

# Designing A Cutting-Edge Performance Management System

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U.S. Merit Systems Protection Board

# U.S. Merit Systems Protection Board



Successor to Civil Service Commission



3 Presidential Appointees Confirmed  
by Senate



Bipartisan



Independent



Quasi-judicial



# Chairman – Neil A.G. McPhie



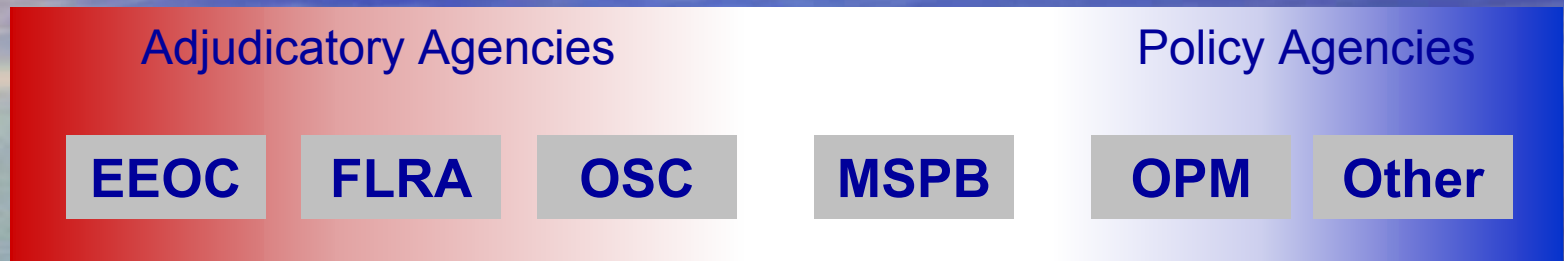
- Appointed April 23, 2003
- Confirmed Chairman on November 21, 2004
- Served as Acting Chairman since December 10, 2003 when he was designated by President George W. Bush to be Vice Chairman
- Term expires on March 1, 2009

# Member – Barbara Sapin



- Member since November 21, 2004
- Nominated by President George W. Bush
- Acting Chairman from December 2000 to December 2001
- Term expires March 1, 2007

# Federal Civil Service Agencies



EEOC – the Equal Employment Opportunity Commission.  
Investigates and resolves discrimination complaints.

FLRA – the Federal Labor Relations Authority.  
Resolves issues related to collective bargaining and labor practices.

OSC – the Office of the Special Counsel.  
Receives whistleblower disclosures; investigates allegations of prohibited personnel practices and violations of the Hatch Act (improper political activity).  
Formerly part of MSPB.

# Federal Civil Service Agencies

## Adjudicatory Agencies

**EEOC**

**FLRA**

**OSC**

**MSPB**

## Policy Agencies

**OPM**

**Other**

OPM – the Office of Personnel Management.

Issues regulations under title 5, the law governing most civil service hiring, pay, and management. Oversees agency compliance with title 5. The OPM Director is tied to the current Administration.

## Other Agencies

Congress has authorized some agencies, such as the Department of Defense and the Department of Homeland Security, to develop their own HR systems and policies.

# MSPB Objectives and Functions

Objective	Function
Protect employees from abuse	Adjudicate appeals from personnel actions
Personnel decisions based on merit	<ul style="list-style-type: none"><li>● Terminations</li><li>● Demotions</li><li>● Suspensions &gt; 14 days</li><li>● Reductions in pay</li><li>● Others</li></ul>
Freedom from prohibited practices	
Personnel policies and practices based on merit	Study OPM policies and agency practices

# Balance of Interests



# OPE's Role

- An independent, nonpartisan perspective
  - Distinct from GAO (a Congressional agency)
  - Distinct from OPM
- Objective information on Federal human resources management (HRM) that –
  - Supports strategic, merit-based HRM
  - Educates, provides solutions, or recommends improvements
- Ensures the public's interest in a merit-based civil service



