who have expenditure oversight.

--Planning, administration, support, liaison, and control activities (overhead) that relate to the management of government.

Review work was performed at the agencies' Washington headquarters and field offices or installations located in Alexandria, Arlington, and Reston, Virginia; Long Beach, Menlo Park, San Diego, and San Francisco, California; and New York City. We obtained the views of managers, supervisors, and employees as well as the agency practices related to the awards program through award analysis, personal interviews, and the use of two questionnaires. Appendix III contains a copy of our supervisor and employee questionnaires and describes the methodology used in our statistical analysis.

We also reviewed available literature, research studies, reports, and other information on current practices in rewarding employees in the private sector. Appendix IV includes the names of private organizations contacted regarding their incentive programs.

Finally, we held informal discussions with agency officials concerning our findings as they pertained to their agencies and discussed Government-wide implications with Civil Service Commission officials.

CHAPTER 2

INCENTIVE AWARDS PROGRAM COULD HAVE A GREATER IMPACT ON IMPROVING PRODUCTIVITY

Although incentive awards are not a substitute for good management, a properly designed and used awards program can help stimulate employees' motivation, with resultant improvements in an organization's productivity. Management writings concerned with employee motivation and our own observations indicate an effective awards program should include at least the following essential components.

- A direct linkage with specific organizational goals and objectives.
- An objective system for setting and communicating employee work expectations and measuring performance contributions.
- Managers who know how to use, and are motivated to use, the program.
- Awards that are timely and relevant to employees' needs, but which do not become part of the basic salary rate.
- An annual evaluation of the program's results.

However, 11 of the 13 incentive awards programs we reviewed at 9 agencies had few, if any, of these essential components. As a result, most of these programs have not yet begun to reach their full potential in terms of increasing organizational productivity and providing employee self-satisfaction. In fact, their continued use may have more negative impact on employee morale and incentive to increase productivity than having no awards program.

Although we cannot statistically project the results of our review Government-wide, because we found these conditions at a number of agencies, we believe the ineffectiveness of the awards program at the activities reviewed is symptomatic of the program's condition throughout the Federal Government. Consequently, we suspect most agency managers are missing the opportunity to realize additional productivity gains which are readily obtainable through a well-designed and administered program. An indication of this lost opportunity

is that over one-half of the employees responding to our questionnaire indicated they would substantially improve their performance if they (1) understood the linkage between awards and performance and (2) believed that meaningful awards were periodically given for exceeding normal job requirements. In fact, such improvements have been realized in Government organizations where employees know performance and award requirements.

PRODUCTIVITY GAINS RESULT
FROM AN EFFECTIVE AWARDS PROGRAM

Many case studies have been documented of Government activities and private sector companies obtaining significant productivity increases through the use of an incentive awards program. Manufacturing operations have increased productivity by as much as 20 percent by using incentive programs. Similar studies covering top management officials and professional employees show a 5- to 10-percent increase in productivity.

Although there is a direct and frequently measurable relationship between an incentive program and an organization's productivity, incentives alone will not bring about higher productivity. Some organizations have erred in the past by assuming that incentives would, by themselves, increase productivity. Incentives obviously are not a substitute for good management; rather they are part of a management system's approach to obtaining higher productivity levels. But we believe it is equally incorrect to assume that an effective work force or higher productivity levels could exist without having an effective incentive awards program.

One Department of the Navy activity we reviewed is a good example of the productivity gains that can result from an effective incentive awards program. Low productivity, leave abuse, high turnover, and low morale among data transcribers were serious problems at a West Coast naval shipyard. In an endeavor to correct the problem areas, Navy research specialists were called upon in 1976 to develop an awards program.

Working with shipyard managers, the research specialists set the specific goals of the program to increase individual employee output and reduce overtime and work backlog. In designing the program, Navy officials interviewed employees to determine (1) if they perceived themselves capable of increasing performance if meaningful incentives were available and (2) what types of awards would be an incentive to improve performance. Performance standards and performance measurement systems were then developed which identified individual

performance achieved in terms of quantity and quality. This measurement system enabled the Navy to identify and award employees whose individual performance exceeded normal expectations.

The amount of an award is determined on a weekly basis by comparing the employee's actual performance to the standard. The award amount is equal to 11 percent of the cost savings and is paid the employee by a monthly check separate from the normal payroll check.

During the first year the new incentive program was used, productivity increased 18 percent. In addition, overtime requirements which had previously averaged 54 hours per week were virtually eliminated and a significant work backlog was eliminated. Because of the improvements at the first shipyard, the program was implemented at another West Coast shipyard with the same positive results. The Navy is currently trying to implement a similar program for all installations employing data transcribers. They have projected minimum annual cost savings of \$920,000.

Similarly, the Patent Office has experienced problems over the years with a work backlog that has resulted in lengthy processing times for patent issuance. Patent Office officials have also developed and implemented an incentive program which was linked to their goal of issuing timely and valid patents. To achieve this overall goal, production goals by employee grade level and complexity factors by type of patent were negotiated between management and the union. Awards are granted to patent examiners based on the extent to which individual output exceeds established goals.

Patent Office criteria require that examiners must exceed their own personal performance goal by at least 10 percent before they can be considered for an award. However, other factors are also considered before an award is given. For example, the award recommendation must (1) indicate that the employee's performance is at least satisfactory in all other job elements and (2) make specific reference to such factors as personal conduct and compliance with office programs and policies.

During fiscal year 1977 about 40 percent of the examiners exceeded their goals and received awards. Because the issuance of quality as well as timely patents is a continuing concern of Patent officials, they are currently trying to develop quality measures to be included in their incentive program.

Many examples can be cited of the effective use of incentive programs by companies in the private sector. These programs typically contribute towards a productivity growth of from 10 to 20 percent. One manufacturing company we visited has experienced a productivity growth of 30 percent since implementing both an individual and group incentive awards plan.

The goal of both plans was, of course, to increase employee work output. Under the individual plan, a standard output per hour was developed and employees' incentive pay was based on the amount of output over the standard. Since inception of the plan 6 years ago, productivity has increased and unit cost has decreased. On the other hand, the group plan uses overall company performance as a standard productivity level. Savings resulting from productivity increases are shared equally between management and the employees.

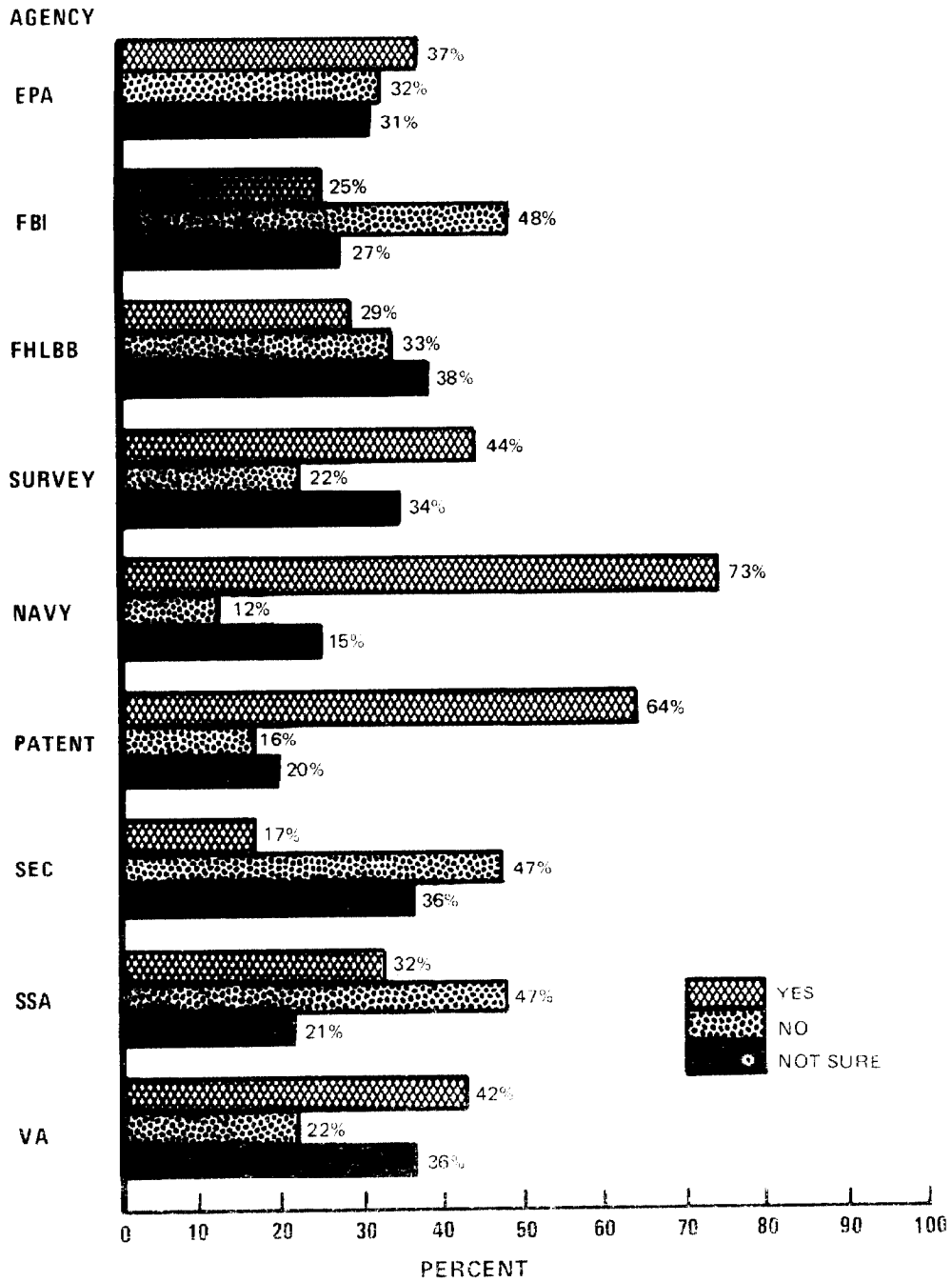
EMPLOYEES' ATTITUDE AFFECTS PERFORMANCE

If it is correct that an effective incentive awards program can be used to make positive changes in employees' work behavior, attitude, and performance; then it is equally true that a program which motivates people to do the wrong things is a disincentive. Employees will generally produce well or poorly based on their view of their work and work environment. Our data shows that Federal managers are using awards in such an inconsistent manner that employees' attitudes toward the program are often turned "off" rather than "on."

- Sixty percent of the employees said their agency's awards program does little, or nothing at all, to affect their job motivation.
- Forty percent of the employees said the current awards program makes little or no contribution to their specific work group's productivity.
- One-third of the employees believe that improving their performance would probably not affect their opportunity to receive an award.

Why do employees feel this way? One contributing reason is detailed in the following table--when asked whether cash awards are usually presented to those who are the most deserving, the majority of employees at seven of the nine agencies we reviewed responded no, or that they were not sure.

**PERCENT OF EMPLOYEES BELIEVING CASH AWARDS
USUALLY PRESENTED TO MOST DESERVING**



Many individuals who responded to our questionnaire shared their perceptions as to why some fellow employees receive awards, and others do not. The following comments are representative:

"In my opinion, the awards that I have seen presented were received for two reasons (1) friendship or favoritism and (2) to pacify, and not for quantity and quality of work."

* * * * *

"In my view awards are given in direct proportion to the amount of politics the employee involves himself with his supervisors. Performance has less than 50 percent to do with the willingness of a first-level supervisor to put an employee in for an award."

* * * * *

"Incentive awards have been made to selected individuals in our group, but none have been presented in the presence of the group, nor were reasons for the selections made known."

* * * * *

"I feel that in our district, awards are given to the chosen employees who are being groomed for some kind of advancement."

Giving incentive awards based on factors other than employee performance has a negative impact on employee morale. Employees observe that management has priorities other than individual performance. Accordingly, the incentive to improve performance and overall organizational productivity may be destroyed. We believe the continued use of such an ineffective program may be worse than having no awards program.

PERFORMANCE RECOGNITION IS INCONSISTENT

To determine the validity of this negative employee perception as to who gets an award, we analyzed the performance characteristics of employees receiving sustained superior performance awards and quality step increases at 13 activities during fiscal year 1977. With the exception of the Navy and the Patent Office, which made awards to 100 and 95 percent, respectively, of their above-average performers, 83 percent of the award recipients at the remaining activities were rated above-average, 16 percent were average, and almost 2 percent were below-average performers. Neither we nor

agency officials could determine if award recipients were the only employees whose performance made significant contributions to the organization because performance evaluation results which identified more than minimum acceptable performance levels were not known.

Because 11 of the 13 activities did not identify performance levels achieved for all employees in relation to performance necessary to receive an award, we asked supervisors to identify the performance level achieved for a random sample of all employees. We used this information to help us determine if these activities were granting awards to all individuals who qualified for them. The performance levels identified were summarized as follows.

Ratings of Random Sample of All Employees

<u>Performance level achieved</u>	<u>Percent of sample</u>
Above average	49
Average	44
Below average	7

Our sample analysis showed that 13 of the 49 percent rated as above average actually received awards under the incentive awards program. In addition, 6 percent of those rated average and 1 percent of those rated below average also received awards.

Percentage of Employees Receiving Awards

<u>Type of Recognition</u>	<u>Performance level group</u>		
	<u>Above average</u>	<u>Average</u>	<u>Below average</u>
Quality step increase	6	2	-
Special achievement award	<u>7</u>	<u>4</u>	<u>1</u>
Total receiving awards	13	6	1
Promotion (note a)	<u>20</u>	<u>15</u>	<u>8</u>
Total recognized for performance (note b)	<u>33</u>	<u>21</u>	<u>9</u>

a/Promotions were included as a type of recognition because the majority of supervisors considered them an award for above-average performance.

b/A few employees received more than one type of recognition.

Managers indicated that most above-average performers received no recognition under the awards program because they:

- Will be rewarded with a promotion when a position is available.
- Will be rewarded with career ladder promotions up to the journey level.
- Received awards last year.
- Have a position which is considered award enough.

Employees' negative attitudes towards the incentive awards program are a serious indicator that Federal managers and supervisors are not always effectively using the program to motivate employees to increase their productivity. Since there is general agreement that a properly structured incentive program can contribute to greater employee productivity, we believe the Government is losing significant potential for productivity growth. The next chapter of this report addresses the causes of this problem.

CHAPTER 3

AGENCY PRACTICES THAT CONTRIBUTE

TO AN INEFFECTIVE INCENTIVE AWARDS PROGRAM

The Civil Service Commission's role in administering the Incentive Awards Act is to establish broad principles and standards to guide Federal agencies. Agency officials are responsible, with the Commission's help, for developing and operating an effective awards program. Although each agency included in our review had designed an awards program, its effectiveness in contributing to improved Government operations and employee self-satisfaction can be significantly increased in each case. We believe most programs are not as effective as they could be because they do not include these essential program components:

- A linkage with organizational goals and objectives.
- An objective performance evaluation system.
- Managers who know to use, and are motivated to use, incentive awards.
- Timely and relevant awards.
- An annual evaluation.

NEED TO LINK AWARDS PROGRAM TO AGENCY GOALS AND OBJECTIVES

Of the 13 activities reviewed, only the Navy activity and the Patent Office have taken steps to incorporate specific organizational goals into their program. However, as shown in the following table, where this linkage has been made, managers and supervisors believe their program is helping them achieve their organizational objectives.

Managers Believing Awards Program Significantly Helps Achieve Agency Goals

<u>Agency</u>	<u>Percent</u>
Environmental Protection Agency	7
Federal Bureau of Investigation	24
Federal Home Loan Bank Board	12
Geological Survey	0
Department of the Navy	67

Patent Office	88
Securities and Exchange Commission	20
Social Security Administration	22
Veterans Administration	13

Although almost all agency managers endorsed the usefulness of awards in promoting general organizational goals, they could not specifically identify measurable productivity benefits associated with their awards program.

Why aren't more managers using the incentive program to help achieve specific organizational goals? Many managers said they had not considered using the incentive program to systematically relate employee performance to organizational goals. Other managers believed it would be too difficult to objectively measure their employees' performance and relate awards to various levels of performance. Even in agencies where the work is easy to measure, managers generally believed employees would work to achieve only minimum job requirements.

Goals can be linked to awards program

All but one Federal activity reviewed had (1) established goals for managers in some of their organizational units and (2) developed management information systems which related actual performance to those goals. However, these systems are not generally used to hold managers accountable or to reward them on how well they achieve their goals. For example, one agency has a management information system which identifies and compares the performance of all regional offices against preestablished goals. This system, however, is not linked to the incentive program as a basis for rewarding managers. One regional director said he has never received any feedback from his superiors on how his performance compares to expected performance.

In contrast, private company officials told us their incentive plans are linked to company goals and start at the top where decisions are made, and then filter through the management structure. Generally the goals for top managers involve company profits and rates of return. These managers are eligible for incentive awards based on how successful the business is in meeting its goals and upon their personal contributions to the success. At the start of the evaluation period, relative values, both objective and subjective, are identified and assigned for each manager. Achieved values are then used to determine the individual's overall performance level.

The establishment of quantifiable goals for Government agencies is readily considered to be more difficult than in the private sector because of the type of services provided. We believe, however, the effectiveness of an incentive awards program is directly dependent upon the managers' ability to link awards to goal achievement.

The process of establishing organizational goals and linking them to the awards program becomes even more important now that the Civil Service Reform Act of 1978 has been enacted. (See app. V for a summary of the act.) Under the act, top and middle managers will be held accountable for program success and be eligible for merit pay increases and lump-sum cash awards based on how well they achieve their goals. Before this can be done, however, agencies are required to define performance standards and develop performance measures not only for managers, but for all employees. When the goals are established at the start of a performance evaluation period, the awards program can be used as an incentive. Once started, goal-setting and rewarding can be linked for every employee at each organizational level.

