Results-Oriented Cultures

Using Performance Management Systems in U.S. Agencies and Abroad

Balanced Scorecard Interest Group – November 20, 2002
A Model of Strategic Human Capital Management

• Assesses the extent to which the agency strategically manages human capital.

• Determines the extent to which human capital considerations are integrated into strategic planning and daily decisionmaking.

• Highlights the importance of a sustained commitment by agency leadership and raises the bar for human capital executives and their teams.
<table>
<thead>
<tr>
<th>Leadership</th>
<th>Commitment to Human Capital Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Role of the Human Capital Function</td>
</tr>
<tr>
<td>Strategic Human Capital Planning</td>
<td>Integration and Alignment</td>
</tr>
<tr>
<td></td>
<td>Data-Driven Human Capital Decisions</td>
</tr>
<tr>
<td>Acquiring, Developing, and Retaining Talent</td>
<td>Targeted Investments in People</td>
</tr>
<tr>
<td></td>
<td>Human Capital Approaches Tailored to Meet Organizational Needs</td>
</tr>
<tr>
<td>Results-Oriented Organizational Cultures</td>
<td>Empowerment &amp; Inclusiveness</td>
</tr>
<tr>
<td></td>
<td>Unit and Individual Performance Linked to Organizational Goals</td>
</tr>
</tbody>
</table>
Recent GAO Reports

- Focus on domestic and international efforts to use strategic performance management to create more results-oriented organizational cultures for subcommittees of the United States Senate’s Committee on Governmental Affairs:

  - *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance* (GAO-02-966)
  - *Results-Oriented Cultures: Insights for U.S. Agencies From Other Countries’ Performance Management Initiatives* (GAO-02-862)
U.S. Agencies: Using Balanced Expectations to Manage Senior Executive Performance

• The Office of Personnel Management (OPM) amended regulations for senior executive performance management requiring executive agencies to
  • link senior executive performance with results-oriented organizational goals;
  • appraise executive performance by balancing organizational results with customer satisfaction, employee perspectives, and other areas; and
  • use performance results as a basis for pay, awards, and other personnel decisions.
• Agencies were to establish these performance management systems by their 2001 senior executive performance appraisal cycles.
Agencies’ Balanced Expectations for Senior Executive Performance

• We selected the Bureau of Land Management (BLM), Federal Highway Administration (FHWA), Internal Revenue Service (IRS), and Veterans Benefits Administration (VBA) because they began using balanced expectations for senior executive performance management prior to the OPM requirement.

• We identified these agencies’ senior executive performance expectations along the categories of measures prescribed by the OPM regulations:
  • organizational results
  • customer satisfaction
  • employee perspectives
Organizational Results

- OPM regulations emphasize holding senior executives accountable for individual and organizational performance by linking individual performance management with results-oriented organizational goals.

- To appraise senior executives’ contributions to organizational results, BLM, FHWA, IRS, and VBA identified:
  - core competencies and supporting behaviors for executives to follow, such as learning about current issues and applying that knowledge to make decisions, and
  - targets for senior executives to meet, such as the percent of cases meeting accuracy standards.
Organizational Results: Core Competencies and Supporting Behaviors

• FHWA set a performance expectation for senior executives to develop strategies to achieve FHWA’s strategic objectives and performance goals.

• For example, a senior executive convened the “Southern Executive Safety Summit” to address the region’s highway fatality rates and their impact on FHWA achieving its goal of reducing the number of fatalities by 20 percent in 10 years.
Organizational Results: Targets

• VBA sets targets with specified levels of performance for senior executives to meet that link to VBA’s balanced scorecard and VA’s strategic goals.

• For example, a senior executive had a performance expectation to meet a target accuracy rate of 59.2 percent on compensation and pension claims and appeals, which contributed to VBA’s national target of a 72 percent accuracy rate and VA’s strategic goal to “provide ‘One-VA’ world-class service to veterans and their families…”
Customer Satisfaction

- OPM regulations recognize that senior executives in the public sector face the challenging task of balancing the needs of customers with multiple, and at times, competing needs.

- BLM, FHWA, IRS, and VBA set expectations for senior executives to address customer satisfaction in their individual performance plans and appraised their performance on the basis of
  - partnerships,
  - customer feedback, and
  - improved products and services.
Employee Perspectives

• OPM regulations recognize that human capital is vital to achieve organizational goals and results

• BLM, FHWA, IRS, and VBA set expectations for senior executives to address employee perspectives in their individual performance plans and appraised their performance on the basis of
  • training provided to staff,
  • safe and healthy work environments,
  • teamwork,
  • employee satisfaction, and
  • fairness and diversity.
Initial Implementation Approaches to Manage Senior Executives’ Performance

• We identified selected initial implementation approaches that BLM, FHWA, IRS, and VBA are taking that may be helpful to other agencies as they manage senior executive performance against balanced expectations.

• BLM, FHWA, IRS, and VBA
  1. provide useful data,
  2. require follow-up actions, and
  3. make meaningful distinctions in performance.
1. Provide Useful Data

The agencies provide senior executives with objective data to help them manage during the year through:

- Real-time data systems, such as BLM’s Director’s Tracking System. The Tracking System collects and provides data on each executive’s progress towards BLM’s national priorities, such as the wild horse and burro program, and the resources expended.