# Highlights of Performance-Based Pay in the Federal Civil Service

1954	Incentive awards program greatly expanded to encourage managers to reward outstanding contributions
1962	Federal Salary Reform Act provided managers with the quality step increase to reward top performers
1978	Civil Service Reform Act authorized: <ul style="list-style-type: none"><li>• Performance appraisal reforms</li><li>• Large cash awards for employees</li><li>• Merit pay and cash awards for GS-13-15 managers</li><li>• Establishment of SES and performance incentives</li><li>• Demonstration projects</li></ul>
1980-1982	Bonuses initially limited to 25 percent of salary and later reduced to 20 percent of career SES members
1984	Congress created the Performance Management & Recognition System (PMRS) to replace merit pay for mid-level managers
1989	Agencies covered by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) received authority to develop their own pay systems

# Highlights of Performance-Based Pay in the Federal Civil Service (Cont.)

1990	Concerns about pay resulting in recruitment and retention problems led to the Federal Employees Pay Comparability Act (FEPCA)
1993	Performance Management & Recognition System (PMRS) terminated
1995	<ul style="list-style-type: none"><li>• Performance management systems decentralized</li><li>• FAA received authority to develop a new compensation system</li></ul>
1998	IRS received authority to redesign its pay system
2000	OPM decentralized control of SES performance ratings
2002	Homeland Security Act created DHS and provided authority for it to design its own pay system
2003	<ul style="list-style-type: none"><li>• National Defense Authorization Act for Fiscal Year 2004 granted DOD authority to develop and implement a new pay system</li><li>• Human Capital Performance Fund established</li></ul>
2004	SES pay for performance plan implemented

# A Comparison of Private and Public Sectors

Issue	Private Sector	Public Sector
Current use of performance-based pay	Two-thirds to three-fourths of companies report using some form of variable pay	Less than half have ventured outside of the General Schedule or a similar pay plan
Nature of the performance-based increase	Annual bonuses are most common	Annual cash awards, quality step increases, within grade step increases (when eligible)
Size of increase	Varies greatly by industry and level, but often sizeable (e.g., 30%)	Relatively small percent, generally less than 4% of salary
Stability of salary levels	Fluctuates from year to year since bonuses place a larger percent of salary at risk	Stable, with the expectation of gradual increases over time
Transparency	Secrecy often enforced	Somewhat open-salary levels tend to be common knowledge; the value of awards given to individual employees is not typically publicized within an organization, although this information is publicly available

## A Comparison of Private and Public Sectors (Cont.)

<b>Issue</b>	<b>Private Sector</b>	<b>Public Sector</b>
Stereotypical motivation of employees	Money	Public service
Accountability	Customers, Shareholders	Congress, President and public
Customer satisfaction	Customers usually have a choice	Agency may measure customer satisfaction, but is often the only service provider
Measurable outcomes	Often use sales figures or quantity produced	Accomplishments may be more difficult to quantify
Management philosophy	At will employment, pay decisions at company's discretion	More concern for employee rights; employees entitled to increases

# General Schedule vs. Pay For Performance

<b>Issue</b>	<b>General Schedule</b>	<b>Pay for Performance</b>
Goal	Ensure internal equity (equal pay for equal work)	Pay top performers more than average or poor performers
Pay based on	Position and level which largely reflect tenure (especially for career ladder promotions and within grade increases) when minimal performance standards are met	Employee and/or organizational performance during the rating period
What drives pay increases	Tenure (time in grade/step) if performance is acceptable	Individual contributions and/or organizational performance
Who determines pay increases	Virtually automatic with completion of time required although the supervisor has the authority to grant quality step increases or deny the within grade increase	Usually the supervisor and/or other levels of management (including top executives)