NEED TO IMPROVE PERFORMANCE EVALUATION SYSTEM

An incentive awards program allows management to (1) recognize employees whose work performance has made significant contributions to the organization and (2) motivate other employees to provide similar performance. However, as noted in chapter 2, in 11 of the 13 awards programs we reviewed, 18 percent of the performance awards were given to employees that managers and supervisors had rated as average or below-average performers. This situation has confused employees about the level of performance management desires and the performance level that will be rewarded.

In responding to our questionnaire, the administrator of one agency shared the following insight as to why he believes awards programs have not been very effective:

"In government, awards are not always given regularly to high producers because these people are not systematically identified. The High Quality Increase and the one-time cash award are more often considered by supervisors to be an award only and not a tool to motivate."

"Awards should be based on regular evaluation of performance based on performance standards. Right now, very few areas have clear performance standards. Appraisals are of questionable accuracy. As a consequence, supervisors consider other than performance issues in determining who to give an award * * *."

Link not understood by most employees

The Patent Office and the one Navy activity we discussed earlier were the only two organizations reviewed where individual employee performance goals were set and where achieved performance levels were used to identify award recipients. As shown in the following table, employee understanding of the work performance necessary to receive a cash award in these two organizations was very high when compared to employee understanding in other agencies.

Employees' Understanding of Awards Criteria

<u>Agency</u>	<u>Good understanding</u>	<u>Moderate understanding</u>	<u>Some or no understanding</u>
	----- (percent) -----		
EPA	28	18	54
FBI	37	16	47
FHLBB	22	28	50
Geological Survey	31	16	53
Navy	80	10	10
Patent Office	87	6	7
SEC	25	11	64
SSA	29	19	52
VA	45	11	44

Employees are not the only individuals who lack a clear understanding of performance awards criteria. As shown in the table on the next page, managers and supervisors in organizations where the linkage between performance and awards has not been clearly identified are also confused about awards criteria.

Supervisors' Understanding of Awards Criteria

<u>Agency</u>	<u>Good understanding</u>		<u>Moderate understanding</u>		<u>Some or no understanding</u>	
	<u>Cash</u>	<u>Honorary</u>	<u>Cash</u>	<u>Honorary</u>	<u>Cash</u>	<u>Honorary</u>
	------(percent)-----					
EPA	30	28	16	14	54	58
FBI	57	57	5	5	38	38
FHLBB	29	20	9	9	62	71
Geological Survey	39	32	12	10	49	58
Navy	33	22	22	22	45	56
Patent Office	93	59	4	4	3	37
SEC	33	20	17	17	50	63
SSA	39	31	13	13	48	56
VA	47	44	19	19	34	38

Managers reluctant to set performance requirements

Writings about the effectiveness of incentive programs highlight the need for employees to know not only performance requirements, but also their achieved performance level. This and prior GAO reviews have shown this information is not always known to the Federal employee. Our March 3, 1978, report entitled "Federal Employee Performance Rating Systems Need Fundamental Changes" (FPCD-77-80) indicated that although agencies require supervisors to develop performance requirements, 88 percent of the 190 supervisors who were personally contacted during that review had not done so. These supervisors believed, among other things, that the process was unnecessary, not required, too time consuming, or too difficult.

Managers and supervisors contacted during this review attributed their reluctance to identify expected or achieved performance levels of their employees to (1) hard-to-define work quality and (2) a fear of loss of control over their subordinates. Supervisors repeatedly expressed a fear that employees would choose the minimum acceptable performance level if allowed a choice.

Seventy-four percent of the supervisors responding to our questionnaire, however, indicated they were evaluating employee performance using their own unique combinations of performance measurement information and subjective expectations. The information they used included (1) subjective performance observations, (2) performance planning data

mutually established by the supervisor and employee, and (3) various work production information systems. Nevertheless, very few managers told employees of these requirements or used achieved results based on them to identify award recipients. By keeping performance-level criteria ambiguous, managers have caused employees to distrust the award selection process.

Under the Civil Service Reform Act of 1978, however, agency performance appraisal systems must establish performance standards based, to the extent practical, on objective criteria. These standards and the critical elements related to an employee's position are to be (1) communicated to the employee at the beginning of the appraisal period and (2) used in evaluating and rewarding performance. The act provides that this supervisor-employee communication begin as soon as practical, but not later than October 1, 1981.

Awards program can be linked to existing performance information systems

Although each activity we reviewed could be using their various performance information data bases to establish employee performance goals and identify potential award recipients, most were using them only to justify the awards given, after the fact. These data bases include performance appraisals and performance measurement systems.

Performance appraisals

Performance appraisal systems which identify performance levels expected as well as achieved by employees can provide the linkage between awards and performance. Five of the nine agencies that had low employee understanding of their agency's award system have appraisal systems in some of their organizations which could provide this linkage. However, these appraisals have been used primarily to determine whether an employee can and should be promoted. For example, the Federal Home Loan Bank Board has a modified management-by-objectives approach and key operating indicator system of establishing performance goals and evaluating employee performance. Under the system, an individual work plan is negotiated with the supervisor describing the (1) employee's key operations or objectives, (2) results expected, (3) assistance required to get the job done, (4) priority of the tasks, and (5) indicators that will signal to what degree the expected results were achieved. The results of this evaluation are linked to the career ladder promotion system, but not the awards program. Award recipients at the FHLBB are those employees who have teaching or other special assignments outside of their home organization.

Performance measurement systems not always tied to award programs

Seven of the nine agencies have employee work standards for some of their organizational units. These standards are used to measure units of production. Quality is expressed in terms of accuracy, appearance of work, or general results achieved. However, these standards are not always used to establish specific performance level criteria which insure award consideration for all employees.

In most organizations reviewed where standards have been established, award justifications do include the employee's performance in relation to standards. Yet the employees are never told they could be eligible for an incentive award if they reach a predetermined performance level. For example, managers in SSA's Teleservice Center have translated office goals and national performance standards into local standards which identify minimum, average, and above-average quality and quantity performance. However, the standards are not being used to identify the linkage between performance and awards for employees. Managers said they do not use the standards for this purpose because employees do not want them. Because of this lack of identification, however, less than one-third of the SSA employees said they knew what performance level is necessary to obtain a cash award. And as for the usefulness of their present awards program, 53 percent of the employees said the program contributed nothing to their particular work group's productivity.

Eleven of the activities measure employee output in terms of quality and quantity. However, the results are not linked to the awards program, as is the case at the one Navy activity and the Patent Office. Most managers said that quality was not identified and results were misleading because standards are not updated and therefore could not be used to identify award recipients.

The Patent Office awards program, however, uses performance results even though work quality is not part of the formal system. Employees reviewing patents are awarded cash bonuses if they exceed preestablished performance levels. Quality is currently determined subjectively by the employee's supervisor.

On the other hand, performance results for one division of the Geological Survey's western region showed that one work unit exceeded the performance of all other units by 30 percent over a 3-year period, yet the unit had never received

an award for its outstanding performance. The division manager said the data did identify superior performance, but not in all aspects of work. It was his opinion that an award could not be supported. This manager's counterpart in another region was using this same information to support awards for his employees.

We believe performance measurement systems are essential for monitoring and controlling an agency's workforce. However, this study and prior reviews by our agency have shown that agencies have either not developed or have not effectively used such systems. We have often been told by Federal managers that it is impossible or impractical to measure employee performance. In addition, past GAO recommendations to link performance measures to pay and awards have been answered with "show us how," from agency officials. We do not agree with these perceptions and will show, in appendix VI, how performance measurement can be applied to most Government operations. Our information is based on a 3-year joint Civil Service Commission/General Accounting Office/Office of Management and Budget project on productivity measurement, and points out basic steps needed to develop performance measures, using examples.

NEED FOR MANAGERS AND SUPERVISORS TO USE AWARDS PROGRAM

The use of incentive awards is at the discretion of each manager and supervisor. The manager's effective use of awards then is dependent upon his or her familiarity with the program, philosophy towards managing and awarding employees, and interest in making productivity-related performance improvements. Most supervisors responding to our questionnaire indicated that various types of incentive awards are useful in motivating employees to improve their performance. However, only 26 percent of the employees who responded to our questionnaire indicated that one-half or more of their supervisors encouraged improved performance through the granting of awards. Unfortunately, there appears to be somewhat of a gap between what many supervisors believe can be done to improve performance, and what actually occurs.

Reasons given by managers and supervisors for not using awards included:

- Managers do not need to grant awards to encourage improved performance.
- Employees generally do not perform at a high enough level to deserve an award.

--Employees in the career ladder are not eligible for awards.

--Preparation of award justifications takes too much time.

For example, one manager who has recommended only a few awards said that his work did not allow time to prepare award justifications. He believes managers who grant many awards have small workloads and thus, more time to prepare award justifications.

Another reason managers gave for not using the awards program as a tool to stimulate productivity improvements is their perception of disincentives for making improvements. Many of the managers interviewed during our recent study on the use of productivity data in the budget process 1/ stated that productivity improvements result in a penalty rather than a reward. Examples of this included arbitrary across-the-board staffing reductions and decreases in the next year's budget to force continued productivity improvements. The study concluded that the following incentives must be a part of any new effort to encourage productivity improvement:

--Managers should be rewarded for achieving productivity improvements within their organizational unit.

--Organizations should be given a share in savings produced through productivity improvements.

This latter incentive has been successfully used by the Internal Revenue Service. They call it profit sharing and use the technique with their regional managers. It works like this. If a manager improves his or her organization's productivity over a period of a year, he or she is given back resources equal to about one-half of the annual savings. The manager can use these resources as he or she deems appropriate. We believe this concept is an important complement to an agency's incentive awards program because it encourages managers to use the program as a tool for increasing productivity. If none of the savings brought about by productivity improvements are given to the manager to distribute as awards, further improvements may not occur.

To further strengthen the awards program, management could use a part of the shared savings to increase the

1/"Improving Federal Agency Efficiency through the Use of Productivity Data in the Budget Process," FGMSD-78-33, May 10, 1978.

incentive award allocations. Such a procedure would provide more significant awards to those organizations doing a good job in improving their productivity.

Incentive awards officer could provide more assistance

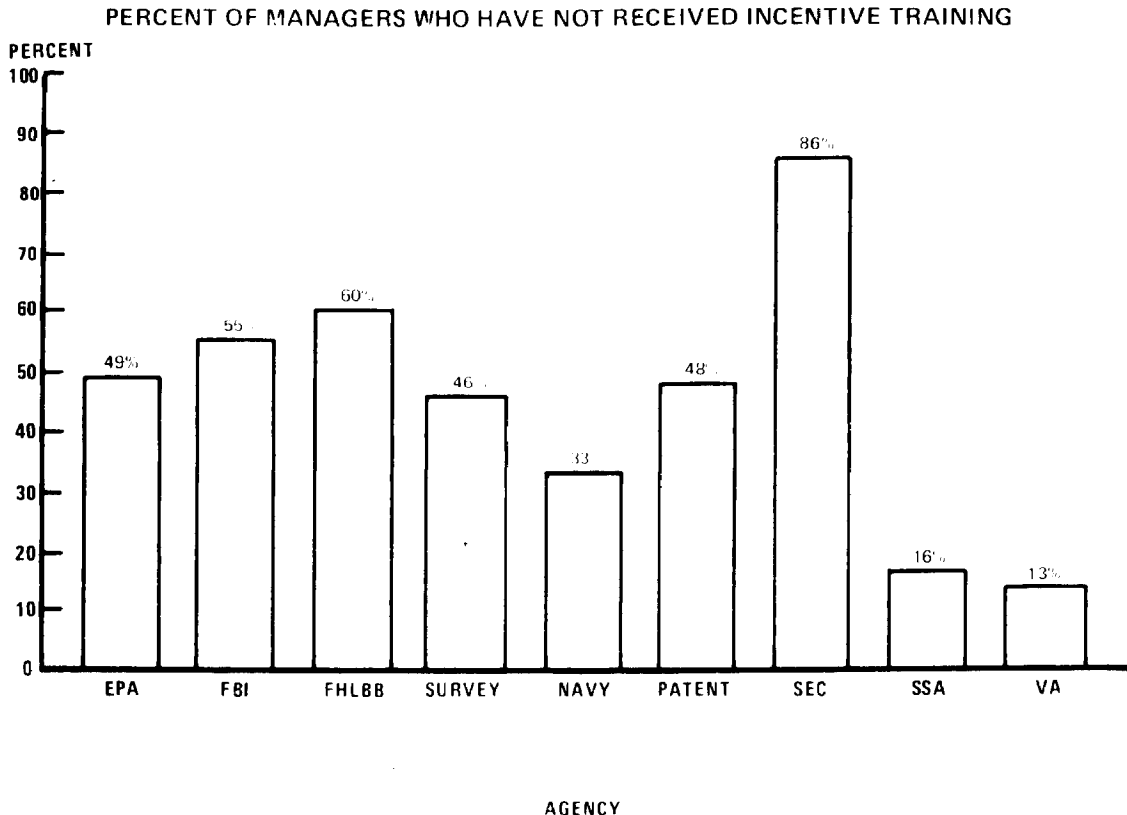
Each agency we reviewed has delegated overall awards program responsibilities to the personnel director. The actual day-to-day program activities, however, are usually performed as a collateral duty by an employee within the personnel office. Each agency field location we visited also has an incentive awards officer who spends an estimated 5 percent of his or her time on the awards program as a collateral duty. Their primary responsibilities are processing awards, arranging award ceremonies, and preparing an annual statistical report to the Civil Service Commission. Agency management generally views the awards program function primarily as a clerical operation and is not inclined to assign the program a high staffing priority.

With so little time and staff devoted to the awards program, it is not difficult to understand why most agencies do not have a more effective program. While staff having awards program responsibilities should be actively working with managers and supervisors to design a program that will motivate employees and be linked to an organization's goals and objectives, much of their time is taken up suggesting to managers what the best wording is for an award justification. Incentive program personnel should have a good working knowledge and understanding of not only their organization and its functions, but also of the philosophy and psychology of employee motivation. Most program personnel do not meet this criteria. Instead of encouraging an effective program, some program personnel may hinder its development. For example, one of the more successful incentive programs we reviewed was designed and implemented over the objections of the headquarters incentive officer who did not believe the program met Commission requirements.

The Commission has provided guidance to agencies on the staffing of incentive awards officer positions. This guidance includes a sample position description which includes many of the qualification and performance factors suggested in this report. In addition, the Commission indicates it is currently developing updated guidance in the form of representative position descriptions for various organizational levels. Agency officials need to use this guidance to provide more adequate awards program staff support.

Another primary responsibility of the incentive awards officer is to provide training for supervisors and managers in motivating employees through the use of incentive awards. As part of the 80 hours of supervisory training required by the Commission, 1 to 2 hours are usually devoted to the agency's incentive program. However, rather than instructing managers on how they can use the program to encourage employees to achieve organizational goals, these 2 hours are spent explaining that there is an awards program and informing supervisors of how to nominate an employee for an award.

The Commission said its 1976 survey showed that 64 percent of all Federal agencies were using Commission training materials in providing incentive awards training to supervisors, managers, and executives. Officials at most of the agencies included in this review also stated that they give incentive training during their supervisory training program. However, 46 percent of all the managers and supervisors responding to our questionnaire said they have never received any incentive training, as illustrated in the graph below. Of those managers and supervisors receiving incentive awards training, 25 percent believed the training was a substantial help to them and 35 percent believed it was of moderate help.



In addition to providing training materials for incentive awards programs, the Commission has also worked with the Departments of the Navy; Health, Education, and Welfare; Commerce; and the Treasury to develop special programs for employees in production operations.

NEED FOR RELEVANT AND TIMELY AWARDS

To stimulate performance improvement, incentive awards should be both timely and relevant to employees' values. Only the one Navy activity we reviewed, however, has determined what type of an award will best motivate its employees and has established procedures to insure that awards are timely.

Commission regulations and agencies' policies restrict flexibility of incentive awards

The Incentive Awards Act, as amended, authorizes agency heads to grant cash awards of up to \$10,000 (\$25,000 with approval of the Commission) for employees' superior accomplishments or other personal efforts which contribute to the improvement of Government operations. It also authorizes them to incur the necessary expense for the honorary recognition of an employee's contribution. The law does not prescribe the nature of these awards, but authorizes the Commission to issue regulations and instructions to carry out the intent of the law.

The Commission's policy in administering the act is to establish broad principles and standards for an awards program. These regulations, as implemented by the Federal Personnel Manual, include tables of cash amounts which, according to the Commission, are appropriate awards for various levels of contribution. The table of cash amounts for sustained superior job performance, for example, ranges from \$100 at the lowest grade level to \$350 maximum at the highest grade level. Cash awards must be in the form of a direct payment to an individual or group of employees.

Honorary awards, on the other hand, are limited by regulation to a certificate, emblem, pin, or other item the employee can wear or display.

Commission officials stated that the award categories and award scales included in the manual are for guidance only and do not have to be strictly followed by agency officials. However, about 42 percent of the managers and supervisors responding to our questionnaire believed Commission regulations restricted revision of or additions to their awards

program. As such, most agencies geared their awards closely to the guidelines. Although alternative forms of award are not provided for in the Federal Personnel Manual, a majority of managers and supervisors in our sample indicated such alternatives might stimulate improved performance.

What awards should be used?

Some awards come in the form of self-reward and result from a feeling of satisfaction at having used one's abilities creatively, and of receiving verbal or honorary recognition for achievements. Other awards, such as extra pay or additional time off, are tangible and provide the means by which employees can satisfy needs not directly associated with job tasks.

In reality, awards often include several of these variables. Since promotions can satisfy both job and non-job related needs, most managers consider them to be the most powerful form of award. However, not all organizations can rely on promotional awards. Therefore, a key element of an effective awards program is knowing what types of awards are most appropriate for particular employee groups given the characteristics of the work environment.