- Disaggregated data from agencywide customer and employee surveys. For example, VBA provides the executive’s results for his or her office, the VBA average, and the baseline data for each question on the employee survey.
2. Require Follow-up Actions

- IRS requires senior executives to hold workgroup meetings with their employees to discuss agencywide employee and customer survey results and develop action plans to address these results.

- For example, a senior executive’s workgroup identified improving customer treatment as an action item based on the customer survey results.

- The senior executive incorporated this item into his action plan by ensuring that examiners explain to customers their taxpayer rights, why they were selected for the examination, and what they could expect from it.
3. Make Meaningful Distinctions in Performance

• OPM data on senior executive performance ratings indicate that agencies are not making meaningful distinctions among senior executives’ performance.

• Agencies rated approximately 85 percent (FY 2000) and 82 percent (FY 2001) of the senior executives at the highest rating level their systems permit.

• Governmentwide, approximately 52 percent of senior executives received bonuses each year since fiscal year 1999.
3. Make Meaningful Distinctions in Performance (con’t.)

To help make distinctions in performance, IRS

- Gives each business unit a “point budget” equal to the total of four points for each executive. The executives’ summary ratings are converted to points with
  - “Outstanding” = 6 points
  - “Exceeded” = 4 points
  - “Met” = 2 points
  - “Not met” = 0 points

- Assigns executives to different groups at the beginning of the year based on executives’ responsibilities and establishes set bonus ranges for each group that correspond with the summary ratings.
3. Make Meaningful Distinctions in Performance (con’t.)

- FHWA weights its performance elements for senior executive appraisals.
  - 70% for strategic and performance plan accomplishment, and corporate management improvements and results.
  - 30% for job significance and complexity.

- VBA plans to use detailed performance agreements after the Task Force found that a high percentage of executives were recommended for bonuses or pay rate increases when organizational performance as a whole was below program goals.
Performance Management Initiatives in Other Countries

• Similar to the United States, countries around the world face challenges associated with linking individual performance to organizational results.

• Building on our 1995 review of management reforms in other countries, the current study examined performance management initiatives in four countries and one province: Australia, Canada, New Zealand, the United Kingdom, and the Canadian Province of Ontario.
What Did We Find Abroad? Four Key Practices for Results-Oriented Performance Management Systems

Other countries have begun to use their performance management systems to

1. foster organizationwide commitment to results-based performance management,
2. create a “line of sight” between individual and organizational goals,
3. use competencies to provide a fuller assessment of individual performance, and
4. link pay to individual and overall organizational performance.
1. Fostering Organizationwide Commitment

Agencies helped to foster organizationwide commitment to results-based performance management by:

- Demonstrating and sustaining top leadership commitment.
- Involving stakeholders and including employee perspectives.
1. Fostering Organizationwide Commitment (con’t.)

Involving Stakeholders and Including Employee Perspectives

1. Consult a wide range of stakeholders early in the process.
2. Obtain feedback directly from employees.
3. Engage employee unions or associations.

Case Study: Voting on Measures in New Zealand

- In June 2002, New Zealand’s Department of Child, Youth, and Family Services and its primary union, the Public Service Association asked employees to vote and approve the specific measures that the Department would use to assess their individual performance.
2. Creating a “Line of Sight”—Vertical Alignment

Some examples of vertical alignment include:

• Canada’s Performance Management Program cascades goals down through all levels of senior executives requiring written performance agreements that link individual commitments to the organization’s business plan, strategies, and priorities.

• In the Ontario Public Service, all employees—down to frontline staff—are required develop individual performance commitments that link to their supervisors’ performance agreement and their ministries’ approved business plans.
2. Creating a “Line of Sight”—Horizontal Alignment

*Other countries also align individual performance commitments to crosscutting goals:*

- Alignment with broad governmentwide or corporate goals
- Alignment with crosscutting goals within agencies or with specific external agencies

**Case Study: Agriculture and Agri-Food Canada (AAFC)**

- Performance agreements are used to communicate the connections between individual performance commitments and departmental crosscutting goals.
- AFFC also uses agreements to identify organizational units both inside and outside the agency whose collaboration is needed to achieve performance commitments.
2. Creating a “Line of Sight”—Horizontal Alignment (con’t.)

**Agriculture and Agri-Food Canada (AFFC) Accountability Accord (excerpt)**

<table>
<thead>
<tr>
<th>6. PERFORMANCE COMMITMENT</th>
<th>6. PERFORMANCE MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead efforts to develop AAFC’s ability to deal with emerging technical trade issues.</td>
<td>Changes in departmental capacity and extent of integrated approach to dealing with technical trade issues.</td>
</tr>
<tr>
<td></td>
<td>• Progress in advancing Canadian positions on technical trade issues in the international area.</td>
</tr>
</tbody>
</table>

**LINKAGE:** Key Result Commitment #2—“Secure marketplace” (Create a secure domestic and int’l marketplace for Canadian agricultural products)

**COLLABORATION:** Research Branch, Strategic Policy Branch (internal); Canadian Food Inspection Agency, Health Canada (external)

**HORIZONTAL/CROSSCUTTING PRIORITY:** Priority #6 “International Issues”

Source: Assistant Deputy Minister’s performance agreement, Agriculture and Agri-Food Canada.
3. Using Competencies to Provide a Fuller Assessment of Individual Performance

Not just what but HOW—

The United Kingdom, Australia, and New Zealand assessed employee performance by considering both what an individual achieved and the competencies he or she used to achieve it.

