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Report to the Chairman, Subcommittee on Civil Service, Committee on Government Reform and Oversight, House of Representatives

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PERFORMANCE MANAGEMENT

Aligning Employee Performance With Agency Goals at Six Results Act Pilots

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The Honorable John L. Mica
Chairman, Subcommittee on Civil Service
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

Now in its first year of governmentwide implementation, the Government Performance and Results Act of 1993 was intended by Congress to shift the focus of federal agencies away from such traditional concerns as staffing and activity levels and onto a single overriding factor: results. Achieving a corresponding shift in the focus of federal employees themselves—toward a greater awareness of their role in their agencies' missions and toward greater accountability for accomplishing their agencies' goals—is widely considered a key to fulfilling the promise of the act.

Known as the Results Act, the legislation requires federal agencies to set goals, measure performance, and report on their accomplishments. As federal agencies have begun to implement the Results Act, some agencies have increasingly recognized that effectively aligning their employee performance management approaches with their missions and goals is a crucial part of becoming performance-based. The first federal entities to grapple with implementation were the Results Act pilot projects, which were called for under the act to develop a body of experience in implementing key provisions and addressing issues and challenges involved in becoming performance-based.

You have stated that for the Results Act to succeed in improving the performance of federal agencies, it requires a mechanism to link employees' performance with the results expected of their agencies. Because of your interest in the issue, you asked us to review selected Results Act pilot projects that, while developing performance-based management approaches, had taken steps to align employee performance management measures and practices with organizational missions and goals. This report, which responds to your request, provides information on (1) the primary approaches taken by selected pilot projects to align employee performance management with organizational missions and goals and (2) the issues or challenges, if any, that these pilot projects commonly confronted while developing and implementing these approaches.

Results in Brief

Although all six pilot projects we reviewed included specific efforts to align their employee performance management systems with organizational missions and goals, their approaches varied in significant ways. One way was in the kinds or groups of employees on whom they focused. Four of the pilot projects focused on managers rather than on staff at other levels. Officials at the four pilot projects commonly said the focus was on managers because they were the ones most responsible for the business of the organization and for implementing change among its employees. In contrast, the two other pilot projects we reviewed focused their approaches on essentially all employees, relying on total quality management (TQM) principles as a guide and organizing employees into self-directed work teams.

Another way the pilot projects varied was in the extent to which organizational goals were explicitly reflected in employees' performance plans. This explicit "linking" was commonly, although not uniformly, done for the managers who were the focus of their agencies' performance management efforts. It was generally done less consistently for employees at lower levels of these agencies. At the two pilot projects using self-directed teams, the "link" to organizational goals was, at least initially, less explicit than was the expectation that employees would contribute to their teams' performance.

The pilot projects also varied in whether they emphasized creating accountability for results at the individual or team level. At the four pilot projects at which managers were the focus of performance management, a common factor was their generally traditional approach: managers' accountability for results was carried out through a system of expectation setting and evaluation by their superiors. In contrast, at the two pilot projects using self-directed teams, officials emphasized TQM principles and focused on improving work processes and team performance rather than on conventional supervisory evaluations of employees. This difference was further reflected in the extent to which feedback by fellow employees was used as a performance management tool.

None of the six pilot projects we reviewed reported having formally evaluated its employee performance management approach, but all reported possible benefits, some involving improved teamwork and communications and perceptions of greater accountability, and some involving higher customer satisfaction and improved service delivery. In addition, all six pilot agencies considered their approaches worth pursuing further, as demonstrated by the fact that each of them continued to refine or expand upon its efforts to align performance management with organizational missions and goals after the pilot project phase ended.

Despite the variety of approaches they took, the six pilot projects faced several common issues or challenges. The first of these involved identifying the flexibilities available to them—including human resource management (HRM) waivers and demonstration project authority—to tailor their HRM systems to their organizational missions and goals and other organizational circumstances or needs. Officials at five of the six pilot projects said they had requested HRM waivers, but that, in general, their requests either did not gain approval or received no response at the departmental level. Three of the six pilot projects either have become or are expected to become demonstration projects, although none was a demonstration project during the period in which it was a Results Act pilot project (that is, fiscal years 1994 to 1996). However, despite the lack of HRM waivers or demonstration project authority during the pilot project period, all six pilot agencies found sufficient flexibilities available to them to take at least some steps toward aligning their performance management systems with their missions and goals and to address other organizational circumstances or needs.

The second issue or challenge we identified involved the six pilot projects' efforts to include in their performance management approaches appropriate and meaningful goals and performance measures. Most of the pilot projects that focused their performance management efforts on managers took generally similar approaches; in essence, the goals and measures for the managers' units or functional areas were the goals and measures for the managers. These pilot projects varied widely in their efforts to "cascade" these goals and measures to employees at lower levels. In contrast, the two pilot projects that used self-directed work teams took a different approach, establishing performance standards for employees using goals and measures that varied somewhat from those used at the organizational or unit level, and which were intended to focus employees on their contributions to their teams' performance.

Third, as the pilot projects worked to become more performance-based, each was confronted with the need to redirect its organizational culture toward a new understanding of the organization's mission or way of doing business and to secure the buy-in of employees. Pilot project officials who spoke about redirecting organizational culture almost uniformly said that cultural change at their agencies had not yet been fully accomplished.

The fourth issue or challenge we identified involved unintended consequences that pilot project officials said they confronted in implementing their new approaches, some finding that employees might try to "game" the system—that is, manipulate the performance measures to make their performance look better than it might actually have been—or might perceive a lack of fairness in the approach's implementation. Officials at the six pilot agencies generally were aware of their employees' concerns and reported steps they had taken to keep abreast of the views of the managers and other employees who were the focus of the agencies' performance management efforts.

Background

The Results Act has lent new relevance to questions of how to align the management of federal employees with their agencies' missions and goals. The Results Act itself calls specifically for agencies to address HRM issues in the context of performance-based management, requiring that agencies' multiyear strategic plans and annual performance plans describe how the agencies will use their human resources to support the accomplishment of agency goals and objectives. Similarly, in its guidance for preparing agency strategic plans, the Office of Management and Budget (OMB) underscored the importance of managing employees for results, directing federal agencies to "outline the process for communicating goals and objectives throughout the agency, and for assigning accountability to managers and staff for achievement of objectives."[1]

In our previous work, we noted that successful performance management systems depend, in part, on agencies putting in place a framework of clearly defined organizational missions, goals, and performance measures that can serve as the basis for setting employees' performance expectations and evaluating their performance. But two broad issues are involved here and both have proven challenging to agencies: first, how to establish this framework of clearly defined organizational missions, goals, and performance measures; second, how to develop and implement employee performance management systems that are aligned with these organizational missions, goals, and performance measures so that federal employees can contribute most effectively to their agencies' success. Part of the latter challenge involves working within the flexibilities available to agencies to tailor employee performance management systems to organizational missions and needs.

