Workforce Performance
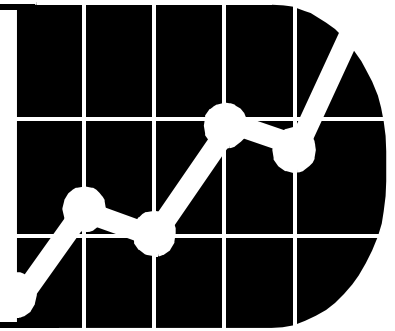
TRANSFORMATIONS '98:
Every Employee an MVP

On September 9-10, 1998, the U.S. Office of Personnel Management (OPM) held its Fourth National Performance Management Conference, "TRANSFORMATIONS '98: Every Employee an **MVP**!" at the McLean Hilton Hotel in McLean, Virginia. In attendance were over 350 Federal employees representing 59 departments and agencies from 30 states. The conference focused on designing and using performance management programs that encourage every employee to become a **M**ost **V**aluable **P**layer (MVP) through linking agency **M**ission and **V**ision with employee **P**erformance. Plenary speakers presented supporting themes on the future of human resources management reform, including total compensation issues, and effecting change and achieving goals.

Photo of Janice R. Lachance, Director of OPM, addressing conference attendees not available in PDF version.

What human resources management reforms will OPM be proposing in the future? OPM Director Janice R. Lachance keynoted the conference by sharing with attendees OPM's proposed initiatives to enhance Federal human resources management and create greater flexibility for agencies to design programs that meet their needs. Several initiatives will require legislation. Some highlights include:
- promoting the use of performance management in improving and recognizing individual and group performance;
- enhancing the tools managers have for resolving performance problems;
- enhancing the current position classification system by establishing a Governmentwide broadbanding authority that permits—not

- m mandates—agencies to use broadbanding if they choose;
- simplifying the classification standards to allow more flexibility in the way positions are classified;
- expanding the definitions of occupational groups, which allows agencies to use much shorter position descriptions;
- reducing inequities with special pay rate systems by letting them operate more like locality pay, that is, as an add-on to the basic pay rate; and
- redesigning Federal pay systems to increase total compensation flexibilities.

What is total compensation? Doris Hausser, OPM's Assistant Director for Performance and Compensation Systems Design, further explained OPM's efforts to research and review the total compensation of Federal employees. Ms. Hausser defined total compensation as everything that an applicant or employee perceives to be of value coming from the employment relationship. A study of total compensation includes a review of both intrinsic and extrinsic rewards.

Intrinsic rewards are built-in or naturally-occurring benefits that employees value through the employment relationship. As an example, an intrinsic reward that is sometimes overlooked in the Federal sector is the opportunity to serve the public and solve problems for the Nation. Many Federal employees prefer working for Federal organizations that have important public goals rather than working for private sector companies that are chiefly concerned with making a profit.

Extrinsic rewards can be both financial and non-financial. Financial rewards include an employee's salary or hourly wage, and also include other benefits, such as insurance, retirement, fare subsidies, variable pay programs, cash awards, retention or recruitment bonuses, and premium pay. Non-financial extrinsic rewards include honorary recognition programs, family-friendly policies, improved work-life programs, and enhanced employee

Photo of Willie Jolley giving advice to conference attendees on how to achieve their goals not available in PDF version.

involvement practices.

OPM's efforts to review and research total compensation issues include:
- establishing the Total Compensation Policy Center within OPM;
- researching current practices and innovations;
- gathering views and opinions about total compensation issues throughout the Federal Government; and
- working with stakeholders throughout the Federal community to fashion comprehensive proposals for a compensation system that ensures equity while providing organizations the tools necessary to meet future challenges.

**How can we accomplish change and achieve our goals?** Willie Jolley's closing plenary presentation was entitled "It Only Takes a Minute to Change...Your Life, Your Attitude, Your Organization!" According to Mr. Jolley, change is inevitable, but our response is optional. In order to deal with change, we need to become excellent in everything we do. We can achieve excellence and change by following the 3D's:
- **Dream**. First, we need to develop a vision for what we want to accomplish in our profession, our organization, and our lives.
- **Decide**. Second, we have to decide what we want, or life will decide for us.
- **Do**. Last, we need to act on our dream.