# General Schedule vs. Pay For Performance (Cont.)

<b>Issue</b>	<b>General Schedule</b>	<b>Pay for Performance</b>
Breadth of pay ranges	Narrowly defined in terms of 15 grades with 10 steps each (for vast majority of workforce)	Frequently very broad pay ranges (e.g., 100% of salary level)
Classification for pay purposes	Typically many very specific job classifications with associated grades/levels	Often large groupings of similar jobs in a single pay band
Predictability	Employees basically know what to expect year-to-year as increases are virtually guaranteed with acceptable performance	Pay increases can vary widely and only those who performed at a very high level receive increases
Transparency	Employees generally know what their coworkers earn and why	Employees rarely know what their colleagues earn or why. Although they know the band boundaries

# Performance and Rewards

When a pay for performance system functions well:

- 1) Outstanding performers receive the greatest rewards, encouraging continued high performance
- 2) Average performers receive smaller raises, but maintain “buying power” to inspire higher performance and reward levels
- 3) Poor performers receive no increase to motivate improved performance or departure

# What is the goal of a performance management system?

Align  
individual  
performance  
with mission



Improve  
organizational  
performance

# What factors result in success ?

- Organizational culture
- Performance Management System
- Communication
- Pay for Performance
- Organizational Performance

# Engaging hearts and minds

Performance  
Management  