Case Study: New Zealand’s Inland Revenue Department

• In addition to considering results, the Department evaluates the performance of all staff against a core group of competencies and may also include a set of technical competencies for those individuals in specialized positions.
4. Linking Pay to Individual Performance

**Agencies emphasized the link between pay and performance by:**

- Offering significant performance bonuses and salary increases, from 10 to 25 percent of base salary.
- Using clearly-articulated performance-based criteria with no seniority-based pay increases.

**Case Study: UK’s Senior Civil Service (SCS)**

- An individual’s performance is measured against BOTH: (1) commitments contained in the executive’s performance agreement and (2) the executive’s relative performance as judged against his or her peers.
- SCS are eligible for performance-based salary increases and bonuses of up to 20 percent of base pay. Since the program started in 2002, awards are expected to remain modest for the first few years, but increase over time.
4. Linking Pay to *Individual* Performance: SCS Pay in the U.K.

Ranges for the Three Core Pay Bands of the United Kingdom’s Senior Civil Service

![Chart showing salary ranges for Band 1, Band 2, and Band 3 in U.S. Dollars]

Note: U.S. Dollar equivalents of SCS salary rates were calculated based on the value of the U.K. Pound Sterling to the U.S. Dollar on July 7, 2002 (£1 = $1.522).

4. Linking Pay to Organizational Performance

**Case Study: Performance Management Program for Senior Management Group (Ontario)**

- Ontario links executive performance pay to three things:
  1. Performance of the provincial government as a whole;
  2. Performance of the employee’s home agency and the contribution of that agency to overall governmentwide results; and
  3. Performance of the individual executive as measured against his or her performance agreement and level of responsibility as reflected by the executive’s position.

- Performance bonuses can range significantly potentially spanning from no bonus to 20 percent of an executive’s base salary.
4. Linking Pay to Organizational Performance: Ontario, Canada

**What is assessed?**

1. The Premier and Cabinet assess overall performance of Ontario government against key priorities set at the beginning of the year and, if a performance threshold is met, they decide on a governmentwide "incentive envelope."

2. The Secretary of Cabinet, in consultation with the Premier, assesses each ministry's performance and assigns each ministry a percentage that is based on:
   - the contribution the ministry has made to achieving governmentwide results, and
   - the ministry's performance against its own business plan.

3. Each ministry calculates an individual performance award based on:
   - a rating of the executive's individual performance by his or her manager based on the commitments contained in the executive's individual performance agreement, and
   - the individual executive's position and accompanying level of responsibility as reflected in one of four executive positions: manager, director, assistant deputy minister, and deputy minister.

**How does the process work?**

*An example of how OPS awarded executive performance pay in 1999-2000.*

**Governmentwide performance**

- In 1999-2000, the Premier and Cabinet set 10% as the governmentwide "incentive envelope."

- 10% Governmentwide "incentive envelope" is applied to...

**Lower performing agency**

- A ministry that "contributed" to governmentwide goals and "met" its key business commitments received 8% of its executive payroll for performance awards.

- 5% Ministry percentage is applied to...

**Higher performing agency**

- A ministry that had a "critical impact" in achieving governmentwide goals and "exceeded" its key business commitments received 12.5% of its executive payroll for performance awards.

- 12.5% Ministry percentage is applied to...

**Lower performing individual**

- An executive who performed the job of a "manager," the least senior executive position, and had "met" some commitments contained in his or her performance agreement received a performance award of 2.5% of base pay.

- 2.5% Individual performance award

**Higher performing individual**

- An executive who performed the job of an "assistant deputy minister" the second most senior executive position, and had "exceeded" commitments contained in his or her performance agreement received a performance award of 15% of base pay.

- 15% Individual performance award
Overall Observations

• Both in the United States and abroad there is a growing recognition of the importance of aligning and linking employee performance with broader organizational results. Experiences in other countries may provide a useful point of reference as U.S. agencies examine their own performance management systems.

• More progress is needed to
  • explicitly link senior executive expectations for performance to results-oriented organizational goals,
  • foster collaboration both within and across organizational boundaries, and
  • lead and facilitate change to transform agency cultures.
For Additional Information

Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance (GAO-02-966)

Please contact:
• Lisa Shames (202) 512-2649, shamesl@gao.gov
  Janice Lichty (202) 512-2959, lichtyj@gao.gov

Results-Oriented Cultures: Insights for U.S. Agencies From Other Countries’ Performance Management Initiatives (GAO-02-862)

Please contact:
• Lisa Shames (202) 512-2649, shamesl@gao.gov,
  Peter Del Toro (202) 512-8857, deltorop@gao.gov