Mr. Jolley shared with the audience ten steps to create positive change and achieve our dreams:
- Decide what you want.
- Write it down.
- Read it three times a day.
- Set a deadline for accomplishment.
- Think of it often.
- Dream, imagine, see it.
- Develop a plan of action to achieve it.
- Do three things a day toward achieving your goal.
- Stay positive.
- Act as though you have achieved it.

TRANSFORMATIONS '98 included many other important and valuable topics presented by performance management experts. The articles in this edition of *Workforce Performance* describe sessions that were well received and of interest to many conference attendees.
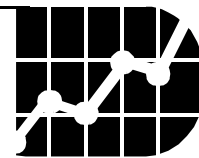
Emerging Issues in Employee Incentives and Recognition

The U. S. Office of Personnel Management's Performance Management and Incentive Awards Division (PMIAD) staff presented a breakout session on emerging award issues at the TRANSFORMATIONS '98 conference. During the session, the speakers discussed how awards can be used to support organizational objectives and the latest developments in employee incentives and recognition.

Why should agencies align awards with organizational goals? The act of recognizing and rewarding employees communicates what the organization values. When an award is granted to recognize goal achievement, the agency is signaling that those goals are important. Such awards will focus employees' efforts and communicate what is important to accomplish. Unless award programs have clearly-stated objectives and are used to recognize individual, group, or organization goal achievement, the program will lack direction and likely will be ineffective as a management tool. The speakers encouraged attendees to take advantage of the flexibility in the awards regulations to develop awards that support organizational objectives.

What forms of awards can agencies use to recognize employees? Governmentwide award regulations found at part 451 of title 5, Code of Federal Regulations, allow agencies the flexibility to recognize employees for a wide variety of accomplishments, as well as to create incentives, using four forms of awards: cash, time off, honorary awards, and informal recognition.

What is the difference between recognition and incentives? Recognition provides after-the-fact reinforcement for specific types of performance or accomplishments and signals what the organization values. Incentives focus employee efforts on the organization's goals and often promise specific rewards to those employees who help significantly to achieve them. Federal award programs have tended to reward performance and accomplishments (that is, provide recognition) rather than encourage new or improved performance (that is, serve as an incentive). Agencies should analyze their work structure and culture to determine which type of

award works best in a given organization or circumstance. The award regulations provide enough flexibility to allow a wide variety of approaches and methods for recognizing employees and providing incentives.

Must employees pay taxes on all awards, even nonmonetary? Yes, taxes must be withheld from employees' salaries when they receive awards—including certain nonmonetary awards. Cash provided by the employer to the employee (i.e., salary, wages, supplemental wages) is always taxable. Taxable fringe benefits are non-cash items provided by the employer to the employee and are viewed by the Internal Revenue Service (IRS) as supplemental wages (i.e., additional compensation). As honorary recognition, agencies have been giving award items such as plaques, pins, certificates, and medals. These items clearly convey honorary recognition and **do not** run the risk of being mistaken for hidden or additional compensation, which could make them taxable as *fringe benefits*. But as agencies expand their use of honorary and informal recognition awards—using gift certificates or other cash equivalents, merchandise, and other non-cash items—agencies need to know when cash-equivalent or nonmonetary awards are considered additional compensation and what tax implications that brings.

Taxes should be withheld from employees' salaries if the award is considered a cash equivalent (i.e., it has a clear, monetary face value, or it gives the employee broad choice in selecting the final item received). Agencies have the option of not withholding taxes if the fair market value of the award is so small that accounting for it is unreasonable or administratively impracticable to report after taking into account all the facts and circumstances, including frequency.

Where can I get more information about awards or related tax issues? For general information on awards or their tax implications, contact PMIAD. For information about applying the IRS tax criteria, contact your local office of the IRS.

Department of Transportation Evaluates Its Performance Management System

The best way to improve a system is to begin by evaluating it. The Department of Transportation (DOT) is evaluating its performance management system in two phases: first, it has completed evaluating the development and implementation of the system, and second, it will be evaluating whether the objectives of the system have been met. This will be completed in January 1999. DOT representatives shared with TRANSFORMATIONS '98 conference attendees the methods, processes, and techniques they are using to evaluate their system.

