

GAO

Report to the Subcommittee on Federal  
Services, Post Office, and Civil Service  
Committee on Governmental Affairs,  
U.S. Senate

February 1993

# FEDERAL PERFORMANCE MANAGEMENT

## Agencies Need Greater Flexibility in Designing Their Systems



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General Government Division

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February 24, 1993

The Honorable David Pryor, Chairman  
The Honorable Ted Stevens,  
Ranking Minority Member  
Subcommittee on Federal Services,  
Post Office, and Civil Service  
Committee on Governmental Affairs  
United States Senate

This report responds to your request that we review federal agencies' performance management systems. As agreed with the Subcommittee, we (1) identified the elements of an effective performance management system, (2) determined whether these elements were included in federal agencies' performance management systems, and (3) obtained perceptions of personnel officials, supervisors, employees, and researchers on the adequacy of the federal performance management systems.

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## Background

The Civil Service Reform Act of 1978 (CSRA) and related legislation established a governmentwide system of performance management for federal employees. The Code of Federal Regulations (CFR) defines performance management as the systematic process by which an agency integrates performance, pay, and awards with its basic management functions for the purpose of improving individual and organizational effectiveness in accomplishing agency mission and goals. The system was designed to serve as a vehicle to improve agency and individual performance through improved communications of performance expectations between employees and supervisors. An employee's yearly workplan, consisting of elements and performance standards, was envisioned to support agency planning and the accomplishment of work. Ongoing communications with the supervisor, including a formal, end-of-the-year appraisal, would provide feedback to the employee. Management decisions on promotions, awards, training, and retention would be linked directly to the performance management process.<sup>1</sup>

This report addresses the performance management systems for Senior Executive Service (SES), Performance Management and Recognition System (PMRS), and Performance Management System (PMS) employees. SES consists of employees in positions above grade 15 and of a supervisory, managerial, or policymaking nature. PMRS includes grades 13 through 15

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<sup>1</sup>"Critical Personnel Management Issues: Performance Management," International Personnel Management Association (Dec. 1989), pp. 1-2.

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supervisors and management officials. PMS includes General Schedule (GS) and Federal Wage System (FWS) employees.

As part of the PMRS Amendments of 1991, Congress established an advisory committee, the PMRS Review Committee, to review and recommend to the Office of Personnel Management (OPM) improvements to PMRS. In addition, a provision of the Federal Employees Pay Comparability Act of 1990 established the Pay-for-Performance Labor-Management Committee to advise OPM on the design and establishment of systems for strengthening the linkage between the performance and pay (pay for performance) of GS employees. In late 1991, both committees issued reports to OPM. The PMRS Review Committee made recommendations to improve PMRS, and the Pay-for-Performance Labor-Management Committee made recommendations for strengthening the link between pay and performance for GS employees.

OPM is considering the PMRS Review Committee report as well as information from other sources to determine what changes are needed, both regulatory and legislative, to improve PMRS. In addition, OPM is considering the Pay-for-Performance Committee recommendations in determining how to design and establish systems for strengthening the linkage between performance and pay for GS employees.

Because some of the issues we identified are similar to those addressed by the two committees, this report also provides information to OPM for its deliberations concerning the future of PMRS and pay for performance for GS employees. Appendix IX contains the committees' recommendations that addressed some of the issues we identified.

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## Results in Brief

The federal performance management systems we examined contained the key elements that literature and an expert panel that we convened said are necessary for such systems to be effective. Yet, our work, including our case studies, showed that a common perception exists among personnel officials, supervisors, employees, and researchers that not all elements have been effectively implemented. In some instances, elements of the performance management systems were viewed as being used for too many conflicting purposes with the result that their intended objectives were not met. In other instances, these elements were viewed as too rigid—they did not allow agencies the flexibility to tailor performance management systems to their needs. These and other factors have contributed to the perception that the results of an effective performance

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management system—improving employee performance, establishing accountability, and promoting employee trust—were not being attained.

Some elements, such as setting and communicating employee performance expectations, were generally viewed in a positive light. For example, a May 1992 OPM survey found that 75 percent of approximately 31,000 employees surveyed indicated that they knew what was expected of them, and 87 percent had a clear understanding of how their work contributed to their agency's mission.<sup>2</sup>

On the other hand, other aspects of the performance management system were viewed negatively. A common concern we found throughout our research related to the linkage of the annual performance rating to management decisions, particularly the decisions involving pay, awards, and reductions in force (RIF). Among other things, it was commonly believed that because multiple decisions are based on the performance ratings, some supervisors inflated the ratings to protect their employees rather than used them to provide honest feedback necessary to achieve accountability as well as improve performance.

The success of the performance management systems in rewarding good performance was also questioned. Monetary rewards as a motivator were often looked upon as less than effective because of both the relatively low dollar amounts involved and the belief that they were not directly linked to performance. For example, since the PMRS award funds are capped at 1.5 percent of the PMRS aggregate payroll, the more employees who are rewarded, the smaller the average award. Officials that we spoke with, as well as other research, consistently pointed out that such small rewards do not motivate employees toward greater performance and can actually demotivate those who do not receive any awards, resulting in a no-win situation for the agency. In addition, nonmonetary awards, if used correctly, can also be used to motivate employees. However, a governmentwide employee survey we conducted found that only about 35 percent of respondents believed they were treated fairly in the area of nonmonetary awards.

The effectiveness of other elements of performance management systems in achieving desired results was also questioned. Personnel officials and supervisors we interviewed had conflicting views about whether holding individuals accountable for their performance has been achieved. In general, personnel officials believed that their performance management

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<sup>2</sup>Survey of Federal Employees, OPM (Washington, D.C.: May 1992), pp. 1, 38, and 42.

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systems were inadequate because the systems did not focus on accomplishing goals or specific objectives, although the supervisors we spoke with generally believed their employees were held accountable. Further, we did case studies, which showed significant variability in the specificity of performance standards for the managers and employees that we examined.

An underlying theme we found throughout our research was the need for change and greater flexibility so that agencies could tailor performance management systems to their own work environments and workforce. OPM is currently considering whether to recommend changes in the PMS and PMRS legislation and its regulations for these systems. OPM is also considering ways to strengthen the link between pay and performance for GS employees.

Our findings should assist the Subcommittee in its oversight and legislative roles as well as assist OPM in its deliberations. Further, we believe that this is an opportune time for Congress and the executive branch to revitalize the government's approach to performance management. Consistent with private sector trends, many federal agencies are moving away from rigid, control- and individual-oriented management approaches to the more flexible, decentralized, team- and customer-oriented approaches embodied in Total Quality Management (TQM) principles. Organizations in both the private and public sectors are struggling with how best to manage employee performance under these changing conditions. One thing clearly needed is greater flexibility among agencies to tailor their performance management systems to the way they do their work, serve their customers, and manage for results.

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## Objectives, Scope, and Methodology

Our objectives were to (1) identify the elements of an effective performance management system; (2) determine whether these elements are included in federal agencies' performance management systems; and (3) obtain perceptions of personnel officials, supervisors, employees, and researchers on the adequacy of the federal systems.

To accomplish our objectives, we identified which elements should be included in the design of an effective performance management system by (1) reviewing relevant literature, (2) interviewing federal and state officials who deal with performance management, and (3) convening a panel of performance management consultants from federal government, state government, and academia. The panel members are listed in appendix X.

We then selected six federal agencies where we did work on a case study basis. We judgmentally selected these agencies so that we would have a mix of agencies with different missions. We did our work at the Departments of Commerce, Labor (DOL), Navy, and Veterans Affairs (VA); the Social Security Administration (SSA); and the Defense Logistics Agency (DLA).

During our agency visits, we reviewed agency performance management plans to determine whether each performance management system contained all of the elements we identified as necessary for a system to be effective. We also determined whether the elements were required by law or legislation. We then selected, on the basis of our judgment and input from our panel, the key elements. Using a structured interview, we discussed these key elements with 23 personnel officials, 41 supervisors, and 7 nonsupervisors to obtain their opinions on the adequacy of these elements in their agencies' systems, and what, if any, improvements could be made.

In each agency, we selected one or more operational units and reviewed mission and goals statements, annual work plans, and selected individual employee performance plans. We did so to determine whether the (1) performance management systems were linked to and supported each unit's mission and goals and (2) employees at different levels were assigned tasks that accomplished each unit's mission and goals. We selected the operational units so as to have a mix of government functions. The results of these studies cannot be generalized to each agency as a whole; they represent only the specific units we reviewed.

Throughout the assignment, we reviewed the minutes of the meetings held by the PMRS Review and Pay-for-Performance Labor-Management Committees. We also interviewed OPM and Merit Systems Protection Board (MSPB) officials to obtain their opinions concerning the federal performance management system. In addition, we also reviewed pertinent Inspectors' General reports and other studies.

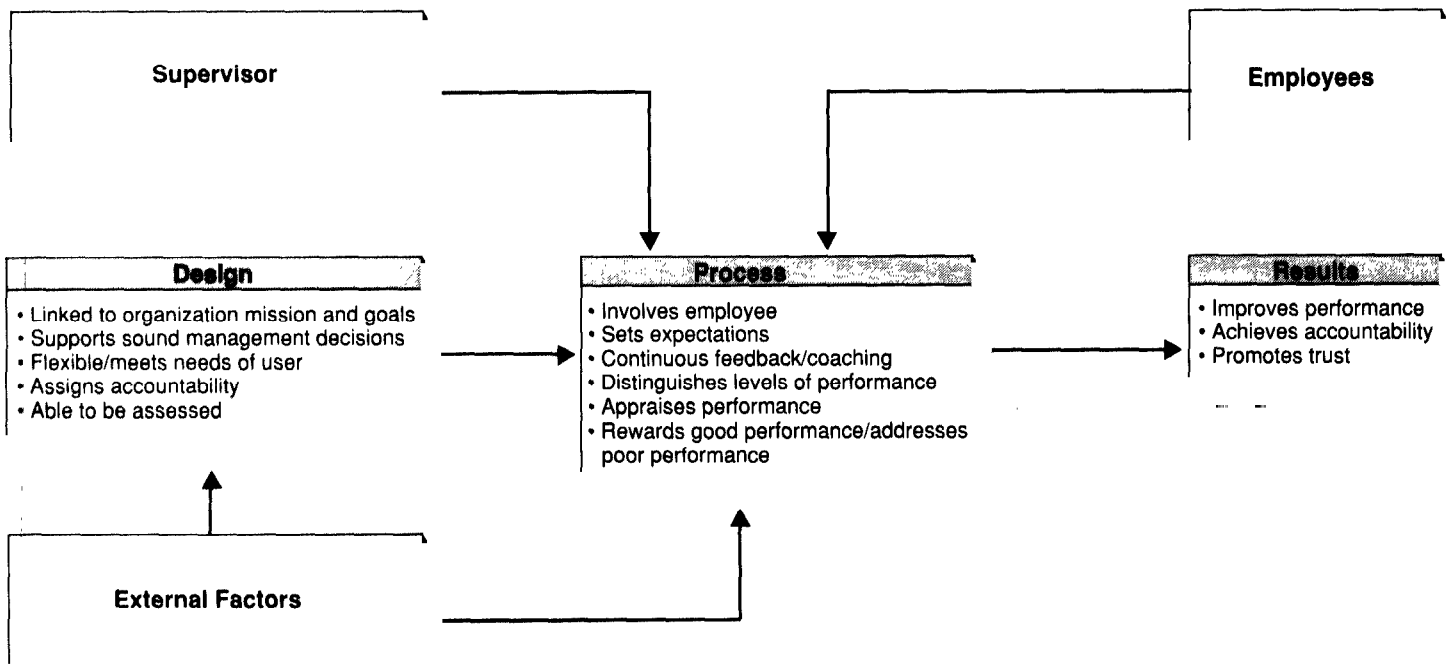
OPM provided written comments on the report that are included in appendix I. We did our review in accordance with generally accepted government auditing standards between April 1991 and June 1992.

