

Summary Report

CONVERSATIONS ON PUBLIC SERVICE

PERFORMANCE-BASED PAY IN THE FEDERAL GOVERNMENT:
HOW DO WE GET THERE?

January 2004



National Academy of
Public Administration

National Commission
on the Public Service
Implementation Initiative

OFFICERS OF THE NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

CARL W. STENBERG, CHAIR OF THE BOARD

VALERIE LEMMIE, VICE CHAIR

C. MORGAN KINGHORN, PRESIDENT

JONATHAN D. BREUL, SECRETARY

HOWARD M. MESSNER, TREASURER

NATIONAL COMMISSION ON THE PUBLIC SERVICE

PAUL A. VOLCKER, CHAIRMAN

CHARLES BOWSHER

BILL BRADLEY

FRANK C. CARLUCCI

KENNETH M. DUBERSTEIN

CONSTANCE HORNER

FRANKLIN D. RAINES

RICHARD RAVITCH

ROBERT E. RUBIN

DONNA E. SHALALA

VIN WEBER



CONVERSATIONS ON PUBLIC SERVICE

PERFORMANCE-BASED PAY IN THE FEDERAL GOVERNMENT:

HOW DO WE GET THERE?

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

**NATIONAL COMMISSION ON THE
PUBLIC SERVICE IMPLEMENTATION INITIATIVE**

SUMMARY REPORT

JANUARY 2004



The views expressed in this document are those of the participants in the October 21, 2003 forum. They do not necessarily reflect the views of the National Commission on the Public Service or the National Academy of Public Administration.



FOREWORD

People agree that performance is important and that federal workers should be rewarded for high performance. The difficulty lies in establishing the details of how performance-based pay should work in the federal government. Indeed, there is some question of whether such a system should even be instituted in the federal government.

Concerns have been raised in the context of the Bush Administration's proposals to institute performance-based pay for civilian employees at the Department of Defense, for the Senior Executive Service, and on a limited basis government-wide. Performance-based pay is also one of the options being considered for the Department of Homeland Security.

The National Academy of Public Administration and the National Commission on the Public Service Implementation Initiative convened a forum on October 21, 2003 to identify areas of agreement and to search for basic principles and processes that all involved parties believe should underlie a pay-for-performance system.

The National Academy of Public Administration is a congressionally chartered non-profit organization that advises government leaders on improving governance and public sector management. The Academy does not advocate or oppose performance-based pay in general nor does it advocate or oppose any specific performance-based pay initiative. However, the Academy's efforts to make government more effective involve actively exploring and assisting agencies in evaluating a variety of options for management systems.

The National Academy of Public Administration is an independent non-profit, non-partisan corporation chartered by Congress. Founded in 1967, it provides trusted advice to leaders on issues of governance and public management. The Academy works closely with all three branches of government at the federal, state, and local levels; with philanthropic and non-governmental organizations; and with foreign and international institutions that request advice or assistance.

The National Commission on the Public Service Implementation Initiative, which has entered into an agreement with the National Academy of Public Administration to pursue work of mutual interest, continues to advocate the adoption of the Commission's recommendations. The Commission recommended that performance play a much greater role in government management and compensation systems. This and other recommendations were contained in the final report of the Commission, entitled "Urgent Business for America: Revitalizing the Federal Government for the 21st Century," released in January 2003 (www.brookings.edu/volcker).

The National Commission on the Public Service is a project of the Brookings Institution Center for Public Service and was supported by a grant from the Dillon Fund. The Commission Implementation Initiative is supported by grants from the Eli and Edythe L. Broad Foundation, the Carnegie Corporation, the Ford Foundation, the Annette Heyman Foundation and the Rockefeller Foundation.

The forum was moderated by Paul A. Volcker, Chairman of the National Commission on the Public Service and former Chairman of the Board of Governors of the Federal Reserve System, and featured a distinguished panel of government leaders and performance-based pay experts. (The panelists' biographies are listed in Appendix A.)

Forum panelists were positive about the federal government's ability to institute successful performance-based pay systems if the proper groundwork is done. Chairman Volcker also noted that concerns about performance-based pay continue to be expressed by federal employee representatives. Items of consensus and keys to success that were identified at the forum are included in the conclusion of this report.



