Expecting and Rewarding Excellence

WHAT WE PROPOSE

Make today's performance management system—which is conceptually sound but flawed in execution—more effective in practice by ensuring that supervisors and managers have the skills necessary to make it work. And make it more consequential by limiting base pay raises above the market to employees and managers who exceed performance expectations, subject to appropriate oversight and protections, to ensure that those increases are based strictly on merit.

THE PROBLEM

While the government's current legal and regulatory framework for performance management is sound in theory, it has never realized its full potential in practice. There are a number of reasons for this. For one, agencies do a poor job of describing organizational performance requirements and translating them into meaningful individual and team performance expectations. For another, there are few consequences—positive or negative—when those expectations are not met or when they are exceeded. And to compound these problems, agencies often do not effectively select, train and hold managers accountable for working with their employees on performance issues.

For the most part, employees and managers view performance management as a paperwork exercise, an annual necessary evil that has little tangible impact on their working lives. An employee's annual performance rating has little bearing on promotion prospects and almost none on pay, even though logic suggests that promotions should be based on how well employees do their jobs. This is contrary to the merit principle that calls for appropriate incentives and recognition to be provided for excellence in performance. But even the relatively meager monetary performance awards that used to come with high performance ratings have been canceled for budget reasons, not the best signal to send an organization's highest performers.

In addition, supervisors often are reluctant to make difficult performance distinctions. On one hand, they fear litigation when they hold poor performers accountable, and on the other, they lack the tools to reward their best performers—and they are not rewarded for doing either. The net result is a ratings distribution where large numbers of employees are rated above average because it's the most expedient way to check the box. There have been a number of efforts to improve performance management,

including Office of Personnel Management's (OPM) Goals, Engagement, Accountability and Results (GEAR) pilot project, but that initiative suffered from the same flaws in implementation. Thus, much more work remains to be done.

The results of the 2013 Federal Employee Viewpoint Survey bear this out. Large numbers of civil servants believe that high performance is neither recognized nor rewarded, and that poor performers are not held accountable. Some 70 percent of employees surveyed do not believe promotions in their work unit are based on merit. When employees were asked how satisfied they were with the recognition they receive for doing a good job, only 43 percent answered in the affirmative. In addition, only 26 percent of employees agreed with the statement, "In my work unit, steps are taken to deal with a poor performer who cannot or will not improve." In 2013, less than half a percent of federal employees were terminated.[3]

THE SOLUTION

Managers and employees will take performance management more seriously if it matters—if managers are rewarded for setting high expectations for their employees and if they have the tools to hold them accountable for meeting those expectations. This will be reinforced if there are consequences associated with performance distinctions, especially for high performance. When employees and those who manage them exceed high expectations, they should be rewarded with base pay increases that exceed the market point, as well as other forms of recognition for their contributions.

This is not to suggest that civil servants are motivated by financial incentives. The research is ambiguous in this regard, and anecdotally most would argue that money is not what brings individuals to public service or keeps them there. However, the government's ability to recruit and retain talent depends at least in part on paying salaries that are competitive. It also depends on its willingness to make and reward performance distinctions, especially with respect to its top performers. While money may not be a primary motivator, it is a differentiator—a way for employees to gauge relative performance equity. Top performers will be discouraged if they see their extraordinary efforts go unrecognized and unrewarded or, worse, treated the same as those whose efforts are perceived as less, all in the name of feel-good fairness. In addition, many top performers will have other options, so if their contributions aren't recognized and appreciated, they will leave.

HOW IT WOULD WORK
PERFORMANCE MANAGEMENT

Good performance management begins with good supervisors and managers. If their performance improves, so too will that of their employees. In a break with long-standing tradition that is largely the product of the General Schedule's industrial-age rigidity, agencies should stop picking the best technicians for promotion to first-line supervisor. The new classification system we've proposed will still let them promote employees who demonstrate superior technical acumen—just not to supervisory or managerial positions.

Instead, the new classification system would enable agencies to identify and promote people into management who actually want to be managers, and who have demonstrated the potential and aptitude to lead.

The one-year probationary period for newly promoted supervisors would be continued to ensure that they are able to translate their potential into performance on the job. In addition, a requirement would be added for an affirmative decision to be made at the conclusion of the probationary period that the individual has demonstrated fitness to continue in the supervisory role.

And once an individual has been selected to be a supervisor or manager, agencies should be required to do everything they can to ensure his or her success. This means mandatory training. This training should not just apply to the classroom, but should include coaching and mentoring programs as well.

Annual performance plans also would be required for every supervisor, manager and executive, and include a standard set of level-specific people-management expectations. For example, supervisors, managers and executives would be held accountable for Federal Employee Viewpoint Survey results, especially on those survey items that deal directly with managing performance. This would include holding poorly performing employees accountable and rewarding those that exceed expectations. The eligibility of supervisors and managers for pay increases and bonuses would be tied to their performance ratings. In addition, political appointees would be required to have performance plans, be given training to conduct performance reviews for the career executives that they supervise and be held accountable for meeting their goals.

Hold managers accountable for employee satisfaction and commitment

Improving employee satisfaction does not mean that management officials must worry only about keeping their employees happy—management cannot become a popularity contest, and survey results cannot be linked to a particular appraisal

3 FedScope (fedscope.opm.gov) from the Office of Personnel Management for all full-time, non-seasonal, permanent employees (Sept. 2013) and for termination or removal (fiscal 2013).

rating in a formulaic way. Nor does it mean that survey results should be a manager's only measure of merit—obviously, bottom-line results are just as important. However, it does mean that both should be examined by a supervisor or manager's rating chain—especially from one year to the next—by setting expectations at the beginning of a rating cycle and then again at the end, so that progress on these important indices can be gauged in relative terms.