## Elements of an Effective Performance Management System

On the basis of our research and input from our panel of experts, we identified the elements of an effective performance management system. We grouped the elements into three components—design, process, and desired results. The three components are influenced by supervisors, employees, and external factors. Appendix II lists all of the elements we identified for each component, including those pertaining to supervisors, employees, and external factors.

We then selected, again on the basis of our research and panel of experts, what we believe to be key elements of the design, process, and desired results components. These are illustrated in figure 1.

Figure 1: Selected Performance Management Elements



 Primary components of management system



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For each of the key elements selected, we determined that legislation and/or regulations require or provide for them to be included in the federal government's performance management system (see app. VII). Further, we found that the agencies we reviewed included these key elements in their performance management systems. However, as we discuss in the following text, the desired results of performance management were widely perceived as not being achieved because, among other things, some of the key elements have not been effectively implemented and agencies do not have the flexibility to modify the federal system to fit their needs.

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## Many Believed That Desired Results of Performance Management Were Not Being Achieved

Our consultant panel said that an effective performance management system should improve employee performance, promote employee trust, and achieve accountability. Information we obtained from our research and case studies, as well as the results of recent governmentwide employee surveys, showed that many personnel officials, supervisors, and employees did not believe that the desired results of performance management were being achieved.

For example, in 1989, MSPB reported that fewer than one-third of approximately 3,500 federal personnel specialists responding to the MSPB survey believed the federal performance management systems had improved organizational effectiveness.<sup>3</sup> In addition, as discussed on page 11, the effectiveness of achieving accountability is subject to differing opinions. Most of the personnel officials we talked with believed the system did not achieve accountability, although most supervisors we talked with believed accountability was achieved.

Most of the personnel officials and supervisors we interviewed said that the performance management systems did not motivate employees nor improve their performance. Specifically, 16 of 22 personnel officials and 20 of 21 supervisors told us that the systems did not improve performance. The personnel officials and supervisors also said that the systems usually were not integrated into their work and took managers and supervisors away from the real work of the agency. In a 1992 OPM employee survey, only 19 percent of the nearly 31,000 employees responding agreed that the performance appraisal system motivated employees to perform well.<sup>4</sup>

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<sup>3</sup>Federal Personnel Management Since Civil Service Reform: A Survey of Federal Personnel Officials, MSPB (Washington, D.C.: Nov. 1989), pp. i and 2.

<sup>4</sup>Survey of Federal Employees (May 1992), pp. 1 and 42.

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Similarly, many personnel officials and supervisors did not believe employees trusted the performance management system. For example, 13 of 22 personnel officials and 17 of 20 supervisors who responded did not believe that the employees trusted the system. Our 1991 governmentwide employee survey showed that less than 40 percent of the employees believed they were treated fairly "always or almost always" or "most of the time" in the areas of monetary awards, bonuses, nonmonetary awards, and recognition.<sup>5</sup>

Further discussion on personnel officials and supervisors' perceptions regarding how well performance management systems achieved desired results is included in appendix V. Appendix VIII provides more specific details on the perceptions of the personnel officials and supervisors that we interviewed.

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## Views on Selected Performance Management Design and Process Elements

On the basis of our review of the agencies' performance plans, we determined that the agencies had designed their performance management systems to include the key elements we identified as necessary to be effective. Some elements, such as linkage and setting expectations, were perceived positively by personnel officials and supervisors. However, other elements, such as the appraisal process and rewarding performance, were generally viewed less positively.

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## Employee Expectations Were Set and Performance Plans Are Linked to Agencies' Mission and Goals

In order to better ensure mission accomplishment, agencies set employee expectations and attempt to assign accountability to employees through the employees' individual performance plans. On the basis of our case studies of operational units, we determined for the individuals we selected that expectations were set and that employee performance plans were linked to the missions and goals of the agencies. However, on the basis of our discussions with personnel officials and supervisors, the degree to which accountability was actually achieved varied.

The agencies we visited had different missions and functions, such as processing claims, conducting research, and repairing aircraft. Employee performance of some of the functions could be measured objectively and some were a matter of supervisors' subjective judgment. We found that the specificity of the employee performance plans varied depending on the nature of the unit's function and the level of employee (i.e., SES, PMRS, or

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<sup>5</sup>Federal Employment: How Federal Employees View the Government as a Place to Work (GAO/GGD-92-91, June 18, 1992), pp. 1 and 18.

PMS). Tables 1.1 and 1.2 illustrate for two units within DOL the linkage between units' work plans and employee performance plans. The units are the Office of Workers' Compensation Programs' (OWCP) Division of Federal Compensation and the Occupational Safety and Health Administration's (OSHA) Technical Data Center. For purposes of illustration, these tables include employees at only two levels of the units. Appendix VI contains additional information for the agencies we looked at on the linkage between the agencies' missions and the employee performance plans.

One of the goals in the Division of Federal Compensation's workplan is that it will continue to improve the timely payment of compensation to injured employees so as to avoid the interruption of income. It also set the following performance standards: process 85 percent of the traumatic cases within 45 days, 95 percent within 120 days, and 99 percent within 180 days.

Table 1.1 illustrates how the responsibility for completing these goals was assigned to employees through their performance plans.

**Table 1.1: Division of Federal Compensation's Employee Performance Standards**

Position	Performance standards
Deputy Director, Federal Employee's Compensation Programs	Is to ensure that goals for program operations and improvements are developed to complement DOL goals and promote more effective service delivery and that related program management, productivity, and quality improvement initiatives are effectively and timely communicated, implemented, monitored, and evaluated to accomplish established operational/organizational goals and objectives. <sup>a</sup>
Workers Compensation Claims Examiner	Is responsible for producing timely and accurate work. For example, 85 to 95 percent of traumatic injury cases are adjudicated within 45 days, 95 to 97 percent within 120 days, and 98 to 99 percent within 180 days.

<sup>a</sup>The Deputy Director is responsible for accomplishing the unit workplan.

Source: DOL data.

The Technical Data Center's workplan stated that it is to serve as a national resource for accumulation and dissemination of scientific and technical documentation. It is to plan, develop, and maintain an integrated

automated information and data storage and retrieval system to collect, process, store, retrieve, and disseminate technical information from worldwide sources of scientific and technical reports and journal literature and provide direct and rapid response to the OSHA users.

Table 1.2 illustrates how the responsibility for completing these goals is assigned to employees through their performance plans.

**Table 1.2: Employee Performance Standards for the Technical Data Center**

Position	Performance standards
Director, Directorate of Technical Support	With few exceptions, is to research studies, analyses, recommendations, and technical information and evaluations of the engineering and scientific feasibility of proposed standards or in support of other occupational safety and health projects. A written Directorate Performance Plan is to be in place by the end of the first quarter, and 75 percent of the plan is to be successfully accomplished during the year.
Technical Information Specialist	Is to provide thorough and efficient searches that are complete and evaluated independently on requested subjects. Assignments are to be handled within established time frames with appropriate recognition of job priorities.

Source: DOL data.

Legislation requires that performance requirements, i.e., expectations, be communicated to employees at the beginning of the appraisal period. The CFR requires that the appraisal system be used to communicate and clarify agency goals and objectives, provide for establishing performance elements and standards based on the requirements of the employees' positions, and provide written performance plans to employees at the beginning of each appraisal period. We found that the agency performance management plans that we looked at included these requirements.

Personnel specialists responding to a 1988 MSPB survey noted that the performance management systems have helped improve supervisors' communications to employees.<sup>6</sup> Most of the personnel officials and supervisors we interviewed believed that the systems have been successful in setting employee expectations. For example, 16 of the 22 personnel officials who responded believed that expectations were

<sup>6</sup>Federal Personnel Management Since Civil Service Reform (Nov. 1989), p. 12.

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adequately communicated. According to personnel officials at one agency, this communication of expectations is one of the most successful areas of performance management. Further, a May 1992 OPM survey found that 75 percent of approximately 31,000 employees surveyed indicated they knew what was expected of them.

The effectiveness of the performance management system in achieving accountability is less clear. For example, of the 19 personnel officials with whom we discussed this issue, 14 believed the system was inadequate in achieving accountability. Among other things, personnel officials believed that the system did not focus on goal accomplishment or specific objectives. This was also a finding of a Treasury Department Inspector General review of the Customs Service's Southwest Region. The Inspector General's report concluded that performance ratings and rewards for the regional management did not reflect organizational performance.

Conversely, supervisors we spoke with believed that the system achieved accountability. Twelve of the 16 supervisors with whom we discussed this issue believed the system was adequate. For example, one supervisor said that accountability comes through the appraisal of performance against the standards and expectations set forth in the performance plan. Another supervisor said that in order for the system to achieve accountability, the supervisor and employee need to discuss the performance plan and standards and agree on their meaning. When the supervisor and employee agree, they know how performance will be reflected in the rating, and thus, accountability will be established.

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### Performance Appraisals Are Used as the Basis for Multiple Management Decisions

The statutes governing SES, PMRS, and PMS require that performance ratings be used as a basis for management decisions such as pay, awards, promotions, and removals. Personnel officials and supervisors told us that because the ratings are used for these multiple decisions, supervisors inflated the ratings and did not use them to provide accurate feedback to employees. In the 1992 OPM survey, 61 percent of the employees agreed with the statement that people receive a higher performance rating than they deserve.<sup>7</sup>

Personnel officials at three agencies we visited said that ratings were inflated because supervisors did not want to hurt their employees' chances of being promoted, receiving an award or pay increase, or being retained during a RIF. For example, the PMRS performance awards are based on

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<sup>7</sup>Survey of Federal Employees (May 1992), p. 42.

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individuals' ratings. Therefore, if the rating is not accurate, formal feedback and management decisions based on them will not be appropriate.

One supervisor suggested that the performance appraisal be geared toward performance improvement, identifying weaknesses, and concentrating on feedback and coaching. He thought this suggestion would remove the tension from the process and stop inflated ratings. Different systems would need to be established that could be used for identifying employees who deserve awards and/or promotions. In addition, consideration of the appraisal would continue to be needed for other decisions, such as those concerning retention. The objective would be to build team productivity by rewarding those employees contributing greatly to accomplishing the unit's objectives, while identifying those employees who could improve their performance.

The 1989 Personnel Research Conference also raised this issue by asking:

"Is performance appraisal linked to too many purposes? That is, performance appraisal serves multiple uses: performance feedback, motivation, awards, pay and promotion decisions, RIF, and adverse actions. Research has shown that the most objective appraisals are given when they are used only for feedback, and the more consequences that are linked to performance appraisal, the greater motivation to manipulate ratings."<sup>8</sup>

In a presentation before the PMRS Review Committee, the Federal Managers Association proposed that performance ratings and awards be disassociated from one another. It suggested that two independent tracks be created, one for annual ratings, the other for awards. It further suggested that, within this context, agencies would retain flexibility in structuring their performance award process, allowing for consideration of customer satisfaction, peer feedback, group achievement, and factors unique to agency mission and culture. The PMRS Review Committee incorporated many of these concepts in its final report. OPM is currently considering what action to take.

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### Systems Were Viewed as Not Adequately Appraising or Rewarding Performance

Legislation directs that the performance management system should provide for establishing standards against which employees' performance be appraised. Legislation or regulation requires an appraisal to have five summary rating levels for PMRS employees and three to five summary rating levels for SES, GS, and FWS employees.