Awards not relevant to recipient's values

Although cash is the most frequently used incentive award, agencies have not determined for whom and to what extent cash is an effective incentive to motivate performance. At the activities we reviewed, cash awards were being given at all grade levels but were more likely to be given to lower graded employees. Honorary awards, on the other hand, went mostly to higher graded employees.

Cash awards more often went to lower graded employees because it was believed that additional cash would be more meaningful to this group than to higher graded employees and thus, would be a greater incentive for improved performance. Higher graded employees usually received honorary awards, because it was said this group was already paid enough through salary.

This philosophy of motivating lower paid individuals with money and higher paid employees with praise may have some justification in the abstract. However, we believe the difference between the motives of lower and higher graded employees are not so universally distinct to warrant such a generalized rationale. As shown in the table below,

a high percentage of employees at all grade levels answering our questionnaire thought cash could be an effective reward if the amount were large enough to make a difference to the individual.

<u>Grade level</u>	<u>Percentage of employees indicating cash can be an effective award</u>		
	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
GS-1 to 6	55	18	27
GS-7 to 11	62	9	29
GS-12+	73	9	18
Overall	65	11	24

As the table shows, many employees GS-12 and above also favored cash. Thus, it appears the importance of a cash award is not necessarily proportionate to the grade level.

Although 65 percent of the employees thought cash could be an effective incentive to improve performance, just as many said the amounts of cash awards currently being granted were just sufficient or inadequate. Accordingly, we asked employees to indicate the lowest dollar award amount it would take to encourage them to improve their performance. The table below shows the percentage of employee responses by grade level.

<u>Grade level</u>	<u>Pay</u>				<u>Other amount (note a)</u>
	<u>1 day</u>	<u>1 week</u>	<u>1 month</u>	<u>1 quarter</u>	
	------(percent)-----				
GS-1 to 6	19	47	18	7	9
GS-7 to 11	11	46	26	4	13
GS-12+	5	54	28	3	10
Overall	11	49	24	5	11

a/Dollar amounts indicated ranged from \$10 to \$5,000.

Since 49 percent of the employees responding to our questionnaire indicated one week's salary would be an adequate performance award, we compared equivalent weekly salaries at various grade levels with the Commission's suggested award range for sustained superior performance.

General schedule <u>grade</u>	Equivalent weekly salary (note a)		Maximum dollar award		Dollar difference
	<u>Dollar</u>	<u>Percent</u> (note b)	<u>Dollar</u>	<u>Percent</u> (note b)	
GS 1-4	\$153	1.9	\$150	1.9	\$ 3
GS 5-8	239	1.9	200	1.6	39
GS 9-11	338	1.9	250	1.4	88
GS 12-13	486	1.9	300	1.2	186
GS 14-18	809	1.9	350	.8	459

a/Calculated on the basis of the first step of the grade.

b/Percent of annual base salary.

In contrast, the average cash award Government-wide was about \$236 in fiscal year 1977, or about 1.3 percent of the average annual general schedule salary. Private industry representatives, on the other hand, told us their lump sum cash awards are equal to at least 10 to 30 percent of the employee's base pay.

To make incentive awards more meaningful and more equitable to those provided under the Civil Service Reform Act for other employees, the Commission intends to provide new guidance which will raise the suggested dollar amounts of performance awards.

Promotions and QSIs extensively used as awards

Federal managers and supervisors generally perceive promotions and quality step increases (QSIs) as the most beneficial awards and thus the most desirable form of recognition for above-average employee performance. Both give the employee more money than awards granted under the incentive awards program. Technically though, neither promotions nor QSIs are incentive awards because the purpose and selection criteria are different from those for incentive awards. Thus, substitution or indiscriminate use of promotions and quality step increases in place of incentive awards can damage the integrity of each, and may diminish the usefulness of incentive awards.

Promotions considered most useful performance incentive

In our questionnaire we asked managers and supervisors to rate the usefulness of various methods of motivating employees. The following table shows how respondents judged the effect of promotions, QSIs, cash, and honorary awards on motivating improved productivity.

	<u>Very great or substantial</u>	<u>Moderate or somewhat</u>	<u>Little or none</u>
	----- (percent) -----		
Promotions	88	10	2
Quality step increases	68	28	4
Cash award	65	32	3
Honorary award	38	54	8

As the results indicate, managers and supervisors believe promotions are the most effective award to motivate employees. Some managers and supervisors said during interviews that promotions were the only meaningful award for employees still eligible to be promoted. Others said it was easier to get a promotion for an employee than an incentive award because of the redtape and lengthy written justifications connected with incentive awards.

Ambiguities Affecting Quality
Increases Require Resolution

Federal managers have been able to award deserving employees with quality step increases since 1962. These increases can be effective motivators if employers and employees understand their purpose and know how to use them effectively. However, our review has shown that 16 years later, Federal managers are still failing to recognize the distinction that should be made between the use of quality increases and lump-sum incentive awards. We found that quality step increases and incentive awards are often treated as interchangeable options in rewarding employees.

Although promotions are generally considered the most useful award, quality increases were granted more often than any other single form of cash recognition at the activities we reviewed. Managers said the quality increase is more meaningful to some employees because it has greater dollar value than an incentive award. The following table shows the average dollar amounts for incentive awards and quality increases given during fiscal year 1977 for the activities reviewed.

<u>Grade level</u>	<u>Average incentive award</u>	<u>Average first year QSI cost</u>	<u>Average 4-year QSI cost</u>
GS-6 & below	\$126	\$ 265	\$1,060
GS 7-11	209	473	1,892
GS-12 and above	268	1,073	4,292

Our November 1973 report on "Improving the Effectiveness of the Government Employees' Incentive Awards Program" (B-166802) indicated that managers and supervisors were confused about the circumstances under which quality step increases and incentive awards should be granted and were indiscriminantly substituting quality increases for incentive awards without regard for the more stringent quality increase requirements. A 1967 report by the House Subcommittee on Manpower and Civil Service also found that quality step increases were being misused. Our work indicates that these problems still exist.

To obtain a quality increase, all of the most important job elements must be performed in a manner substantially exceeding normal requirements, and the employee's performance must give promise of continuing at the same high level because benefits extend indefinitely while the employee is in the same position. Once obtained, however, there is no assurance the employee's motivation to achieve a high performance level will continue. By contrast, the criteria for a special achievement award for sustained superior performance requires only that one of the most important job elements be performed in a manner substantially exceeding normal requirements. The promise of an employee's future performance remaining at the same level is not a factor because the award is based upon past performance. To receive another award, the employee must again exceed the expected performance level.

In deciding what type of an award to grant, managers need to not only apply stringent award criteria but also determine the type of award which is most likely to stimulate continuing outstanding employee performance.

Although the continuing incentive value of quality increases is questionable, managers and supervisors typically give first consideration to which award will provide the most long-term monetary benefit to the recipient. Promise of future high performance may not be considered at all.

Confusion about the difference between quality step increases and incentive awards and the subsequent misuse of the quality increases should be eliminated. If the Office of Personnel Management is unable to demonstrate correct use of quality increases by Federal managers, we believe quality step increases should be discontinued and the funds now used for them be merged with those for the incentive awards program for those not covered by the Senior Executive Service and Merit Pay provisions of the Civil Service Reform Act.

Untimeliness detracts from
award meaningfulness

Awards should be timely and be given enough publicity so employees know and understand what performance or contribution is being encouraged by the award. Commission regulations state:

"The head of each agency shall provide for prompt action on contributions to encourage maximum employee participation, and to obtain all possible benefit to the Government."

Private industry representatives said that their experience shows that awards should be granted no later than 30 days after the contribution to obtain maximum reinforcement of desired work behavior.

The type and amount of an award, in some instances, may have to be determined on a delayed basis. But even in these situations, it is suggested that award-winning performance be informally recognized as quickly as feasible after the contribution, for maximum benefit to both the employee and the organization.

Although Government managers and supervisors agreed that 30 to 45 days was reasonable, we observed that among the organizations reviewed, processing of award recommendations took anywhere from 23 to 164 days, averaging about 77 days. It took 27 days on the average following an employee's contribution for managers and supervisors to nominate the employee for an award, 29 additional days before the award was approved and another 21 days before the award was presented to the employee. These delays occurred primarily because mid-level managers usually lacked approval authority; and award checks were generally processed at the agency headquarters.

Managers lack authority to approve awards

Commission guidelines provide that performance recognition should be based on the recommendation of the employee's supervisor and approved by the next higher supervisory official. However, in all organizations we reviewed except the Navy activity, awards are approved by either a management official several layers removed from the employee's actual performance or an incentive awards committee. These problem areas are not new and were discussed in a 1967 report prepared by the House of Representatives Subcommittee on Manpower and Civil Service. The report disclosed:

--Agencies do not seem to trust their managers with decisions which will result in cash awards for their employees.

--Award committees superimpose their collective judgment over that of the managers regarding awards.

Each agency has the authority to determine the management level that will approve award nominations. Many managers recognize that the further away the approving authority is from the actual performance, the more the award process becomes a justification writing contest. Nonetheless, award nominations in the organizations we reviewed proceed through as many as four layers of management. Additionally, some agencies require their field offices to submit all award nominations to headquarters for approval.

Commission guidelines state that line managers, not incentive awards committees, should have award approval authority. However, three of the activities we reviewed use committees to approve or reject awards. These committees are generally not familiar with the actual performance deserving award. They decide whether an employee exceeded job requirements based solely on the award nomination. Officials at these locations stated that committees are used to insure consistency among award justifications.

Award checks processed slowly

Once an award is approved, all that remains is for the employee to receive it. However, depending on where the award check is processed, the actual receipt can be delayed. For example, all EPA regional awards are paid from headquarters, and the average time from approval to receipt is 46 days. On the other hand, VA regional awards are paid at the regional level and are usually received in about 14 days.

NEED FOR AWARDS PROGRAM EVALUATION

The Federal Personnel Manual requires each agency to submit any new or revised incentive awards plan to the Civil Service Commission within 30 days of the plan's effective date. Although the Commission is not responsible for approving agency plans, Commission officials stated they review plans to (1) insure they are in compliance with regulations and (2) look for innovative uses of awards which can be shared with other Government agencies. On occasion, an agency plan has been determined to be in noncompliance with the regulations and has been returned for revision.

In addition to this initial review, the Commission suggests that an awards program be annually evaluated to assure it is being effectively used to encourage and recognize performance beyond normal job responsibilities. The Commission has issued guidelines to assist agencies in accomplishing this objective. The agencies included in our review, however, are not annually evaluating their awards program or using the guidelines when evaluations are completed. In fact, only three of the organizations we reviewed have ever done an indepth evaluation of their program. The other organizations generally limited their reviews to a compilation of statistical data.

Commission evaluations

Chapter 273 of the Federal Personnel Manual gives the Commission responsibility for conducting general and special personnel management evaluations at Federal agencies. While general evaluations are designed to cover all aspects of an agency's personnel management practices, special evaluations are limited to coverage of certain segments of an agency's personnel program. For a special evaluation, the Commission endeavors to use a systems approach which (1) assesses the impact the particular program has on complementary personnel areas and (2) determines the total contribution the program and those related to it make to mission accomplishment. Commission officials said general evaluations always include at least a limited review of incentive awards. According to these officials, the review focuses primarily on program policies, procedures, and statistical data, and assesses the role the incentive program plays in achieving agency goals and motivating employees to improve Government operations.

The Commission reports that it has conducted numerous evaluations of agency incentive awards programs during recent years as part of general and special evaluations and as participants in agency-led reviews. However, only one of the awards programs at the 13 activities included in our review had been reviewed by the Commission during fiscal year 1977. (Information on evaluations completed before January 1976 was not available.)

The Commission has indicated that beginning in 1979 it will administer a new employee attitude questionnaire as part of its overall personnel evaluation effort. The questionnaire is to include several questions which pertain specifically to employees' knowledge and perception of their agency's awards program. In addition, the Commission indicates it is completely revising its evaluator's handbook and will include an incentive awards program guide.

Agency evaluations

The agency headquarters staffs periodically conduct personnel management evaluations at field offices. Agency officials said that a review of the incentive program is generally a small portion of this overall review. These reviews generally focus on the number of awards given, the award writeups, and interviews with managers to determine if they are familiar with the program. Unless the statistical comparisons or interviews indicate problem areas, it is assumed the program is meeting its objective. Only one of the field offices we visited was reviewed by its headquarters staff during fiscal years 1975 through 1977.

Four of the field locations we reviewed have done an evaluation of their incentive program since fiscal year 1975. For example, EPA compiles a report on the number of awards granted by each division. This report is circulated among managers to show how divisions are using the program. On the other hand, the Geological Survey-Western Region periodically conducts more formal evaluations which include a small segment on incentives. One recent review noted that a manager had granted no awards and recommended that the manager make use of the incentive program. The manager responded by saying that he had asked his supervisors to consider employees for awards, but they had not recommended anyone.

SSA regional officials said they are developing guidelines for evaluating their incentive awards program but realize already that they will only be able to review a limited number of district offices each year.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The Federal Government's Incentive Awards Program makes it possible for agencies to recognize and reward employees who have made significant contributions to improving Government operations. Most managers, however, have not made use of the opportunity that exists for increasing organizational productivity through the use of incentive awards. Accordingly, the programs designed and implemented by most Government activities included in our review have not yet begun to reach their full potential in terms of increasing productivity and providing employee self-satisfaction. In fact, the programs are having a negative impact on employee attitude. This condition remains relatively unchanged since we last reviewed the program in 1973. Although the Commission and agencies have taken some corrective actions, the program's ineffectiveness is due primarily to agencies' failure to provide for the following essential components:

- A direct linkage with specific organizational goals and objectives.
- An objective system for setting and communicating employee work expectations and measuring performance contributions.
- Managers who know how to use, and are motivated to use the program.
- Awards that are timely and relevant to an employee's needs, but which do not become part of the basic salary rate.
- An annual evaluation of the program's results.

We believe, however, that these components cannot be successfully implemented unless agency heads make an adequate staff available with the appropriate technical skills.

The importance of agencies making these corrective changes to their awards program is even greater now that the Civil Service Reform Act of 1978 has been enacted. The act makes major changes in the way senior executives and middle managers are rewarded through incentives and merit pay. These incentive provisions cannot be effectively and equitably administered, however, unless agencies are required

not only to correct problem areas in the current awards program, but also to include the same key provisions in the new program for senior executives and middle managers.

Performance appraisal systems envisioned by the Civil Service Reform Act should improve the effectiveness with which employees are identified for incentive awards. However, the legislation only provides a framework for change, not the change itself. It will still be incumbent on each supervisor and manager to make a conscientious effort to directly tie incentive awards to employee performance--a responsibility which is not new, but one that has not always been effectively carried out. In addition, it will still be necessary for each of the other essential components of an effective awards program to be implemented before any program can be considered useful or successful.

We believe that when quality step increases are properly used, they can provide a useful tool for motivating and rewarding excellent performers. However, our work for this report and our previous report indicates that quality increases are being misused by managers. Confusion remains as to the distinction between quality step increases and the incentive awards program.

RECOMMENDATIONS TO THE OFFICE OF PERSONNEL MANAGEMENT

We recommend that the Director, Office of Personnel Management take immediate action to improve the Government Employees' Incentive Awards Program. Specifically, he should initiate the following revisions to Chapter 451 of the Federal Personnel Manual:

- Require that agency incentive awards plans be reviewed and approved by the Office of Personnel Management; and that a condition of approval be that the plan include, as a minimum, the criteria for an effective program as discussed in this report.
- Provide that an agency shall take whatever corrective action that may be required by the Director, Office of Personnel Management, if the Director determines that agency's incentive awards plan does not comply with Office guidance.
- Update provisions which suggest appropriate cash award amounts for different grade levels, and provide necessary technical assistance to agencies so that more relevant award scales can be established.

--Provide guidance for developing different types of awards as alternatives to conventional cash and honorary awards.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress require the Director, Office of Personnel Management, to either (1) ensure the granting of quality step increases in accordance with the Federal Personnel Manual and demonstrate this has been accomplished or (2) if unable to so demonstrate, terminate quality step increases and merge the funds previously available for this purpose with funds for the incentive awards program for those not covered by the Senior Executive Service and Merit Pay provisions of the Civil Service Reform Act.

We recommend that the Congress also allow agencies to retain a portion of all productivity gains to be used for increasing incentive awards program funding.

AGENCY COMMENTS AND OUR EVALUATION

Agency comments

The Civil Service Commission found merit with all but two of our recommendations to the Chairman. These were since revised. The Commission did not concur in our recommendation to provide that an agency's authority to grant awards can be suspended if their awards plan is not being administered in compliance with Commission guidance. While asserting that such a provision would provide a means of assuring agency compliance with awards program requirements, the Commission stated that the recommendation is not consistent with the new Office of Personnel Management's policy of decentralization and delegation of more authority to agencies. The Commission believes that compliance can be obtained by other means, such as by providing guidance and technical assistance in developing awards programs, by improving training, and by requiring reports to the Congress on the effectiveness of various aspects of the civil service reform.

In addition, the Commission did not agree with the recommendation in our draft report that the Chairman should propose legislation repealing authority to grant additional within-grade increases in recognition of high-quality performance. The Commission stated that repeal of the quality step increase would deprive managers of a very useful tool for motivating and rewarding excellent performers. The Commission, however, indicated the employer and employee should understand the quality increase's purpose if it is to be effective.

The Commission's comments appear in their entirety in appendix VII.

Our evaluation

We consider the Civil Service Reform Act of 1978 to be a major and positive step in the formal linkage of incentive awards and employee performance. Although the legislation provides a framework for change, it does not guarantee that the change will take place. The Commission has been responsible for providing guidance and assistance to agencies since the inception of the incentive awards program. However, as shown in this report, this help has not necessarily resulted in agency awards programs which are as effective as they could be in making significant contributions to improving Government operations. Therefore, we believe that if the Director of the Office of Personnel Management can require an agency to modify its incentive awards program, agency officials will provide the attention and resources that are necessary to design and operate an effective program. (This is a revision of our draft report recommendation.) In our opinion, this recommendation (1) does not conflict with OPM's policy of decentralization and delegation of more authority to agencies and (2) is fully consistent with the control and oversight responsibilities delegated under the Civil Service Reform Act.