[1]OMB Circular A-11, June 1997, Sec. 210.8.

Previously Identified Challenges of Becoming Results-Oriented

In our early work on Results Act implementation, we found that clearly defining organizational missions, goals, and performance measures were key steps for agencies in becoming results-oriented.[2] Our later work revealed some of the challenges involved. For example, when we reviewed the experiences of five regulatory agencies covered by the President's March 4, 1995, memorandum directing them to measure agency and employee performance in terms of results, officials at these agencies cited various barriers to becoming results-oriented, most of which involved reaching agreement on agency goals and developing results-oriented performance measures. The officials told us that some of these barriers made it more difficult for them to set strategic goals, identify results-oriented performance measures, or create results-oriented performance standards for employees.[3] In our broader, governmentwide review of Results Act implementation, we identified similar challenges to becoming results-oriented among other agencies, including the difficulties of reaching consensus on agency missions and of building organizational cultures to create and sustain a focus on results at all levels.[4]

Agencies' Flexibility Is an Ongoing Issue

Agencies that have sought ways of developing and implementing employee performance management systems that are aligned with their organizational missions and goals—or with other specific circumstances or needs—have commonly cited as a challenge the constraints of title 5 U.S.C., the statutory framework under which most of the executive branch workforce is employed. In our 1993 study of agencies' performance management systems, we concluded that "One thing clearly needed is greater flexibility among agencies to tailor their performance management systems to the way they do their work, serve their customers, and manage for results."[5] Recognizing this need for flexibility, in 1995, the Office of Personnel Management (OPM) issued new regulations under 5 C.F.R. 430, allowing agencies, with OPM approval, to initiate new performance management approaches for their employees, including pass/fail performance ratings and the use of new appraisal elements to manage group performance. However, whether agencies now have sufficient flexibility to customize their HRM systems to their missions and needs

[2] Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

[3] Managing for Results: Regulatory Agencies Identified Significant Barriers to Focusing on Results (GAO/GGD-97-83, June 1997).

[4] The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997).

[5] Federal Performance Management: Agencies Need Greater Flexibility in Designing Their Systems (GAO/GGD-93-57, Feb. 24, 1993).

remains an open question. For example, since the adoption of the new performance management regulations, agencies such as the Federal Aviation Administration, the Federal Bureau of Investigation, and the Internal Revenue Service, have sought, and in some cases, obtained exemptions from some or all the provisions of title 5.

Agencies have had an additional, although limited, measure of flexibility available to them through OPM's demonstration project authority, which allows OPM to waive certain civil service rules so that federal agencies can try new HRM approaches. OPM demonstration projects have focused on such areas as streamlined hiring, classification, compensation systems, and skill-based pay. The Civil Service Reform Act of 1978 (CSRA), which established OPM's demonstration project authority, specified that no more than 10 demonstration projects may be active at any given time, that each demonstration project may cover no more than 5,000 employees, and that each project may take no longer than 5 years to complete.

During the 20 years in which OPM demonstration project authority has been available, it has been put to only limited use. According to OPM, since passage of CSRA, five OPM demonstration projects have been completed and two—Navy's China Lake facility and the National Institutes of Standards and Technology (NIST)—have been made permanent by legislation.[6] One other demonstration project is now active and another has been formally proposed.[7] When we surveyed officials at 26 agencies near the end of the demonstration program's first decade, two reasons for the agencies' limited use of the demonstration project authority were most widely cited: (1) the time and resources required to develop and propose projects and (2) the difficulty of getting project proposals through agencies' approval processes.[8]

[6]Additionally, while this report was in production, Congress was considering legislation to make permanent the recently completed demonstration project at the Department of Agriculture.

[7]The active demonstration project is at the Department of Commerce. The proposed demonstration project is at the Department of Veterans Affairs. Five additional demonstration projects are active at Department of Defense (DOD) facilities. These demonstration projects were authorized by Congress outside OPM demonstration authority, but were developed with input from OPM.

[8]Federal Personnel: Status of Personnel Research and Demonstration Projects (GAO/GGD-87-116BR, Sept. 1987). OPM has told us that these two reasons remain the most prominent.

Some Results Act Pilot Projects Included Employee Performance Management Efforts

When Congress passed the Results Act, it recognized that agencies would need to make significant management changes and that substantial issues in areas such as HRM would emerge during implementation of the act. For this reason, it specified that the requirements of the Results Act would be phased in over several years. Implementation of the Results Act would begin with a series of pilot projects, under which a body of experience would be developed in implementing the act's key provisions and addressing the issues and challenges involved in becoming performance-based. The first of these pilot projects, operating during fiscal years 1994 through 1996, were to focus on performance measurement and the preparation of annual performance plans and reports by the participating agencies. When these initial pilot projects concluded at the end of fiscal year 1996, participants included 68 pilot projects representing 28 federal agencies.

Some of these pilot projects, while grappling with the Results Act's performance planning and reporting requirements, included specific efforts to align employee performance management with organizational missions and goals. To inform the ongoing discussion about managing employees more effectively in a performance-based environment, we reviewed six of these pilot projects to report on the approaches they took and to identify some of the specific issues or challenges that confronted them.

Scope and Methodology

To provide information on (1) the primary approaches taken by selected Results Act pilot projects to align employee performance management with organizational missions and (2) the issues or challenges, if any, that these pilot projects commonly confronted while developing and implementing these approaches, we judgmentally selected six pilot projects for review and developed case studies on them. To inform our selection, we carried out structured telephone interviews with pilot project coordinators and/or human resource managers at the 68 pilot projects operating at the end of fiscal year 1996, the conclusion of the pilot project phase. We used data from the interviews to choose a diverse group of organizations, based on (1) the varied extents to which they indicated having taken steps to align employee performance management with organizational missions and goals; (2) the types of agencies (e.g., DOD versus non-DOD); (3) the types of missions (e.g., those focused on service delivery, or on research and development, or on case processing); (4) the performance management approaches they indicated they had taken; (5) their geographical locations; and (6) their status or lack of status as proposed performance-based organizations (PBO) or OPM demonstration projects. We also applied the following guidelines: (1) exclude pilot projects covered by our other current or recent work addressing performance management; (2) consider pilot projects that included elements in which the requester expressed specific interest, such as mechanisms to explicitly link employees' performance to the results expected of their agencies; and (3) give priority to pilot projects that included multiple performance management tools.