System



Supervisory  
Behavior



Pay for  
Performance

# What sets the stage for high performers?

Prerequisites of high performance

Performance Management system

Organizational culture

Managerial quality

Formal performance review

Informal performance feedback

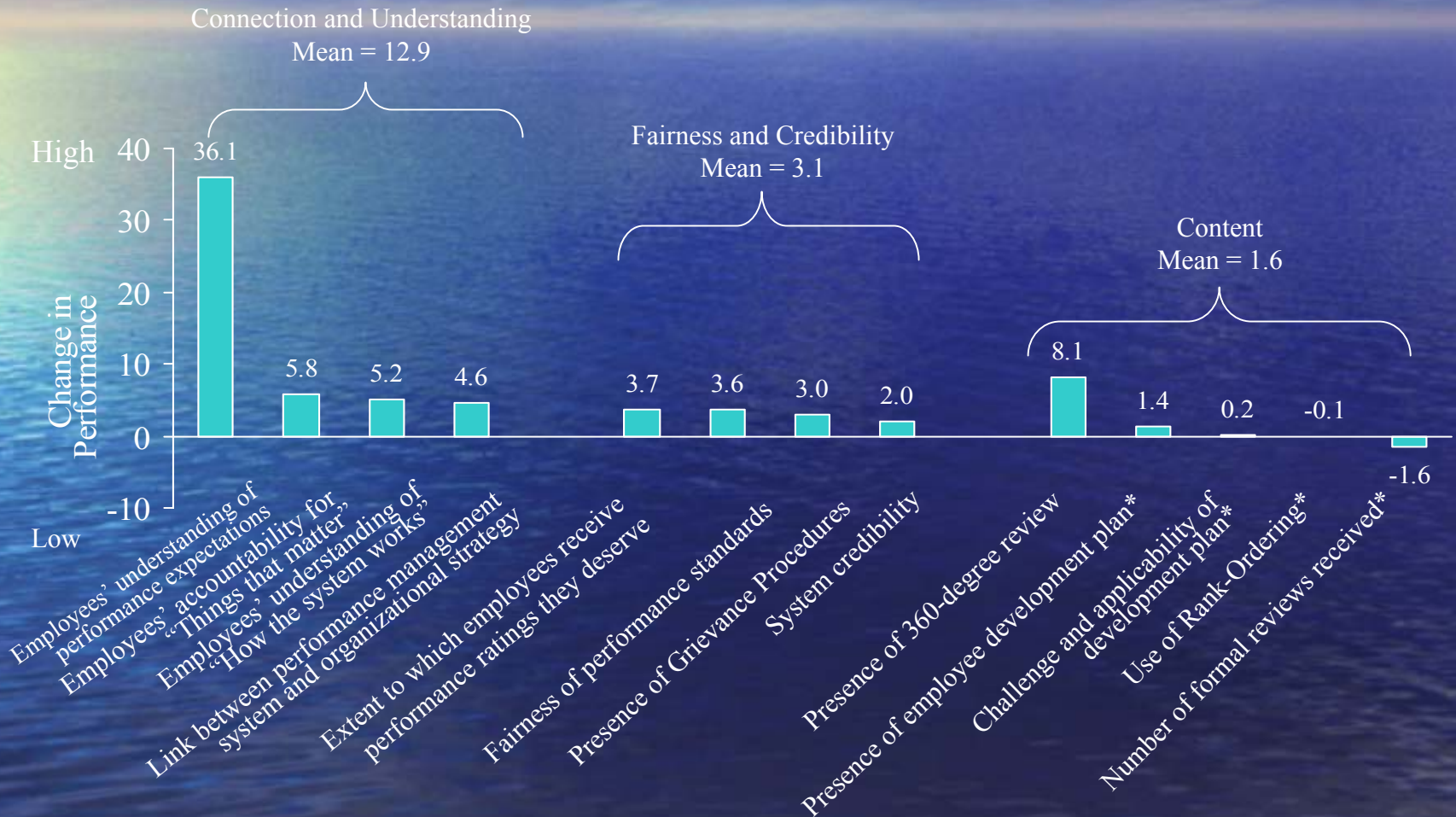
Day-to-day work

Job opportunities



# Performance Drivers: Performance Management System

Maximum impact of performance management system on employee performance



\*Total effects below traditional levels of statistical significance ( $t < 2.0$ ).

Source: Corporate Leadership Council 2002.

# What are the 3 top ways to obtain connection and understanding?

1. Communication
2. Communication
3. Communication



Performance appraisals don't manage performance!

# What good communication helps

- Establishing working relationships
- Clarifying expectations
- Providing continuous feedback
- Coaching
- Engaging employees in planning and development
- Recognizing success

# Where Does Pay for Performance Fit In ?

- Preparation for cultural change of moving to pay for performance.
- Building solid foundations based upon clear communication.
- Supervisory Accountability
- Emphasize employee communication
- Developing trust in supervisors and the system.

# Pay for Performance is a better way to pay

- Meets the merit principle of equal pay for work of equal value and reward excellence.
- May be fairer than the GS because it recognizes contributions, not tenure.
- Helps recruitment and retention of HiPos.
- Shows little evidence of moving organizational performance *by itself*.