We have reconsidered our original recommendation that quality step increases simply be terminated and have revised the recommendation. If the ambiguities now plaguing the program can be corrected, then its continuance would appear warranted. We agree that, if properly administered, quality step increases can be a useful tool for monitoring and rewarding excellent employee performance. However, based on the long history of confusion about the distinction between quality increases and incentive awards, we are not optimistic about the possibility of correcting the underlying problems.

HISTORY OF INCENTIVE AWARDS
IN THE FEDERAL GOVERNMENT

The Federal Government's earliest incentive awards effort began in July 1912 when the Congress authorized cash awards for suggestions by workers in the Army's ordnance shops. The first cash award, \$125, was granted for improvements to a piece of ordnance equipment. Although Government agencies introduced various suggestion programs throughout the early 1900s, it was not until the Mead-Ramspeck Act of August 1941 that salary increases to Government employees for "meritorious service" were authorized (P.L. No. 77-200, 55 Stat. 613, 614 (1941)). Finally in 1949, title X of the Classification Act introduced the principle of granting a cash award or a salary increase to an employee or a group of employees whose suggestions or work performance contributed to Government operations efficiency (P.L. No. 81-429, § 1001-1003, 63 Stat. 954 (1949)). Title VII of the same Classification Act continued the Mead-Ramspeck step increases as a "reward for superior accomplishment" (now called quality increases under the 1962 Federal Salary Reform Act).

A 1952 congressional study concluded that the Government's incentive awards program had fallen short of its full potential to encourage management improvement and employee morale. Causes cited for the program's ineffectiveness were:

- Overlapping legislation which made the program difficult to administer.
- Failure of the Civil Service Commission and the Bureau of the Budget (now Office of Management and Budget) to aggressively promote the program throughout the Government.

In 1954 the Congress, acting on a on recommendation from the President, determined the Federal Government needed an up-to-date incentive awards program. Public Law 763, Title III, 83rd Congress, established the Government Employees' Incentive Awards Program, effective November 30, 1954. This law repealed all previous laws on the subject and established a uniform Government-wide program guided by the Civil Service Commission. Following Commission direction, each agency was to establish an award program which met its individual agency needs.

The new law authorized all agencies to conduct both cash and honorary awards programs. The legislation:

- Permitted an agency head to grant awards of up to \$5,000 on their own authority, and as high as \$25,000 if approved by the Commission.
- Enabled an employee to receive awards from all agencies that benefit from a suggestion.
- Eliminated the annual limit on total cash awards an agency could grant for adopted suggestions.
- Extended the awards program to cover inventions by Government employees.

Another major provision of the law authorized Presidential honorary awards.

In October 1962 the Congress passed Public Law 87-793 (5 U.S.C. 5336), the Federal Salary Reform Act. This legislation provides for the granting of additional pay step increases in recognition of high-quality performance above that ordinarily found in that position. This provision has been generally considered a performance award similar to the performance awards authorized under the Incentive Awards Act, differing only in the nature of the reward and the criteria.

In 1967, the House Committee on Post Office and Civil Service, which sponsored the Incentive Awards Act, had its Subcommittee on Manpower and Civil Service review the effectiveness of the Incentive Awards Act and the quality increases authorized by Public Law 87-793. The Subcommittee's report cited weaknesses it found in the awards program and made recommendations, most of which were directed to the Civil Service Commission, for improving the effectiveness of the program. As a result, the Commission completed a study of the program in 1968 and made changes to the program effective in July 1969. The changes were aimed at streamlining the processing of suggestions, encouraging employees to suggest ways that money can be saved or operations improved in the Government, and providing greater objectivity in the selection and higher cash value in the amount of awards, while simplifying procedures and giving supervisors more authority to make effective use of incentive awards.

Our November 1973 report (B-166802) reviewed the effectiveness of the incentive awards program for civilian employees and the granting of quality increases. That report pointed out a number of weaknesses in the two programs and recommended to the Commission that changes in the administration of the programs be made. As a result, the Commission did revise Chapter 451 of the Federal Personnel Manual to clarify such things as timeliness in granting awards, criteria for awards, definitions, and guidelines for program evaluation. The Commission has also made efforts to publicize program administration changes to agencies and to encourage agencies' cooperation in making needed changes.

OTHER GAO REPORTS DISCUSSING EMPLOYEE
PERFORMANCE, PAY, AND GOVERNMENT PRODUCTIVITY

<u>Report title</u>	<u>Synopsis</u>
<p>Improving the Effectiveness of the Government Employees' Incentive Awards Program B-166802, Nov. 1, 1973</p>	<p>This report included a review of both performance and suggestion awards. With regard to performance awards, the report concluded their effectiveness could be increased and employee confidence in the fairness of these awards could be improved if more consistent use were provided for by (1) establishing more objective criteria for granting cash performance awards so that they are granted only when employee performance has clearly increased the productivity, economy, efficiency, or effectiveness of Government operations and (2) clearly distinguishing between the criteria for and the costs of granting the two types (special achievement award and quality step increase) of cash performance awards so that the amount of recognition matches the level of performance throughout the Government and so that the higher value award is relatively more difficult to obtain.</p> <p>Managers should better communicate to employees the specific reasons for granting individual performance awards so that the program's fairness can be more easily recognized. Also, an award, similar in criteria and value to the quality increase, should be established for currently ineligible employees.</p>
<p>Federal White-Collar Pay Systems Need Fundamental Changes FPCD-76-9, Oct. 30, 1975</p>	<p>Legislation is needed to change Federal white-collar pay systems. Present white-collar pay schedules fail to recognize that the labor</p>

Report titleSynopsis

FPCD-76-9 (cont.)

market consists of distinctive major groupings which have different pay treatments.

Systems should be designed around more logical groupings and the pay rates based on the geographic pay patterns of the labor market in which each group competes. Also, individual differences in employee proficiency and performance should be properly recognized in the method of progressing through the pay range of a grade.

Federal Employee
Performance Rating
Systems Need Funda-
mental Changes
FPCD-77-80, Mar. 3,
1978

The Chairman of the Civil Service Commission should request the Congress to amend chapter 43 of title 5, formerly the Performance Rating Act of 1950, by deleting all statutory requirements for performance summary ratings of "outstanding," "satisfactory," or "unsatisfactory" for Federal employees.

The Chairman and the heads of Federal agencies should improve the performance rating systems by making more use of the collaborative approach. That is, they should

--establish systems built around employee participation,

--develop preset work requirements, and

--review work achievements in the performance evaluation process.

Development and implementation of effective performance evaluation systems, however, are insufficient to increase employee performance and development. Employees must believe that their efforts and accomplishments may lead to recognition in the form of tangible rewards following evaluation of their work. This evaluation should

<u>Report title</u>	<u>Synopsis</u>
FPCD-77-80 (cont.)	<p>therefore be linked in a meaningful way to personnel decisions involving compensation, incentive awards, and opportunities for advancement.</p> <p>Various laws provide agencies with the mechanism and funds necessary to make such personnel decisions. While seemingly complementary to the performance evaluation program, neither the Civil Service Commission nor Federal agencies have directly linked these programs. Since each program is administered independently, employee perceptions of the relationship between the performance rating and reward are limited or do not exist. There can be no assurance that any new performance evaluation system will be effective unless a meaningful link is established.</p>
<p>Improving Federal Agency Efficiency Through the Use of Productivity Data in the Budget Process FGMSD-78-33, May 10, 1978</p>	<p>The use of productivity data in the budget process has been sporadic. Its use is dependent primarily on the initiative of individual managers. GAO found that the value of productivity data in budgeting can be encouraged by a more active role by legislative oversight and appropriations committees. By asking stimulative questions and requesting particular productivity data, these committees can help foster major improvements in Federal Government efficiency.</p> <p>The basic reason for agencies not making more use of the data is a lack of incentives. Many agency executives and managers stated that productivity-related improvements often result in a penalty rather than a reward.</p>

Report titleSynopsis

The Federal Role in
Improving Productivity
--Is the National Center
for Productivity and
Quality of Working Life
the Proper Mechanism?
FGMSD-78-26, May 23,
1978

The declining rate of productivity growth in the United States is a problem deserving immediate attention. Experience indicates that this problem will continue unless positive steps are taken now.

The National Center for Productivity and Quality of Working Life was established in 1975 to deal with the productivity problem. However, the Center has not accomplished what it set out to. Nevertheless, there is still a need for a strong Federal role in enhancing national productivity.

Federal Compensation
Comparability: Need
for Congressional
Action
FPCD-78-60, July 21,
1978

Non-Federal pay rates vary among geographic areas, types of industries, size of establishments, and occupations. The Federal pay-setting processes do not always consider such variances when setting Federal pay. This causes the Government to pay some employees either more or less than market rates and has resulted in criticism and a lack of confidence in Federal compensation systems. Congressional support is needed to resolve these shortcomings and to provide needed credibility to the Federal pay-setting processes.

Areas of needed congressional support include the development of a method for granting within-grade salary increases based on merit.

A Management Concern:
How To Deal with the
Nonproductive Federal
Employee
FPCD-78-71, Aug. 10, 1978

Unsatisfactory performance is both a private and public sector concern.

In the Federal Government, an agency should be able to discharge nonproductive personnel if repeated efforts to improve their performance

Report titleSynopsis

FGMSD-78-26 (cont.)

fail. Managers and supervisors, however, perceive firing as a difficult, costly, cumbersome task, filled with legalisms and intricate procedures.

GAO found that this perception is well founded and recommended that (1) the removal process be improved and (2) job-related performance appraisals be used for developing, rewarding, assigning, demoting, promoting, retaining, or separating employees.

GAO QUESTIONNAIRES AND STATISTICAL METHODOLOGY

To assess Federal employees' attitudes toward their organizations' incentive awards program, we administered a questionnaire to a random sample of employees from 13 Federal activities at various geographical locations. The nine agencies represented, sample size, and questionnaire return rate were as follows:

<u>Agency</u>	<u>Questionnaires distributed</u>	<u>Questionnaires returned</u>	<u>Percent returned</u>
EPA	315	178	56
FBI	236	137	58
FHLBB	165	121	73
Geological Survey	256	177	69
Navy Department	54	30	56
Patent Office	359	230	64
SEC	246	143	58
SSA	256	125	49
VA	<u>119</u>	<u>75</u>	63
Total	<u>2006</u>	<u>1216</u>	61

A separate questionnaire was administered to all supervisors identified by the agency at each location and to a majority of general schedule grade level 16 and above managers at the agency's headquarters. The agencies, number of questionnaires distributed, and return rate can be seen in the following table:

<u>Agency</u>	<u>Questionnaires distributed</u>	<u>Questionnaires returned</u>	<u>Percent returned</u>
EPA	106	57	54
FBI	35	22	63
FHLBB	63	35	56
Geological Survey	74	42	57
Navy Department	14	9	64
Patent Office	90	60	67
SEC	65	31	48
SSA	56	32	57
VA	<u>68</u>	<u>33</u>	49
Total	<u>571</u>	<u>321</u>	56

RETURN RATES

Of the 2,577 distributed questionnaires, 1,537 (60 percent) were returned. Since we made no followup distributions or interviews, return statistics reflect a one-time-only distribution.

The overall agency mission, working environment, and occupational and grade level mix differ among our sampled employees. Any potential discrepancies, however, should not substantially negate the result of our questionnaire effort.

STATISTICAL METHODOLOGY

The results of the various statistical analyses were percentages or proportions of replies to a specific question. When reported proportions differed, a statistical test known as chi-square was applied to determine if such differences were significant. Chi-square analysis is used when available data is categorical, as opposed to continuous. Examples of categorical data are sex (male or female) and location (urban, suburban, or rural). Continuous data, on the other hand, can assume any value on a scale even though the scale itself can have lower and upper limits. Examples include weights and heights of adults, aptitude test scores, or baseball players' batting averages.

Chi-square analysis examines differences among proportions reported for each category being considered. Statistical tests then determine whether discrepancies in percentages are due solely to sampling errors or reflect statistically significant relationships. Such tests do not measure the degree of association; they only indicate the likelihood that a relationship exists.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

Dear Federal Employee:

The U. S. General Accounting Office, an independent agency in the Legislative Branch, is reviewing the relationship between work performance and incentives such as promotions, quality step increases, and honorary and cash awards. To do this, we need your opinions.


We are asking a randomly selected number of employees in various agencies to complete the enclosed questionnaire. This information, to be used in a report to the U. S. Congress, will tell us what you think of different types of rewards and how they are granted.

Please be assured your replies will be treated with strict confidence. Your responses will be combined with those of other employees so that it will be impossible to determine how any individual answered the questionnaire. Once verified (in about a month or two) identifying information will be disassociated from your responses, and no identifiable records will be maintained.

Meaningful incentives can be beneficial both to you and the agency you work for. Please take the time to fill out this questionnaire and return it in the envelope provided within 7 days.

If you have any questions, please call Jack Woosley on FTS 556-6200. Thank you for participating in this important project.

Sincerely yours,


D. L. Scantlebury
Director

Enclosures (2)

INCENTIVE AWARD PROGRAMS:
CIVIL SERVICE EMPLOYEES

U.S. GENERAL ACCOUNTING OFFICE



INSTRUCTIONS

The U.S. General Accounting Office is an independent establishment responsible to the U.S. Congress for reviewing and reporting on programs and activities of the Federal departments and agencies. The General Accounting Office is currently engaged in a study to identify how managers and employees in the U. S. Civil Service System regard their incentive award programs, and to determine the relationship between incentive awards and performance.

The questionnaire is designed to be answered by Civil Service employees in U. S. Government agencies. The information you provide will be used only for research and evaluation of your incentive award program, and not to make determinations about individuals.

It should take no more than 15 minutes of your time to complete this questionnaire. When completed, please enclose the questionnaire in the self-addressed envelope and return it within 7 days after you have received it. Your assistance will help us to make a meaningful report to the U. S. Congress.

3. Consider the time period 1976-1977, or the time you have worked for this agency (whichever is shorter). Have you received a cash or non-cash (honorary) award or quality step increase during this period? (Check one for each item.)

	a/		
	(1) Yes	(2) No	
Cash Award	20	80	(9)
Honorary Award	10	90	(10)
Quality Step Increase	21	79	(11)

II RELATION OF AWARDS TO PERFORMANCE

4. How well, if at all, do you understand what you would have to do to receive a cash award, honorary award, or a quality step increase? (Check one for each item.)

I RESPONDENT BACKGROUND

1. Please provide the following information:

Title _____ Grade _____

Department _____

Agency _____

Business Address _____

2. How long have you been a Federal employee, and how long have you been a member of your present group?

_____ (No. of years as a Federal (5-6) employee)

_____ (No. of years in my present (7-8) group)

	a/					
	(1) Very good understanding	(2) Good understanding	(3) Moderate understanding	(4) Some understanding	(5) Little or no understanding	
Cash award	24	18	15	16	27	(12)
Honorary award	14	13	14	16	44	(13)
Quality step increase	23	21	14	14	28	(14)

a/Responses are shown as a percentage of all employees answering the question. Percentages may not add to 100 percent because of rounding.

5. To what extent, if at all, would improving your performance increase the opportunity for you to receive a cash award, honorary award, or quality step increase? (Check one for each item.)

	(1) Little or no extent	(2) Some extent	(3) Moderate extent	(4) Great extent	(5) Very Great extent	(6) No basis to judge
Cash award	36	15	10	9	10	21
Honorary award	36	13	9	6	6	31
Quality step increase	34	15	10	10	10	22

(15)

(16)

(17)

III AWARD PROGRAM ASSESSMENT

6. A cash award has value as a sign of recognition, and it has monetary worth as well. We are trying to assess the monetary worth. To what extent, if at all, do you agree or disagree with the following statement? (Check one.)

Money is an effective means of reward only if the amount is large enough to make a difference to the individual. (18)

- 1) Strongly disagree
- 2) Disagree
- 3) Neither agree nor disagree
- 4) Agree
- 5) Strongly agree

7. In your opinion, what is the lowest amount of cash award it would take to motivate an employee to improve his or her performance? (Check one, or write in the amount.) (19)

- 1) One day's pay
- 2) One week's pay
- 3) One month's pay
- 4) One quarter of annual pay
- 5) \$ 11 (amount of cash award) (20-23)

IF CASH AWARDS ARE GIVEN IN YOUR GROUP, CONTINUE. OTHERWISE GO TO 10.

8. How adequate, or not, are the amounts of cash awards (currently granted) to motivate people to do a better job? (Check one.) (24)

- 1) More than adequate
- 2) Adequate
- 3) Marginal
- 4) Inadequate
- 5) Very inadequate

9. In your opinion, are cash awards usually presented to those who are most deserving? (Check one.) (25)

- 1) Definitely yes
- 2) Probably yes
- 3) Not sure
- 4) Probably no
- 5) Definitely no

10. Does the fact that people in your agency periodically receive incentive awards affect your job motivation? That is, does your job motivation improve, decline, or show no change?

First, consider the effects of cash awards: (Check one for each item.) Note: Skip to 11 if you have no cash awards.

- 1) Improve substantially (26)
- 2) Improve moderately
- 3) Change little or not at all
- 4) Decline moderately
- 5) Decline substantially

11. Now consider the effects of honorary awards: (Check one for each item.)

- 1) Improve substantially (28)
- 2) Improve moderately
- 3) Change little or not at all
- 4) Decline moderately
- 5) Decline substantially
- 6) 10 No response

12. Now, please consider whether first line supervisors or top level managers seem to you to broaden or restrict the use of the incentive award program in any of the following ways.

First, what proportion act in any of the following ways with respect to cash awards? (Check one for each item.)