We reached an agreement to proceed with our review of the six pilot projects we had selected in a follow-up discussion with your office. The six pilot projects we agreed to review were (1) the Army Audit Agency (AAA); (2) the Army Research Laboratory (ARL); (3) the Department of Energy's Federal Energy Technology Center (FETC) in Morgantown, WV;[9] (4) the National Oceanic and Atmospheric Administration (NOAA) of the Department of Commerce; (5) the Small Business Administration (SBA); and (6) the Department of Veterans Affairs' (VA) New York Regional Office (NYRO) in New York, NY.

Our review of the six pilot projects included site visits to each agency; reviews of agency strategic plans and other agency documents as well as pertinent articles, reports, and other materials produced by outside organizations, including ourselves; structured and open-ended interviews with responsible agency officials, including pilot project coordinators, agency heads or highest-ranking available agency officials, and human resource officials; and group interviews with managers and/or those most affected by the pilot projects' performance management approaches. The participants in the group interviews were suggested by our primary contacts at the agencies, with an understanding that participants be chosen for their varied perspectives.

Much of the information we present in this report is the testimony of project coordinators, human resource managers, or other officials at the pilot projects. Except for a review of pertinent articles, reports, and other materials available from other parties, we did not independently verify the information.

The information presented in the six case studies, as well as our observations on the approaches taken by the pilot projects we reviewed

[9]FETC was created in 1997 by the organizational merger of Department of Energy technology research centers in Morgantown and Pittsburgh, PA. The Morgantown Energy Technology Center (METC) was the site of the Results Act pilot project from 1994 to 1996. After the merger with the Pittsburgh center, the employee performance management approaches begun at METC were being incorporated into FETC, with certain modifications. Most of the information we present relating to FETC is based on the METC experience, but we will refer to the pilot agency as FETC for the sake of consistency.

and some of the issues and challenges they faced, is not generalizable either to the broader universe of Results Acts pilots or to federal agencies in general. Because our selection methodology emphasized diversity, we do not intend that the six pilot projects be considered “best practices.”

We conducted our review in Morgantown, WV; New York, NY; and the Washington, D.C. metropolitan area, from January 1997 through June 1998, in accordance with generally accepted government auditing standards.

We solicited oral comments on a draft of this report from the heads of AAA, ARL, FETC, NOAA, SBA, VA, and OPM, or their designees. All of these organizations responded either with no comments or with comments of a technical or clarifying nature. We considered the comments and made changes as appropriate in finalizing this report.

The Six Pilot Projects Varied in Their Efforts to Align Employee Performance Management With Organizational Goals, but All Found These Efforts Worth Pursuing

All six pilot projects we reviewed included efforts to align their employee performance management systems with organizational missions and goals (see apps. I-VI). In general, pilot project officials said their employee performance management approaches were intended specifically to support their missions and goals and to address the organizations’ particular circumstances or needs. The extent to which these approaches entailed a reworking of existing employee performance management systems varied considerably. To the extent the pilot projects employed new approaches, these also varied in significant ways, such as (1) in the specific kinds or groups of employees on whom they focused, (2) in the extent to which organizational goals were explicitly reflected in employees’ performance plans, and (3) in whether these efforts emphasized creating accountability for results at the individual or team level.

At the time of our review, none of the six pilot projects reported having formally evaluated its employee performance management approach, but all reported possible benefits, some involving improved teamwork and communications and perceptions of greater accountability, and some involving higher customer satisfaction and improved service delivery. Although officials at the pilot projects could rarely state with certainty that their employee performance management approaches had improved employee performance or had contributed measurably to the accomplishment of organizational missions and goals, all six pilot projects considered their approaches worth pursuing further, as demonstrated by the fact that each of them continued to refine or expand upon its efforts to align employee performance management with organizational missions and goals after the pilot project phase ended.

The Pilot Projects Varied in the Kinds or Specific Groups of Employees They Focused Upon

Four of the pilot projects we reviewed focused their employee performance management approaches on managers rather than on staff at other levels. At each of the pilot projects, the leadership chose a particular group or level of managers as the focus of the organization's efforts to align employee performance management with missions and goals or other organizational circumstances or needs. Pilot project officials said that the focus of employee performance management was on managers because they were the ones most responsible for the business of the organization and for implementing change among the organization's employees.

Each of these four pilot projects identified a mission-related goal or circumstance on which it wanted to focus its managers' efforts and for which its managers would need to provide leadership to the staff. At AAA, for example, the Auditor General wanted to instill a new customer-service orientation among an auditing staff that held a traditional auditing perspective. To lead the change, he turned to the agency's GS-15 managers, most of whom were program directors who headed the functional areas into which the AAA's audit work was organized. At ARL, where seven preexisting "full-spectrum" research and development (R&D) organizations had recently been merged into one, the Director aligned the performance plans of the laboratory's seven technical directorate and center heads to support the organization's new research-oriented mission and to measure performance using its new "Performance Evaluation Construct." At NOAA, when the leadership wanted to introduce agencywide strategic planning, it called upon its senior executive corps for participation and support. And at SBA, when the administrator wanted to increase capital lending to what had been identified as underserved segments of the small business community, he began setting specific capital lending goals for the directors of SBA's district offices, which he called "the primary vehicle for the Agency to achieve its mission."

In contrast to these four pilot projects, the two others we reviewed focused their employee performance management efforts on essentially all of their employees. With the goal of enhancing mission accomplishment at FETC and of improving service to veterans and their families at VA's NYRO, both organizations turned to TQM principles as a guide and organized their employees into self-directed work teams.

The Extent to Which Organizational Goals Were Reflected in Employees' Performance Plans Varied

Although each of the pilot projects we reviewed made some efforts to align its employee performance management systems with organizational missions and goals, not every one required that organizational goals be explicitly reflected in (i.e., "linked to") employees' performance plans. This explicit "linking" was commonly, although not uniformly, done for the managers who were the focus of their agencies' employee performance management efforts. It was generally done less consistently for employees at lower levels of these same agencies. At the two pilot projects in which employees worked in self-directed teams, the "link" to organizational goals was, at least initially, less explicit than the expectation that employees would contribute to their teams' performance.