C. MORGAN KINGHORN
PRESIDENT, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION



PAUL A. VOLCKER
CHAIRMAN, NATIONAL COMMISSION ON THE PUBLIC SERVICE

INTRODUCTION

All too often, agencies' performance management systems...are not linked to the strategic plan of the organization and have only a modest impact on the pay, use, development, and promotion potential of federal workers.¹

—J. Christopher Mihm, Academy Fellow and Director, Strategic Issues, General Accounting Office

It appears that those results [from the 2002 Federal Human Capital Survey] point to a workforce that is generally satisfied with their pay, their benefits, and their jobs, but would like to see a work culture that better rewards performance and does not reward sub-standard work.²

—Rep. Jo Ann Davis, Chairwoman of the House Government Reform Subcommittee on Civil Service and Agency Organization

The above statements reflect the concern that exists among policymakers and federal employees that the principle of rewarding employees for good performance is far from being fully implemented in the federal government. Nevertheless, pressure from the White House and Congress to achieve and demonstrate results in the delivery of federal services has led to an increasing number of initiatives that establish connections among agency goals, individual performance criteria and employee pay. In general, these initiatives direct or authorize agencies to reward high performers based on formal performance appraisal systems.

Against a background of intensified interest in this issue, the National Academy of Public Administration and the National Commission on the Public Service Implementation Initiative sponsored a forum entitled *Performance-Based Pay in the Federal Government: How Do We Get There?*

Leading federal personnel policymakers and human resource management experts provided insights from their experience with performance-based pay in the public and private sectors.

The purpose of the forum, said Academy President C. Morgan Kinghorn, was “to develop and articulate...a set of guidelines and options that will be useful to policymakers and those advising them as they consider the issue of performance-based pay.” The forum participants recognized that missions, employee pay and skill levels differ widely within and among agencies. For this reason, they focused instead on general principles learned from past and current efforts to implement performance-based pay in the federal government.

WHERE PERFORMANCE-BASED PAY STANDS

“There’s something in the air in Washington [that] says civil service reform, maybe, is not quite the dead-end that it’s been for many decades,” said Paul Volcker, forum moderator and Chairman of the National Commission on the Public Service. “How can anybody object to performance-based pay—except for the little question of how to implement it,” he added. Panelists agreed that problems exist, but noted that the Bush Administration is moving ahead on implementing performance-based pay.

“The federal government is on the verge of becoming a results-oriented organization,” according to Clay Johnson, Deputy Director for Management of the Office of Management and Budget (OMB). “We have to get more results out of the money we spend, so we have to become more results-oriented.” Johnson stated that doing so involves asking basic questions about whether each employee is performing according to “mutual expectations,” recognizing those who are and identifying those who are not.

There’s something in the air in Washington [that] says civil service reform, maybe, is not quite the dead-end that it’s been for many decades.

Paul Volcker, Chairman, National Commission on the Public Service

Dan Blair, Deputy Director of the Office of Personnel Management (OPM), noted that the “the nature of the conversation [regarding performance pay] has changed...It’s not ‘should we have pay for performance,’ but it’s ‘how do we make it work.’”

Forum participants cited several indicators that performance-based pay will be part of the future for the federal workforce:

- Congress has granted some exceptions to pay and other provisions of the 1949 Classification Act, which established the current 15-grade structure. Nearly 20 percent of non-postal career federal employees now work under personnel systems other than the civil service general schedule, according to the National Commission on the Public Service.³ Individual agencies that have implemented various forms of performance-based pay include the IRS, FAA, FDIC and GAO.
- The Department of Homeland Security (DHS) is also an exception to the current Title V civil service system that has potential for extensive compensation reform. DHS is currently working with OPM to create a human resources management system for its 180,000 employees.⁴
- Congress has authorized the Department of Defense (DOD) to implement a performance-based pay system for 300,000 of its civilian employees, eventually to grow to 746,000.⁵
- Congress has provided authorization for a higher pay cap for the 6,000 senior executives in any agency certified by OPM and OMB as having a performance appraisal system that provides for meaningful performance distinctions.
- The Bush Administration has proposed creation of a \$500 million Human Capital Performance Fund⁶ that would allow agencies to deliver additional pay to the top eight to ten percent of employees identified as good performers.