Note: Again skip to 13 if you have no cash awards.

	(1) All, or almost all	(2) A substantial number, or about 3/4	(3) About 1/2	(4) Some, or about 1/4	(5) Few or none	(9) Not sure	
Grant awards and seem to encourage granting awards to deserving employees	8	11	8	13	23	38	(30)
Grant awards but seem to view granting of awards as a requirement that must be fulfilled	5	7	7	11	20	50	(31)
Grant no, or very few awards	10	8	4	9	22	48	(32)

13. Now what proportion act in any of these same ways with respect to honorary awards? (Check one for each item.)

	(1) All, or almost all	(2) A substantial number, or about 3/4	(3) About 1/2	(4) Some, or about 1/4	(5) Few or none	(9) Not sure	
Grant awards and seem to encourage granting awards to deserving employees	5	7	7	10	27	44	(33)
Grant awards but seem to view granting of awards as a requirement that must be fulfilled	4	5	6	10	22	54	(34)
Grant no, or very few awards	14	7	5	7	21	48	(35)

14. Under ideal conditions, where performance requirements were clearly stated, and meaningful awards were periodically granted for exceeding normal job requirements, to what extent, if at all, would you improve your performance to obtain any awards? (Check one.) (36)

- 1) 26 To a very great extent
- 2) 37 To a substantial extent
- 3) 18 To a moderate extent
- 4) 12 To some extent
- 5) 13 To little or no extent

15. Consider the work of your group, and what the group accomplishes. How much of a contribution, if any, does the incentive award program make to the accomplishments or productivity of the group? (37)

The incentive award program makes:

- 1) 9 A very significant contribution to productivity
- 2) 14 A significant contribution to productivity
- 3) 20 A moderate contribution to productivity
- 4) 17 Some contribution to productivity
- 5) 40 Little or no contribution to productivity

IV COMMENTS

16. If you have comments on any of the questions within the questionnaire, or on related topics, please write them on the back of this page. We would be particularly interested in your views on how awards (monetary and otherwise) could become a more positive influence on employee morale and job motivation. (38)

17. May we contact you for further information about your response to this questionnaire? (Check one.)

- 1) Yes (CONTINUE) (39)
- 2) No

18. If yes, please write your name and business phone number below. (40)

Name _____

Business phone _____ / _____

Area Code Number

**INCENTIVE AWARD PROGRAM:
CIVIL SERVICE SUPERVISORS
U.S. GENERAL ACCOUNTING OFFICE**



INSTRUCTIONS

The U.S. General Accounting Office is an independent establishment responsible to the U.S. Congress for reviewing and reporting on programs and activities of the Federal departments and agencies. The General Accounting Office is currently engaged in a study to identify how managers and employees in the U.S. Civil Service System regard their incentive award programs, and to determine the relationship between incentive awards and performance.

This questionnaire is designed to be answered by supervisors actively managing personnel in the Civil Service System. The information you provide will be used only for research and evaluation of your incentive award program, and not to make determinations about individuals.

It should take no more than 15 minutes of your time to complete this questionnaire. When completed, please enclose the questionnaire in the self-addressed envelope and return it within 7 days after you have received it. Your assistance will help us to make a meaningful report to the U.S. Congress.

2. Approximately how many people do you supervise (include the total number of people for whom you have responsibility.)?

_____ (No. of people I supervise) (6-9)

**IF YOU SUPERVISE LESS THAN 2 PEOPLE,
STOP. YOU HAVE FINISHED. PLEASE
RETURN THE QUESTIONNAIRE.**

3. What are the occupational classifications of the people you supervise? (Check only those that apply.)

- Managerial (10)
- Professional (11)
- Technical (12)
- Clerical (13)
- Trade or craft (14)
- Other (specify) _____ (15)

4. For how many years, if any, have you been a supervisor or manager in each of the organizations listed below? (Write the number of years in the space provided.)

No. of years as
a supervisor or
manager

- Federal Government:
 - Civilian _____ (16-17)
 - Military _____ (18-19)
- State or Local Government _____ (20-21)
- Private Sector _____ (22-23)
- Other (specify) _____ (24-25)

I RESPONDENT BACKGROUND

1. Please provide the following information:

Title _____ Grade _____
 Department _____
 Agency _____
 Business Address _____

5. Have you received an honorary or monetary award within the calendar years 1976-1977? (Check one for each item.)

	(1) Yes	(2) No	
Honorary award	26	74	(26)
Monetary award	27	73	(27)

a/Responses are shown as a percentage of all employees answering the question. Percentages may not add to 100 percent because of rounding.

II EMPLOYEE PERFORMANCE MEASUREMENT

6. Below is a list of techniques that can be used to measure employee performance under certain conditions. How useful, or not, is each of these techniques in your particular situation? (Check one for each item.)

PERFORMANCE MEASUREMENT TECHNIQUES	(1) Of little or no use	(2) Somewhat useful	(3) Moderately useful	(4) Substantially useful	(5) Of very great use	(9) No opinion	
Compare performance with goals mutually established by employee and myself	7	11	13	33	27	10	(28)
COMPARE WORK DONE WITH STANDARDS:							
Job performance standard (developed through analysis or observation of job performance)	9	9	20	31	28	4	(29)
Production standard (amount produced)	21	13	16	22	24	4	(30)
"Standard" employee (selected as base comparison)	41	18	16	9	8	7	(31)
Compare the work done with what I judge to be adequate or satisfactory performance	6	8	16	41	26	3	(32)
Use peer ratings	42	18	15	14	4	7	(33)
Other (specify) _____							(34)

7. Regardless of how you rated a specific technique, to what extent, if at all, do you use these same performance measurement techniques in employee performance appraisals? (Check one for each item.)

	(1) No little or no extent	(2) To some extent	(3) To a moderate extent	(4) To a great extent	(5) To a very great extent	
Compare performance with goals mutually established by employee and myself	14	15	24	33	13	(35)
COMPARE WORK DONE WITH STANDARDS:						
Job performance standard (developed through analysis or observation of job performance)	11	14	27	34	14	(36)
Production standard (amount produced)	28	14	21	21	17	(37)
"Standard" employee (selected as base comparison)	52	19	13	9	7	(38)
Compare the work done with what I judge to be adequate or satisfactory performance	6	12	21	42	18	(39)
Use peer ratings	62	14	14	8	3	(40)
Other (specify) _____						(41)

IF YOU CHECKED "TO SOME EXTENT" OR "TO LITTLE OR NO EXTENT" FOR ANY, CONTINUE. OTHERWISE GO TO 9.

8. What are the major reasons you do not make more use of some of these measurement techniques in performance appraisals? (Check only those that are major reasons.)

- 25 Performance appraisal forms do not provide for this information (42)
- 6 Tasks are not clear (43)
- 39 Tasks are not comparable (44)
- 40 Tasks are not measurable (45)
- 2 Job description is not kept current (46)
- 6 Employees object (47)
- 8 The technique is too difficult (48)
- 22 Other (specify) _____ (49)

9. How adequate or not is your present award program as an incentive for managers and supervisors? (Check one for "honorary" award and one for "monetary" award.)

AWARDS	1) More than adequate	2) Adequate	3) Marginal	4) Inadequate	5) Very inadequate	
Honorary	9	40	22	10	18	(50)
Monetary	10	40	20	11	18	(51)

10. Some agencies are broadening the number of alternatives they use to improve performance beyond the traditional incentive awards. We have listed a few of these alternatives below for three levels of responsibility. First, indicate by checking "yes" or "no," if you are using particular alternatives. Second, regardless of whether you checked "yes" or "no," indicate the extent, if any, that you think the use of this alternative is likely to improve performance.

	1. Are you using this alternative?		2. Regardless of "yes" or "no," to what extent, if any, is this alternative likely to improve performance?					
	Yes	No	Little or no improvement (1)	Some improvement (2)	Moderate improvement (3)	Substantial improvement (4)	Very great improvement (5)	
PERFORMANCE AND MONETARY AWARDS								
<u>1</u> Top Line Managers								
Give large one-time bonus (10-20% of base pay) for superior performance	6	94	19	21	18	30	11	(52-53)
Give annual salary adjustments, (0-15%) based on performance*	9	91	15	17	19	31	18	(54-55)
Start productivity sharing (share agency dollar savings with managers)	2	98	34	18	17	18	12	(56-57)
Revise policy to permit more freedom to individual managers in granting awards	18	82	18	21	25	25	11	(58-59)
Other (specify)								(60-61)
<u>2</u> First Level Supervisors								
Give large one-time bonus (10-20% of base pay) for superior performance	8	92	15	17	22	31	15	(62-63)
Give annual salary adjustments, (0-15%) based on performance*	9	91	12	11	24	32	21	(64-65)
Start productivity sharing (share agency dollar savings with supervisors)	3	97	32	14	20	21	13	(66-67)
Revise policy to permit more freedom to individual supervisors in granting awards	16	84	16	20	26	29	9	(68-69)
Other (specify)								(70-71)
<u>3</u> Employees								
Give large one-time bonus (10-20% of base pay) for superior performance	11	89	14	18	22	27	20	(72-73)
Give annual salary adjustments, (0-15%) based on performance*	12	88	9	12	21	36	21	(74-75)
Start productivity sharing (share agency dollar savings with employees)	6	94	32	15	19	18	17	(76-77)
Other (specify)								(78-79)

* Not the same as a quality step increase

11. Consider the Honorary and Monetary awards that you have recommended during the calendar years 1976-1977. How many (if any) of each type of award have you recommended? (Write "none" or the number.)

Number of awards I recommended

<u>129 a/</u>	(Honorary)	(6-9)
<u>223 a/</u>	(Monetary)	(10-13)

[If "none" for both, go to 14, otherwise continue.]

a/Number of awards recommended.

12. During the same years 1976-1977, how many (if any) of your recommendations for either honorary or monetary awards have been disapproved? (Write "none," or the number, If "none," go to 14.)

32 a/ (No. of honorary awards) (14-17)
34 a/ (No. of monetary awards) (18-21)

13. Which of the following do you think were major reasons for disapproval? (Check only those that apply for each type of award.)

	Honorary	Monetary
Higher management rarely gives/approves awards	1	1
Higher management feels awards are rarely justified	2	2
More awards had been granted in our agency than in other agencies	0	0
The quota was filled	4	2
The funds were insufficient	0	1
Other (specify)		

(22-27) (28-33)

14. Within the past two years, 1976-1977, had your management taken any of the following actions to stimulate interest in the incentive award program? (Check one for each item.)

	(1) Yes	(2) No
Management broadened the criteria for granting awards	14	86
Management told me that funds were available	31	69
Management asked me to consider granting more awards than I had in former years	20	80
Management wrote memos notifying me that it was time to consider award candidates	41	59
Other (specify)		

IF "NO" TO ALL, GO TO 16.

a/Number of awards disapproved.

15. Has your management encouraged interest in your agency's incentive award program for any of the following reasons? (Check one for each item.)

	(1) Yes	(2) No	(3) Does not apply
Funds were budgeted and available	34	47	19
Personnel turnover rate was high	5	72	23
Performance had been improving	24	59	18
Our agency was below average in number of awards granted	9	70	22
Management felt awards improved performance	71	21	8
Other (specify)			

16. Within these same past years, 1976-1977, has your management taken any of the following actions to discourage interest in the incentive award program? (Check one for each item.)

	(1) Yes	(2) No
Management narrowed the criteria for granting awards	14	86
Management told me that funds were not available	5	95
Management asked me to consider granting fewer awards than I had in former years	5	95
Management gave no indication that it was time to consider awards	14	86
Other (specify)		

IF "NO" TO ALL, GO TO 18.

17. Has your management discouraged interest in your agency's incentive award program for any of the following reasons? (Check one for each item.)

	(1) Yes	(2) No	(3) Does not apply
Funds were not budgeted or available	8	83	8
Personnel turnover rate was low	1	88	11
Performance had been declining	2	86	12
Our agency was above average in number of awards granted	14	76	11
Management felt awards had little or no effect on performance	4	84	12
Other (specify)			

APPENDIX III

18. In this and the next questions, consider the personnel under your supervision, the kinds of work they do, and especially whether they perform at a superior, average, or below average level. While an awards program may improve performance for some, it has also been argued that for others morale deteriorates and proficiency declines. For the people you supervise, do you think their level of performance is improved, degraded, or left relatively unchanged, as a result of your honorary award program? (Check one for each item.)

HONORARY AWARDS AND PERFORMANCE	PERFORMANCE					
	(1) Substantially improved	(2) Moderately improved	(3) Unchanged	(4) Moderately degraded	(5) Substantially degraded	
Superior	14	36	45	4	-	(56)
Average	11	43	44	2	-	(57)
a/ Below average	2	16	64	5	1	(58)

19. For these same groups, what effect, if any, does your monetary award program have on their performance? (Check one for each item.)

MONETARY AWARDS AND PERFORMANCE	PERFORMANCE					
	(1) Substantially improved	(2) Moderately improved	(3) Unchanged	(4) Moderately degraded	(5) Substantially degraded	
Superior	19	39	41	2	-	(59)
Average	14	50	35	2	-	(60)
Below average	5	22	66	6	1	(61)

20. Indicate the extent to which you agree or disagree if at all, with each of the following by checking one for each item.

	AGREEMENT					
	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree	
Generally, in motivating people to improve their performance:						
a) Honorary awards are effective	1	18	24	49	8	(62)
b) Monetary awards are effective	1	6	13	53	28	(63)
Only a very select few people merit:						
a) Honorary awards	8	22	10	46	15	(64)
b) Monetary awards	9	31	11	37	12	(65)
Criteria are not well defined for:						
a) Honorary awards	6	30	11	34	18	(66)
b) Monetary awards	11	37	12	26	15	(67)

a/12 percent no response.

APPENDIX III

21. To what extent, if at all, are any of the following true in your agency? (Check one for each item.)

	EXTENT					
	(1) To little or no extent	(2) To some extent	(3) To a moderate extent	(4) To a substantial extent	(5) To a very great extent	
1/ Management typically does not approve:						
a) Honorary awards	50	17	11	11	5	6 (68)
b) Monetary awards	54	16	13	7	6	3 (69)
2/ Personnel employment periods have been short. It seems inappropriate to grant:						
a) Honorary awards	32	17	12	11	14	13 (70)
b) Monetary awards	35	19	14	11	10	11 (71)
3a/ Honorary awards are too delayed to be effective	37	21	17	12	6	7 (72)
3b/ Monetary awards are too delayed to be effective	43	27	15	7	5	4 (73)
4/ Too much red tape is involved in the process for:						
a) Honorary awards	27	22	14	13	18	6 (74)
b) Monetary awards	33	22	15	10	18	3 (75)

22. How useful, or not, do you consider the following in motivating personnel to do a better job? (Check one for each item.)

	USEFULNESS					
	(1) Of little or no use	(2) Somewhat useful	(3) Moderately useful	(4) Substantially useful	(5) Of very great use	
Immediate praise or recognition	-	8	10	37	45	(76)
Letter of commendation	3	19	34	31	13	(77)
Quality step increase	4	4	24	33	34	(78)
Cash award	3	7	26	37	28	(79)
Promotion	2	2	8	27	61	(80)
Honorary award	8	20	35	25	14	(81)
Other (specify)						(82)

23. How recently, if at all, have you received training to familiarize you with the operation of your agency's incentive award program? (Check one.)
- 1) 19 Within the last year
 - 2) 20 More than 1 year and less than 3 years ago
 - 3) 19 More than 3 years ago
 - 4) 49 I have never received this training
- (13)
- CONTINUE.
-] GO TO 25.

24. How much help, if any, do you feel this training has given you? (Check one.)
- 1) 5 A very great amount of help
 - 2) 20 A substantial amount of help
 - 3) 35 A moderate amount of help
 - 4) 26 A small amount of help
 - 5) 7 No help
 - 9) 7 No basis to judge
- (14)

25. Do Civil Service Commission (CSC) regulations and agency policy act to restrict revision of award programs or implementation of new programs? (Check one for each item.)

	(1) Yes	(2)	(3) Probably yes	(4) Undecided	(5) Probably no	(9) No	(9) No basis to judge
CSC Regulations Restrict:							
Revision of programs	15	27	9	21	14	14	(15)
Addition of programs	13	30	9	19	14	15	(16)
Agency Policy Restricts:							
Revision of programs	13	22	10	24	23	10	(17)
Addition of programs	13	20	11	23	23	11	(18)

26. If regulations and policy permitted, would you be willing to test a performance based award program in your agency? (Check one.)
- 1) 56 Yes
 - 2) 24 Probably yes
 - 3) 13 Maybe
 - 4) 4 Probably no
 - 5) 4 No
- (19)

27. In your opinion, in your incentive awards program, are awards usually presented to those who are most deserving? (Check one.)
- 1) 24 Definitely yes
 - 2) 45 Probably yes
 - 3) 14 Not sure
 - 4) 15 Probably no
 - 5) 2 Definitely no
- (20)

28. Consider the goals and objectives of the organization for which you are responsible, and the types of work done throughout the organization. How much of a contribution, if any, does the incentive award program make to your organization's productivity? (Check one.)

The incentive award program makes: (21)

- 1) 12 A very significant contribution to productivity
- 2) 16 A significant contribution to productivity
- 3) 28 A moderate contribution to productivity
- 4) 23 Some contribution to productivity
- 5) 21 Little or no contribution to productivity

V COMMENTS

29. If you have comments on any of the questions within the questionnaire, or on related topics, please write in the space below or on the back of this page. We would be particularly interested in your views on how awards (monetary and otherwise) could become a more positive influence on employee morale and job motivation.