For managers who were the focus of their agencies' employee performance management efforts—at AAA, ARL, NOAA, and SBA—the method of aligning individual performance plans with organizational goals was fairly straightforward. The approach was generally one of establishing goals and measures for managers' organizational units (or functions) and then holding these managers accountable for their units' performance. For example, capital lending goals at SBA were established for district offices, but it was the district directors, as heads of these offices, who were responsible for meeting these goals. The exception to this approach was at AAA, where program directors and other GS-15 managers were designated as members of "Team 15" and given identical performance expectations aligned with the agency's strategic goals, particularly those involving customer service. However, the Auditor General told us that after 2 years, he felt that not all of AAA's program directors were responding to this uniform approach. He said that beginning with the 1998-1999 ratings year, he would assign Team 15 members more individualized performance expectations, still reflecting the agency's strategic goals but tailored to their specific functional areas.

Although AAA, ARL, NOAA, and SBA explicitly built organizational goals and measures into the performance plans of some of their top managers, they did so with less consistency for employees at lower levels. AAA reported making incremental, year-by-year progress in cascading strategic goals down to staff at levels below GS-15. During the 1996-1997 ratings year—the year after organizational goals were made an explicit part of Team 15 members' performance plans—AAA began drafting corresponding standards for audit managers and staff at lower levels. By the 1997-1998 ratings year, the agency had adapted some of its five new "Corporate Goals and Measures" into the staff's performance plans. At ARL, where officials said that the laboratory's annual performance goals were reflected in the performance plans of its senior executives, the same officials reported that strategic human resource planning had not yet been integrated into the organization's overall strategic plan and that deployment down to the workforce and first-level supervisors was inconsistent (see app. II). Similarly, at NOAA, a top official told us that NOAA's leadership wanted to see how well the practice of including strategic planning goals in individuals' performance plans was working at the senior executive level before extending it to others (see app. IV). The same official noted the challenge involved in making employees at all levels—for example, weather forecasters in the National Weather Service—aware of how their individual efforts contribute to agency goals. A NOAA manager echoed this concern, saying that while it was implicitly understood that strategic planning goals should cascade down to the performance plans of lower level staff, it was not clear to managers how to translate these goals into individual employees' performance expectations. At SBA, a human resources official told us that district directors were required to cascade the goals they were assigned down to their staff's individual performance appraisals whenever possible, but the same official noted that a recent check by the Office of Human Resources showed that the practice was not widespread. When we spoke with three SBA district managers, they said they varied both in their approaches to cascading goals down to the staff and in the levels of employees they included (see app. V).

At the two pilot projects we reviewed in which employees worked in self-directed teams, organizational goals were not explicitly reflected in individual employees' performance plans. The emphasis at both these organizations, officials said, was on team performance. Employees, they said, were expected to contribute to organizational goals by contributing to the performance of their teams. Individual performance standards were established accordingly. At FETC, for example, officials said employee performance standards emphasized the competencies and behaviors considered necessary to support team efforts to meet FETC's strategic goals (see app. III). At VA's NYRO, team goals were set and team performance was tracked using the office's five "balanced scorecard" measures, but the performance measures for individuals were different from the balanced scorecard measures and were designed to measure employees' contributions to their teams (see app. VI).

Individual Versus Team Accountability for Results

A key difference among the six pilot projects we reviewed was in whether they chose to place the accountability for achieving results with individual employees or with teams. At AAA, ARL, NOAA, and SBA, a common factor was the generally traditional approach taken to accountability: managers' accountability for results was carried out through a system of expectation setting and evaluation by their superiors. We noted one exception: AAA's

Team 15 approach, under which program directors and other GS-15 managers were given identical expectations, ratings, and rewards. The intent, AAA officials explained, was to make them accountable as a team for improving the agency's service to its customers. As explained earlier, experience with the Team 15 approach led the Auditor General to decide to retain the Team 15 concept but to create more individualized expectations and to vary ratings and rewards according to individual performance.

In contrast, accountability for achieving results at FETC and VA's NYRO was centered on self-directed work teams. Officials at both pilot projects emphasized TQM principles and a focus on improving work processes and team performance rather than on conventional supervisory evaluations of employees. This fundamental difference was reflected in the extent to which feedback by fellow employees, as opposed to supervisors alone, was used as a performance management tool.

At FETC, 360-degree feedback from each employee's supervisor, subordinates (where applicable), peers, and internal customers was gathered through a formal 360-degree survey, the results of which were to be used for identifying areas in which employees' performance could be improved and for drawing distinctions among performers. At VA's NYRO, feedback from team members regarding each employee's contributions to the team—a process NYRO called "peer assessment"—was a consideration in annual ratings, but it was also a means of flagging performance issues needing managers' attention. The criteria for peer assessment at NYRO were not identical to the five balanced scorecard measures used to track the performance of the teams themselves. Instead, NYRO officials told us, the peer assessment criteria were intended to focus less on individual productivity than on each employee's contribution to the team in meeting its organizational outcome measures, and were to be used to identify the areas in which employees could improve their performance and thereby contribute more effectively to the performance of the team.

Officials in FETC's human resources division said that the 360-degree feedback approach needed to be refined to make the system more consistent in its application and to make the scoring less subjective. The officials said that FETC expected to begin pilot testing the inclusion of measurable performance goals in the 360-degree survey form and in formal performance appraisals. One human resource official said this was intended to emphasize employees' contributions to their teams as well as to measure their individual job performance. The official said that including measurable goals would allow for performance expectations that were more explicitly aligned with the agency's annual performance plans and that would provide for greater individual accountability.

Both FETC and VA's NYRO began with five-level rating systems for performance appraisals but have since adopted two-level (e.g., "pass/fail") systems. An FETC human resources official explained that the center used the two-level approach, among other reasons, to counter the "grade [ratings] creep" that had led to over 90 percent of employees being rated in the top two categories. The official added her view that for a two-level rating scale to work, a separate approach, such as the 360-degree feedback system, must exist for determining distinctions among performers who meet or exceed expectations. NYRO, which used a five-level rating scale during the pilot project period, joined the rest of VA in adopting a two-level system in fiscal year 1998. Of the other four pilot projects we reviewed, only NOAA told us of plans to move to a two-level system. NOAA human resource officials explained that employees' within-grade increases would still be determined by their ratings but that other awards would be de-linked from ratings and would be determined, instead, by quarterly reviews of their performance against organizational goals. One of the reasons for going to two-level ratings, an official said, was simplification. Another reason was to lessen the focus on individual performance and encourage team performance. Still another reason was to make it easier to cascade strategic goals down to levels below senior executives. The official said the two-level ratings system would be evaluated after a year to see if these intents had been accomplished.