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<sup>8</sup>"Proceedings," Personnel Research Conference, OPM (Washington, D.C.: Aug. 16-17, 1989), p. 33.

Some supervisors and personnel officials said that it was difficult to differentiate performance at so many levels, and supervisors in five of the agencies would like to have fewer levels. Within the Department of Commerce, the National Institute of Standards and Technology (NIST) is participating in a demonstration project in which it is testing a different approach to performance management. Among other things, it uses two summary rating levels. According to NIST personnel officials, this approach has been well received by the employees. In addition, the PMRS Review Committee recommended in 1991 that appraisals for PMRS employees be simplified by using only two summary rating levels.

However, the 1992 OPM employee survey showed that 65 percent of the employees responding would like to keep five rating levels. OPM noted that it was reasonable to assume that respondents, most of whom received ratings of "outstanding" and "exceeds fully successful," saw the potential for their ratings to be lowered under a system with fewer rating levels.<sup>9</sup>

Legislation requires that employees be appraised individually against established performance standards. In some cases, officials said that rating against specific objectives and work accomplishments and/or by team accomplishments would be more appropriate to their work. At a National Academy of Public Administration symposium, the panel and audience brought out the idea that a performance appraisal system is inappropriate when it rewards only individuals when, in reality, people work as a team to accomplish an organization's missions.<sup>10</sup>

Legislation also requires agencies to use appraisal results as a basis for rewarding employees for their performance. Personnel officials and supervisors told us that the process for rewarding PMRS employees was not adequate. The statute governing PMRS employees requires that the awards pool be at least 1.15 percent but not exceed 1.5 percent of PMRS aggregate payroll. Since the awards pool is capped, the more employees who are rewarded, the smaller the average individual award. For example, according to a September 1992 OPM report on PMRS, the percentage of PMRS employees receiving performance awards increased from 63 percent in 1989 to almost 70 percent in 1990. The average value of the awards as a percentage of basic pay decreased from 2.04 percent in 1989 to 1.96 percent in 1990. These smaller awards did not effectively motivate employees toward greater performance, according to personnel officials

<sup>9</sup>Survey of Federal Employees (May 1992), p. 11.

<sup>10</sup>"Alternative Personnel Systems: Antidote or Fragmentation?" from a symposium of the National Academy of Public Administration (Sept. 26, 1990), pp. 1 and 31.

and supervisors that we spoke with. One supervisor said that because the size of the award is not as large as employees might expect under a performance-based rating system, the system is a disincentive. In 1989, we reported that performance awards would have to be significantly greater than they were to affect performance.<sup>11</sup>

Agencies can also use nonmonetary incentives, such as medals, certificates, plaques, citations, or other similar items that have an award or honor connotation to motivate employee performance. According to OPM statistics, over 75,000 nonmonetary awards were presented in fiscal year 1990. Supervisors and personnel officials said that nonmonetary incentives were well received by employees and that they believed such incentives increased morale.

Although personnel officials and supervisors perceived benefits from nonmonetary awards, our 1991 governmentwide employee survey found that employees questioned the fairness of the process. Our survey found that about 35 percent of the employees believed they were treated fairly "always or almost always" or "most of the time" in the areas of nonmonetary awards and recognition.<sup>12</sup>

## Agencies Believed That Greater Flexibility Would Allow Them to Improve Performance Management Systems

The federal personnel management system envisioned by CSRA was one that would facilitate improved workforce productivity and effectiveness by giving agency managers more flexibility and providing them with new tools (e.g., performance management systems) to accomplish those goals.<sup>13</sup> The OPM Strategic Plan for Federal Human Resource Management states that a flexible personnel system enables federal agencies to more effectively accomplish their missions and gives managers and employees more opportunities to make improvements in processes.

A 1991 National Research Council study suggested that federal policymakers consider decentralizing the design and implementation of appraisal and merit pay programs. The study also noted that many large private firms with diverse goals and workforces have moved toward decentralized management strategies. In these cases, the home office

<sup>11</sup>Pay for Performance: Interim Report on the Performance Management and Recognition System (GAO/GGD-89-69BR, May 18, 1989), p. 13.

<sup>12</sup>GAO/GGD-92-91, June 18, 1992, pp. 1, 18.

<sup>13</sup>Federal Personnel Management Since Civil Service Reform (Nov. 1989), p. 1.



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provides policy and audit functions and the local units design and implement performance evaluation and pay systems.<sup>14</sup>

The PMRS Review Committee recommended that agencies have additional flexibility in areas such as PMRS coverage and award programs. The Pay-for-Performance Labor-Management Committee recommended that agencies be given the authority to design and administer pay-for-performance programs to satisfy their specific needs, objectives, and workforce characteristics consistent with governmentwide policies and principles. Additionally, we reported in 1989 that 73 percent of the personnel directors surveyed said that PMRS did not meet or only partially met the goals their agencies wanted to achieve through a pay-for-performance system.<sup>15</sup> Although the personnel directors expressed little agreement on how PMRS should be changed, they frequently suggested that agencies be given more flexibility in designing a pay-for-performance system that fits their goals and cultures.

Of the 23 personnel officials we interviewed, 17 said they did not have sufficient flexibility to design systems to fit their individual needs. Officials from two agencies said that flexibility could be achieved by allowing agencies to design their performance management systems using only broad guiding principles from OPM.

Specifically, agency personnel officials and supervisors said they would like the flexibility to (1) determine the number of summary rating levels, (2) appraise team performance rather than individual performance, and (3) base management decisions, such as pay and awards, on criteria that they select rather than specific requirements set by legislation and regulation.

Personnel officials in all six agencies wanted the flexibility to determine the number of summary rating levels the agency would use. Personnel officials in three agencies said that it was difficult to distinguish performance among several levels, and personnel officials in five agencies said that they would prefer only two or three summary rating levels.

Personnel officials in five agencies would like to base management decisions, such as pay and awards, on criteria that they select rather than on specific requirements set by legislation and regulation. For example,

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<sup>14</sup>Pay for Performance: Evaluating Performance Appraisal and Merit Pay, National Research Council (National Academy Press, Washington, D.C.: 1991), pp. 5 and 134.

<sup>15</sup>Pay for Performance: Agency Personnel Directors' Views (GAO/GGD-89-12FS, Sept. 15, 1989).

personnel officials at one agency believed that the legislative requirement that sets the amount of money for the PMRS awards at 1.5 percent of aggregate payroll should be eliminated. They believed that by allowing the agency to decide how to divide its award money, the awards could be higher and more motivational.

Personnel officials in four agencies and supervisors in three agencies said they would also like the option of appraising team performance rather than individual performance. According to Navy personnel officials, quality-focused management and gain sharing have become a high priority throughout the Department of Defense. These efforts center on maximizing teamwork and cooperation. The current performance systems focused on individual efforts and rewards and were perceived to conflict with the concepts of group performance. In addition, the Navy personnel officials said that organizations with such a quality improvement program must have the latitude to deviate from current regulations. For example, the Naval Aviation Depot we visited used the Total Quality Leadership approach to achieving goals and objectives: Teams of employees worked together in production shops to repair aircraft, engines, and components; the primary measurement focus was at the shop level; and reports were generated that showed the shop's production, not individual employee production, in relation to standards.

With the movement of many federal agencies toward TQM, agencies will also need the flexibility to ensure their performance management systems are compatible with the TQM approach. In 1991, we commissioned a study by the Wyatt Company on how successful private sector companies have integrated their compensation and performance management systems with TQM principles. The Wyatt Company surveyed 25 companies that were selected on the basis of being (1) finalists or winners of Quality Awards (e.g., the Malcolm Baldrige National Quality Award or the Deming Award) or (2) known for their commitment to TQM.

Almost all of the companies had a pay-for-performance merit pay system before introducing TQM. These companies had maintained such systems under TQM, and they did not see a conflict between TQM and merit systems based on individual performance. At the same time, the study found that companies were revisiting their compensation and performance management systems to ensure an adequate fit with their quality initiative. Although most companies did not feel they had definitive answers, many believed they were beginning to find ways to make the system work within their organizations.

For example,

- many recognized the need for rewarding team performance;
- many had enhanced their performance management systems to make them more consistent with TQM and had addressed such concerns as poor rating systems that did not measure performance and lack of team as well as quality measures; and
- three companies said they had radically revised their existing performance management systems, including “unbundling” the system and creating three separate systems (for employee development, selection, and pay purposes).

Interestingly, companies also noted that systems like compensation and performance management did not drive TQM. Rather, these systems must be supportive and compatible with quality principles. This may reflect the need for flexibility and change. For example, 17 of 18 companies responding to the question indicated they had made changes to their performance management systems as a result of TQM. Further, 18 of 25 companies indicated they anticipated further changes in the future.

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## Recommendations of the PMRS Review and Pay-For-Performance Labor-Management Committees

The PMRS Review Committee and the Pay-for-Performance Labor-Management Committee completed their studies in November 1991. The committees made several recommendations to OPM to improve the performance management systems for PMRS and PMS employees. Many of the issues they addressed were the same issues that we identified in our research.

On the basis of the results of our work, we generally agree with the committees' recommendations related to greater system flexibility, with one exception. The PMRS Review Committee recommended that agencies appraise PMRS employees using only two summary rating levels. We believe that this recommendation contradicts the committee's recommendation that agencies have greater flexibility in designing systems that fit their needs. It also goes against our findings that agencies wanted the flexibility to choose the number of rating levels they use and employees wanted more than two rating levels. In several cases, we found that agencies wanted more than two levels.

OPM is considering the committees' recommendations in its deliberations on whether to recommend changes to the PMS and PMRS legislation and its

regulations and how to strengthen the link between pay and performance for GS employees.

Appendix IX contains more detailed information concerning the committees' recommendations.

## Conclusions

Performance management is one of the most important elements of overall human resource management because it significantly influences how well agencies' missions and goals are achieved as well as how well employees develop, perform, and commit to their agencies. It is also one of the most complex and difficult elements to deal with because for performance management systems to work well, missions, goals, and expectations need to be clearly set forth and understood; continuous, honest feedback needs to be given to employees; and employees need to be motivated to work well, and to be rewarded if they do and dealt with if they do not.

Clearly, a great deal of subjectivity is often involved in some or all of these activities, which in itself can leave the system open to employee mistrust. Further, employee or supervisory perceptions on the operation and effectiveness of performance management system components must often be relied upon because data in this area are frequently not readily available.

Notwithstanding the lack of hard data, many federal (and private sector) managers have recognized that traditional general management and human resource management systems, processes, and approaches have not worked as well as anticipated. Moreover, many federal (and private sector) organizations are moving toward adopting or implementing the principles of TQM. These principles include a different approach to performance management, including greater involvement of and reliance on employees in decisionmaking, greater accountability for measurable results, and more emphasis on teamwork and customers.

Our previous and current work in the performance management area and the work of OPM's two advisory committees all strongly suggest that the federal performance management systems have not met their overall objectives of improving performance, establishing accountability, and promoting employee trust. It is also quite clear to us, as well as to OPM and others who have studied this topic, that one performance management system does not fit all situations, that agencies need flexibility to tailor

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systems to their needs, and that no one in the public or private sector seems to know the ideal solution for all situations.

Given agencies' movement toward TQM and the recognition that existing performance management systems are not meeting their objectives, the time is ripe for both the executive branch and Congress to modify the current structure to provide agencies with greater flexibility to design and administer their own performance management systems, within a common framework, and make other improvements suggested by OPM's advisory committees. With the exception of the suggestion for a two-level summary rating, we generally endorse the committees' suggestions for greater system flexibility.