(22)

30. May we contact you for further information about your response to this questionnaire? (Check one.)

(23)

- 1) Yes (CONTINUE.)
- 2) No

31. If yes, please write your name and business phone number below.

(24)

Name _____

Business phone _____ / _____
Area Code Number

PRIVATE ORGANIZATIONS CONTACTED BY GAO
REGARDING INCENTIVE AWARDS PROGRAM

The Bankers Life
Des Moines, Iowa

Bechtel Corporation
San Francisco, California

Dayton Hudson Corporation
Minneapolis, Minnesota

Dow Chemical Company
Midland, Michigan

Hoerner Waldorf Corporation
St. Paul, Minnesota

International Business
Machines
Armonk, New York

International Multifoods
Minneapolis, Minnesota

Kraft Inc.
Glenview, Illinois

Midland-Ross Corporation
Cleveland, Ohio

Minnesota Mining and
Manufacturing Company
St. Paul, Minnesota

Prudential Insurance
Company
Newark, New Jersey

Rockwell International
Research Center
Pittsburgh, Pennsylvania

United States Steel Corporation
Pittsburgh, Pennsylvania

CIVIL SERVICE REFORM ACT OF 1978

In October 1978 the President signed the Civil Service Reform Act of 1978 which makes significant changes to the Federal Civil Service. Several provisions of the act will have an impact upon the Government's incentive awards program --Performance Appraisals of Title II, Performance Awards and Ranks of Title IV pertaining to the Senior Executive Service, and Merit Pay of Title V pertaining to employees having managerial or supervisory responsibilities at the GS-13 through GS-15 level.

PERFORMANCE APPRAISAL

Title II of the Reform Act requires that most Federal agencies develop performance appraisal systems which (1) provide employees periodic job performance appraisals and (2) encourage employee participation in establishing performance standards. The results of these appraisals are to be used along with other types of personnel actions, as a basis for rewarding employees.

Additionally, the law states that an agency's performance appraisal system will provide for establishing performance standards which will, to the extent feasible, permit accurate job performance evaluations on the basis of objective criteria. These performance standards and the critical elements of an employee's position are to be communicated to the employee at the beginning of each appraisal period. This communication process is to begin as soon as practicable, but not later than October 1, 1981.

SENIOR EXECUTIVE SERVICE

Title IV creates a Senior Executive Service which will include about 8,000 managers above grade GS-15 and at Level IV and V of the Executive Schedule. These people will direct organizational unit work; assume accountability for specific program success; monitor progress toward organizational goals and make adjustments when appropriate; supervise employees other than personal assistants; and exercise important policy-making, policy-determining, or other executive responsibilities.

To encourage excellence in performance by executives under the Senior Executive Service, within-grade increases are eliminated in favor of potential annual performance

awards. Up to 50 percent of the fully successful career executives can increase their annual earnings as much as 20 percent through performance awards.

In addition, an honorary rank can be conferred upon by the President and a cash award given to the most effective career executives. Up to 5 percent of the career executives can be designated "Meritorious Executive," which would include an award of \$10,000. A person designated as a "Distinguished Executive" would receive a cash award of \$20,000, but this title could not be conferred upon more than 1 percent of the career executives in the Senior Executive Service. The aggregate amount paid to a senior executive--salary, performance awards, and special senior executive awards--cannot in any one year exceed the salary rate established for Executive Level I.

Each agency head is responsible for establishing a performance appraisal system for members of the Senior Executive Service. The agency appraisal is to be preceded by a review and appraisal of requirements and accomplishments by an agency Performance Review Board. Performance awards will be made by the agency only after considering the Board's recommendations.

MERIT PAY

Title V of the Reform Act requires that salary adjustments for approximately 72,500 managerial and supervisory employees in grades GS-13 through GS-15 be based on performance rather than length of service.

The new Office of Personnel Management will establish a merit pay system for these employees. That system will relate pay to performance by allowing agencies to recognize and reward degrees of performance of managers and supervisors with merit cash awards in varying amounts. At present, periodic step increases are almost automatic for those whose performance meets an acceptable level of competence.

The minimum and maximum pay for each grade from GS-13 through GS-15 will establish the salary "band" that will pertain to all employees in each grade. Specific steps within each grade will be eliminated for employees covered by the merit pay system.

Funds for pay adjustments to those covered by merit pay procedures will be derived from the system itself. When the amount of an annual pay adjustment for all white-collar employees is determined through the comparability process, at least 50 percent of that amount will go automatically to employees under the merit pay program. The remaining amount will be combined with money which otherwise would have been used for within-grade and quality step increases for these employees to form a "merit pool." Merit pay increases for supervisors and managers will be awarded from this pool.

In addition, the President and an agency head may continue to give cash and honorary awards for an employee's suggestion, invention, superior accomplishment, special act or service, or other personal effort which contributes to the efficiency, economy, or other improvement of Government operations. The law increased the maximum award an agency head and/or the President may give from \$5,000 to \$10,000. Awards of up to \$25,000 may still be given with the approval of the Office of Personnel Management.

PERFORMANCE MEASUREMENT 1/

In our March 1978 report entitled "Federal Employee Performance Rating Systems Need Fundamental Changes" (FPCD-77-80), we recommended that the Civil Service Commission develop a linkage between performance achievements and incentive awards. The Civil Service Reform Act of 1978 which was signed into law in October 1978 requires most agencies to develop performance appraisal systems which use appraisal results as a basis for rewarding. However, based on agency officials' comments during this and prior reviews and their general reluctance to establish a linkage, we believe agencies perceive conceptual or technical barriers to implementation. These barriers are generally embodied in statements that Government operations are "not appropriate" for measuring employee performance. The purpose of this appendix is to demonstrate that performance measurement can be, and has been, applied to all types of Government operations.

As was stated in chapter 2, the essential components to an effective incentive awards program include as a minimum:

- Direct linkage with organizational goals and objectives.
- An objective performance evaluation system.
- Managers who know how to use, and are motivated to use, incentive awards.
- Timely and relevant awards.
- An annual evaluation.

The last three of these components should not present difficult conceptual or technical problems for an agency's management. In fact, these latter three components should be accomplished by good administrative practices.

1/Examples used in this appendix are taken from a June 1973 report prepared by the U.S. Army Management Engineering Training Agency for the joint Civil Service Commission/General Accounting Office/Office of Management and Budget task force on productivity.

The first two components, however, require a competent technical and analytical effort, and it is these two components that agencies' officials perceive as barriers to implementing incentive systems. Therefore, this appendix is intended to emphasize concepts and approaches that have been successfully used to (1) establish performance expectations and (2) link these expectations with organizational goals.

SCOPE OF EMPLOYEE PERFORMANCE MEASUREMENT SYSTEMS IN THE GOVERNMENT

Numerous productivity studies conducted by the Joint Financial Management Improvement Program and a joint Civil Service Commission/General Accounting Office/Office of Management and Budget task force on productivity have determined that most Federal activities are susceptible to some form of performance measurement. At present, 67 percent of the Federal civilian workforce is covered by productivity measures. A 1972 survey by the joint CSC/GAO/OMB Productivity Task Force showed that 63 percent of the employees in civil agencies and 45 percent in defense agencies are covered by some type of staff planning measure. These studies have also shown that it is both practical and feasible to use these measures for assessing performance and planning for future staffing needs.

RELATIONSHIP OF EMPLOYEE PERFORMANCE EVALUATION TO OVERALL PRODUCTIVITY MEASURES

The environment today in Federal organizations is one of austerity. Managers are being asked to produce more with the same, and in some cases, even fewer resources. In other words, managers are being asked to increase their productivity. Productivity is defined as the ratio of output over input. Output is the product(s) and/or service(s) produced by an organization. Input is that set of resources needed to produce the output, and includes labor, materials, rent, and any other form of resource requirements.

Productivity measurements are mainly used at higher management levels (i.e., above the detailed operating levels) as a means to assess overall organizational performance. Output measures such as pieces of mail processed or patent disposals are useful for this level of measurement. However, to develop useful and meaningful measures at the individual or work group levels, more detailed work measures are used to

establish standard output/input ratios. Performance is determined by comparing standard time to actual time, by employee.

WORK MEASUREMENT AS A BASIS OF PERFORMANCE EVALUATION

Work measurement quantifies the labor resource portion of the input needed to produce one unit of output. This quantified value (called a standard) provides the basis for a wide variety of labor planning and control activities, one of which is employee performance evaluation. Without good work measurement, management's assessment of labor performance degenerates to management guesses. Accordingly, there is an inherent need for work measurement of some variety in any organization.

Work measurement has been extensively used in the Federal Government for over 25 years. It has been tried in most Federal agencies, under varying conditions. Millions of dollars have been spent on implementing work measurement; thousands of analysts have been trained to establish standards; and tens of thousands of managers, supervisors, and staff personnel from all organizational levels have attended seminars and training courses on work measurement.

DEFINING WORK OUTPUT

One of the most difficult aspects of performance measurement is defining the proper work unit outputs to use. A concept that has proven useful in defining work outputs at various levels of the organization is a hierarchy of work unit levels. A different work unit is used at each level in the hierarchy. A simplified illustration of a typical structure of work unit levels is shown in Figure 1. A pyramid is employed to show that many different work units are required at the detailed level with fewer units required at each successively higher level.

Figure 2 presents an overview of the use of this typical hierarchy of work unit levels at each organizational level. As shown, the detail and summary levels of work units are found at the field or operating level of the organization. The detailed work units are selected to support detailed scheduling and performance evaluation at the work center level. To permit detailed scheduling, the task required to accomplish the work unit must be performed within a single work center. A standard is developed for each work unit using one of the available work measurement techniques. Typical work units selected at this level are: claims reviewed, reports audited, or tires repaired.

Figure 1

INTERFACE of HIERARCHY of WORK UNIT LEVELS and ORGANIZATION

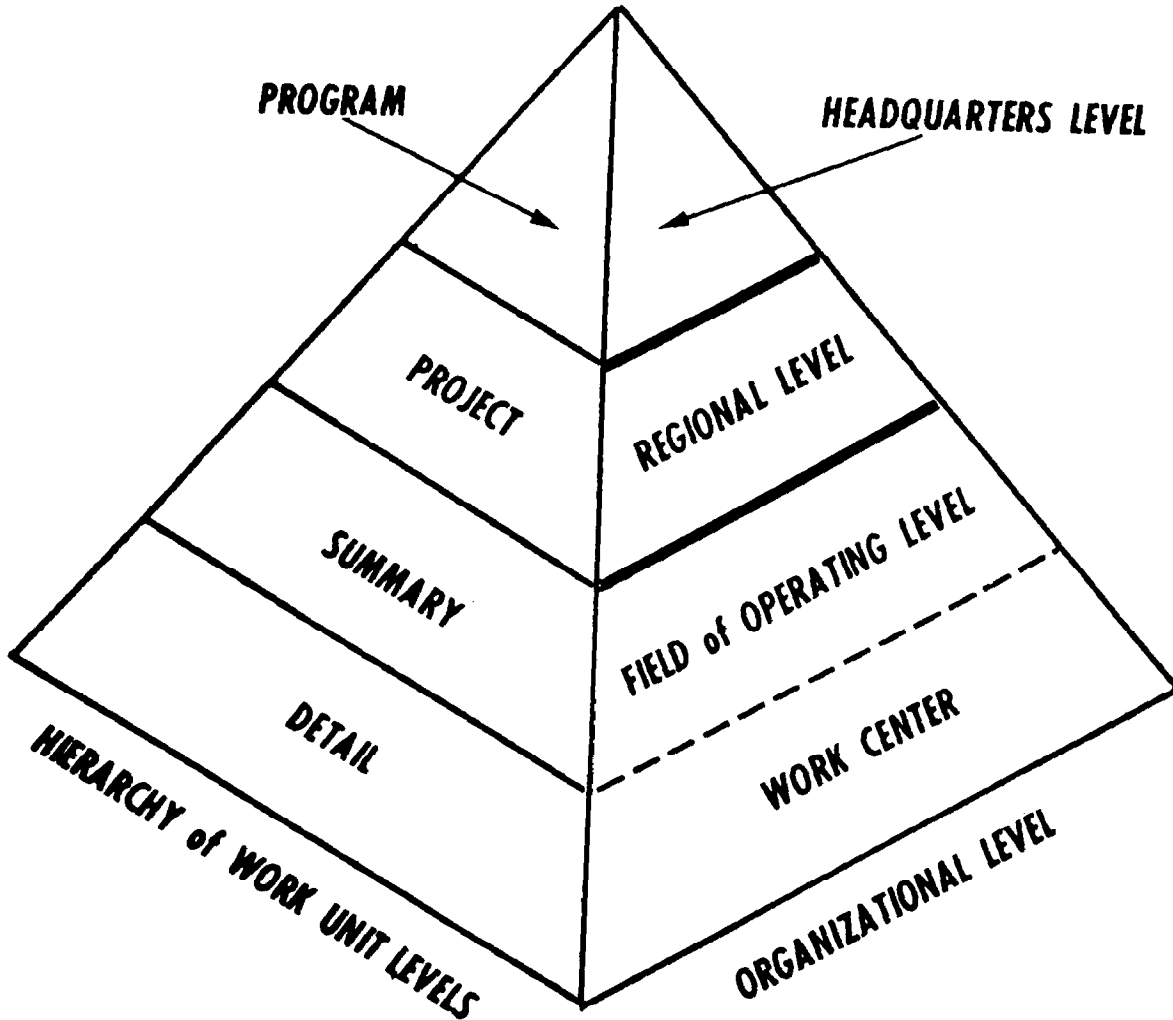
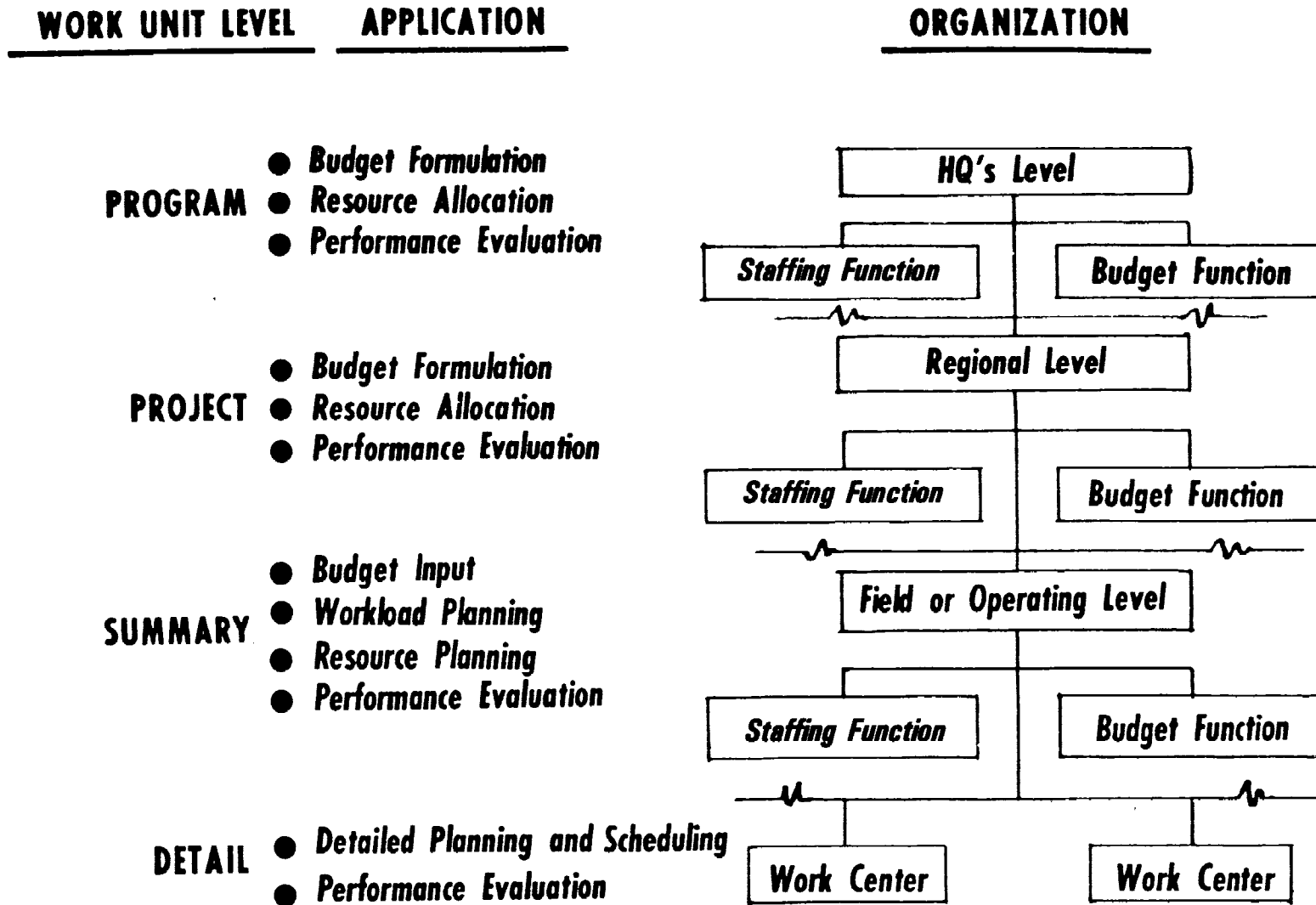


Figure 2

USE of HIERARCHY of WORK UNITS



The summary work units are selected to support budgeting, workload planning, resource planning, performance evaluation, or any other managerial function requiring a summary level standard. A standard is developed for each work unit. Usually these standards are based on aggregations of actual or standard earned hours. Typical units selected at this level include: claims processed, reports completed, or trucks maintained.

Project and program work units are also selected considering management requirements at the regional and headquarters levels. The standards for these work units are used to support the higher level budgeting, resource allocation, and performance evaluation requirements. Standards at these levels are also based on aggregations of actual or standard earned hours.

The next step is to determine the standard time required to produce the work unit outputs. A wide variety of performance measurement techniques is used for this purpose. These include time study, work sampling standard data, historical estimates, and technical estimates. The following example illustrates a method commonly employed in developing work output standards useful for assessing individual and work group performance.