Although both FETC and VA's NYRO retained individual performance award programs, both pilot projects developed new team awards programs to highlight team accomplishments. Similarly, at NOAA, the human resources official we spoke with said that more group awards were likely as the agency did more to encourage team performance.

Evaluative Data Were Lacking, but Alignment Efforts Were Perceived as Beneficial

None of the six pilot projects we reviewed reported having formally evaluated its approach toward aligning employee performance management with organizational missions and goals, but all reported possible benefits, some involving improved teamwork and communications and perceptions of greater accountability, and some involving higher customer satisfaction and improved service delivery. For example, officials at AAA, FETC, and VA's NYRO said their organizations had improved communications and teamwork. At ARL, NOAA, and SBA—pilot projects at which managers were the focus of the organizations' employee performance management efforts—the managers we spoke with commonly said they felt more accountable for their performance than they had previously. Program directors' stated perceptions of their accountability were more mixed at AAA, where, as Team 15 members, they had been given identical performance expectations, ratings, and rewards. Regarding customer satisfaction and service delivery, the four agencies that instituted customer surveys—AAA, ARL, FETC, and NYRO—all reported receiving higher scores from their customers since their performance management efforts began. At SBA, where the agency's efforts were aimed mainly at increasing capital lending to underserved segments of the small business community, lending to all these groups improved the first year in which district directors were given capital lending goals. At NYRO, where the office's efforts were aimed at improving veterans' benefit claims processing, some of the organizational measures, such as the number of cases pending, had improved in recent years. An NYRO official cautioned, however, that the degree to which organizational improvements could be directly attributed to NYRO's performance management efforts had not been formally evaluated, and that other factors, such as hiring freezes and government shutdowns, had affected the office's productivity.

This NYRO official's observation was not unique. The six pilot projects we reviewed made their employee performance management efforts in tandem with other steps they were taking to become performance-based and while other events, such as downsizing, reorganizations, or leadership changes, were taking place in their organizations. Therefore, pilot project officials generally could not state with any certainty that any changes in organizational performance were directly attributable to the organizations' employee performance management approaches. At AAA, for example, the thrust of the agency's organizational efforts was to improve customer service. AAA officials told us that customer survey scores had, indeed, risen since these organizational efforts began, but they said they did not know the extent to which these rising scores could be attributed to the inclusion of customer service goals in Team 15 members' performance plans.

Despite the general lack of formal evaluative data regarding the results of their employee performance management approaches, all six of the pilot projects we reviewed found their approaches worth pursuing further, as demonstrated by the fact that each of them continued to refine or expand upon its efforts to align employee performance management with organizational missions and goals after the pilot project phase ended. With some changes, AAA continued the Team 15 approach, and began cascading organizational goals into the performance plans of supervisors and auditing staff. ARL continued refining its "Performance Evaluation

Construct" for providing information on the health and productivity of the laboratory and for use in focusing expectations for its technical director heads. FETC retained and continued to refine its team approach and 360-degree feedback system even after an organizational merger with another center. A NOAA official told us that strategic planning was "an iterative process" that they were continuing to learn. SBA's new administrator, arriving after the conclusion of the pilot project phase, stated that the agency "will link performance appraisals with performance against the goals in the annual business plan." And the balanced scorecard approach begun in one division of VA's NYRO was expanded to another division, while the office prepared for a further evolution of its employee performance management approach as an incipient OPM demonstration project.

In Aligning Employee Performance Management With Organizational Goals, the Pilot Projects Faced Several Common Issues or Challenges

Despite the variety of approaches taken to align employee performance management approaches with organizational missions and goals, the six pilot projects we reviewed faced several common issues or challenges. First, they sought to identify the flexibilities available to them to tailor their HRM systems to their organizational missions and goals and other specific organizational circumstances or needs. Second, to establish employee performance standards, assign accountability for results, and evaluate and reward employee performance, they sought to include in their employee performance management approaches appropriate and meaningful goals and performance measures. Third, as the pilot projects worked to become more performance-based, each confronted the need to redirect the organizational culture toward a new understanding of the organization's mission or way of doing business and to secure the buy-in of employees. Fourth, pilot project officials said they confronted unintended consequences in implementing their new employee performance management approaches, some finding that employees might try to game the system or might perceive a lack of fairness in its implementation.

Flexibilities

Officials at the pilot projects we reviewed told us that their employee performance management approaches were intended to address specific organizational circumstances or needs—for example, a decision to make the agency more customer-oriented, to introduce agencywide strategic planning, or to change the organization's job processes and have employees work in teams. In some instances, the agencies expressed concern with the extent to which current HRM rules and structures allowed them to tailor their own HRM approaches to these needs. For example, AAA's 1997-2002 Strategic Plan stated the assumption that "Personnel regulations and organizations will continue to be a stumbling block to achieving Agency goals." ARL's demonstration project plan proposal stated that "ARL finds the current Federal Personnel system to be cumbersome, confusing, and unable to provide the flexibility necessary…" and that the current system "often inhibits rather than supports the goals of developing, recognizing, and retaining the employees needed to realign the organization with its changing fiscal and production requirements."[10] VA's proposal for a demonstration project involving its regional offices in New York and Detroit stated similar concerns, including a lack of flexibility for managers to structure teams effectively or encourage employees to acquire a broader base of skills to meet organizational demands.[11]

The pilot project officials who were involved in adapting their agencies' employee performance management systems to their organizational needs commonly had to explore, and then work within, the HRM flexibilities available to them. They commonly reported looking into two areas: administrative waivers and OPM demonstration project authority.

Several of the officials we spoke with said that the hope of gaining greater flexibilities to tailor their HRM systems to their organizational needs was one of the reasons their agencies had become pilot projects. At AAA, for example, the Auditor General said that by becoming a pilot project, the agency had expected to find it easier to obtain approval for a broad-banded classification and compensation system. Broadbanding, he said, would allow AAA to promote auditors whose technical skills were high without requiring that they become managers. Similarly, ARL's director said that, in part, the laboratory became a pilot project to obtain waivers from administrative requirements promulgated both within and outside DOD. The director said he was particularly interested in waivers that would help the laboratory hire top scientists and reward those who were doing the best work.