Oversight to assure transparency, credibility

To ensure the overall credibility of the performance management process, departments and agencies would establish performance review boards modeled after those established by law to oversee administration of the Senior Executive Service performance management system. These review boards also would be established at subordinate levels—for example, at the bureau, major command or even the facility level where it makes sense. The boards would analyze rating patterns by occupation, grade level and demographics in order to assure that they are consistent with organizational performance and merit principles, especially with respect to nondiscrimination and adverse impact. In addition, they would evaluate whether the agency's performance management system is aligned with and supports its mission requirements, and also examine and oversee efforts to improve Federal Employee Viewpoint Survey results.

An agency's review board would not be able to change an individual employee's performance rating after the fact unless it found that that rating was tainted in some way by nonmerit factors. The performance rating process would be completely firewalled from the performance pay process. Employee appraisal ratings would be locked before performance pay calculations are made, and the review board would be precluded from adjusting them once finalized except in the case of a successful grievance or appeal. However, a review board conceivably could remand ratings for a particular subunit or supervisor on grounds that those ratings are inconsistent with overall organizational results or merit principles.

HOW IT WOULD WORK
PERFORMANCE PAY

With a credible performance management system in place, our proposed system would eliminate tenure-based pay increases for managers and employees, and instead make pay progression within a particular salary band based strictly on performance—up to an occupation's market rate for performance that meets expectations, and above that rate only for performance that exceeds expectations. Employees who fail to meet their performance expectations would not be eligible for a base pay increase until their performance improves to satisfactory levels. Employees at the entry/development level would receive set base pay increases as they achieve certain pre-established developmental milestones, at a percentage rate basically comparable to career ladder promotions under today's General Schedule (that is, promotions from GS-5 to GS-7, GS-7 to GS-9, and GS-9 to GS-11), except that performance against developmental standards would replace time in grade as a basis for progression.

Rapid progression to the market rate

When a professional or administrative employee successfully completes a developmental program and graduates from the entry/developmental level, that employee would be placed in the full performance classification level and receive annual base pay increases of approximately 3 percent (comparable to within-grade increases from Step 1 to Step 4 under today's General Schedule), up to the market rate set for their particular occupation. However, they would receive those increases only if they receive a performance rating of at least "meets expectations."

Employees who receive a rating that exceeds expectations would progress to the full performance market rate even more quickly. Moreover, if the market rate is administratively adjusted upwards as part of the annual pay-setting process, all employees paid at that rate who receive a rating of "meets expectations" or better would see their base pay increased to keep pace with that market rate. Employees who do not meet expectations would not receive an increase unless and until their performance improves, but not retroactively.

High performance for above-market increases

Only those employees whose performance exceeds expectations would receive annual base pay increases above the market rate for their occupation. Those percentage increases would be derived by a mathematical formula, with the amount of an employee's increase calculated based on his or her share of the agency's high-performance pay pool. That pay pool would be agency-wide, as would the share calculation, in order to take advantage of the law of large numbers and ensure relative predictability in performance payouts. This will ensure that high-performing employees across the agency are treated equitably and mitigate the variability associated with small pay pools where demographics and imbalanced ratings distributions can have a disproportionately signifi-

cant impact on share values. And as noted, the entire process would be overseen by an agency performance review board to add even more transparency and credibility.

The mid-point principle

Technically speaking, we are proposing that pay progression within a salary range be based on the midpoint principle—the standard formula used by private industry for placing and progressing individual employees through a particular work level's salary band or range. The midpoint of that range represents the median market salary for a particular occupation, and under our proposal, an employee entering that salary range below that market rate would receive incremental annual salary increases designed to move that employee to the market rate relatively quickly. For example, it should take no more than three or four years for an employee starting at the range's minimum salary to get to the market, assuming satisfactory or better performance.

This is not unlike the way the General Schedule works today. Satisfactory employees at a particular General Schedule grade receive a substantial within-grade step increase every year until they reach Step 4 of that pay grade, which is supposed to serve as a market rate for that grade. However, the federal pay system has been broken so long that for professional and administrative jobs, Step 4 no longer bears any relationship whatsoever to the going rate for any particular white-collar occupation in the labor market. Under the revised system, high-performing employees could reach that market rate sooner, but the salaries of those who fail to meet performance expectations would be frozen below the market rate until they demonstrate satisfactory performance. Only employees who exceed their performance expectations would see raises above that market rate.

Under this system, the Office of Management and Budget (OMB)—on the advice of the President's Management Council (PMC), OPM, and the National Labor-Management Relations Council—would have the administrative discretion to adjust that market point annually with appropriate notice to Congress based on the data from occupational salary surveys for that level of work. They also would take other factors into account in considering such adjustments, such as attrition/retention rates for the occupation, recruit quality and criticality. In this regard, we do not advocate a strict formula approach, but instead rely on the good judgment of the PMC and, ultimately, OMB to make those occupation-based market adjustments.

OMB also could raise or lower the minimum or maximum amount of a particular occupation's salary range based on market data and other factors. However, unlike today's pay-setting process, this would not result in an automatic, across-the-board salary increase for everybody in that occupation. Adjustments to the minimum and/or maximum amount of a given salary range would impact only the potential earning power of employees in that occupation. On the other hand, if OMB administratively increases the market rate for a particular occupation, that would result in an automatic salary increase up to that new rate, but only for those employees already at the market rate. And since the overall cost of those automatic adjustments still would have to be managed within an agency's overall payroll appropriation, there are sufficient checks and balances to warrant such administrative discretion.