Thus, within the next one to two years, more than half of the federal civilian workforce (excluding the U.S. Postal Service) may be working within a performance-based pay system.

³“Urgent Business For America: Revitalizing the Federal Government for the 21st Century,” Report of the National Commission on the Public Service, p. 27. Center for Public Service, The Brookings Institution, January 2003.

⁴Federal civil service law was amended so that the Secretary of DHS is authorized, in regulations to be prescribed jointly with the OPM Director, to establish and implement a human resources management system for organizational units of DHS. The process of selecting a pay system for DHS is now underway.

⁵The Department of Defense Authorization Act for Fiscal Year 2004 (PL 108-87).

⁶The Department of Defense Authorization Act for Fiscal Year 2004 (PL 108-87) authorizes \$500,000,000 for the Human Capital Performance Fund. However, Congress appropriated only \$1 million for FY 2004.

KEYS TO FUTURE PROGRESS

A major theme of the forum's discussion was that performance-based pay had to be created within an overall results-oriented management approach. Johnson outlined the challenge by explaining, "A lot of our [the federal government's] rewards have been... 'you can stay here for a long time and you'll never be particularly well challenged.'" The federal government needs to create "the incentive to attract people that are interested in growing and learning and bringing their results orientation here and applying it in this arena."

To bring about the necessary change in culture requires going beyond the traditional realm of human resources management. The process must start with top management support and involve communication down through the organization to the front-line employees to solicit their input, feedback and buy-in.

The core elements for successfully implementing performance-based pay that received the most frequent emphasis at the forum included:

- clear connection and linkage between organizational goals and individual performance expectations within an overall performance management system
- top-level management support and employee involvement
- a fair and transparent performance appraisal system applied consistently across the organization
- flexibility in pay classifications
- meaningful rewards for good performers
- development and training for poor performers
- holding managers accountable for performance-based management

High-performing organizations...the GEs, the Southwest Airlines, the Cisco Systems, the Amazon.coms... use pay for performance and they do it effectively... It's competency driven. What does that mean? Instead of rewarding people for progression based on experience or instead of rewarding people for unrelated outputs, you're looking for both how work gets done and what work gets done.

Marcia Marsh, Vice President for Agency Partnerships, Partnership for Public Service

Recognizing that organizations need to adapt these elements to their special and unique missions, existing personnel structures and human capital management programs, forum participants offered principles rather than prescriptions as guidelines for introducing results-oriented human resource management in the federal government. Marcia Marsh, Vice President for Agency Partnerships at the Partnership for Public Service, said: "High-performing organizations...the GEs, the Southwest Airlines, the Cisco Systems, the Amazon.coms...use pay-for-performance and they do it effectively...It's competency driven. What does that mean? Instead of rewarding people for progression based on experience or instead of rewarding people for unrelated outputs, you're looking for both how work gets done and what work gets done."

LINKAGE OF ORGANIZATIONAL GOALS AND INDIVIDUAL PERFORMANCE

Forum participants emphasized that organizational goals in the public sector should be linked to individual or unit performance results, which differ within and across agencies. As a result, individual performance criteria must be linked to specific organizational goals.

Differing points of view about how well private industry practice transfers to the public sector were articulated at the forum. In the private sector, individual performance often is measured by an employee's contribution to units of revenue, profits or productivity. In the public sector, such bottom-line measures can be more difficult to identify. For employees performing administrative work, metrics can be established for outputs such as visas processed or time elapsed for the processing of tax refunds.

Tom McFee, Academy Fellow and former Assistant Secretary for Personnel of the Department of Health and Human Services (HHS), said that it is also difficult to reward individuals for team performance. Sometimes if an individual is part of a team that performs well, only his or her supervisor and a few of the team members receive a pay increase. "We still—both industry and government—have not found a way to weight team performance [and] organizational performance to the individual performance," said McFee.