Despite their hopes that pilot project status would help them gain new HRM flexibilities, the pilot projects we reviewed generally did not obtain the HRM flexibilities they requested. In the case of AAA, for example, the Auditor General said the Department of the Army (DA) did not support AAA's broadbanding proposal on the grounds that other Army agencies were not interested in pursuing broadbanding and that broadbanding had been amply demonstrated elsewhere. ARL's pilot project manager told us that most of the waivers that were approved for the laboratory were in the

[10] Federal Register, Vol. 62, No. 48, Mar. 12, 1997, p. 11647.

[11] Federal Register, Vol. 61, No. 224, Nov. 19, 1996, p. 58943.

areas of logistics and facilities management rather than HRM. He said that most of ARL's proposals for HRM waivers did not advance beyond DA. Similar experiences were typical among most of the pilot projects we reviewed. Five of the six pilot projects—all but SBA—said they had requested HRM waivers, but none reported getting any HRM waivers of significance. Officials generally told us their requests for HRM waivers either did not gain approval or received no response at the departmental level.

Another potential method by which the pilot agencies could seek enhanced HRM flexibilities was through OPM's personnel demonstration project authority. In addition to requesting administrative HRM waivers as part of their Results Act pilot project initiatives, four of the pilot agencies we reviewed—AAA, ARL, NOAA, and VA's NYRO—proposed becoming demonstration projects. The agencies' approaches to seeking demonstration project approval varied, as did their success in the attempt. AAA's proposals, lacking support at the departmental level, did not advance very far. In contrast, ARL's proposal, made in concert with other demonstration projects involving DOD research facilities and supported by specific legislation, was implemented June 7, 1998, according to an ARL official. Proposals for demonstration projects including all or parts of NOAA and NYRO were both supported by their departments and covered at least one other departmental entity; NOAA's demonstration project is now active and OPM said NYRO's demonstration project could be implemented early in calendar year 1999.

Officials at AAA said they packaged their request to develop a broadbanded classification and compensation system in a proposal to become a demonstration project. A provision for gaining direct hiring authority was also included in the proposal. As mentioned earlier, however, the request for broadbanding, along with the rest of the demonstration project proposal, was not approved at the DA level. AAA officials said they were discouraged by what they perceived as lengthy planning and paperwork requirements and by the necessity for extensive departmental approvals. Because agency resources were needed elsewhere, the officials said, they abandoned the effort.

In contrast to AAA, ARL's proposal to become a demonstration project has advanced to the point of implementation.[12] ARL made its proposal to become a demonstration project in the framework of a wider DOD

[12]Called the Science and Technology Reinvention Laboratory Demonstration Project at the U.S. Army Research Laboratory, it was formally proposed in the Federal Register, Mar. 12, 1997.

initiative to test new HRM approaches at DOD research facilities.[13] The proposal was legislatively authorized outside OPM's demonstration authority, but was developed with OPM's input.[14] According to the proposal, ARL's demonstration project was modeled on earlier demonstration projects at Navy's China Lake research facility—a project that was made permanent by legislation in 1994—and at NIST, a project that was made permanent by legislation in 1996. The ARL demonstration project includes several major features: broadbanding, pay for performance, automated classification, enhanced hiring flexibilities, modified reduction-in-force procedures, and expanded developmental opportunities for staff. An ARL official said that, similar to AAA, the laboratory also sought direct hiring authority but could not obtain DA support for it.

At NOAA, parts of three component organizations (the National Environmental Satellite, Data, and Information Service; the National Marine Fisheries Service; and the Office of Oceanic and Atmospheric Research) are participating in an OPM demonstration project that was implemented in March 1998 and which includes three other Department of Commerce (DOC) entities.[15] NOAA officials stated that the new demonstration project is largely patterned after the earlier demonstration project at NIST, another DOC organization. Among other features, the demonstration project aggregates comparable occupations into career paths and replaces the 15 General Schedule (GS) pay grades with five pay bands. Although all career paths will have five pay bands, the salary range in each band will differ from one career path to the next. Broadbanding, NOAA said, is intended to give managers the ability to reward and retain good performers and to provide more flexibility in attracting new hires. The demonstration project includes other features as well, including a pay-for-performance component that includes a direct link between performance accomplishments and (1) the annual adjustment to basic pay,

[13] According to OPM, four other legislatively authorized DOD demonstration projects—all involving research facilities, and all centering on pay for performance—have already been implemented; two others have been formally proposed, and several others are in various stages of development. The statutory basis for these demonstration projects was contained in the National Defense Authorization Act for Fiscal Year 1995, which authorized the Secretary of Defense, with OPM's approval, to conduct personnel demonstration projects at DOD laboratories designated as Science and Technology Reinvention Laboratories.

[14] Because these DOD demonstration projects were authorized separately by Congress, they do not count against the statutory limit in 5 U.S.C. 4703 on the number of OPM demonstration projects that may be active at any given time. That number, as explained earlier in the background section of this report, is 10.

[15] The DOC demonstration project was proposed by OPM in the Federal Register, May 2, 1997.

which includes the annual general increase and the locality pay increase; (2) annual performance pay increases; and (3) bonuses.

As discussed earlier in this report, in November 1996, VA proposed a demonstration project for its regional offices in New York and Detroit, expanding upon the HRM practices that NYRO was developing during the Results Act pilot project phase. According to OPM, the demonstration project could be implemented early in calendar year 1999.

Although three of the six Results Act pilot projects we reviewed either have become or are expected to become demonstration projects, none was a demonstration project during the period in which it was a Results Act pilot project (that is, fiscal years 1994 to 1996). But despite this fact and despite the fact that the pilot projects commonly did not obtain the HRM waivers they requested, all of the pilot projects found sufficient flexibilities available to them to take at least some steps toward aligning their employee performance management systems with their missions and goals and addressing other organizational circumstances or needs. The pilot projects could, for example, establish organizational missions and goals, establish strategic planning and performance measurement processes, and align many HRM activities, such as employee performance evaluations and rewards, within this framework.[16] Further, some pilot project officials—at ARL and VA's NYRO, for example—said they came to realize that, in most cases, waivers outside their departments were not needed to make appropriate HRM changes. Structural HRM changes, such as in classification or in creating broad-banded compensation systems, were the kinds of changes more likely to require waivers or demonstration project authority.