One objective of the example organization includes the settling of legal disputes. The overall measure for this area is "cases closed." There are several categories of these legal disputes, thus a low level work unit may be "category B cases closed." In this type of work, a case may be terminated in a number of ways and after any work phase. However, in some instances, it may be necessary for the case to be processed through all phases prior to being completed.

Figure 3 shows an example of 100 dispute cases processed by the organization. Over a period of time, all 100 cases are processed through the investigation phase resulting in 50 cases being terminated. The remaining 50 cases are processed through the informal negotiation phase, which results in an additional 30 cases being terminated. The remaining 20 cases require processing through the formal hearings phase. Of these 20 cases, 15 cases are terminated. The last 5 cases are completed by processing through the litigation phase.

Due to the high variability of tasks required at the detailed level work unit, this organization has chosen to

develop historically based standards. These standards are computed by dividing the number of staff-hours charged to a phase of the workflow by the number of cases processed through the informal negotiation phase. A total of 2,500 staff-hours were expended to accomplish this effort. Thus, the summary level standard for this phase is 2,500 staff-hours divided by 50 cases processed or 50 staff-hours per negotiation completed.

The next level standard is computed by dividing 7,500 (the total staff-hours charged) by 100 (the total category B cases closed). The highest level standard would be calculated similarly. Assuming 80,000 staff-hours were charged to settle a total of 500 cases, the standard is 160 staff-hours per case closed. The large difference between this standard time and the standard for category B cases is due to other categories of cases requiring many more staff hours each.

Graphically, the hierarchy of work units and related standards is shown in Figure 4.

For hard to measure activities in which the task is done only once, the concept of work measurement is not applicable. However, other techniques can be used to assess the performance of project or nonrepetitive work. For example, such a system has been implemented for assessing the performance of research and development activities at one defense organization. Although this system is not classified as a work measurement system, it has many of the same characteristics. Under this system, project work is broken down into successively smaller units of work (called end items) and finally into the tasks necessary to develop each end item. This breakdown is very similar to the hierarchy of work units. (Figure 5).

For each task, a time estimate (standard) is developed and a work schedule established. Milestones are also identified at the beginning and/or end of each task. These tasks represent a detailed work unit and upon completion are counted as a measure of output. This concept is illustrated in Figure 6.

Figure 3

WORKFLOW PROCESS CHART

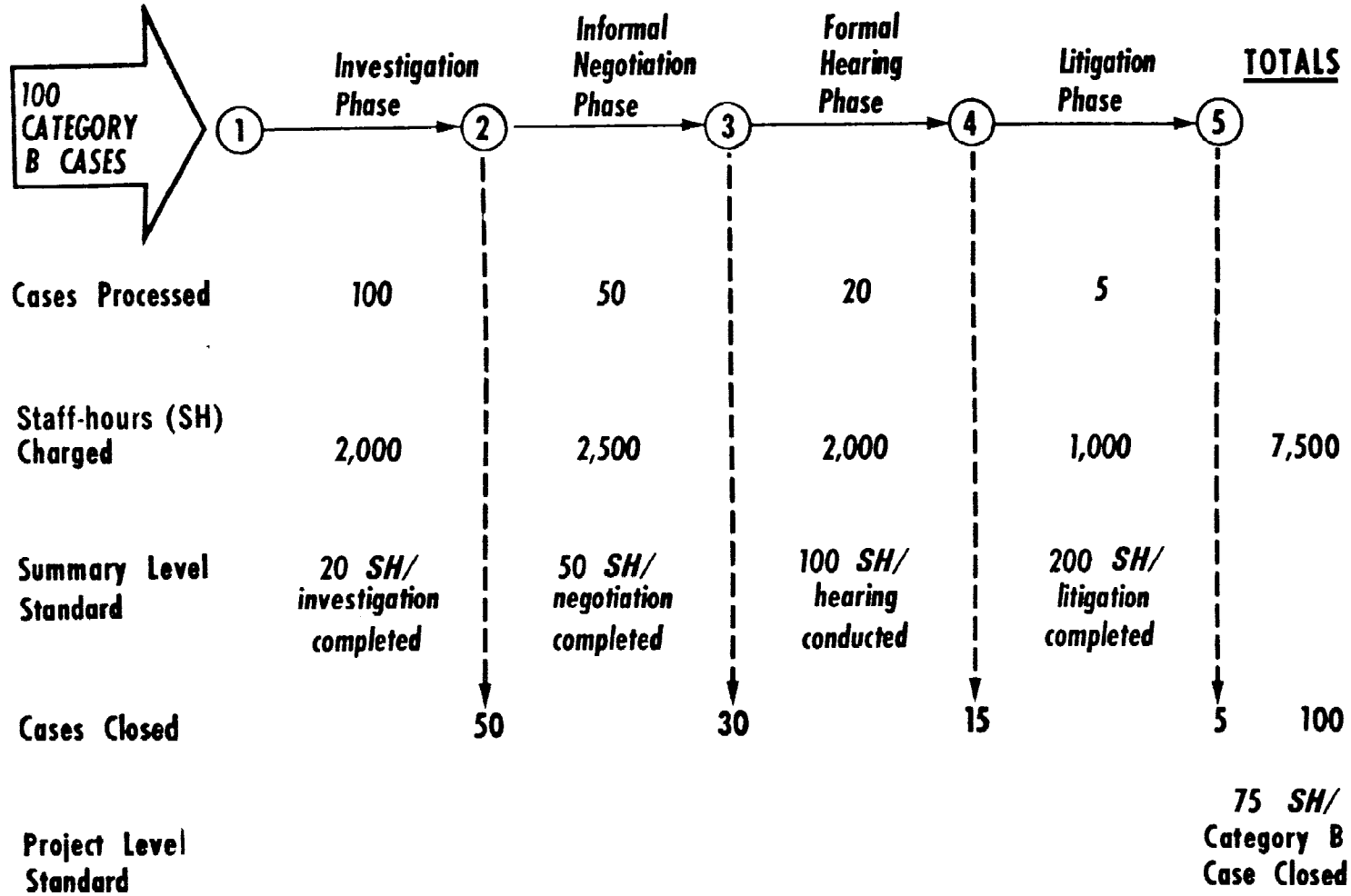


Figure 4

HIERARCHY of WORK UNITS and RELATED STANDARDS

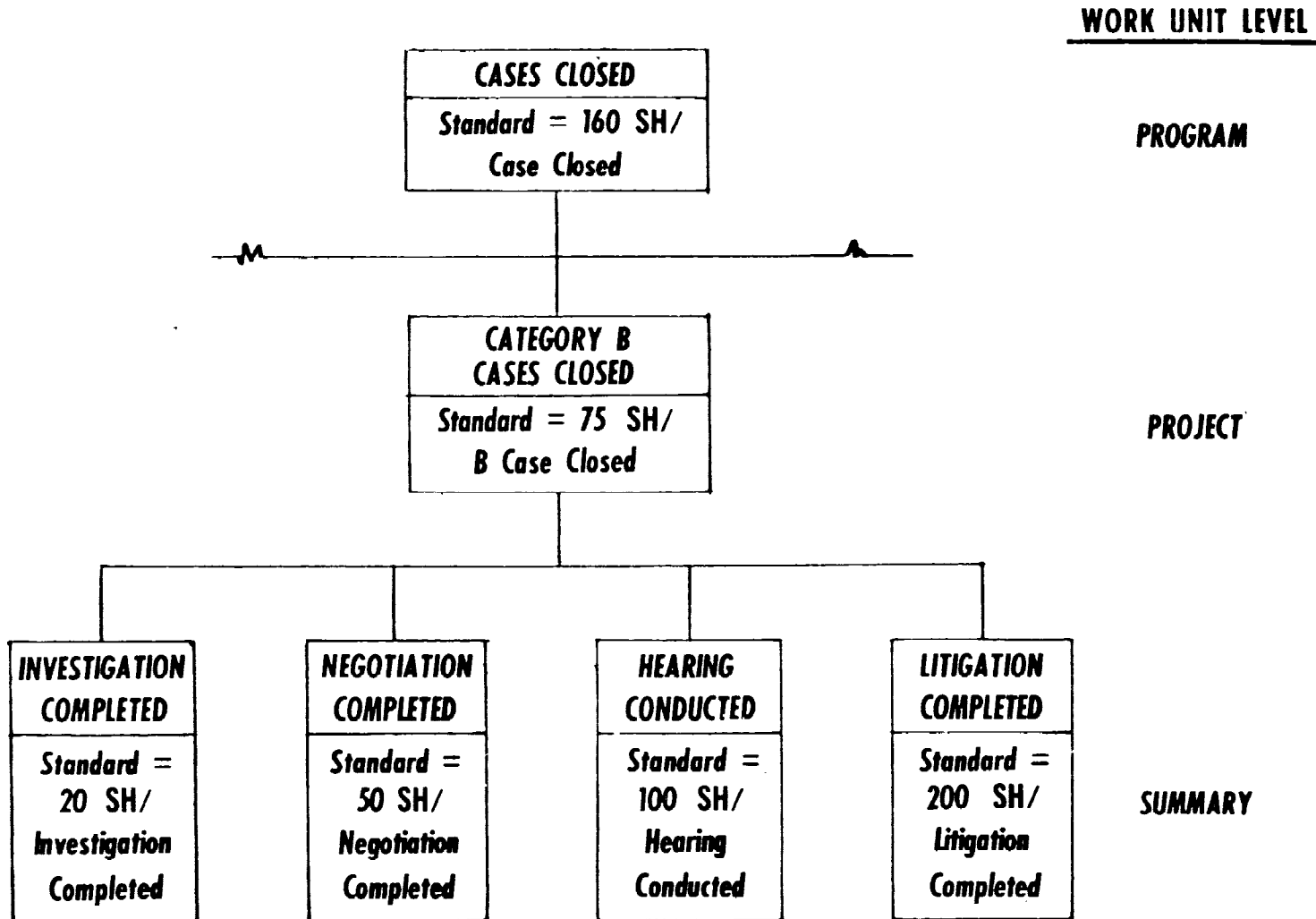


Figure 5

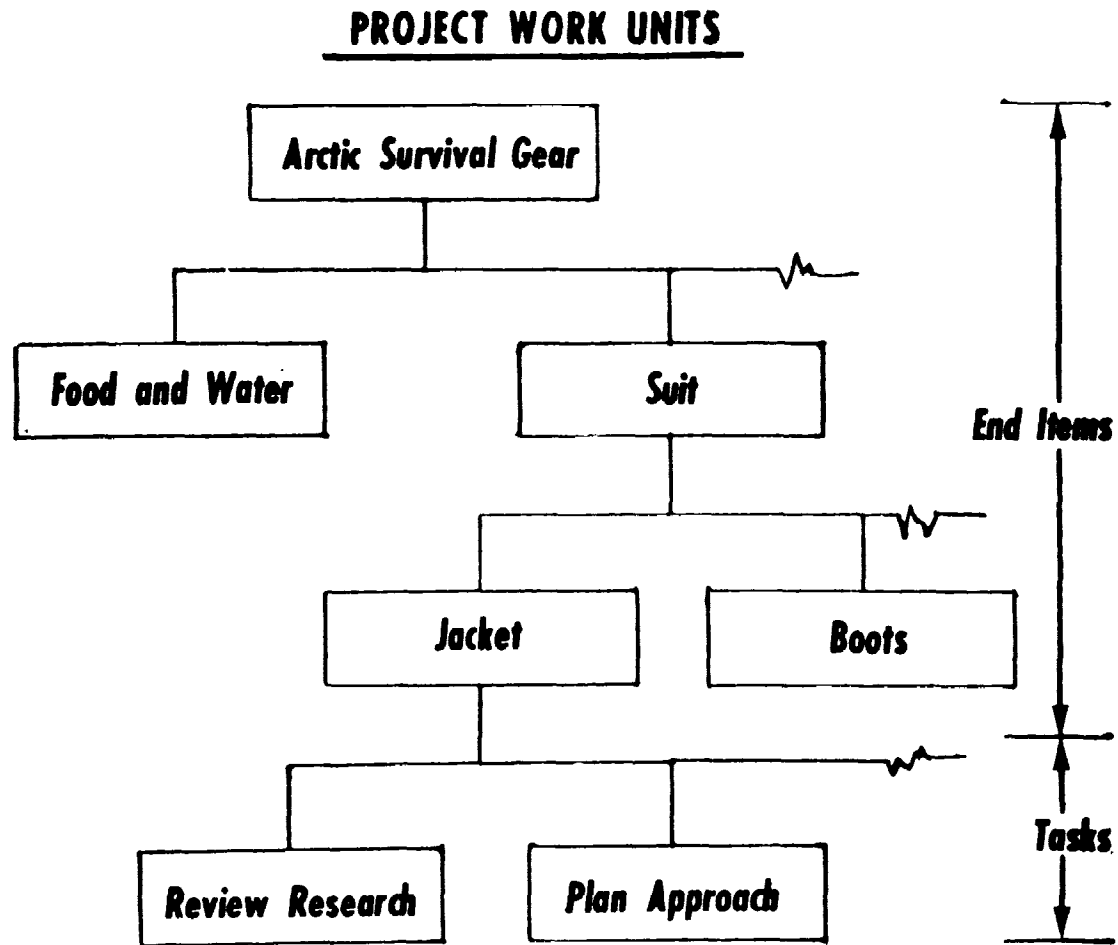
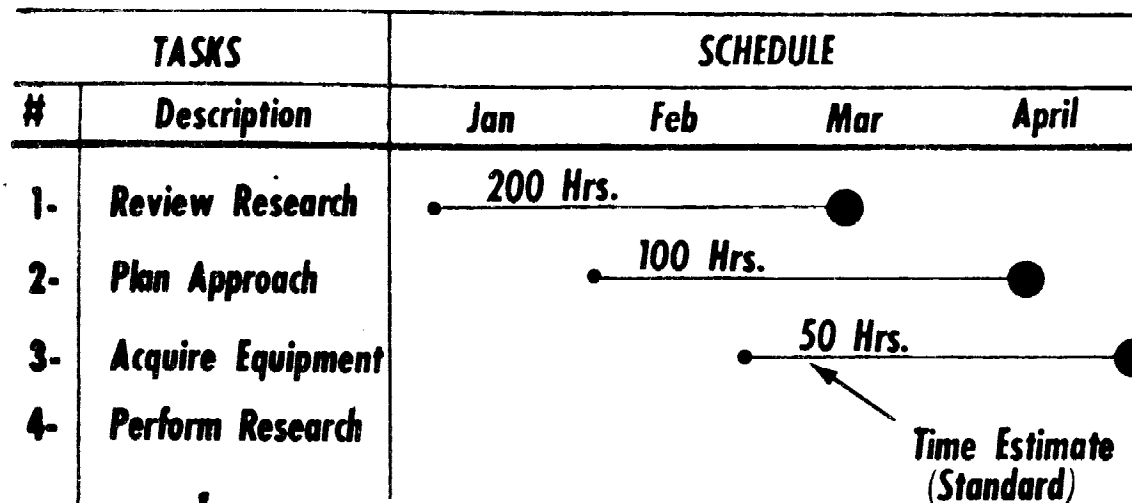


Figure 6

JACKET DEVELOPMENT PROJECT SCHEDULE



Legend

- Milestone (start task)
- Milestone (task completed)

Time Estimate (Standard)

74

A PRODUCTION INCENTIVE AWARDS PROGRAM EXAMPLE

The following detailed example illustrates how one Federal agency is using performance measures as the basis for its incentive awards program.

This Government organization has a mission to produce complex reports with a portion of their direct labor personnel. Each report is different and requires the consolidation of many facts. Electronic data processing and complex manual processes are used to compile statistics. A system of engineered standard time data has been developed and is used to determine a standard time for output. The time standard is used to plan and control work activities and also serves as a basis for an incentive awards program. Approximately 425 personnel are covered by the incentive awards program--both direct and indirect labor (including supervisors) are covered.

Eligibility for a production award is based on all measured work completed during the entire period covered by the recommendation. Work under approved standards is given consideration only for the fiscal quarter in which it is performed. In recommending personnel for production awards, the supervisor must be certain that the employee's attendance record, cooperativeness on the job, attitude toward the work and associates, error rate, and other factors affecting the organization are such that they do not offset the value of achieved production.

Direct worker

If a direct worker meets the general requirements, he or she is eligible to receive a production incentive award in any of these situations:

- When the performance of the worker's group attains or exceeds 100 percent, and the worker's average performance attains or exceeds 90 percent, the worker is granted a cash award in accordance with Table I.
- When the performance of the group is 100 percent of a group standard and the worker performs at least 16 percent of his or her time on that standard, the worker is granted a cash award in accordance with Table II.

- When the performance of the group is under 100 percent or is unmeasured, and the worker's average performance attains or exceeds 100 percent, the worker is granted a cash award in accordance with Table II.

Indirect worker

An indirect worker is eligible for a production incentive award if he or she:

- Meets the general requirements.
- Supports a group working under a standard at least 16 percent of the time.
- Supports a group that performs at 100 percent or higher.

If these conditions are met, the indirect worker is granted a cash award in accordance with Table I.

Supervisors

A supervisor is considered eligible for participation in production incentive awards when his or her group's performance attains or exceeds 100 percent and the group has been assigned measured work for 1,000 hours or more. Recommending division chiefs and office heads are responsible for determining which employees are to share in supervisory awards under Table III. Such determinations are based on the distribution of time between supervisory and other activities. For example, supervisors who spend most of their time on direct work activities would be considered for awards as specified in Tables I or II. On the other hand, an employee engaged primarily in supervisory and administrative tasks would be considered for awards as indicated in Table III.

Amount of Production Savings

After the amount of the incentive award has been determined from Tables I and II, the savings realized by the organization can be readily estimated by referring to Table IV. The savings shown are based on the difference in costs between the workers' actual performance and performance at 80 percent of standard.