Performance measurement is more judgmental for employees performing highly skilled and complex work, explained Ray Woolner, President of the Professional Managers Association. For units or teams of employees, one measure might be results of customer satisfaction surveys. For managers, measures could be based on employee satisfaction

surveys, results of the unit the manager supervises or other types of feedback mechanisms. Woolner suggested that all these types of measures should be considered together: "The performance management system—it's customer satisfaction, business results, and employee satisfaction. Those are the three poles, and the competencies are woven into those three poles."

The performance management system—it's customer satisfaction, business results, and employee satisfaction. Those are the three poles, and the competencies are woven into those three poles.

*Ray Woolner, President,
Professional Managers
Association*

SENIOR-LEVEL MANAGEMENT SUPPORT AND EMPLOYEE INVOLVEMENT

Achieving the harmonization required between organizational goals and employee performance criteria requires top management involvement. “Agency leaders must own it, must drive it; and the message must come from the top down that we’re going to have to demand demonstrable results if we’re going to make this work,” said Blair. To illustrate the degree of senior-level management commitment that is required, Marsh recounted that the CEO of General Electric leads the performance and development review process for more than 100,000 exempt and executive employees. He dedicates at least 20 days each year to that oversight and personal review of the results for the top 600 executives.


Federal agency officials especially need training on how to implement a performance system successfully. “Managers must be held accountable as well...[and their] ratings must be reviewed,” Blair emphasized.

Employee involvement in designing an agency’s performance recognition and reward system is another crucial guideline. “Employees need to be brought to the table early in helping to...design it, implement it and refine it going forward,” said Gene Dodaro, Chief Operating Officer at GAO. Without employee participation and appropriate safeguards in place, “you’re likely to invite a lot of implementation problems that will take...years to recover from, in terms of communications with the employees.”

Agency leaders must own it, must drive it; and the message must come from the top down that we’re going to have to demand demonstrable results if we’re going to make this work

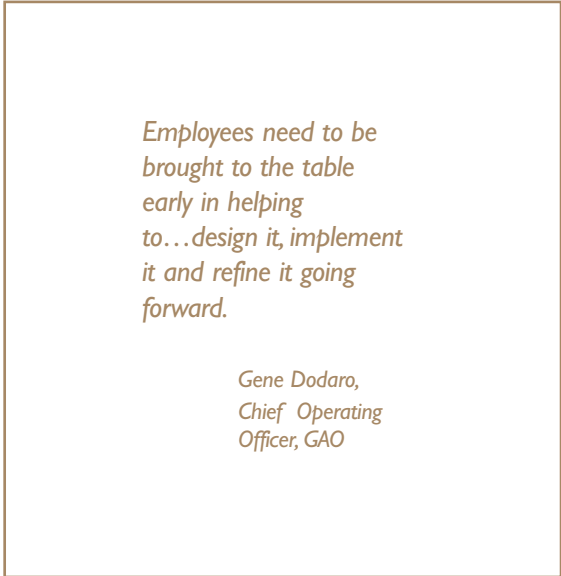
*Dan Blair
Deputy Director, OPM*

Academy Senior Fellow Dwight Ink urged that “renewed attention...be devoted to how to improve the communication [and]...training of people down in the lower parts of the organization...to take advantage of our better knowledge as to how to fashion a good pay-for-performance system.” In comparison with the private sector, the public sector has “very limited to non-existent resources dedicated to internal communication,” Marsh added.

A series of light beige, five-pointed stars of varying sizes are scattered across the top half of the page, some overlapping the text.

Describing the benefits of bringing employees into the design process, Marsh related an experience with a professional engineering firm that “had a team of these engineers come in from around the world and in a day and a half they designed standards and a rating system more ambitious than the managers wanted to because we asked and they’re professionals.”

The participants mentioned a number of mechanisms that can be used to include employees in the process, such as advisory councils, self-assessments and periodic employee surveys. The 2002 Federal Human Capital Survey, which is administered by OPM and was completed by more than 100,000 federal employees, garnered responses in the area of performance culture. Table 1 illustrates the type of questions that can be posed to employees. The 2002 Federal Human Capital Survey showed that 68 percent of federal workers are satisfied with their jobs, but only 47 percent believe that awards in their work unit are based on performance, and only 30 percent said that their organization’s awards program provides them with an incentive to do their best.⁷

A rectangular box with a thin brown border containing a quote and the name of the speaker.