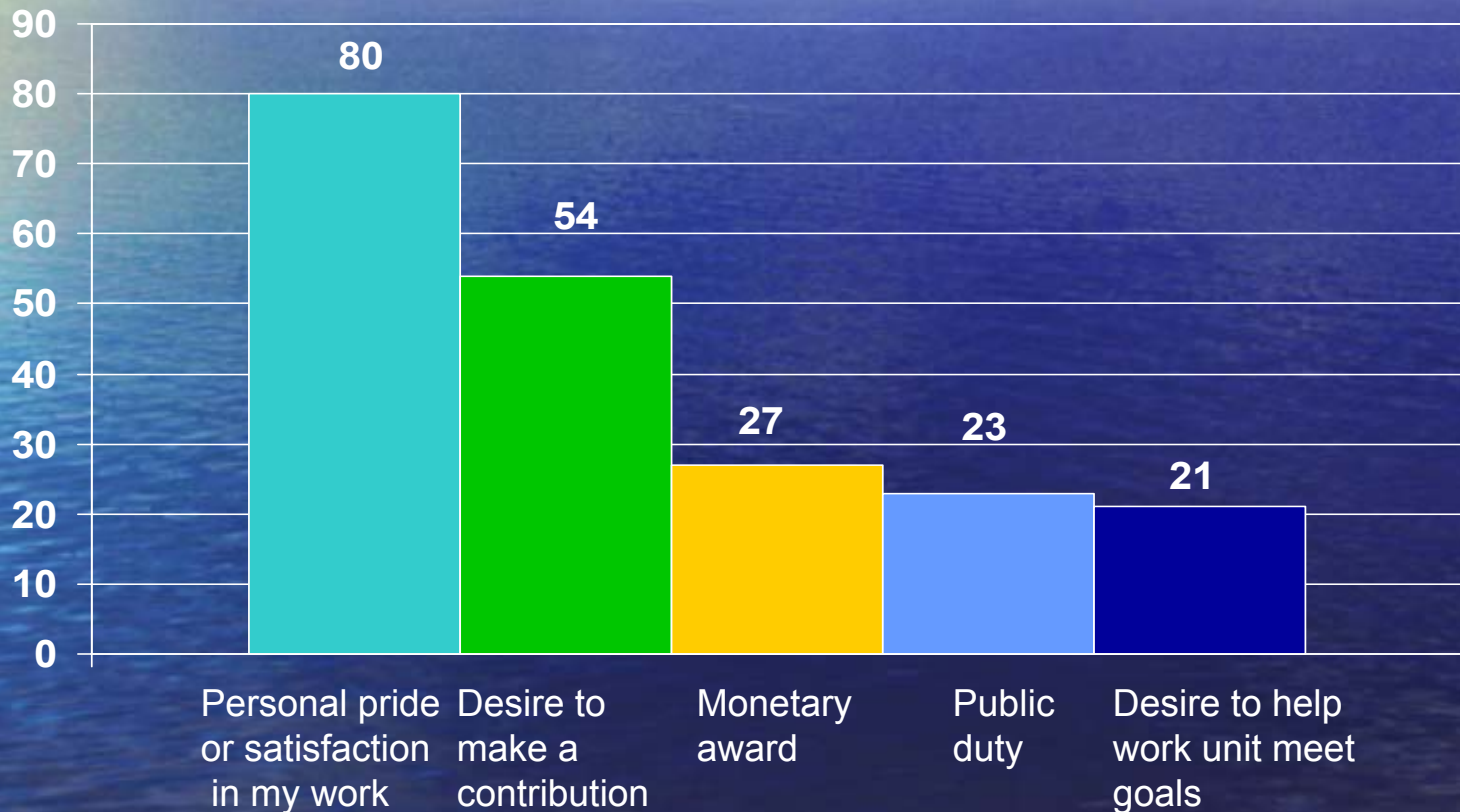


# Impact of Pay on Employees

- Top pay increases → Retention of "superstars"
- Average pay increases → Impact on "B" employees
- No pay increases → Turnover of underperformers

# What motivates employees?

Percent including factor among their top three



Source: MSPB, Merit Principles Survey 2000

# Increasing Organizational Performance

- Employee performance
- Organizational performance
- Whole is greater than the sum of the parts
- Increasing the B players as well as the superstars



# Corporate Leadership Council research

- Pay for performance helps recruitment and retention of high performers
- Pay for performance does not necessarily improve organizational performance
- Employee engagement is the key to improving organizational performance

# Employee Engagement

The extent to which employees commit to something or someone in their organization and how hard they work and how long they stay as a result of that commitment.

# Components of Engagement

## Rational Commitment:

Are the employee's financial, developmental or professional needs being met?

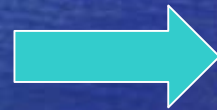
## Emotional commitment:

Does the employee value, enjoy and believe in their job, manager, team, or organization?

# Impact on Outcomes

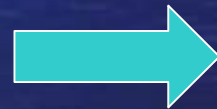
## Engagement

– Rational



Attraction/Retention

– Emotional



Discretionary Effort

# Relationship between Pay for Performance and Employee Engagement

- Allow pay setting flexibility to attract and retain high performers.
- Emphasize new supervisory behaviors facilitating emotional commitment.
- Aligning employee effort to mission.
- Supervisory behaviors affect employee engagement.