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## Matters for Congressional Consideration

Federal agencies are diverse and have different missions; yet they are required to use the same general performance management system. A general framework for federal performance management systems seems appropriate. But within this framework, agencies believe they should be able to tailor specific elements to reflect such factors as their missions, organizational structure, and the way their work is done. The lack of sufficient flexibility for agencies to design their own unique performance management systems seems to be creating problems for them in managing and improving employee performance.

Therefore, when Congress considers legislation concerning PMRS, extending pay for performance to GS employees, and other performance management legislation, it should consider giving agencies the flexibility to better enable them to carry out their missions and manage their human resources. Areas in which greater flexibility might be appropriate are (1) the requirement to link several management decisions, such as promotions and rewards, directly to the appraisal; (2) the number of summary rating levels that agencies are required to use; and (3) the 1.5-percent ceiling on the PMRS pay pool.

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## Agency Comments and Our Evaluation

OPM agreed with the emphasis the report places on the need for increased flexibility for agencies in designing performance management systems that meet their needs. It said that our observation is consistent with several advisory groups that have examined the subject and submitted reports to OPM in the past 2 years. In addition to the recommendations of these advisory groups, OPM said it is considering a detailed proposal from a working group of personnel directors entitled Draft Framework of Policy

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and Program Initiatives for Performance Management and Position Classification. According to OPM, the proposal provides for the same kind of flexibility we suggest in our report.

OPM also agreed with the need for employee participation in the development of employee performance plans. It emphasized that such participation is necessary for performance management systems to be most effective, and, where employees are represented by unions, cooperative approaches in addition to meeting collective bargaining requirements can contribute to fair and effective performance management.

OPM further pointed out that at various places in the report we cite the views of personnel officials and supervisors that PMRS awards are too small to be motivational and may be lower than similar awards for similarly rated GS employees. OPM commented that where agencies believe this to be the case, it is more likely to be the result of how available award funds are managed than of the total amount of funds available for awards. It pointed out that PMRS requires agencies to spend, at a minimum, a substantial amount of funds on awards (1.15 percent of the PMRS payroll, but not to exceed 1.5 percent) and that within these boundaries agencies have discretion to manage the distribution and size of awards, especially since Congress deleted the mandatory 2 percent award for employees rated "outstanding."

OPM further pointed out that although certain agencies may be giving GS employees larger performance awards than they give PMRS employees, this is not the case governmentwide. For example, OPM said that in fiscal year 1990, the proportion of total GS-13 through GS-15 salaries paid as performance awards was 0.44 percent whereas for PMRS employees it was 1.35 percent of their total salaries. OPM also noted that PMRS personnel officials and supervisors expressing concern about the amount of cash bonuses, are not recognizing sizeable increases in base pay under PMRS, which are also related to performance.

We agree with OPM that how agencies decide to manage and distribute available awards funds affects the number and size of awards and therefore the degree to which they are looked upon as being motivational. In addition, we think that other factors we cite in the report also contributed to the perception that performance management systems are less than successful in rewarding good performance and motivating employees. For example, some personnel officials and supervisors may

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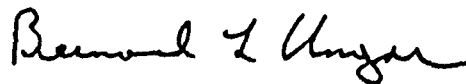
not regard the PMRS bonus pool, which is capped at 1.5 percent of the PMRS total salaries, as significant enough to ensure sizeable performance awards. Further, it was frequently perceived that ratings were often inflated by supervisors because, among other things, they were used for multiple decisions involving pay, awards, and reduction in force. This can create a situation in which a significant number of employees are rated in the "outstanding" and "exceeds fully successful" levels. To the extent that employees with such high ratings do not receive a monetary award, the perception that rewards are not directly linked to performance is reinforced. On the other hand, as the number of individuals receiving monetary awards increases, the average dollar award will be reduced, resulting in the perception that the awards are less motivating despite increases in their base pay.

As we point out in our report, personnel officials and supervisors we talked with indicated a desire for greater flexibility in designing their performance management systems. As we suggest to Congress, areas in which greater flexibility might be appropriate include the requirement to link several management decisions such as pay and awards directly to the appraisal and the amount of money in the PMRS award pool.

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As arranged with the Subcommittee, unless you release the contents of this report earlier, we plan no further distribution until 30 days after its date of issue. At that time, we will send copies to the Director of OPM, the heads of the agencies discussed in this report, and other interested parties.

The major contributors to this report are listed in appendix XI. If you have any questions, please contact me at (202) 275-5074.



Bernard L. Ungar  
Director, Federal Human Resource  
Management Issues

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**Abbreviations**

BFRL	Building and Fire Research Laboratory
CFR	Code of Federal Regulations
CSRA	Civil Service Reform Act of 1978
DLA	Defense Logistics Agency
DOL	Department of Labor
FWS	Federal Wage System
GS	General Schedule
MSPB	Merit Systems Protection Board
NIST	National Institute of Standards and Technology
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers' Compensation Programs
PMRS	Performance Management and Recognition System
PMS	Performance Management System
RIF	Reduction in Force
SES	Senior Executive Service
SSA	Social Security Administration
TQM	Total Quality Management
VA	Veterans Affairs



# Comments From the Office of Personnel Management



UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

DEC 21 1992

Richard L. Fogel  
Assistant Comptroller General  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for the opportunity to comment on the draft report entitled *FEDERAL PERFORMANCE MANAGEMENT: Agencies Need Greater Flexibility in Designing Their Systems*. As the report notes, OPM is considering options for significant changes in the Government's performance management system. In that regard, the report's identification of the essential elements of an effective performance management system provides a well-balanced perspective on a very difficult subject. In addition to our general comments which are outlined below, I understand that on December 15, 1992, GAO and OPM staff met to discuss the draft report in detail and identified a number of technical changes that would be made.

We are pleased to note the emphasis the report places on the need for increased flexibility for agencies in designing performance management systems that meet their needs. This observation is consistent with the results of several advisory groups that have examined this subject and submitted reports to OPM in the last 2 years, including the National Research Council, the Pay-for-Performance Labor-Management Committee, and the Performance Management and Recognition System Review Committee.

In addition to the recommendations of these advisory groups which were considered by the GAO review team, OPM has received and is considering a detailed proposal from a working group of directors of personnel which builds on the recommendations of the advisory groups' reports. The proposal, referred to as a *Draft Framework of Policy and Program Initiatives for Performance Management and Position Classification*, would provide for the kind of system flexibility endorsed in your report. It also includes some of the same design features that are identified in the GAO report. It is encouraging to see the extent of consensus that appears to exist on these issues.

Appendix I  
Comments From the Office of Personnel  
Management

Now on pp. 3, 13-14, and  
40.

We also believe it is significant that the report correctly points out the need for employee participation in the development of employee performance plans. We would suggest that for performance management systems to be most effective, employee involvement is needed on a broad basis. Where employees are represented by unions, undertaking cooperative approaches in addition to meeting collective bargaining requirements can contribute to the development of fair and effective performance management.

Finally, at various pages of the report (pp. 5, 24, and 61) it is indicated that personnel officials and supervisors told GAO that PMRS awards are too small to be motivational and may be lower than awards for similarly rated GS employees. We would comment that where certain agencies believe this to be the case, it is more likely to be the result of how available award funds are managed than of the total amount of funds available for awards. The PMRS requires agencies to spend at a minimum a substantial amount of funds on awards (1.15% of the PMRS payroll, but not to exceed 1.5%). Within those boundaries, agencies have great discretion to manage the distribution and size of awards, especially since 1991 when Congress deleted the mandatory 2 percent of basic pay performance award for employees rated Outstanding. Although certain agencies may be giving GS employees larger performance awards than they do PMRS employees, such is not the case on a Governmentwide basis; in FY 90, for example, the proportion of total GS 13-15 salaries paid as performance awards was 0.44%, whereas for PMRS employees it was 1.35% of their total salaries. In addition, the reported comments of personnel officials and supervisors do not recognize the merit (base) pay increases that PMRS employees receive, which can constitute significant monetary recognition in the form of accelerated movement through the pay range.

We appreciate GAO's preparation of this report. It should be very useful to OPM as we proceed with our policy development efforts.

Sincerely,



Douglas A. Brook  
Acting Director

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# Elements of a Performance Management System

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## Design Elements

- Linked to mission and goals
- Supports management decisions
- Accommodates the way work is done
- Is flexible/meets needs of user
- Is simple/understandable
- Assigns accountability
- Is budgetarily workable/affordable
- Is able to be assessed

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## Process

- Involves employee
- Sets expectations
- Provides continuous feedback/coaching
- Distinguishes levels of performance
- Appraises performance
- Rewards good performance
- Deals with poor performers
- Has an appeal mechanism
- Has an employee assistance program

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## Results

- Improves performance
- Supports retention
- Supports recruitment
- Is legally defensible
- Achieves accountability
- Promotes/instills trust

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## Supervisor

- Criteria to be selected as a supervisor
- Is given performance management expectations
- Is motivated to use process
- Is held accountable for performance management
- Is rewarded for good performance management
- Is trained in performance management
- Trusts performance management system
- Accepts performance management system

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## Employee

- Participates in performance plan development
- Is trained in performance management
- Perceives the performance management system to be equitable

- 
- **Trusts performance management system**
  - **Accepts performance management system**

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## **External Factors**

- **Organization mission and goals**
- **Organization structure/staffing**
- **Organization culture**
- **Work environment**
- **Management support of supervisors' performance management efforts**
- **Personnel office support of supervisors' performance management efforts**

# Design Elements

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On the basis of our judgment and input from our consultant panel, we identified five key elements in the design of an effective performance management system. These elements should provide (1) a linkage to the units' mission and goals, (2) flexibility, (3) support for management decisions, (4) employee accountability, and (5) periodic evaluation.

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## The Performance Management System Should Be Linked to the Unit's Mission and Goals

The consultant panel agreed that the performance management system should be linked to the unit's mission and goals, and employees should understand how their individual job fits into the overall mission of the unit or agency.

According to the Code of Federal Regulations (CFR), accomplishment of organizational objectives should, when appropriate, be included in General Schedule (GS) and Federal Wage System (FWS) employee performance plans by incorporating objectives, goals, program plans, workplans, or by other similar means that account for program results. Similar requirements apply to Performance Management and Recognition System (PMRS) employees and are mandatory for Senior Executive Service (SES) employees.

In May 1992, we reported that 67 of 103 agencies had long-term plans containing goals, standards, or objectives for their entire agency or program.<sup>1</sup> Many of the agencies we visited during that review used program performance measures to assess employee performance. During this review, we found that the agencies we visited had established in their performance management plans a linkage between the agency mission and goals and the performance management system. OPM officials said they had also found that agency performance management plans were linked to the agencies' missions and goals.

Our review of individual employee performance management plans showed a linkage between these plans and the agencies' missions and goals. For example, the annual workplan of a claims processing unit contained specific timeliness goals for processing claims. We found that responsibility for accomplishing these goals was contained in the unit's individual employee performance plans for the SES manager down to the GS claims examiner.

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<sup>1</sup>Program Performance Measures: Federal Agency Collection and Use of Performance Data (GAO/GGD-92-65, May 4, 1992), pp. 4 and 7.



The Deputy Director of this unit said that the unit had attempted to be as specific and objective as possible in setting performance standards in individual performance plans but that it was more difficult to be specific for jobs higher up the chain of command. For example, the claims examiner was more responsible for meeting specific standards, while the division director was more responsible for meeting broad program goals.

Appendix VI contains detailed information on the link between the agencies' missions and goals and the performance management systems for the agencies we visited.