Employees need to be brought to the table early in helping to...design it, implement it and refine it going forward.

Gene Dodaro,
Chief Operating
Officer, GAO

TABLE I. 2002 FEDERAL HUMAN CAPITAL SURVEY: SELECTED PERFORMANCE CULTURE QUESTIONS⁸

Question Items in Survey	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree	Do not know
(31) Awards in my work unit depend on how well employees perform their jobs.	10.2%	37.2%	18.2%	20.2%	14.3%	(No Value)
(32) High-performing employees in my work unit are recognized or rewarded on a timely basis.	9.9%	31.3%	20.0%	24.2%	14.6%	(No Value)
(33) Employees are rewarded for providing high quality products and services to customers.	9.7%	34.0%	21.8%	21.7%	12.8%	(No Value)
(35) My performance appraisal is a fair reflection of my performance.	17.6%	47.3%	16.4%	10.6%	8.0%	(No Value)
(36) Our organization's awards program provides me with an incentive to do my best.	7.1%	22.9%	24.9%	28.3%	16.8%	(No Value)
(37) In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.	3.8%	23.0%	23.3%	27.5%	22.4%	(No Value)
(41) Discussions with my supervisor/team-leader about my performance are worthwhile.	13.8%	43.8%	20.8%	13.3%	7.2%	1.1%

FAIR AND TRANSPARENT PERFORMANCE APPRAISAL SYSTEM

The forum participants particularly stressed the need for safeguards against political or subjective use of reward systems by managers. Volcker posed the following question:

“How do we do this in a way that avoids the risk of...either demotivating employees to some extent or the more obvious risk of...personal favoritism and lack of performance-based principles?”

Johnson responded first: “You have to have very specific tangible things you’re evaluating someone relative to...as opposed to ‘I like them’ versus ‘I don’t like them’....There should be no more tendency to reward favorites or reward friends or to make the easy calls faster than the tough calls here than in the private sector, but the private sector has mechanisms for doing this....I don’t know why we think this is going to be such a very different environment...to assess performance and reward performance than in the private sector.”

You have to have very specific tangible things you’re evaluating someone relative to...as opposed to ‘I like them’ versus ‘I don’t like them’....There should be no more tendency to reward favorites or reward friends or to make the easy calls faster than the tough calls here than in the private sector, but the private sector has mechanisms for doing this.

Clay Johnson
Deputy Director, OMB

Volcker rejoined: “My instinct is [that providing safeguards]...puts a really heavy burden on OPM to...make sure that agencies have the systems in place to safeguard the performance-based element and the non-political element.” Citing OPM’s authority to review the performance appraisal system for DHS, Blair said that there are “a tremendous amount of collaborative requirements involved in this process and everyone is taking a look at this. GAO will be reviewing it. Congress will be reviewing it. Outside groups will be reviewing it. There’s no blank check in government.”

Dodaro said a GAO report⁹ showed that “the results of...the performance management system should be shared while protecting individual privacy.”

Some of the safeguard mechanisms advocated by GAO include:

- use of an employee advisory board
- a peer review board for monitoring appraisals and performance awards
- third-party certification of the appraisal criteria and process
- an appeals mechanism for award decisions

Transparency is another vital characteristic of performance-based pay needed to make the system credible to employees. Woolner said transparency involves making information about what happened during the pay review available on a widespread basis, stating: “People ought to be able to ask questions, look at the data, and figure out what happened to them vis-à-vis their peers.”