Budget authority

Payment of production incentive awards is authorized by the agency's administrative manual along with other awards

under their "Incentive Awards Program." The funding for the production incentive program is obtained as part of a formal budget request as submitted by the work area for the ensuing fiscal year. The request for funds to cover the incentive program is based on previous years' data.

Agency assessment

Agency officials have noted that where work measurement standards were instituted, a 25-30 percent increase in production occurred. They stated their work measurement standards are the most profitable investment going for them. In one recent year, \$85,000 was paid out for production incentive awards resulting in \$2,000,000 in labor savings. They believe that work measurement results in lower unit cost and leads to higher productivity, especially when tied to a production incentive awards program.

Table 1: For direct workers where group performance is 100 percent or higher.

Performance %	Percent of Time on Standard ^{1/}								
	91-100	81-90	71-80	61-70	51-60	41-50	31-40	21-30	16-20
Under 90.....	-	-	-	-	-	-	-	-	-
90-99	\$ 30	25	20	20	15	15	10	10	10
100-109	50	50	45 ^b	40	30	30	25	20	15
110-119	70	65	60	50	40	40	30	25	15
120-129	90	85	75 ^a	65	50	50	40	30	20
130-139	110	105	90	70	60	60	45	35	25
140 & higher ..	130	120	110	90	75	70	55	40	30

^{1/} Time on standard divided by time available in the quarter.

Table 2. Examples:

- a. A direct worker, working 75 percent of the quarter on standards achieves a performance of 125 percent. The group in which he works achieves a group performance of 105 percent. The direct worker receives an award of \$75.
- b. A direct worker works in a group which has group standard only: the group achieves a performance of 105 percent. The worker works 75 percent of the quarter on standards. The worker receives an award of \$45.

NOTE: Numbers in the table are simulated examples

Table II: For individual direct workers, where group is unmeasured or performance is under 100 percent.

For individual non-direct workers, where group performance is 100 percent or higher.

Performance %	Percent of Time on Standard ^{1/}								
	91-100	81-90	71-80	61-70	51-60	41-50	31-40	21-30	16-20
Under 90.....	-	-	-	-	-	-	-	-	-
90-99	-	-	-	-	-	-	-	-	-
100-109	\$ 50	45	40	35	30	25	20	15	10 ^{2/}
110-119	70	60	50	40	40	30	25	20	10
120-129	90	80	60	60	50	40	30	25	15
130-139.....	110	100	80	70	60	50	40	30	20
140 & higher.	130	110	100	90	70	60	45	35	25

^{1/} Time on standard divided by time available in the quarter.

Table I: Example

A direct worker works 320 hours on standard during the quarter, or $(320 + 502) = 63.7$ percent time on standard. During that time his performance on standard is 122 percent. Looking at the table we find that the award for 63.7 percent time on standard at 122 percent performance is \$60.

^{2/} Note: The numbers in the table are simulated examples.

Table III. Supervisor Incentive Award Table for Intangible Savings
(Award to be divided among the supervisors of earning group)

Hours on Measured Work	Performance				
	100-109	110-119	120-129	130-139	140 & Higher
1,000 - 1,500.....	25	35	45	55	65
1,501 - 2,000.....	35	45	60	70	80
2,001 - 2,500.....	45	50	80	100	110
2,501 - 3,000.....	55	60	100	120	140
3,001 - 3,500.....	65	80	110	140	170
3,501 - 4,000.....	75	100	130	160	190
4,001 - 4,500.....	85	110	150	180	220
4,501 - 5,000.....	95	120	170	210	250
5,001 - 5,500.....	100	140	190	220	
5,501 - 6,000.....	115	160	210		
6,001 - 6,500.....	120	170			610
6,501 - 7,000.....	130				640
7,001 - 7,500.....	140			560	670
7,501 - 8,000.....			480	580	690
8,001 - 8,500.....		390	500	605	720
8,501 - 9,000.....		405	520	635	750
9,001 - 9,500.....		410	530	650	770
9,501 - 10,000.....		430	550	670	805
10,001 - 10,500.....	305	440	570	700	820
10,501 - 11,000.....	315	460	590	710	850
11,001 - 11,500.....	325	470	610	720	880
11,501 - 12,000.....	335	490	630	750	910
12,001 - 12,500.....	345	500	640	790	930
12,501 - 13,000.....	355	515	660	810	960
13,001 - 13,500.....	365	530	670	820	980
13,501 - 14,000.....	375	540	700	850	1010
14,001 - 14,500.....	385	560	720	860	1040
14,501 - 15,000.....	400				

Table 3 example:

A supervisor of a unit consisting of four employees has 1,250 hours worked on standard during a quarter. The group performance on standard for this unit is 115 percent. Table 3 indicates for 1,250 hours at 115 percent, a supervisory award of \$35.

NOTE: Numbers in Table are simulated examples.

Table IV
Table for Determining Average Savings
from Award Amounts

Incentive Award		Savings \$
Table I	Table II	
15	15-20	200
20	25	330
25	30	440
30	35	540
35	40	630
40	45	742
80	85	1550
85	90	1600
90	95	1800
95	100	1850
100	105	-
105	110	2000
110	115	2100
115	120	2200
120	125	2400
135	140	2600

NOTE: Numbers in
the Table are simulated
examples.



UNITED STATES CIVIL SERVICE COMMISSION

IN REPLY PLEASE REFER TO

WASHINGTON, D.C. 20415

DEC 18 1978

YOUR REFERENCE

Mr. D. L. Scantlebury
 Director, Financial and General
 Management Studies Division
 General Accounting Office
 Washington, D.C. 20548

Dear Mr. Scantlebury:

We have read with interest the draft report on "Improving Productivity Through the use of Incentive Awards," and offer these comments concerning the findings cited and the recommendations made.

We agree with the study's finding that the effectiveness of the Federal Incentive Awards Program in contributing to improved Government operations can be increased significantly. The components cited as being essential to effective agency awards programs include those that the Civil Service Commission has been working with agencies for a number of years to put into effect. Now, with the impetus of the Civil Service Reform Act, we believe there is a more solid basis for directly linking pay and monetary rewards and performance through the performance standards/performance appraisal process. However, much effort on the part of OPM, the agencies and their managers, supervisors, and employees, will be required to make it work.

While agreeing with the report's principal findings and recommendations, we do not concur with the following:

- o The Federal Incentive Awards Program has had little impact on improving productivity. During the past three fiscal years, first year measurable benefits from employee achievements beyond job responsibilities (excluding suggestions) averaged \$156 million (additionally, well over 100,000 employee contributions each year had benefits in such areas as science, medicine, safety, and national security which cannot be measured in precise productivity terms.)
- o managers and supervisors generally are not motivated to use incentive awards for increasing productivity. Approximately 80% of the supervisors responding to the GAO questionnaire indicated that monetary or honorary recognition or other recognition motivated their personnel to do a better job. And 81% of the supervisors agreed that monetary awards are effective in motivating people to improve their performance.

THE MERIT SYSTEM--A GOOD INVESTMENT IN GOOD GOVERNMENT

9/76 CON 114-24-3

Further, during the past several years supervisors and managers have been sufficiently motivated to grant employees an average of over 180 thousand cash awards and approximately 50 thousand quality increases each year (Annually, about 1 out of 11 Federal employees is recognized for contributions beyond job responsibilities, that resulted during the past three years in tangible benefits to the Government of \$868.8 million, including suggestions)

- o employees generally do not have a high regard for the program. Specifically, the report states that "...sixty-one percent of the employees said their agency's awards program does little, if anything, to affect their job motivation."

The question asked was "Does the fact that people in your agency periodically receive awards affect your job motivation? That is, does your job motivation improve, decline, or show no change?" Sixty-one percent replied that their motivation changed "little or not at all." This, to our way of thinking, is basically a neutral rather than a negative response and not surprising in light of the fact that substantially less than 20% of those responding had been recognized during the past two years. Also, we believe that some workers perform at their highest levels regardless of the monetary incentives that may be present.

- o No agency plan has ever been determined to be in non-compliance with the regulations or been returned for any reason. Between September 1977 and March 1978 the Commission contacted three agencies expressing concern that their awards plans or program conduct were not in compliance with Commission regulations or guidance.
- o The conclusion, "The fact that Federal managers and supervisors rely more on promotions and quality step increases to reward employees for above average performance is a further indication that the Government's incentive awards program has limited motivational impact and that awards program requirements are perceived as inhibiting." While it generally is true that both supervisors and employees perceive promotions and QI's as being the most beneficial and thus the most desirable form of recognition, supervisors responding to GAO's survey questionnaire indicate they consider QI's, Special Achievement Awards, and Promotions, to be about equally motivating (92%, 90%, and 95%, respectively). Also, Government-wide statistics indicate that the QI consistently has been used with less frequency than Special Achievement Awards. (A usage

factor over the last four Fiscal Years ranging from 3.5 to 4.6 per 100 employees for Special Achievements versus one of 3.1 to 3.6 per 100 for QI's). Additionally, most supervisors consider a quality increase to be an "award," and generally know that the documentation requirements for a QI are more demanding than for a special achievement award and that QI's are processed through awards program channels, therefore we do not believe they "rely more on quality step increases" because they "perceive awards program requirements as inhibiting."

- o The recommendation that the Chairman, Civil Service Commission be authorized to suspend an agency's authority to grant cash awards. We feel this recommendation is not consistent with the new OPM's policy of decentralization and delegation of greater authorities to agencies. While this would provide a means of assuring agency compliance with award program requirements, we believe that compliance can be obtained by other means such as OPM's "outreach" to agencies in the form of guidance and technical assistance in developing programs; through improved training for supervisors, managers, and incentive awards program personnel; and through the requirements for reports to be made to the Congress on the effectiveness of merit pay and SES on productivity, which will focus agencies' attention on conducting effective recognition programs. Also, where the Commission's Bureau of Personnel Management Evaluation finds that an agency's awards program is not being conducted in accordance with regulations and guidance, the Commission will take appropriate corrective action.
- o Delete provisions which suggest appropriate cash award amounts for different grade levels. Study findings indicated that 16 percent of the supervisors responding to the questionnaire indicated that Commission regulations restricted revision to their awards program; another 31 percent indicated that Commission regulations probably restricted such revision. In our opinion, these figures are not unusually high. Since July 1973 departments and agencies have had much wider latitude in the development or modification of cash awards and awards scales and much wider discretion in granting awards. At that time, as part of an effort to provide opportunities for bilateralism in personnel policy setting, the Civil Service Commission changed many of the previously regulatory aspects of the Federal Personnel Manual to guidance. As a result, half of the large departments and agencies and over one-third of the smaller agencies have departed from the guidance material in the FPM to establish their awards scales (typically increasing the dollar amount of awards to make them more meaningful to both the organization and to the recipient). While we agree that there needs to be

much better orientation and training of supervisors and managers concerning their use of awards authorities, it currently is within agencies' prerogatives to establish their own scales of awards. We believe there is need to (1) provide agencies the necessary technical assistance to do this and (2) update the guidance material in the FPM to provide a sound basis for agencies' use in considering what changes in their awards policy, if any, are needed.

- o GAO analysis also showed 16% of the average performers received awards, but that most above-average performers did not. The results of the sample analysis, described in the report as "indicators of an ineffective program," are atypical of Government-wide experience. Information provided with FY 1977 annual reports by 13 agencies (employees of which comprise 49% of the total Federal civilian population) shows that 30.6% of employees rated "Outstanding" received further cash recognition--12.9% through a quality increase and 17.7% through a lump sum cash award. Additionally, FY 1978 statistics (of nine agencies reporting to date) show that 40.5% of employees rated outstanding received further cash recognition--24.5% through a quality increase and 16.1% through a lump sum cash award. These figures do not include those above-average employees who received promotions which recognized their superior performance. Nor do we consider the fact that some employees rated "average" or "below average" received awards to be an indicator of an ineffective program. Criteria for a special achievement award for sustained superior performance require that only one aspect of performance be superior, and for a special act or service, the contribution being recognized need not relate to the employee's performance of assigned duties and would, therefore, not be expected to relate to the employee's performance rating.
- o Neither the Commission nor the individual agencies...are annually evaluating the awards program... The report implies that the Commission evaluation coverage of agency awards programs has been insufficient, stating that "...no special evaluations have ever been made by the Commission of an agency's incentive awards program." While it is true that Commission special evaluations are limited to coverage of certain segments of an agency's personnel program, very rarely would a special evaluation be limited to a single program area, as implied in the report. Because most individual personnel programs interrelate so strongly with other personnel areas, they cannot be effectively reviewed in a vacuum. In most cases, we find it

necessary to adopt a systems approach to program review: assessing the impact the particular program has on complementary personnel areas and determining the total contribution that the program and those related to it make to mission accomplishment. This is especially true of the incentive awards program, which cannot readily be separated from the performance evaluation program. Beyond this, assessment of the particular contribution the agency's incentive awards program makes toward the general area of productivity, requires assessment of the relative contribution to productivity of other personnel programs such as: employee management relations, staffing and promotions, physical working conditions, and training.

The Commission has conducted numerous evaluations of incentive awards programs during recent years, during general and special evaluations and as part of our participation in agency-led reviews. Typical of Commission coverage, our smallest region, Seattle, conducted nine general evaluations during FY 1977 and FY 1978 and these evaluations included coverage of incentive awards programs. We intend to continue working toward improvements in the manner of our evaluations and their benefits to agency's programs. In February 1977, guidelines for incentive awards program coverage were revised, providing for the assessment of program effect on employee productivity and overall agency goal accomplishment. Also, beginning in 1979, a new employee attitude questionnaire, administered as part of our overall agency personnel evaluations effort, will include several questions which pertain specifically to employees' knowledge and views of their agency awards program. Further, we are completely revising the Commission's evaluator's Handbook which will include incentive awards program guides.

- o The recommendation that the Chairman propose legislation which would repeal Section 5336 of title 5, USC, which provides authority to grant additional within-grade increases in recognition of high quality performance. We believe this would deprive managers, of a very useful tool for motivating and rewarding excellent performance. A QSI can be very effective if employer and employee understand its purpose. It is rewarding and motivational in that it allows high performing, "fast-track" new employees to progress more rapidly to the going rate, i.e., middle salary range, of the grade and it permits the experienced and sustained high performer to advance above the going rate at a faster pace than the usual progression. Thus, the QSI can be used to motivate, reward, and retain high quality employees.

In addition, we offer the following reactions to several study findings:

- o A high percentage of employees...thought cash can be effective reward if the amount is large enough to make a difference to the individual. While 66% of employees surveyed indicated that amounts of cash awards currently being granted were marginal or inadequate, 49% also indicated that 1 week's salary would be considered appropriate. Current FPM guidance, followed by somewhat less than two-thirds of Government agencies, provides for a range of 1.1% at the lower grades, to 1.5% of base salary. One week's pay, on the other hand, would average 1.9% of base salary, or between .8% and .4%, respectively, above current FPM guidance. However, in order to make incentive awards more meaningful and more equitable in relation to those provided under the Reform Legislation for other employees, we intend to proceed with new FPM guidance which would raise the amounts of performance awards.
- o Neither the agencies nor the Commission maintain records from which program administration costs can be readily identified.... The most recent estimate of Government-wide administrative costs for fiscal year 1966 were estimated to be about \$12.3 million. While this is true, it should be noted that attempts have been made to establish administration costs. And while these have been unsuccessful to date, because of differences in program administration throughout Government, a further attempt is underway. We wish to point out that, by estimating administration costs (using the 1966 figure of \$12.3 million and building in interim estimated cost of living increases) there still is a net return to the Government of tangible benefits at the rate of almost \$4 for every \$1 granted in awards, as well as intangible benefits.
- o Incentive Awards Officer could provide more assistance. We agree generally that Incentive Awards Program Administrators could provide more assistance but we also feel the report should address agency management's responsibility to allocate adequate staff resources to the awards program. Our studies show that only about 13% of awards program personnel are permitted to spend more than 50% of their time on the program and that the average experience factor is 3-5 years. Agency management generally views the awards program function as primarily a clerical operation and declines to assign the program a high staffing priority. In many instances, the person officially assigned responsibility at the professional level is in the employee relations or other personnel field, and faces the deadline demands of grievances, appeals, placement, and labor-relations matters and therefore delegates to clerical or secretarial personnel all but the "must," (i.e. highest-level) awards program responsibilities.

In other instances, agency management staffs the position with trainees or interns under the guise of "training assignments," resulting in an erratic program with no continuity.


This office has attempted to provide guidance to agencies on the staffing of incentive awards positions. As a result, a sample position description now is incorporated into the Handbook and Guide which includes the qualifications and performance factors recommended in your report. Currently, the Commission is developing updated guidance in the form of representative position descriptions for various organizational levels.

In view of GAO's findings regarding program staffing, and our experience, we strongly urge that you consider adding to the criteria for an effective program a requirement that agency heads provide adequate awards program staff support, (both in quantity and quality) to assure that employee contributions are recognized promptly in order to comply with 5 CFR 451.204 which requires that they "...assure maximum employee participation...obtain all possible benefits to the Government."

- o Managers and supervisors generally...have not received the necessary technical assistance and training to enable them to use incentive awards for increasing productivity. While we agree that a great deal more needs to be done in this regard, improvements are being made. A survey, conducted by the Civil Service Commission in 1976, indicated that 64% of agencies were providing incentive awards training for supervisors and managers and executives. Ninety seven percent were using the Supervisor's Guide, published by the Commission, which includes mention of the relationship between productivity and incentive awards, as does a similar publication for management and executive levels and other written and audio-visual training materials. These pamphlets also stress the relationship between performance and reward and the importance of prompt recognition, publicity, and integrity of the program. In addition to making these training materials readily available, the Commission has worked with the Departments of Navy, HEW, Commerce and Treasury to develop special award programs for employees in production operations.

We appreciate this opportunity to offer our reactions to the draft report and look forward to further discussions with GAO staff so that full benefits can be derived from this study.

Sincerely yours,


Raymond Jacobson
Executive Director

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