## The Performance Management System Should Be Flexible and Reinforce the Way Work Is Done

The OPM Strategic Plan for Federal Human Resources Management states that a flexible personnel system enables federal agencies to more effectively accomplish their missions and gives managers and employees more opportunities to make improvements in processes. Our consultant panel said the system must reinforce the way work is done and be appropriate to the individual agency's structure.

Seventeen of 23 personnel officials that we talked with said that their agencies did not have sufficient flexibility to tailor the performance management system to meet the agency's specific needs. A personnel official said that agencies need to be allowed to design their own systems, within broad parameters of the law, to fit their specific work. Thirteen of 24 supervisors that we talked with also said their agency's system did not provide the necessary flexibility. A supervisor said that the system was inflexible because it was imposed from above and not developed by the people who use it. He also said that his agency was trying to make the way it did its work fit an imposed system rather than adapting the system to how the agency did its work.

Most personnel officials said they would like more flexibility in the following areas:

- Summary rating levels. Agencies should be allowed to set the number of summary rating levels.
- Level of appraisal review and award approval. The agencies should be allowed to set this at a lower level than is currently required. Currently, there are too many levels of bureaucracy to go through to get an award approved.
- Team appraisals. Agencies should be allowed to use team appraisals where they are applicable. Some agency officials commented that allowing

team appraisals would be helpful, especially with the increasing emphasis on TQM, and that team appraisals would encourage good performers to help improve the performance of lower performing team members.

- **Management decisions.** Agencies should be able to base personnel management decisions on criteria that they select rather than on specific requirements set by legislation and regulation. For example, personnel officials at one agency suggested eliminating the formula, based on the performance appraisal, currently being used to arrive at reduction in force (RIF) decisions. They said this formula placed too much emphasis on outstanding ratings. Therefore, ratings began to be inflated as supervisors and employees realized that the lower the rating, the better chance of being laid off during a RIF. In addition, personnel officials said that agencies should be allowed to decide how to divide their award money rather than having those decisions tied specifically to the appraisal.

The 1991 National Research Council study suggested that federal policymakers consider decentralizing the design and implementation of appraisal and merit pay programs, and supporting careful, controlled pilot studies of a variety of pay-for-performance systems in a variety of agencies. Many large private firms with diverse goals and workforces have moved toward decentralized management strategies, with the home office providing policy and audit functions and the local units designing and implementing performance evaluation and pay systems.<sup>2</sup>

OPM officials said that the federal government's performance management system does not have the structure that allows agencies sufficient flexibility, i.e., "one size does not fit all." Agencies are structured differently, and work is done in different ways through teams of employees or on an individual basis. Our consultant panel agreed that the current system is too directive and structured and thus takes away from needed flexibility.

OPM's Office of System's Innovation and Simplification, which evaluates the demonstration programs set up under the Civil Service Reform Act (CSRA), reported that most agencies that have flexible performance management systems have used them to set up simpler job classification schemes, create new benefits to attract and retain employees, model themselves after corporate counterparts, or experiment with innovative approaches.<sup>3</sup>

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<sup>2</sup>Pay for Performance: Evaluating Performance Appraisal and Merit Pay, pp. 5 and 134.

<sup>3</sup>"Alternative Personnel Systems" (Sept. 26, 1990), p. 1.

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## The Performance Management System Should Support Management Decisions

Our panel said the performance management system should support management decisions. Legislation and the CFR state that the performance appraisal is to be used as a basis for adjusting basic pay and determining performance awards, training, rewarding, reassignment, promoting, reductions in grade, retaining, and removing PMRS, GS, and FWS employees. The statute governing SES performance appraisals states that appraisals shall provide a basis for making retention and performance award decisions, while the CFR states that the appraisals are to be used for adjusting pay, training, rewarding, reassigning, retaining, and removing SES employees. Our review of agency performance management plans showed that performance appraisals are to be used as the basis for these decisions.

However, our research and work at the agencies indicated a general belief that these decisions should not be linked directly to the appraisal. Personnel officials at one agency said that supervisors tended to use the system inappropriately because the performance management system is tied to awards, pay, and promotion decisions. They said that supervisors avoided giving helpful feedback directed at performance improvement because such documented feedback might hinder the employee's award or promotion potential. Therefore, the officials concluded, the system hampered good, honest communication between employee and supervisor. A supervisor said that not linking the appraisal to pay decisions would enable supervisors to write accurate appraisals that would provide better feedback.

Agency officials told us that promotion and award decisions could be made on the basis of a written justification separate from the appraisal. A supervisor said that an employee should be assessed on accomplishments and that this assessment or a separate evaluation of potential should be used for promotion decisions.

The 1989 Personnel Research Conference also raised this issue by asking:

"Is performance appraisal linked to too many purposes? That is, performance appraisal serves multiple uses: performance feedback, motivation, awards, pay and promotion decisions, RIF, and adverse actions. Research has shown that the most objective appraisals are given when they are used only for feedback, and the more consequences that are linked to performance appraisal, the greater motivation to manipulate ratings."<sup>4</sup>

Research has shown that different criteria are used by raters for different assessments and that making only one performance rating for multiple

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<sup>4</sup>"Proceedings," Personnel Research Conference, OPM (Washington, D.C.: Aug. 16-17, 1989), p. 33.

purposes may result in inaccurate decisionmaking or ineffective performance appraisal. Thus, rather than making compensation, training and development, and promotability decisions from one performance rating, separate ratings should be made at different times and frequencies with different, specific criteria.<sup>5</sup>

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## The Performance Management System Should Hold Employees Accountable

The International Personnel Management Association stated that a performance appraisal system should have performance expectations developed for and in consultation with employees. These expectations should emphasize what each employee is expected to do to accomplish assigned tasks, meet organizational objectives, and/or meet performance standards. The supervisors must be held accountable for discussing goals and objectives, and training and development needs.<sup>6</sup> The CFR states that performance appraisal systems for PMRS employees should be used as a tool for executing management and supervisory responsibilities by identifying individual accountability for the accomplishment of organizational goals and objectives.

The CFR states that the performance appraisal system is a tool for identifying individual accountability. In our discussions with personnel officials and supervisors, we found that they had different opinions as to whether accountability is achieved. Personnel officials said that although the system assigns accountability to employees, most of the officials did not believe that the system achieved it. The officials said that the system in practice did not hold employees accountable because it did not focus on goal accomplishment or specific objectives. However, the supervisors we interviewed in our case studies said they hold employees accountable by rating their performance against the elements contained in employees' performance plans.

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## The Performance Management System Should Have Periodic Evaluations

One essential aspect of the performance management system is a provision for continuous review, assessment, and—when needed—revision.<sup>7</sup> Our consultant panel said that agencies need to realize that performance measurement is only one piece of performance

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<sup>5</sup>Eugene K. Johnson, *Total Quality Management and Performance Appraisal: To Be or Not To Be?* OPM (Washington, D.C.: Aug. 1990), p. 8.

<sup>6</sup>"Critical Personnel Management Issues: Performance Management," *International Personnel Management Association* (Dec. 1989), p. 3.

<sup>7</sup>*Performance Management: How Well Is the Government Dealing With Poor Performers?* (GAO/GGD-91-7, Oct. 2, 1990), p. 41.

management and that agencies need to assess not only employee performance but also the entire performance management system.

The CFR requires that agencies establish procedures to periodically evaluate the effectiveness of the performance appraisal system. We found that generally agencies included this requirement in their performance management plans; however, we found that the evaluations only looked at whether the process was carried out.

According to the Federal Personnel Manual, the performance appraisal system should be reviewed periodically to assess how effectively it is operating, how it is being accepted by those it covers, and what problems it is creating. The manual also states that the evaluation should provide enough information to answer questions such as the following:

- Do employees have confidence in the system?
- Can dissatisfaction with and criticisms of the system be identified?
- Is there evidence that indicates that the system has contributed to improved individual and organizational performance?

Our panel said that agencies do not have the information needed concerning their performance management systems to make sound decisions for making fundamental changes to them. Further, personnel officials that we spoke with said that their systems were evaluated but that the evaluation only looked at whether the process was carried out. Therefore, the officials believed that the current evaluations did not provide information on the effectiveness of the system. However, these officials also said that their systems could not be evaluated for effectiveness because the results of performance management evaluations do not tell anything about the effectiveness of the performance management system. They said that these evaluations look more at the process (i.e., the ratings distributions, whether the plans/appraisals are completed on time) and not at the effect of the process.

# The Performance Management Process

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An effective performance management process (1) provides a means for communicating job expectations that involves employees, (2) provides performance feedback, (3) appraises and distinguishes levels of performance, and (4) rewards good performance and addresses poor performance.

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## Expectations Must Be Clearly Communicated

According to our panel, supervisors must clearly communicate expectations to their employees, stressing critical areas of performance. This communication between managers and supervisors is what distinguishes effective organizations from ineffective ones.<sup>1</sup>

Legislation requires that performance requirements be communicated to employees at the beginning of the appraisal period. The CFR requires that the appraisal system be used to communicate and clarify agency goals and objectives, establish performance elements and standards based on the requirements of the employees' positions, and provide written performance plans to employees at the beginning of each appraisal period. The agency performance management plans that we looked at included these requirements.

Personnel specialists responding to a 1988 Merit Systems Protection Board (MSPB) survey noted that the systems had helped improve supervisors' communications to employees.<sup>2</sup> Most of the personnel officials (16 of 22 respondents) and supervisors (21 of 29 respondents) we interviewed believed that the system was successful in setting employee expectations. According to personnel officials at one agency, this communication of expectations was one of the most successful areas of performance management. In addition, a May 1992 OPM survey found that 75 percent of about 31,000 employees surveyed indicated that they knew what was expected of them and that 87 percent had a clear understanding of how their work contributed to their agency's mission.<sup>3</sup>

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<sup>1</sup>Roger J. and Sandra J. Plachy, *Performance Management: Getting Results From Your Performance Planning and Appraisal System*, American Management Association (New York, N.Y.: 1988), pp. xii and xiii.

<sup>2</sup>Federal Personnel Management Since Civil Service Reform (Nov. 1989), p. 12.

<sup>3</sup>Survey of Federal Employees (May 1992), pp. 1, 38, and 40.

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## Supervisors Must Provide Continuous Feedback

In addition to communicating expectations, supervisors must provide continuous feedback, so that employees will know how they are performing and how they may improve. The timeliness and usefulness of feedback are important in an effective performance appraisal process. Feedback provides the employee with invaluable information on his or her performance and can act as a source of satisfaction and motivation. <sup>4</sup>

The CFR requires at least one progress review during the appraisal period; however, the panel said feedback should occur continuously. To meet CFR requirements, the agencies require that a midyear performance review be held with each employee.

Generally, most supervisors believed that the performance management system provided for adequate feedback. Of the 29 supervisors we interviewed, 23 believed the system adequately provided feedback and counseling. However, some personnel officials had other views about feedback adequacy. Some personnel officials said that supervisors might not give completely honest feedback and tended toward neutral feedback. These officials said that negative feedback was not given, in order to avoid confrontation and bad feelings, and that positive feedback was not given in order to keep an employee's final rating expectations from being inordinately raised.

In a 1989 MSPB employee survey, 67 percent of the 15,939 respondents agreed that there was effective 2-way communication between them and their immediate supervisors. <sup>5</sup>

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## The Performance Management System Should Distinguish Levels of Performance

According to our panel, the system must distinguish levels of performance, and at least two levels are necessary. In addition, the number of levels must be appropriate to the agency's mission as well as the way it does its work.

Legislation directs that the system provide for establishing standards that will permit the accurate evaluation of employee job performance. Legislation or regulation allows the flexibility of using three or more summary rating levels for SES, GS, and FWS employees. However, legislation requires five summary rating levels for PMRS employees.