FLEXIBILITY IN PAY STRUCTURE

Another major theme at the forum was that agencies need more flexibility in structuring overall compensation than the 15 grades permitted under the civil service system allow. Forum participants identified features of the existing system that hamper flexible administration and squeeze resources for pay increases:

- Narrowly differentiated grade classifications that make it more difficult to grant increases. After an employee reaches the pay cap for the grade, further recognition involves a promotion decision, which may not be possible to obtain or, if so, not in time to reward performance during a particular year. Volcker noted that the National Commission on the Public Service recommended broad reforms in the Civil Service Act,¹⁰ including the establishment of six to eight broad pay bands with wider salary ranges which would permit managers “to determine individual pay based on competence and performance” without having to make promotion decisions.
- Virtually automatic in-grade step increases based on length of service. Step increases are supposed to be partly based on performance. In reality, step increases are given automatically “unless the manager writes up a case as to why they shouldn’t get it,” explained McFee. Johnson said the existing system rewards length of service and discourages people from being results-oriented. The 2002 Federal Human Capital Survey appears to offer evidence of this view.¹¹
- Annual cost of living and other built-in pay adjustments (e.g., locality pay). Giving increases across the board “to good performers, bad performers, lousy performers, [and] great

performers is not getting the best bang for the buck,” explained Blair. Although the President’s Human Capital Performance Fund would preserve the existing automatic increases, he indicated that the Bush Administration is looking at the possibility of incorporating the pay increases into the performance-based system.

LESSONS FROM IRS

Based on his experience as an IRS employee, one forum participant suggested that any successful performance-based pay system should have each of the following:

- a process for performance review boards (peer review, credibility, fairness)
- a performance assessment system that is certifiable
- a requirement to consult with those affected
- a viable appellate system
- transparency
- a process that is not designed to be budget neutral

¹⁰“Urgent Business For America: Revitalizing the Federal Government for the 21st Century,” Report of the National Commission on the Public Service, p. 26. Center for Public Service, The Brookings Institution, January 2003.

¹¹“What do Federal Employees Say: Results from the Federal Human Capital Survey,” U.S. Office of Personnel Management, March 2003.

MEANINGFUL REWARDS

In addition to flexibility in administration, managers must have sufficient resources to consistently fund performance-based pay awards, which often is not the case. Pay increases have to be substantial enough to matter. “If you’re going to put people through the rigor of setting and measuring meaningful objectives, let’s give them pay that really means something,” Marsh said.

McFee noted that one key to reforming pay systems is giving managers the ability to reward employees for outstanding one-time performance in a year without necessarily increasing their base pay. Because of the rigidity of the civil service classification system, McFee said, “We were promoting people to give them more pay, and that’s not basically what the classification system should be.” Some participants countered, however, that part of any performance-based pay increase should be reflected in the individual’s base pay.

If you’re going to put people through the rigor of setting and measuring meaningful objectives, let’s give them pay that really means something.

*Marcia Marsh
Vice President for Agency Partnerships,
Partnership for Public Service*

One forum participant said that the existing performance-based pay component in the federal system represents a very small percentage of total compensation. In describing GAO’s goals in seeking greater authority to use pay to reward high performers, Dodaro noted that GAO is “seeking legislation to get flexibility on this very point.”

MANAGING THE MIDDLE AND POOR PERFORMERS

Given that the resources for performance-based pay are limited, the initial approach may be to reward only the top performers. The \$500 million requested by the President for a Human Capital Performance Fund in fiscal year 2004, for example, provides enough funding to focus on the top-rated eight to ten percent, according to Johnson.

Does this type of system create a larger morale problem for those who do not receive awards? As a former manager of 650 consultants, Kinghorn said he found it instructive that employees were interested in their performance ratings as well as whether they received an award. Some employees who received high ratings but did not receive pay increases seemed to accept that they did not receive more pay. However, employees who received below average ratings and missed out on awards “weren’t happy,” he acknowledged.

In the case of those not awarded increases, tying performance ratings to training and development was stressed. At GE, Marsh said, the bottom ten percent of employees discussed their ratings with their managers. The employees generally had three types of reactions:

- About a third said, “You know, you’re right, there’s no fit, I’m going to leave.”
- Another third said, “I disagree. I can do a better job,” and they ended up succeeding.
- The other third didn’t “get it” and were removed from their positions.

This type of engagement with non-performers does not work in all cultures, Marsh acknowledged. Nevertheless, managers should complete the job of performance evaluation by taking time to talk with employees about how they can improve.