How did they get started? The Department began its evaluation process by creating an evaluation plan. The plan outlined the objectives of the evaluation, the methods to be used, and the expected outcomes of the evaluation process. By outlining a plan with specific expected outcomes, evaluators can focus their efforts to effectively gather the information they need.

Some objectives of the evaluation are:
- to assess implementation of the system to determine if it provides organizations with a results-focused employee performance evaluation system using relevant and measurable criteria linked to the goals of the Department;
- to assess how well organizations are integrating the performance management system into other management initiatives; and
- to determine if supervisors and employees see the performance management system as a means to ensure communication about job performance and to recognize and reward, as well as evaluate, employee accomplishments.

What methods do they use? The Department is using several methods to evaluate its performance management system:
- **Surveys.** Surveys are distributed by electronic email to representative samples of human resources specialists, managers, supervisors, and employees. Respondents are able to return the survey anonymously. The survey is also available on the DOT web site.
- **On-site visits.** A three-member team conducted 1-day on-site visits to all organizations that had been under the performance manage-

ment system for at least a year. The on-site visit included:
- ♦ a review of employee performance plans to determine if the plans are results-focused and link to organizational outcomes;
- ♦ focus groups and/or individual interviews with human resources directors and staff, managers, and supervisors to determine how well the performance management system is operating and whether it is achieving the desired outcomes.

What questions do they ask? Survey questions for supervisors and employees include:
- Did you and your supervisor discuss your performance expectations and outcomes (results) to be achieved?
- Do you understand how your performance expectations and outcomes support the organization's goals?
- To what extent did the system affect the amount and quality of communication between you and your supervisor?
- Do you believe the performance management system allows employees to be recognized and rewarded for their performance?

What are the results and lessons learned? DOT has completed part one of its evaluation, which focused on the system's development and implementation. Findings were:
- employee involvement in system design teams, focus groups, and surveys resulted in a better product and eased the way for acceptance and implementation;
- partnering with unions produced excellent results;
- the system has improved feedback and communication among managers, supervisors, employees, and human resources offices; and
- the performance management system provides the necessary flexibility to allow organizations to design appraisal and awards programs that reflect their organizational culture.

How can I get more information? You may contact Robert Stokes at 202-366-9443 for information about DOT's evaluation plan.
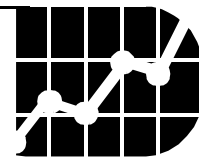
Pay Progression Strategies Involve Performance Management Issues

When designing pay progression strategies for new pay systems, performance management becomes an important factor. A TRANSFORMATIONS '98 session entitled "Pay Progression Strategies in Broadbanding Systems" alerted attendees to performance management issues that are significant when designing pay systems. If you are responsible for performance management programs in your organization, you need to know that performance management is an integral part of pay system design.

What is pay progression? The term "pay progression" refers to how the pay rates of employees are adjusted over time. Generally, pay progression strategies fall into three categories that can be used singly or in combination:
- **Time-based strategies** determine pay increases based solely on time spent at a pay level.
- **Performance-based strategies** include a wide variety of approaches that all use the employee's level of performance to determine the amount of pay increase.
- **Skill/competency development-based strategies** reward the employee's development and demonstrated proficiency in newly-learned knowledge, skills, abilities, value-adding characteristics, and/or other attributes.

What are the current pay progression strategies for the General Schedule? The General Schedule combines time-based, performance-based, and skill/competency development-based pay progression strategies. For example, each General Schedule grade's pay range from the minimum rate to the maximum rate is subdivided into ten steps or fixed rates of pay. Within-range pay progression is achieved through the use of periodic step increases, or within-grade increases. Step increases generally are granted on a time schedule set by statute (i.e., *time based*) and can be given only to an employee who is performing at an "acceptable level of competence" (i.e., *performance based*).

This stable, predictable progression scheme actually carries with it a meaning. Progressing through fixed steps at fixed intervals that get longer over time is based on a "learning curve theory." That is, initial annual pay increases reward a substantial increase in skills, knowledge, and improved performance presumed to occur during the first few years in the grade while in steps 1-4 (i.e., *skill/competency development based*). Pay progression slows once full mastery is achieved (steps 4-7 delivered biannually). Finally, skill acquisition is presumed to taper off and the final step increases are granted at extended 3-year intervals to reward the loyalty, longevity, and continued mastery of long-term employees, short of promoting them.