# Supervisory Behaviors Maximizing Discretionary Effort

- Clearly articulates organizational goals
- Sets realistic performance expectations
- Adapts to changing circumstances
- Helps find solutions to problems
- Demonstrates honesty and integrity
- Possesses job skills
- People in the right roles at the right time
- Commitment to diversity

# Opportunity for Significant Improvement and Innovation

- Jointly building the performance evaluation system
- Incorporating checks and balances to ease suspicions and raise trust levels
- Developing open communication of goals and results
- Building trust in the fairness – transparency
- Continually evaluating the system

# Features of a Successful Pay for Performance Environment

## Culture:

- Leadership commitment
- Communication
- Trust between supervisors and employees
- Supportive personnel systems

# Features of a Successful Pay for Performance Environment (Cont.)



## Supervisors' Role:

- Treat employees fairly when assigning work, evaluating performance, and allocating rewards
- Provide continuous, accurate, and meaningful feedback
- Provide assistance for poor performers to improve performance
- Supervisors must be able to exercise the necessary discretion to make personnel decisions

# Features of a Successful Pay for Performance Environment (Cont.)



## Performance Evaluation:

- Performance measures have been carefully designed, including the most critical outcomes
- Performance is evaluated at the appropriate level
- Employees understand how their individual performance supports organizational outcomes

# Features of a Successful Pay for Performance Environment (Cont.)



## Fairness:

- Checks and balances are present
- Performance Management System is viewed as fair
- Pay and awards are distributed according to performance
- Supervisors and managers are held accountable

# Features of a Successful Pay for Performance Environment (Cont.)

- On-going **training** for supervisors and employees
- Adequate **funding** is ensured
- Continuous **evaluation**
  - Accomplishment of objectives
  - Impact on employee attitudes, engagement, satisfaction, performance