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<sup>4</sup>Dennis M. Daley, "Great Expectations, Or a Tale of Two Systems: Employee Attitudes Toward Graphic Rating Scales and MBO-Based Performance Appraisal," Public Administration Quarterly (Summer 1991), p. 192.

<sup>5</sup>Working for America: A Federal Employee Survey, MSPB (June 1990), pp. 3 and 19.

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Although the agencies that we reviewed complied with the legislation and CFR regulations, personnel officials and employees raised several problems with the performance appraisal process. One problem cited by agency officials is the lack of flexibility in the determination of the number of rating levels they may use, specifically the requirement for a five-level summary rating system for PMRS employees. (The five-level requirement for GS and FWS employees was in effect until April 1, 1992. On April 1, 1992, OPM allowed agencies to select three to five rating levels for these employees.)

Overall, the personnel officials (20 of 23) and supervisors (19 of 28) that we talked with believed the system inadequately distinguished levels of performance. Several personnel officials and supervisors believed that it was difficult to distinguish between five levels of performance and reasoned that two or three levels would be better. They said that at five levels, the ratings tended to be inflated and that a "fully successful" (the middle level) rating was generally viewed negatively.

A "pass/fail" rating system was suggested by officials in three of the six agencies we visited as a means for separating the performance appraisal from other management decisions and emphasizing its use for feedback and coaching. Thus, promotion and awards decisions would be based on specific work accomplishments and, in the case of promotions, judgments about an employee's potential to perform in the target job. The National Institute of Standards and Technology (NIST) personnel management demonstration project is using a two-level rating system, and according to personnel officials, it has been well received by the NIST employees. The PMRS Review Committee recommended that appraisals for PMRS employees be simplified by using only two summary ratings, allowing the agencies to determine the names of the two levels.

However, employees responding to a 1989 MSPB survey did not support a pass/fail system. Only about 25 percent of the 15,939 respondents agreed that the performance rating system should be changed to a pass/fail system.<sup>6</sup>

Another problem concerned the determination of the rating itself. Some supervisors believed that they could more effectively rate employees against organizational objectives and specific accomplishments than against critical elements. The PMRS Review Committee recommended that PMRS continue allowing agencies to use statements of work objectives in

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<sup>6</sup>Working for America: A Federal Employee Survey, pp. 3 and 6.



place of elements and standards but that agencies would still be required to identify those elements of the PMRS employee's job considered essential for retention.

At a National Academy of Public Administration symposium, the panel and audience brought out the idea that a performance appraisal system is inappropriate when it rewards only individuals when, in reality, people work as a team to accomplish an organization's missions.<sup>7</sup>

Several agency officials expressed the desire to appraise teams rather than individuals. Personnel officials at one agency said that the current system encouraged individual competition rather than team and organizational accomplishment and did not improve organizational performance.

## The Performance Management System Should Reward Employees

The Incentive Awards Act permits cash awards for GS and FWS employees whose most recent rating was fully successful or higher. The CFR states that the purpose of performance awards is to motivate employees by recognizing and rewarding those who attain high levels of performance. An award should be based on the employee's rating of record for the current appraisal period for which performance awards are being paid.

For PMRS employees, the CFR states the performance awards must be based on the employee's most recent rating and are to reflect summary ratings at levels three, four, and five. Finally, for SES employees, performance awards of between 5 and 20 percent of base pay are available to career appointees if the SES appointee's performance rating is fully successful or higher.

Although the agency performance plans that we reviewed were in compliance with the regulations, personnel officials cited several problems with the rewards process, especially with the motivational effects of the awards. For example, personnel officials believed the process to be flawed by its link to the performance appraisal. Officials said that supervisors protected their employees' awards chances by inflating the ratings. Therefore, official feedback provided by the appraisal was not truthful.

An additional problem cited by supervisors in three agencies was that awards were given only once a year. Employees who did not receive awards knew that they were considered and passed over. Therefore, these employees were often demoralized and demotivated. On the other hand,

<sup>7</sup>"Alternative Personnel Systems" (Sept. 26, 1990), pp. 1 and 31.

those who did receive awards at the end of the appraisal period often did not know for what particular performance they were being recognized. To correct this problem, agency officials believed that awards should be granted at the time of the exceptional performance. Agency officials were most positive about "on-the-spot" awards. These awards are generally tied to accomplishments and are cash awards of up to \$250.00.

Another frequently cited problem with the awards process was the limited amount of money made available to award PMRS employees. Legislation prevents the PMRS awards pool from exceeding 1.5 percent of PMRS aggregate payroll. Personnel officials and supervisors alike told us that PMRS awards were too small to be motivational and might even be lower than awards for similarly rated, lower-graded GS employees. Therefore, a supervisor might receive a smaller performance award than his/her subordinate, even though the supervisor received similar ratings and made similar contributions. Agency officials wanted the flexibility to make awards motivational and meaningful.

In addition to monetary awards, agencies can give employees nonmonetary awards to recognize their performance. According to the CFR, a nonmonetary award is a medal, certificate, plaque, citation, badge, or other similar item that has an award or honor connotation. These awards are designed to increase employee motivation by rewarding their efforts that benefit the federal government.

According to MSPB officials, these nonmonetary awards are more important if the amount of money available for performance awards is small. In its report entitled Pay for Performance: Evaluating Performance Appraisal and Merit Pay, the National Research Council said that "policy makers would do well to give their attention to nonmonetary motivators in concert with their plan to strengthen the ties of pay to performance."<sup>8</sup>

According to OPM statistics, over 75,000 nonmonetary awards were presented in fiscal year 1990. Officials we interviewed said that nonmonetary incentives are well received by employees and that they increase morale. In contrast to the positive perceptions we found among supervisors and personnel officials, our 1991 governmentwide employee survey found that about 35 percent of the employees believed they were treated fairly "always or almost always" or "most of the time" in the areas of nonmonetary awards and recognition.<sup>9</sup>

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<sup>8</sup>"Alternative Personnel Systems" (Sept. 26, 1990), p. 163.

<sup>9</sup>GAO/GGD-92-91, June 18, 1992, pp. 1 and 18.

# Desired Results From a Performance Management System

Performance management is the systematic process by which an agency integrates performance, pay, and awards systems with its basic management functions for the purpose of improving individual and organizational effectiveness in the accomplishment of agency mission and goals. Our consultant panel said that a performance management system should improve employee performance, promote employee trust, and achieve accountability.

## The Performance Management System Should Improve Employee Performance

CSRA was to provide managers with the means to motivate employees toward higher levels of productivity and effectiveness. However, less than one-third of the personnel officials responding to a 1988 MSPB survey believed that the performance management systems improved organizational effectiveness.<sup>1</sup>

According to our consultant panel, current systems do not take on the hard task of improving the performance of all employees but concentrate too much on the 5 percent who are nonperformers. Supervisors should concentrate on continuing improvement of the other 95 percent of the workforce. Developmental plans are seldom created for successful performers to help them further improve performance. Employees must understand that the goal of the appraisal as well as the entire system is to improve their future performance rather than to just assess the past.

Our panel also said that the annual appraisal is an inhibitor of performance improvement because it is used to look back rather than forward. The rating process often has a counterproductive effect on employees' performance because it rates past performance and does not focus on future improvement.

Most of the personnel officials (16 of 22) and supervisors (20 of 21) we interviewed did not believe that the system improved employee performance. In general, personnel officials said that the system was only designed to improve the performance of poor performers and that it did not improve the performance of the other employees. A supervisor said that the system did not have any effect on employee motivation and that nothing written on paper would improve performance if the employee did not have the desire to improve. In a 1992 OPM employee survey, only 19 percent of the nearly 31,000 employees responding agreed that the performance appraisal system motivated employees to perform well.<sup>2</sup>

<sup>1</sup>Federal Personnel Management Since Civil Service Reform (Nov. 1989), p. i.

<sup>2</sup>Survey of Federal Employees (May 1992), pp. 1 and 42.

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## The Performance Management System Should Promote Employee Trust

Our consultant panel said the system should promote trust. Empowering employees and involving them in decisions is important, but employees should not get the impression that they are involved in policymaking if they are not. According to the panel, pseudoparticipation is worse than none at all. Supervisors must be honest with employees. Employee participation is a hallmark of most modern management approaches and is linked to successful public sector performance appraisal systems.<sup>3</sup>

According to the panel, achieving employee trust involves empowering employees, involving them in goal setting, giving them training in the performance management process, helping them to understand the process, and providing them with an appeal process so they know where to go if something goes wrong.

The CFR requirement for involving employees in establishing their performance plans varies among the types of employees. The requirement states that the appraisal system

- shall encourage GS and FWS employee participation in establishing performance plans,
- must provide for the joint participation of the supervising official and the PMRS employee in developing performance plans, and
- shall require establishing performance plans in consultation with the senior executive.

At the six agencies we visited, we found varying levels of employee involvement, ranging from no involvement because of standardized performance plans to complete involvement when employees wrote the original draft of their expectations.

Our findings at these agencies were also supported by wider-scope employee surveys. For example, a 1989 MSPB governmentwide employee survey asked the question, "To what extent were you involved in determining your performance elements and standards?" About 40 percent responded "to a very great extent" or "to a considerable extent." Nearly 60 percent said "to little extent" or "to no extent."<sup>4</sup>

A majority of the personnel officials and supervisors did not believe employees trusted the performance management system. Personnel officials at one location said that employees did not trust the system to

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<sup>3</sup>Daley, *Public Administration Quarterly* (Summer 1991), p. 190.

<sup>4</sup>*Working for America: A Federal Employee Survey*, p. 15.

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rate them fairly because supervisors rated them however they wanted regardless of performance. A supervisor said that employees did not trust the system and believed it was manipulated by management.

According to a 1991 governmentwide employee survey we conducted, 40 percent of the employees responding believed they were treated fairly "always or almost always" or "most of the time" in the areas of monetary awards and bonuses.<sup>5</sup>

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## **The Performance Management System Should Achieve Accountability**

The effectiveness of the performance management system in achieving accountability is not clear. For example, of the 19 personnel officials with whom we discussed this issue, 14 believed the system was inadequate in achieving accountability. Among other things, personnel officials believed that the system did not focus on goal accomplishment or specific objectives. This belief was also a finding of the Treasury Department Inspector General review of the Customs Service's Southwest Region. The Inspector General's report concluded that performance ratings and rewards for the regional management did not reflect organizational performance.

Conversely, 12 of the 16 supervisors with whom we discussed this issue believed the system achieved accountability. For example, one supervisor said that accountability comes through the appraisal of performance against the standards and performance expectations set forth in the performance plan. Another supervisor said that in order for the system to achieve accountability, the supervisor and employee need to discuss the performance plan and standards and agree on their meaning; when they agree, they both know how performance will be reflected in the rating and thus accountability will be established.

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<sup>5</sup>GAO/GGD-92-91, June 18, 1992, pp. 1 and 18.

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# Examples of Performance Management Linkage Among Performance Plans

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To ensure that they are accomplishing their missions, agencies attempt to assign accountability to employees through individual performance plans. On the basis of our case studies of seven operational units, we determined that the individual employee performance plans we reviewed were linked to the missions and goals of the agencies in an attempt to assign accountability to employees.

The agencies we visited had different missions and functions, such as processing claims, conducting research, and repairing aircraft, as well as certain similar responsibilities, such as ensuring safety or supporting equal employment opportunity. The tables in this appendix illustrate the way individual performance standards were linked among employees' performance plans within a particular unit and chain of command.