TEN LESSONS LEARNED IN THE PRIVATE SECTOR FOR IMPLEMENTING PERFORMANCE-BASED PAY

1. Understand that performance-based pay is one aspect of people management, and that it should be combined with recruiting, development and succession planning.
2. Goals and measures should be closely linked to business strategy.
3. A highly committed and involved leadership team is crucial.
4. The design and ongoing improvement process should include feedback from all stakeholders—most notably, employees.
5. The system should be competency-driven.
6. Development should be linked to the performance management system.
7. Appraisal systems should be linked to pay in a timely, transparent and meaningful way.
8. Performance management systems should deal effectively with poor performers.
9. Managers and supervisors should be trained and evaluated based on performance management.
10. Effectively trained employees who can establish objectives and take responsibility for their performance are important.

Source: Marcia Marsh, Vice President for Agency Partnerships,
Partnership for Public Service

MAKING IT HAPPEN: STRATEGIES FOR IMPLEMENTATION

Several options for how to advance performance-based pay systems more broadly across the federal workforce were discussed at the forum. The participants tended to favor one of two approaches: incremental implementation agency-by-agency within the existing civil service structure, or major reform across the entire federal government, including the abolishment of the current civil service pay structure.

One Bush Administration recommendation that combines both approaches was outlined by Johnson:

Our proposal this year...is [a] Human Capital Performance Fund...a half a billion dollars, which is enough money to recognize the top, eight, ten percent of all employees with extra pay...once you establish a system of doing this...you've broken through the ice and then the next phase would be to get down and recognize the next ten percent or fifteen percent.

Volcker commented, "What we [the Commission] were looking for is kind of an overall template which would permit step-by-step change—but within an understood framework."

John Palguta, Vice President for Policy and Research at the Partnership for Public Service, said that he was "torn" between the two strategies, saying: "Clearly we have some organizations that are more ready than others to embark...on a major change in how they do business." Doing away with the civil service system and replacing it with a broad-banded pay structure, however, "would cause great disruption for some organizations that are in that 'not ready' stage," he added. As a possible

Clearly we have some organizations that are more ready than others to embark...on a major change in how they do business.

*John Palguta, Vice President for
Policy and Research,
Partnership for Public Service*

compromise, he suggested that Congress replace the 1949 Classification Act with a system flexible enough to allow agencies the time they need to move to a performance-based pay system, perhaps over a period of several years.

From the experiences of past and current human resource reform efforts in the federal government, most forum participants believed that implementation of performance-based pay systems will take time and patience because of the major culture changes that are necessary for them to succeed.

ITEMS OF CONSENSUS

Despite the discussion of various approaches to implementation, forum participants identified items of consensus. There was agreement that implementing performance-based pay in the federal government:

- will involve reform of the existing 15-grade structure, possibly by replacing it with a broadband pay system
- will take time (GAO has spent 14-15 years laying the groundwork and implementing its system)
- is complicated (it is difficult to make meaningful distinctions in evaluating performance once you get below the top performers in an organization)
- involves aligning organizational goals with individual performance
- will require a culture change
- requires adequate funding in order to be fully effective

KEYS TO SUCCESS

Forum participants also identified elements that Congress should consider when adopting provisions in legislation to advance performance-based pay. Individual agencies should also be certain that any performance-based pay system includes these elements:

- appraisal processes that are timely, transparent and linked to meaningful distinctions in pay
- committed and highly involved leadership
- ongoing feedback from those who are involved and affected, including an annual employee survey to solicit feedback about the system
- a system for effectively dealing with poor performers
- training and evaluation of managers and supervisors that hold them accountable for how well they manage for performance
- appropriate and effective employee training
- organizationally integrated performance management systems
- reasonable safeguards, including:
 - a system that is credible and transparent
 - internal checks and balances
 - peer review (external review by a neutral third party was advocated by some)
 - communication and consultation with employees and managers affected by and involved in the system

CONCLUSION

Despite the recognition that implementing pay reform is difficult, forum panelists expressed optimism that extending performance-based pay across the federal government is possible and would add value. “What’s often overlooked if you have a good performance management system is the gains in productivity [that come] by improving the capabilities of all parties in the organization,” Dodaro said. “And that goes well beyond just making pay decisions. It goes to achieving results and making the organization more effective.”