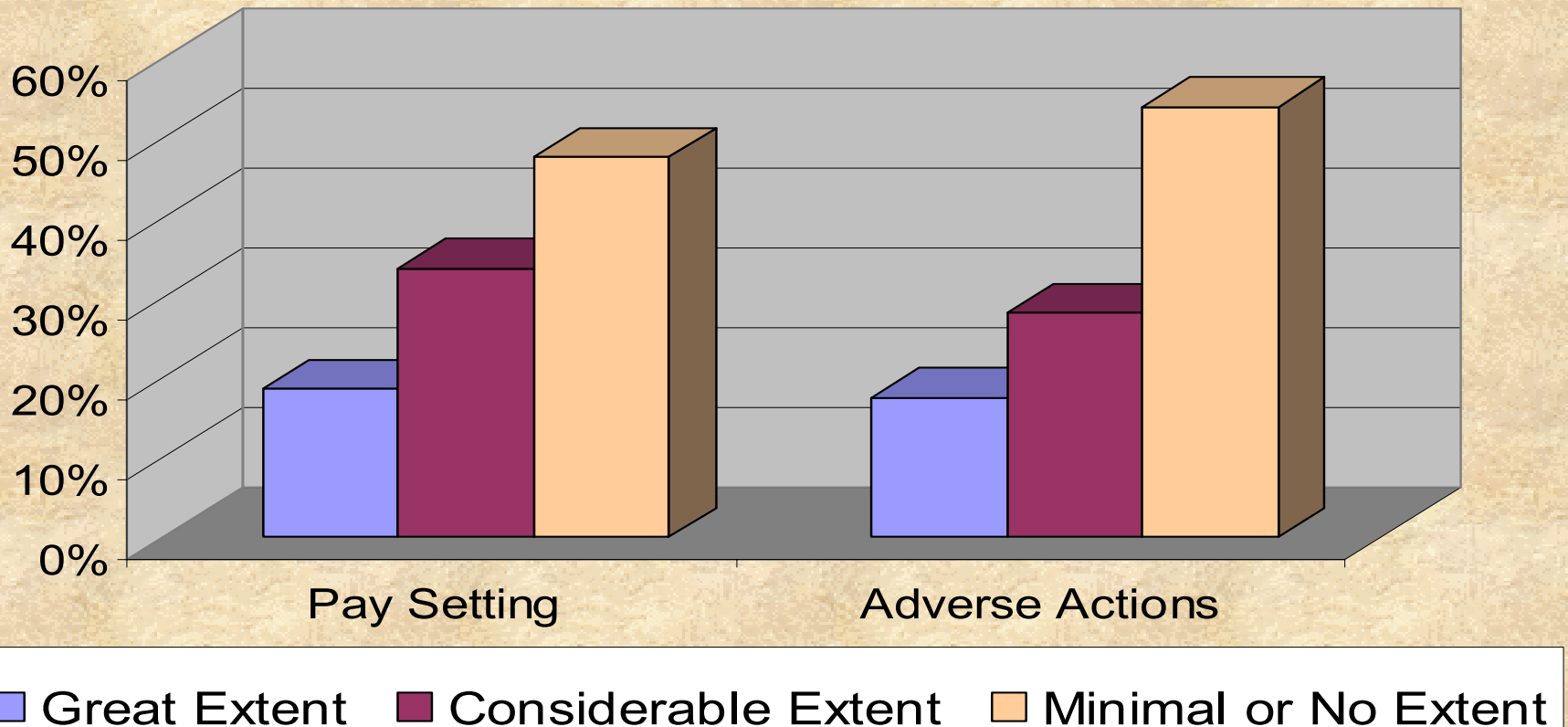
# Creating a New System

“... whatever the rules are, whatever the processes agreed to, a lot of this is going to depend on trust.”

**--- DHS SRC Member Pete Smith,  
President and CEO, Private Sector Council**

# Creating a New System

**In a more flexible system, to what extent do you think your supervisor would exercise the following authorities in a fair and effective manner?**



# Motivating Performance Through Pay

## Potential Benefits

Conveys how much the organization values an individual.

Recruitment and retention of high performers and turnover of low performers.

Increased performance levels.

Clarify performance expectations and pay attention to measurement and feedback.

Improve accuracy and perceived fairness of performance evaluations through a checks and balances

Performance improvements may fund recognition programs.

## Value

The employee must value the prospective reward.

## ROI

The value of the reward must exceed the costs of performance to the employee and coworkers.

## Performance

Performance must be measurable, attributable to the individual, and attainable.

## Outcome

The employee must believe that increased performance will be recognized.

## Cautions

Money may not motivate.

May harm cooperation, information sharing, and group performance.