Goals and Measures

As discussed in the background section of this report, our previous work on Results Act implementation showed that federal agencies have faced certain common issues or challenges in becoming performance-based. Two of these issues or challenges involved establishing organizational goals and developing results-oriented performance measures. Both of these issues have come into play at many levels among organizations seeking to become more performance-based. Leading organizations we studied in our previous work tried to establish clear hierarchies of goals and performance measures, aligning the goals and measures for each

[16] OPM has produced a template of the flexibilities available to agencies. See Template of Personnel Flexibilities for Use by Agencies Selected for Conversion to Performance-Based Organizations, OPM, Mar. 27, 1996. For a discussion of how some agencies view and, in some cases, underestimate the flexibilities available to them, see also, Transforming the Civil Service: Building the Workforce of the Future—Results of A GAO-Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995).

organizational level with those of successive levels and ultimately with the organization's strategic goals. Similarly, in trying to develop and implement employee performance management approaches that were aligned with their organizational missions and goals, the six pilot projects we reviewed sought to include goals and performance measures that were appropriate and meaningful at the employee level and that would be useful in establishing employee performance standards, assigning accountability for results, and evaluating and rewarding employee performance. The approach to doing this generally differed between the pilot projects that focused their employee performance management approaches on managers and those that focused on teams. In addition, officials from both groups commonly mentioned other issues and challenges involved in establishing goals and measures.

As discussed earlier, the four pilot projects we reviewed that focused their employee performance management efforts on managers took generally similar approaches—with the exception of AAA—to establishing goals and performance measures for these managers. In essence, the goals and measures for the managers' units or functional areas were the goals and measures for the managers. The four pilot projects varied in their efforts to "cascade" these goals and measures to employees at lower levels. Among these four pilot organizations, only at AAA were coordinated efforts being made during the time of our review to develop employee performance plans in which organizational goals—in the case of AAA, "Corporate Goals and Measures"—were explicitly reflected.

As Results Act planning and reporting pilot projects, all of the pilot projects we reviewed took steps to adopt goals and measures appropriate to their specific organizational missions and other circumstances and needs. At ARL, for example, where the leadership faced the widely recognized challenges involved in evaluating the performance of research organizations,[17] it adopted a three-part "Performance Evaluation Construct" based on customer feedback, peer review, and metrics—three elements that, used in various combinations, could provide information on the relevance, productivity, and quality of the organization and its work. At VA's NYRO, where the leadership needed to focus its workforce on improving service to benefit claims applicants, it retired its traditional performance indicators and established a "balanced scorecard" designed to set goals and measure performance in five areas: speed, accuracy, cost, customer satisfaction, and employee development.

[17]See Measuring Performance: Strengths and Limitations of Research Indicators (GAO/RCED-97-91, Mar. 1997).

The two pilot projects—FETC and VA's NYRO—that emphasized teamwork over individual performance both established performance standards for employees that were somewhat different from the goals and measures used at organizational or unit levels. Standards for FETC employees, for example, although established to support the organization's strategic plan, focused largely on the competencies and behaviors considered necessary to support their teams' efforts to meet FETC's strategic goals. Similarly, the standards for NYRO employees were specific to the contributions of members in benefit claims teams. The standards for NYRO employees were not identical with the five balanced scorecard measures by which their teams' performance was tracked. NYRO officials told us it was at the team level that these organizational outcome measures were brought into the employees' "line of sight," but it was through another set of criteria—output, customer service, reliability, team support, and accuracy—that employees were evaluated. The employee standards were developed to focus on employees' contributions to their team in meeting its organizational outcome measures. Their expectations, peer assessments, formal evaluations, and individual awards were based on the contributions they made to their teams. Additionally, "variable pay"—the money made available for some awards to team members—was based on teams' overall scorecard performance, and was intended to reinforce the importance of working together and achieving organizational goals.

Pilot project officials mentioned several other issues or challenges related to goals and measures, including (1) making goals and measures more outcome-oriented, (2) choosing the right number of goals and measures, and (3) creating appropriate goals and measures when employees' assignments were expected to take a long time to complete or could not be expected to yield short-term results.

Pilot project officials commonly said that developing results-oriented goals and measures was a continuing challenge. One SBA official, for example, said that although the agency could measure the level of its capital lending to the small business community, it was difficult to establish whether SBA's lending activities actually result in successful small businesses. A NOAA official emphasized the fact that agencies must learn through experience how to do effective strategic planning, adding that for strategic goals and performance measures to become meaningful to employees, they need to evolve over time. The official noted, for example, that two of NOAA's seven original agencywide strategic goals had been changed through experience to be more outcome-oriented: "modernize navigation systems" had become "promote safe navigation," while "coastal ecosystem health" had become "sustain healthy coasts." Nonetheless, another NOAA official noted the continuing difficulty of making the achievement of broader outcomes an intrinsic part of employees' approach to their work, telling us that the performance plans of most agency staff are driven by the performance of specific activities rather than tied to organizational goals. At AAA, officials also spoke of continuing to refine performance measures to give employees a better indication of the results of their work. For example, whereas the audit agency used to simply track the number of audit recommendations made, AAA officials said it now tracks the percentage of audit recommendations implemented and the impact of those recommendations.

Whereas pilot project officials noted the importance of the kinds of goals and measures used in managing their employees, they said that the number of goals and measures was important as well. At AAA, officials said the agency had initially identified more than 40 strategic goals, a number that was then reduced to 18. But the same officials said that having so many strategic goals made it difficult to establish an organizational focus or to create an alignment with the employee performance management system; the goals were not prioritized and employees did not understand the direction the agency wanted them to take. Recognizing the need for fewer, more focused goals, AAA developed the five overarching "Corporate Goals and Measures" that it began to build into employees' performance plans during the 1997-1998 ratings year. The need to identify which goals and measures were most important was recognized at ARL as well. ARL identified and continues to monitor approximately 60 metrics—i.e., quantifiable inputs and outputs, such as the number of PhDs on the staff or the number of technical reports produced—but to focus the performance of the laboratory's directorate heads, ARL's director selected only about 15 metrics for inclusion in directorate heads' performance plans. In contrast, at SBA, the number of goals and measures for district directors has grown substantially beyond the original focus on capital lending. An SBA official told us that the expanding number of goals and measures for which district directors are responsible has made it hard to maintain a focus.

Some pilot project officials noted the difficulties involved in creating appropriate goals and measures when employees' assignments were expected to take a long time to complete or could not be expected to yield short-term results. The challenge was particularly pertinent to the management of employees involved in research. For example, at NOAA's Office of Oceanic and Atmospheric Research (OAR), the Acting Assistant Administrator said the office's annual operating plans had to recognize the long-term nature of research projects and stress the achievement of interim milestones or the delivery of particular products, rather than the completion of work that might take years. ARL, in addition to peer review and the various metrics used to give an indication of the health and performance of the laboratory, used customer feedback as an indicator of the laboratory's productivity. For customers to whom the laboratory delivered specific, identifiable products, customer surveys were used. But for strategic guidance and feedback on the laboratory's long-range contributions, ARL officials said the laboratory drew upon senior Army leaders and user group representatives directly, through the formation of a Stakeholders' Advisory Board.