What is an example of a pay progression strategy used by an agency not under the General Schedule? During the conference session, Gil Fitzhugh and Carolyn Taylor of the General Accounting Office (GAO) explained the performance-based strategy that GAO has designed into its broadbanding system. GAO uses panels of unit managers to determine pay increases. The panel considers:
- the employee's performance appraisal for the year, which includes only the appraisal of elements, with no rating of record assigned;
- a contribution statement, which is prepared by the employee to highlight his or her accomplishments during the year; and
- the panelists' knowledge of employee work.

Using these sources of information, employees are assessed against each other in terms of:
- the extent to which they exceeded job expectations;
- the magnitude and significance of contributions to GAO mission, operations, and teamwork; and
- the employee's performance in relation to that normally expected of his or her level of responsibility.

The panelists can give top performers as much as a 6 percent pay increase.

How can I get more information? Contact us to order a copy of a paper entitled *Alternative Pay Progression Strategies: Broadbanding Applications.* For more information about GAO's system, you may contact Mr. Fitzhugh at 202-512-5525.

DOD: Designing Appraisal Programs Under a Flexible System

Many agencies have flexible performance appraisal systems that allow their components to design customized appraisal programs that fit unique cultures and work structures. The Department of Defense (DOD) is one of those agencies and has several programs that demonstrate the creative design possibilities available with a flexible appraisal system. Conference attendees had an opportunity to hear DOD representatives discuss how they used DOD system flexibilities to design performance appraisal programs tailored to their needs.

Why is the DOD appraisal system designed to be flexible? DOD has the single largest civilian employee population in the Federal Government. It also has some of the most diverse missions. Steve Chester, DOD's Performance Management Program Manager, explained that when the U. S. Office of Personnel Management (OPM) deregulated performance management in 1995, DOD decided to allow its components to use the full range of flexibilities in the design of their appraisal programs. As a result, performance appraisal programs within DOD are some of the most diverse of any agency.

What was the goal of appraisal program design at the Defense Security Service (DSS)? Sally Richmond, from the DSS Office of Personnel Policy, explained that the goal of their program was to create a link between organizational goals and measures and individual performance plans and appraisals.

DSS developed performance elements for all non-supervisors that link to organizational goals:
- contribution to the achievement of organizational goals;
- collaboration;
- technical knowledge and its application;
- customer service;
- communications;
- professionalism; and
- one optional element.

Supervisory staff use the same elements plus two additional elements, which are also linked to organizational goals: leadership and Equal Employment Opportunity (EEO). All these elements can be rated as *Unacceptable*, *Fully Successful*, or *Exceptional*.

To better link these generic, individual elements and standards to organizational goals, supervisors and employees customize the standards. The employees' performance plans contain a worksheet to facilitate the process.

What was the goal of appraisal program design for the Department of the Army (Army)? Michael McClure, Chief of Management and Employee Relations, Office of the Assistant Secretary of the Army (Manpower and Reserve Affairs), described a different program design goal. The goal of the Total Army Performance Evaluation System (TAPES) is to create as much equity as possible in the way military and civilian employees are evaluated. Therefore, Army's traditional five-level performance appraisal program was modeled after the military efficiency reports used for enlisted personnel and includes many similar features.

What was the goal of appraisal program design for the Department of the Navy (Navy)? Ann Marie Khinoo, Program Manager, Employee Relations, Office of the Deputy Assistant Secretary of the Navy (Civilian Personnel and EEO), explained that two key factors affected the Navy's appraisal program design:
- the National Performance Review initiative to limit red tape and restrictive regulations; and
- the general dissatisfaction Navy employees expressed with the five-level program.

Based on these and other factors, Navy decided to make its program as simple as possible while allowing for the possibility of performance distinctions. It accomplished its goal by designing a program with a two-level rating of record, while allowing supervisors to appraise any individual element at five levels.