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## Department of Labor

At the Department of Labor (DOL), we reviewed the linkage among performance elements in the Employment Standards Administration's Office of Workers' Compensation Programs (OWCP) and the Occupational Safety and Health Administration's (OSHA) Technical Data Center. We selected these two units because of their different missions. OWCP's Division of Federal Employees' Compensation provides technical guidance and assistance on the processing of claims filed under the Federal Employees Compensation Act. The Technical Data Center, which falls under OSHA's Directorate of Technical Support, is essentially a research office that provides scientific and technical information to meet the requirements of OSHA program activities.

**Appendix VI**  
**Examples of Performance Management**  
**Linkage Among Performance Plans**

**Table VI.1: OWCP's Employee Performance Standards**

<b>Position</b>	<b>Performance standards</b>
Director, OWCP	Is to ensure that goals for program operations and improvements are developed to complement DOL/Employment Standards Administration goals and promote more effective enforcement/service delivery, and that related program management, productivity, and quality improvement initiatives are effectively and timely communicated, implemented, monitored, and evaluated to accomplish established operational/organizational goals and objectives.
Deputy Director, Federal Employee's Compensation Programs	Is to ensure that goals for program operations and improvements are developed to complement DOL/Employment Standards Administration goals and promote more effective service delivery, and that related program management, productivity, and quality improvement initiatives are effectively and timely communicated, implemented, monitored, and evaluated to accomplish established operational/organizational goals and objectives.
District Director, National Operations Office	Is to achieve two-thirds of the workload measures, output standards and performance (timeliness) standards listed in the FY 1991 Operational Plan and performance is to be within 15 percent of goal for the remaining one-third of the measures and standards.
Supervisory Claims Examiner	Is to ensure that at least 11 of the following 13 Program Plan Office standards are met in the unit. Performance of the two other standards are to be within 15 percent of goal. For example, 85% of traumatic injuries are to be adjudicated within 45 days.
Workers Compensation Claims Examiner	Is responsible for producing timely and accurate work. For example, 85 to 95 percent of traumatic injury cases are to be adjudicated within 45 days, 95 to 97 percent within 120 days, and 98 to 99 percent within 180 days.

Source: DOL data.

**Appendix VI  
Examples of Performance Management  
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The Technical Data Center, which falls under OSHA's Directorate of Technical Support, is essentially a research office that provides scientific and technical information to meet the requirements of OSHA program activities. Its workplan states that it is to serve as a national resource for accumulation and dissemination of scientific and technical documentation. It is to plan, develop, and maintain an integrated automated information and data storage and retrieval system to collect, process, store, retrieve, and disseminate technical information from worldwide sources of scientific and technical reports and journal literature, and provide direct and rapid response to the OSHA users.

Table VI.2 illustrates how the responsibility for completing these goals is assigned to employees through their performance plans.

**Table VI.2: Employee Performance Standards for the Technical Data Center**

<b>Position</b>	<b>Performance standards</b>
Director, Directorate of Technical Support	With few exceptions, is to provide research studies, analyses, recommendations, technical information, and evaluations of the engineering and scientific feasibility of proposed standards or in support of other occupational safety and health projects. A written Directorate Performance Plan is to be in place by the end of the first quarter, and 75 percent of the plan is to be successfully accomplished during the year.
Deputy Director, Directorate of Technical Support	Is to provide scientific, engineering, environmental, medical, and other assistance as requested. Such requests are to be answered within 60 days, provided resources are available.
Director, Technical Data Center	Is to provide and implement a comprehensive technical information facility to meet the scientific and technical information needs of the agency. The goals and objectives established by the agency and directorate are to be supported by the supervisor and communicated to the staff.
Technical Information Specialist	Is to provide thorough and efficient searches that are complete and evaluated independently on requested subjects. Assignments are to be handled within established time frames with appropriate recognition of job priorities.

Source: DOL data.



**Appendix VI**  
**Examples of Performance Management**  
**Linkage Among Performance Plans**

**The Department of the Navy**

At the Department of the Navy, we reviewed the linkage among performance elements at the Naval Aviation Depot, Norfolk, VA. The depot overhauls, upgrades, and repairs aircraft and provides other engineering and logistics support to the Navy. We reviewed performance plans within the division responsible for the F-14 Tomcat aircraft.

The Naval Aviation Depot goals are to provide all goods and services of the required quality contracted for on or ahead of schedule, at or below cost. Table VI.3 shows how the employees' performance standards in the F-14 Production Division are linked to the goals of the depot.

**Table VI.3: Employee Performance Standards for the Naval Aviation Depot's F-14 Production Division**

<b>Position</b>	<b>Performance standards</b>
Director	Is responsible for (1) establishing long- and short-term program initiatives that are realistic and responsive to activity and organizational goals and priorities, (2) meeting established goals and objectives within budget allocations, and (3) using monitoring and evaluating techniques that ensure that services or work products are of good quality, timely, and responsive to customer and activity needs.
Assistant Director	Is responsible for (1) establishing long- and short-term program initiatives that are realistic and responsive to activity and organizational goals and priorities, (2) meeting established goals and objectives within budget allocations, and (3) using monitoring and evaluating techniques that ensure that services or work products are of good quality, timely, and responsive to customer and activity needs.
Sheet Metal Mechanic Foreman	Is responsible for (1) setting long- and short-term work unit goals and individual employee work objectives that are realistic and are responsive to the organization's goals, priorities, and requirements, (2) articulating and communicating the work unit's assigned responsibilities, relating them to accomplishment of objectives, and (3) meeting assigned responsibilities on time and within budget allocations.
Sheet Metal Worker	Is responsible for (1) willingly accepting work assignments, (2) properly following instructions, (3) using technical knowledge, and (4) applying skills needed to produce a product or services of good quality in a timely and responsive manner.

Source: Naval Aviation Depot data.

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**Social Security  
Administration**

At the Social Security Administration (SSA), we reviewed the linkage among performance elements at the District Office in Norfolk, VA, and in the appropriate region (Region III). The basic mission of SSA is to administer SSA programs in an equitable, effective, efficient, and caring manner. We reviewed the performance element concerning how SSA deals with the public, tracking the element from the regional objectives to a GS-10 Claims Representative at the Norfolk District Office.

SSA Region III objectives for fiscal year 1991 were to (1) recognize and value customers, internal and external, (2) satisfy them with high-quality services and products that are useful and reliable, and (3) continue to provide courteous, prompt, and high-quality service to customers.

Table VI.4 shows how the responsibility for completing these objectives is assigned to employees through their performance plans.

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**Table VI.4: SSA Region III Employee  
Performance Standards**

<b>Position</b>	<b>Performance standards</b>
Regional Commissioner, Philadelphia	Is to provide executive leadership, management oversight, and direction, in accord with the Commissioner's goal to "serve the public with compassion, courtesy, consideration, efficiency, and accuracy."
Area Director, Richmond	Is to direct the field offices toward the delivery of courteous, balanced, high-quality service to the public that matches the need and respects the dignity of the clientele being served.
District Manager, Norfolk	Is to (1) set the tone that keeps staff aware of the need to treat all members of the public with dignity and respect and (2) use an ongoing process of monitoring interviewing practices and feedback from the public to assess customer satisfaction with SSA's service delivery methods.
Assistant District Manager, Norfolk	Is to (1) set the tone that keeps staff aware of the need to treat all members of the public with dignity and respect and (2) use an ongoing process of monitoring interviewing practices and feedback from the public to assess customer satisfaction with SSA's service delivery methods.
Operations Supervisor, Norfolk	Is to coordinate, control, and direct activities of subordinate staff to ensure fulfillment of his/her unit's public service goals and objectives.
Claims Representative, Norfolk	Is to (1) communicate in a courteous and businesslike manner, (2) treat individuals with dignity and respect, (3) use skillful interviewing techniques to obtain and give accurate, complete information, (4) use language tailored to the individual's level of understanding, and (5) explain to callers their rights, alternatives, and responsibilities in a clear, concise, accurate, and understandable fashion.

Source: SSA data.

**Defense Logistics Agency**

At the Defense Logistics Agency (DLA), we reviewed the linkage among performance elements in the Defense Distribution Region East, whose mission is to manage all material distribution functions at defense distribution activities in the region in support of U.S. armed forces,

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selected civilian agencies, and foreign military requirements. Region East operates with both civilian and military personnel. We reviewed the performance plans of the civilian employees, and table VI.5 shows their responsibilities for ensuring safety in the workplace.

**Table VI.5: Employee Performance Standards for DLA Defense Distribution Region East**

<b>Position</b>	<b>Performance standards</b>
Deputy Director of Distribution, Susquehanna Site	Is to ensure a comprehensive and effective internal safety program as evidenced by frequent safety meetings, timely processing of accident reports, correction of unsafe conditions, a workforce that is aware of safe working practices, and one to two significant personal initiatives to improve safety in the workplace.
Supervisory General Supply Specialist	Is to (1) enforce safety regulations and take corrective action on observed and/or reported unsafe conditions, (2) ensure that subordinates are aware of and use safety procedures, and (3) ensure that work areas are maintained in neat and orderly fashion, creating a safe work environment.
Materials Handler (Equipment Operator)	Is to (1) ensure that subordinates wear safety clothing and equipment, (2) take immediate corrective action to prevent or correct potential safety hazards, (3) report accidents in a timely manner, and (4) conduct meetings to discuss safety-related matters.
Materials Handler (Equipment Operator)	Is to promote an accident-free work environment by (1) ensuring that employees are informed of proper safety procedures, (2) consistently recognizing improper functioning of equipment/tools and other unsafe conditions, and (3) initiating appropriate action to prevent damage or injuries.

Source: DLA data.

**Department of Veterans Affairs**

At the Department of Veterans Affairs (VA), we reviewed the linkage among performance elements in VA's Washington Regional Office and its Division of Veterans Services. We reviewed the performance element concerning how VA employees are to deal with the public, beginning with the division's Functional Statement and ending with a GS-7 Contact Representative in the Veterans Assistance Section.

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The functional statement for the Division of Veterans Services states that the division will develop maximum efficiency and ensure a thorough familiarity with all phases of the division's activities by providing initial orientation and continuous refresher training to all division personnel. It will also formulate policies and procedures to maintain efficient and economical operations.

Table VI.6 illustrates how the responsibility for completing these goals is assigned to employees through their performance plans.

**Table VI.6: Employee Performance Standards for the Division of Veterans Services**

<b>Position</b>	<b>Performance standards</b>
Director, Washington Regional Office	Is to ensure that the office provides benefits and services in a compassionate manner and as timely and acceptable as the efficient and effective management of resources will allow. Little or no justifiable criticism is received regarding operations, and public relations with veteran service organizations are well maintained.
Supervisory Contact Representative	Is to ensure that division employees provide courteous service to the public and coworkers. Performance in this element will be considered satisfactory if no more than three valid complaints are received that reflect inadequate training of Division employees or improper conduct on the part of the incumbent.
Veterans Assistance Section Supervisor	Is to ensure that section employees provide courteous service to the public and coworkers. Performance in this element will be considered satisfactory if no more than three valid complaints are received that reflect inadequate training of section employees or improper conduct on the part of the incumbent.
Contact Representative	Counselors are to deal with other agency employees, claimants from a wide range of socioeconomic backgrounds, representatives of service organizations, and officials of other federal agencies. Complete information is to be provided courteously and in a manner understood by the claimant (in a logical, orderly sequence).

Source: VA data.

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**Department of Commerce**

Within the Department of Commerce, NIST is participating in a demonstration project in which it is testing a different approach to performance management—a classification system based on career paths and broadbanding. NIST has eliminated the automatic step increases in the GS system and, through broadbanding, has made more of the pay range dependent on performance. We reviewed the performance plans of employees in the Building and Fire Research Laboratory (BFRL), specifically the “program implementation” element with the focus on research and the preparation of technical reports.