Marsh acknowledged that organizations in the private sector are continually “tweaking their process and they’re not exactly happy with it.” But if one asked CEOs and private sector management teams whether they were going to abandon performance-based pay or performance management, their response would be “absolutely not,” according to Marsh. Studies that show “higher shareholder value, profitability, and productivity” are why they keep chasing it, she added.

What’s often overlooked if you have a good performance management system is the gains in productivity [that come] by improving the capabilities of all parties in the organization.

*Gene Dodaro
Chief Operating Officer, GAO*

We’re changing the culture of the way that we compensate federal employees by introducing a performance component. Is that going to be done easily? No. Do we need to do it? Absolutely.

*Dan Blair
Deputy Director, OPM*

“Evaluating performance and paying for performance is not brain surgery,” Johnson said. “Our reluctance to do this as a government is way inconsistent, way out of line with the reality [that]...this is done all over the world.” Volcker said he still believed there are a lot of obstacles, but that legislation “would facilitate the process if we get it right.”

Regarding the prospects for performance-based pay, Blair said: “We’re changing the culture of the way that we compensate federal employees by introducing a performance component. Is that going to be done easily? No. Do we need to do it? Absolutely.”

APPENDIX A: BIOGRAPHIES

MODERATOR

PAUL VOLCKER

Chairman, National Commission on the Public Service. Professor Emeritus of International Economic Policy, Princeton University; Former Chairman, James D. Wolfensohn, Inc.; Former Chairman, Board of Governors, Federal Reserve System; Former President, Federal Reserve Bank of New York; Former Under Secretary of the Treasury for Monetary Affairs, U.S. Department of the Treasury; Former Vice President, Chase Manhattan Bank.

PANELISTS

DAN BLAIR

Deputy Director, U.S. Office of Personnel Management. Former Senior Policy Advisor to OPM Director Kay Coles James, U.S. Office of Personnel Management; Former Senior Counsel to Senator Fred Thompson (R-TN), U.S. Senate Committee on Governmental Affairs; Former Staff Director, U.S. House of Representatives Subcommittee on the Postal Service; Former Minority General Counsel, U.S. House of Representatives Committee on Post Office and Civil Service.

GENE DODARO

Principal Assistant Comptroller General (Chief Operating Officer), U.S. General Accounting Office. Former positions with the U.S. General Accounting Office include: Assistant Comptroller General, Accounting and Information Management Division; Director of Operations, Accounting and Financial Management Division; Director, Management Reviews, General Government Division; Assistant Director and Evaluator.

CLAY JOHNSON III

Deputy Director for Management, U.S. Office of Management and Budget. Former Assistant to the President for Presidential Personnel; Former positions with Governor George W. Bush: Chief of Staff, Appointments Director; Former positions with the Dallas Museum of Art: Acting Director, Chief Operating Officer; Former President, Neiman Marcus Mail Order; Former President, Horchow Mail Order; Former Adjunct Professor, University of Texas Graduate School of Business; Former President of the Board of Trustees, St. Mark's School of Texas; Former Board Member: Equitable Bankshares, Goodwill Industries of Dallas, and the Dallas Chapter of the Young Presidents Organization; Former positions with Citicorp, Wilson Sporting Goods, Frito Lay and the Advisory Board for the Texas State History Museum.

MARCIA MARSH

Vice President for Agency Partnerships, Partnership for Public Service. Former Vice President of Strategic Human Capital Planning, Partnership for Public Service; Watson Wyatt Worldwide; Former Partner, Price Waterhouse's Global Human Resources Solutions; Former Editor-in-Chief, Journal of International Human Resources; Former Faculty Member, World at Work; Experience consulting with PepsiCo, General Electric, Goldman Sachs, Viacom, Rockwell and Phillips Petroleum.







**National Academy of
Public Administration**

**1100 New York Avenue, N.W.
Suite 1090 East
Washington, DC 20005
Phone: (202) 347-3190
Fax: (202) 393-0993
Web: www.napawash.org**

**National Commission
on the Public Service
Implementation Initiative**