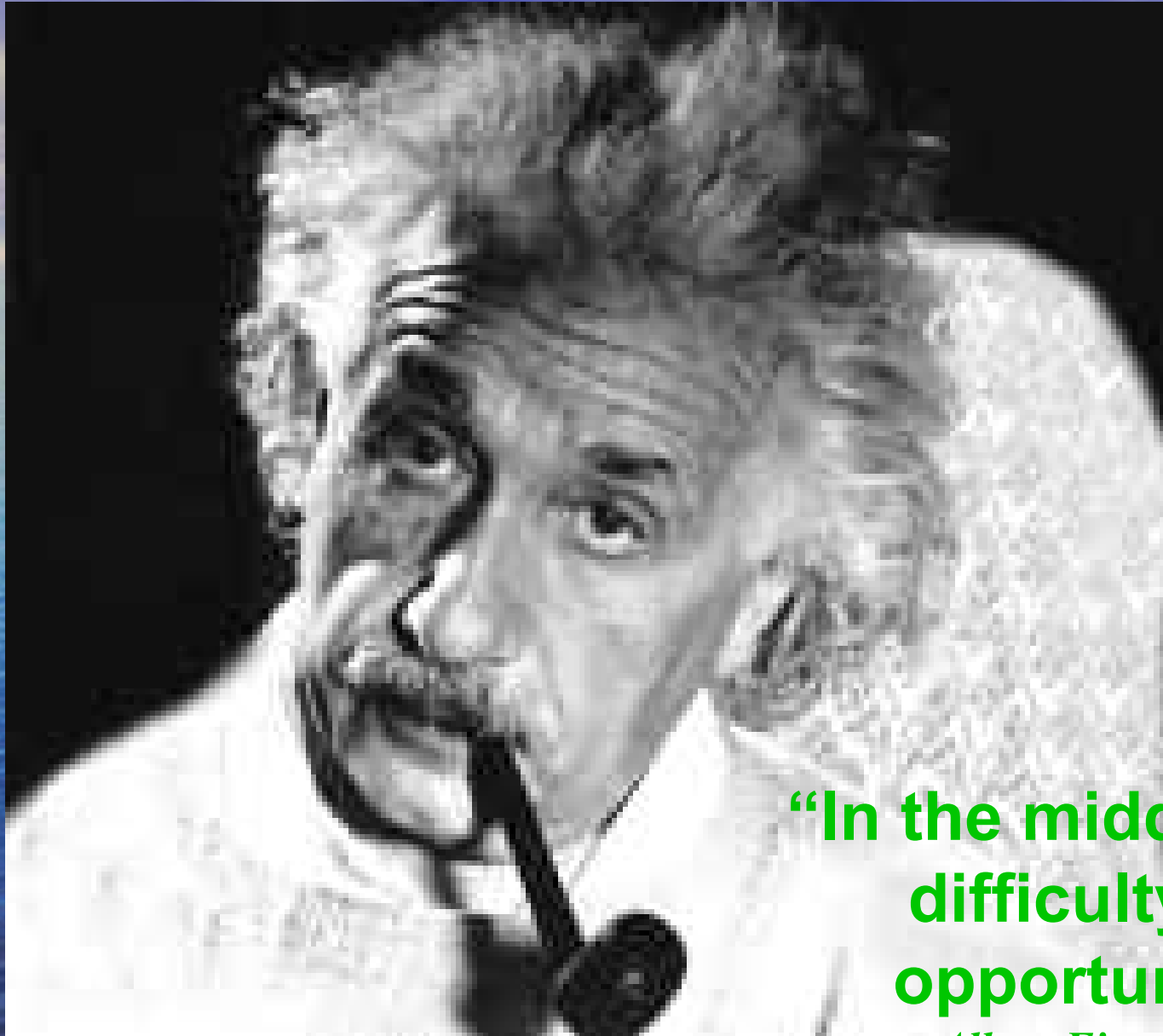
Poorly conceived expectations and measures may produce undesirable outcomes.

Requires rigorous collection and evaluation of data.

Perceptions of unfair performance ratings.

Low levels of trust

Funding is often limited and unpredictable.



**“In the middle of  
difficulty lies  
opportunity.”**

*Albert Einstein*

# Opportunity for Significant Improvement and Innovation

- Jointly Building the Performance Evaluation System.
- Incorporating checks and balances to ease suspicions and raise trust levels.
- Open Communication of goals and results.
- Building trust in the fairness – transparency.
- Continually evaluating the system.

# How Is This Accomplished ?

## Role of Performance Management

- Increase discretionary effort
- Increase organizational commitment
- Clarify expectations
- Retain high performers
- Deal with marginal employee

## Increased individual performance



## Organizational performance



# The Key to Success ?



- Treat it as a major cultural change
- Plan it out

# Disciplines of Sustainable Growth

- 70% not engaged at work
- Longer you stay –less engaged
- Talents rarely change
- Most improvement potential in strengths

Hold all employees accountable for their local performance outcomes.



# Disciplines of Sustainable Growth

- Teach employees to identify, deploy and develop their strengths.
- Align appraisal systems around these factors.



Design and build each role to create world class performers in the role.



For more information on MSPB studies

<http://www.mspb.gov>

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