The BFRL goal is to develop accurate measurement techniques, evaluation procedures, and computer models for evaluating and predicting lighting quantity and quality. Table VI.7 illustrates how the responsibility for completing these goals is assigned to employees through their performance plans.

**Table VI.7: BFRL Employee Performance Standards**

<b>Position</b>	<b>Performance standards</b>
Director, BFRL	Is to manage analytical, laboratory, and field research to accomplish key milestones, such as that of completing a technical paper on auto-configuration of a BACnet tester by September 1992.
Chief, Building Environment Division	Is to manage analytical, laboratory, and field research. All key milestones, such as completing a technical paper on auto-configuration of a BACnet tester by September 1992 and 75 percent of the milestones on the BFRL project descriptions, are to be met with technical excellence, on time, and within budget.
Leader, Lighting Group	Is to direct and conduct analytical, laboratory, and field research and meet 75 percent of all milestones on time and within budget. By 1/92, is to complete NIST internal report on Photometric Procedures for Evaluating Luminance Distributions in Buildings.
Mechanical Engineer	Is to prepare technical articles and NIST reports presenting research results, such as the NIST internal report “Evaluation of Innovative Lighting Technologies” (GSA), 9/92, and the NIST internal report, “Recommend Test Procedures for Multi-Lamp Luminaries” (DOE) 9/92.

Source: Department of Commerce data.

# Legislation and Regulation Provisions for the Performance Management System

Performance management system elements	SES		PMRS		PMS	
	Required or provided for by		Required or provided for by		Required or provided for by	
	Legislation	Regulation	Legislation	Regulation	Legislation	Regulation
<b>Design features<sup>a</sup></b>						
Is linked to mission/goals	Yes	Yes	No	Yes	No	Yes
Supports decisions	Yes	Yes	Yes	Yes	Yes	Yes
Assigns accountability	No	Yes	No	Yes	No	Yes
<b>Process features</b>						
Involves the employee	Yes	Yes	Yes	Yes	Yes	Yes
Sets expectations	Yes	Yes	Yes	Yes	Yes	Yes
Provides feedback/coaching	No	Yes	No	Yes	No	Yes
Appraises performance	Yes	Yes	Yes	Yes	Yes	Yes
Distinguishes levels of performance	Yes	Yes	Yes	Yes	No	Yes
Rewards performance with awards	Yes	Yes	Yes	Yes	Yes	Yes

<sup>a</sup>The design features of "flexible/meets user needs" and "able to be assessed" are not included in this table. Although these are important objectives, our panel agreed that it is not feasible to require them by legislation or regulation.

# Personnel Officials'/Supervisors' Perceptions of How Performance Management System Elements Are Implemented

Elements	Perceptions of adequacy by number of employees responding			
	Personnel officials		Supervisors	
	Adequate	Inadequate	Adequate	Inadequate
<b>Design features</b>				
Linked to mission and goals	18	5	25	7
Supports decisions	9	14	5	12
Flexible/meets user needs	6	17	11	13
Assigns accountability	16	6	16	10
System assessed by agency	12	11	2	5
<b>Process</b>				
Involves employee	11	11	25	3
Sets expectations	16	6	21	8
Feedback/coaching	7	12	23	6
Appraise performance	13	10	18	17
Distinguishes levels	3	20	9	19
Reward performance with awards	0	23	6	32
<b>Results</b>				
Improves performance	6	16	1	20
Achieves accountability	5	14	12	4
Promotes/institutes trust	9	13	3	17



# Recommendations of the PMRS Review and Pay-For-Performance Labor-Management Committees

As part of the PMRS Amendments Act of 1991, Congress established an advisory committee, the PMRS Review Committee, to review and recommend improvements to PMRS. In addition, a provision of the Federal Employees Pay Comparability Act established a committee, the Pay-for-Performance Labor-Management Committee, to advise OPM on the design and establishment of systems for strengthening the linkage between the performance and pay of GS employees.

The PMRS Review Committee's membership included managers and personnel officials from federal agencies as well as representatives of federal managers associations. The Pay-for-Performance Labor-Management Committee's membership included managers from federal agencies and employee unions.

For 7 months, the committees listened to briefings from subject matter experts, surveyed authoritative literature, and discussed the issues. As a result of their efforts, in November 1991 the committees made several recommendations to improve the performance management systems and pay for performance.

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## Agencies Need Greater Flexibility

The PMRS Review and Pay-for-Performance Labor-Management Committees have recommended that agencies be given additional flexibility in the areas of PMRS coverage, performance assessment, award programs, and pay for performance.

The PMRS Review Committee made the following recommendations:

- Encourage agency flexibility, including controlled experimentation that facilitates the collection of empirical information and the formal, long-term evaluation of program effectiveness.
- Permit agencies, subject to consultation with affected employees and OPM approval, to extend PMRS coverage below the grade 13 level to other managers and supervisors, consistent with the statutory definition of "management official" and "supervisor."
- Give agencies the flexibility to develop awards programs suited to their individual needs.

The Pay-for-Performance Labor-Management Committee recommended that federal agencies be given the authority to design and administer pay-for-performance programs to satisfy their specific needs, objectives,

and workforce characteristics, consistent with governmentwide policies and principles.

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**The Performance Management System Should Not Be Linked Directly to Management Decisions**

The PMRS Review Committee made the following recommendations:

- Remove the link between specific award amounts/ranges from specific summary rating levels and
- Amend 5 CFR 351.504, which pertains to RIF decisions, to permit agencies to determine, in consultation with management associations, how to apply the statutory requirement to consider performance for retention purposes, subject to advance approval by OPM.

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**The Performance Management System Should Be Evaluated**

The PMRS Review Committee recommended that agencies be required to conduct comprehensive evaluations of PMRS within their organizations once the changes to the current system have been fully implemented.

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**The Performance Management System Should Have Two Summary Levels of Performance**

The PMRS Review Committee recommended that appraisal for PMRS employees be simplified by using only two summary ratings, allowing the agencies to determine the names of the two levels.

The PMRS Review Committee also recommended that agencies be allowed to continue to use statements of work objectives in place of elements and standards but that agencies would still be required to identify those elements of the PMRS employee's job considered essential for retention.

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**The Performance Management System Should Have Meaningful Rewards**

The PMRS Review Committee recommended that OPM guidance be given to agencies so that both individual and group performance awards should be meaningful and reflect significant differences in level of achievement. The committee also recommended that the government eliminate the current 1.5 percent of PMRS aggregate payroll as a ceiling on the funding for PMRS performance awards and that agencies should be specifically authorized to reprogram funds internally to provide additional funding for PMRS.

The Pay-for-Performance Labor-Management Committee concluded that if a pay-for-performance system is to be successful, it must be adequately funded and its payouts need to be considered meaningful by its recipients.

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**The Performance  
Management System  
Should Involve Employees**

The PMRS Review Committee made the following recommendations:

- Enforce existing provisions that mandate PMRS employee involvement in the development of elements and standards and/or work objectives.
- Provide employees the training needed to enable them to actively participate in the performance assessment process.
- Train supervisors of PMRS employees in appropriate communications techniques as well as the mechanics of the performance appraisal system.
- Amend 5 CFR Part 540 to require training for PMRS rating and reviewing officials and others involved in the administration and implementation of PMRS, including new and incumbent managers and supervisors. The specific content and duration of the training would be specified by OPM. Establish OPM courses to meet this requirement.
- Make an OPM-approved training package available for in-house training.
- OPM should encourage agencies to develop communications strategies. These could include training for all employees as well as newsletters, presentations, and focus groups.

The Pay-for-Performance Labor-Management Committee recommended that affected employees be involved in all phases of the pay-for-performance process—from design and implementation to review and evaluation.

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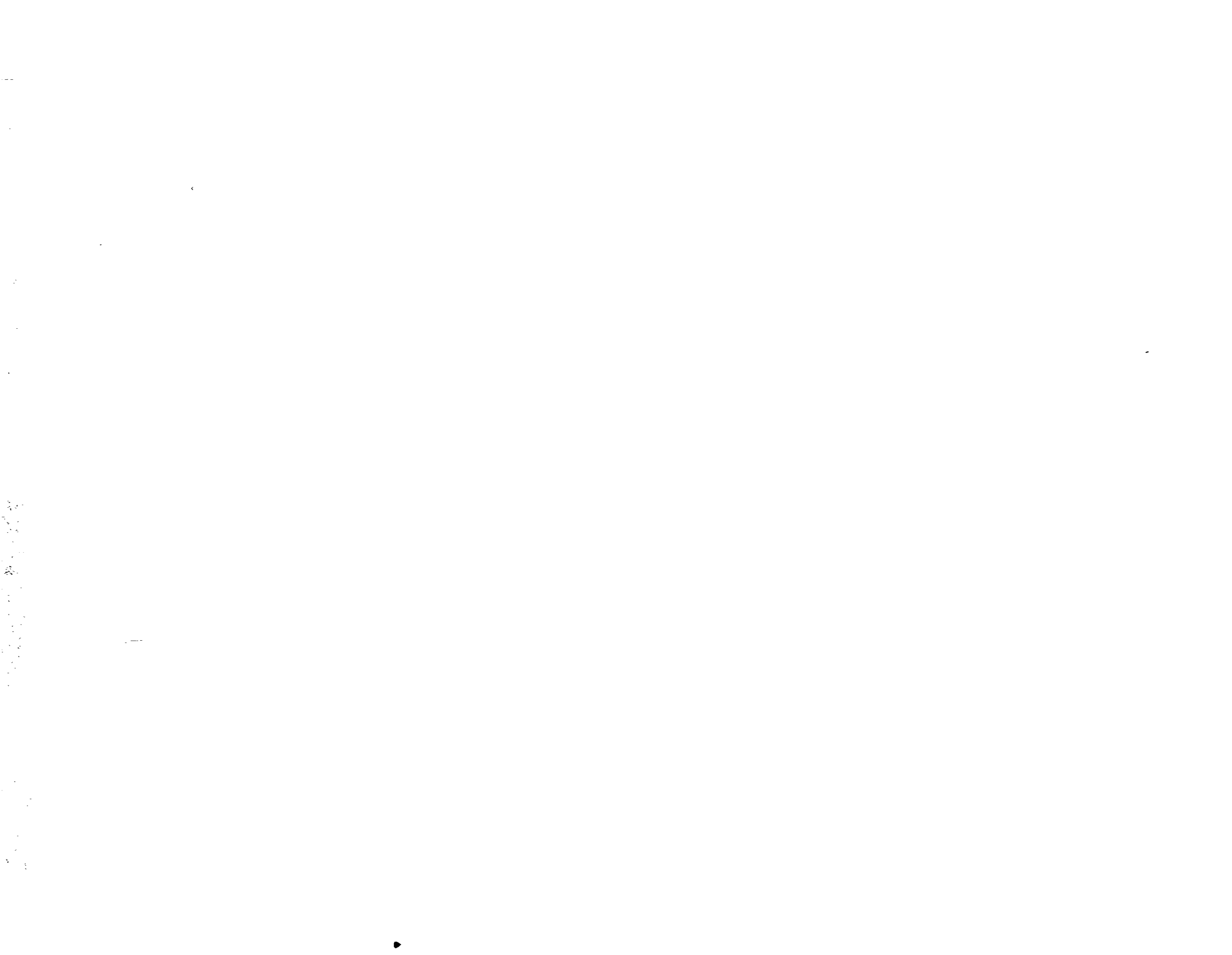
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