How can I get more information? For more information on any of these performance appraisal programs, you may contact DOD staff at 703-696-1632.
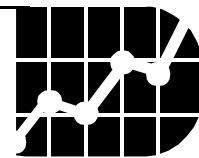
FAA Measures Employee Performance Based on Results

TRANSFORMATIONS '98 participants had an opportunity to hear Gloria Snowden from the Federal Aviation Administration's (FAA) Office of the Associate Administrator for Research and Acquisitions (ARA) discuss the implementation of ARA's results-based employee performance management program.

Why measure results? By focusing performance measurement on results, the performance management program supports shared responsibility, stresses individual accountability, and drives organizational success. Measuring results also provides an excellent base for rewarding performance.

How do they measure results? The core design of ARA's appraisal program requires employee performance plans to:
- link to organizational goals, and
- include results-based, measurable expectations that are observable and verifiable.

Results statement(s) must be written for each employee. A result must be an intended product, outcome, accomplishment, or objective for which measures are established.

Ms. Snowden gave session attendees a model for creating results statements, with some examples. ARA results statements include a verb, a "what," and a "how." The "how" portion of the result statement includes the measures. The measures describe in numeric or descriptive terms how the result should be tracked. Measures are written in terms of:
- quality,
- quantity,
- timeliness,
- cost effectiveness, and/or
- manner of performance.

For example, a result statement for an office clerk that includes appropriate measures might be:

Verb **Maintain**

What **an organized file system**

How **by consistently** (timeliness)
filing most (quantity)
documents in alphabetical order (quality)
and removing duplicates (cost-effectiveness)

Both the employee and the rating official are responsible for developing the performance plan. If the employee and rating official disagree about a results statement, the second-level manager makes the final determination. The employee or the rating official may request changes to the performance plan during the appraisal period if expectations change.

How will they evaluate their program? The program was put into effect in October 1997 and the first cycle ended on September 30, 1998. Part of the evaluation of the first cycle includes reviewing two hundred anonymous employee performance plans selected at random. Evaluators will assess the percentage of established expectations and standards that actually measure results.

Even though employee satisfaction data are not available yet, Ms. Snowden was able to share her own opinion of the program. When asked if she would like to return to the generic standards that ARA used previously, she replied, "No way! I use my performance plan now as an everyday working document that I keep pasted to the wall in front of my desk. Now I know exactly what's expected of me and what I have to do to exceed expectations. I like it much better this way!"

Ms. Snowden reminded attendees that change is difficult, but, as the old adage observes: "If you always do what you always did, you will always get what you always got."

How can I get more information about ARA's appraisal program? You may contact Ms. Snowden at 202-267-8884 for more information about ARA's program.

Items Worth Noting

Upcoming Awards
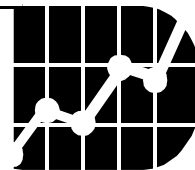
	Nominations Due	Contact
Innovations in American Government Awards—To identify and celebrate outstanding examples of creative problem-solving in the public sector.	January 8, 1999	JFK School of Government, Harvard University, 1-800-722-0074
President's Service Awards—To honor outstanding individuals and groups engaged in voluntary service to help solve serious social problems.	January 8, 1999	Marie Clark, 202-729-8000
Public Service Excellence Awards—To recognize working units which have demonstrated the importance of teamwork in public service.	January 22, 1999	Gretchen Hakola, 202-401-4344
The Livingston Awards—To recognize and further develop the abilities of young journalists employed or paid by U.S.-controlled print or broadcast media. Journalists 34 years of age or younger may compete for honors in local, national, and international news reporting.	January 26, 1999	Charles R. Eisendarth, 734-998-7575
Presidential Rank Awards—To recognize prolonged, high-quality accomplishments by a select number of career members of the Senior Executive Service.	Late January 1999	Nancy Gauthier, 202-606-1125

Performance Appraisal for Teams Now Available

Organizations using teams have been adapting their performance appraisal programs to include team performance. Our new product, *Performance Appraisal for Teams*, provides information and guidelines for measuring and appraising team performance.

This 16-page overview defines the three types of performance elements and how they can be used to include team/group performance in employee performance plans. It also reviews team-related performance measurement and explores what is meant by "team performance." Finally, readers will find examples of team elements and standards and a brief discussion about multi-rater appraisal.

You may call or email us to request a hard copy or an electronic copy of *Performance Appraisal for Teams*.