Redirecting Organizational Culture and Securing Employee Buy-in

In discussing their efforts to align employee performance management with missions and goals or other organizational circumstances or needs, officials at the six pilot projects we reviewed spoke of the need to redirect the organizational culture toward a new understanding of the organization's mission or way of doing business. The officials commonly spoke of the organizational culture that had been in place, the kind of organizational culture that was now required, and the strategies for making the transition. The officials took a variety of steps to redirect the culture and to gain the buy-in of employees. However, the officials who spoke about redirecting organizational culture almost uniformly said that the task of doing so was an ongoing challenge and that the transition at their agency had not been fully accomplished.

At AAA, for example, the Auditor General believed that the agency needed to move from a traditional auditors' orientation to one focused more on customer service. In 1992, he introduced TQM principles to the agency, establishing a Quality Council and an Office of Productivity to coordinate the agency's efforts to improve its service to clients and involving its employees in several ways, such as through Process Action Teams and internal surveys. The goal, according to AAA, was to convert "an introverted, task-oriented group into a entrepreneurial customer-service force…" After 5 years' efforts—including the introduction of the Team 15 concept, under which managers were to work together toward this organizational goal—the Auditor General said his greatest challenge still lay in accomplishing this change in culture—without which, he said, there could be no meaningful change in organizational performance. He said that "you're pretty limited in what you can use to influence the performance of managers," citing what he said was a lack of meaningful performance incentives and of the ready ability to remove managers from their positions. However, he said that substantial progress in changing AAA's culture was being made—although it was being made, in his words, "battle by battle."

The challenge of redirecting organizational culture was also pointed out at ARL. The laboratory, created out of seven preexisting research and development facilities, faced the task of integrating them into one laboratory and refocusing the staff away from "full-spectrum" R&D and onto basic and applied research. The laboratory's first strategic plan addressed four areas: culture, process, people, and structure. But it stated that although these four areas are interrelated, culture is "the hardest to change of all human attributes," and reorganization alone would not be sufficient to guarantee improved operational effectiveness or efficiency. To help gain the buy-in of managers, ARL's director established cross-directorate teams for addressing each of the laboratory's primary mission areas and for encouraging senior managers to work toward common goals and to share ownership and responsibility for results. ARL also established a Staff Members Committee to serve as a channel of communications from employees to top management during the development of the laboratory's new personnel demonstration project. One specific way in which ARL officials said they tried to steer this cultural change was by benchmarking the laboratory's metrics goals against world-class research facilities such as Bell Labs. ARL's director said that by emphasizing such metrics as the number of PhD's on the staff or the number of research papers published, he could send a message to the staff of what kind of organization he wanted ARL to be. An ARL official told us, however, that this kind of cultural change has not come easily to some staff. The official said, for example, that when engineers are asked to do things that are more familiar to scientists, such as publish research papers, they have found themselves uncomfortable with meeting requirements that lie outside their professional experience.

At FETC, another research facility, an official told us of the difficulties encountered in transitioning the staff to a team environment. At a facility at which the research workload was increasing while staff resources were not, FETC's leadership wanted to enhance its productivity through the implementation of TQM principles. FETC created self-directed product teams for doing the work of the organization and process action teams for generating improvements. It emphasized teamwork-based standards for employees' performance and rewards, and a 360-degree appraisal system so that staff members could tell each other how they were doing and identify areas for improving their contributions to their teams. But the same human resources official said that FETC continued to face a challenge in getting its professional staff to work in teams; scientists and researchers, the official said, tend to be introverted and independent, and center's traditional culture of competition rather than collaboration was hard to change.

Officials at NOAA told us of somewhat similar challenges when the leadership introduced agencywide strategic planning. NOAA's components, the officials said, had traditionally gone their own ways, but were now asked to think of their interrelationships and their contributions to the agency's overall goals. When the agency's new leadership decided to adopt agencywide strategic planning, it took its senior managers off-site for an extended period to reevaluate the agency and to develop agencywide goals. NOAA's strategic plan was the product of seven cross-functional strategic planning teams, in which representatives of NOAA's various components were asked to develop strategic goals in concert with one another rather than independently and which were intended to help NOAA's managers better understand their own and each others' place in the agency and their potential contributions to it. Such strategies notwithstanding, a top NOAA official said that achieving the change in organizational culture required for successful strategic planning remained a challenge.

In March 1994, SBA's administrator sent a memo to its 69 district directors and other managers, identifying the characteristics, as he saw them, of agencies that successfully manage for results, and stating that "I envision the SBA as one of these agencies." This memo, SBA officials said, was the means by which the administrator set SBA's course toward creating a culture that would support performance-based management, with an emphasis on accountability for results. In the memo, the administrator announced that a key step for SBA would be becoming a Results Act pilot project and that, in keeping with Results Act requirements, it would soon develop a strategic plan—what he called a "business plan"—with measurable performance goals. Since that time, although SBA has proceeded to introduce performance-based practices, including performance goals for its district directors and a system for tracking the performance of its district offices against organizational targets, the agency's experience has been marked by a key factor: turnover in leadership. Since 1994, SBA has had three administrators. As reflected in our review of the pilot project (see app. V), changes in leadership at SBA have entailed changes in the agency's employee performance management approach, including the performance goals of its district managers and the means by which these goals were determined, as well as more basic reconsiderations of the agency's mission and goals.

The effort to improve service delivery to veterans and their families at VA's NYRO entailed fundamental changes in the office's expectations of its employees—for example, that they take on wider responsibilities for claims processing and that they work in self-directed teams. Among other things, coaches were to help team members appreciate the meaning and importance of performance data, and the teams themselves met weekly to track their performance. But in addition to using the "balanced scorecard" performance measures and other performance management tools, an NYRO document pointed out, "to change an organization, values and behaviors play important roles." An NYRO official said management's view was that how people work with each other and act in the office are critical to an organization's success, and that it saw job performance and personal behavior as inseparably linked. Recognizing, for example, that the new claims process and office environment gave the public open access, the office adopted a dress code for all employees. NYRO reported that the staff adapted to the dress code, but that other behavioral changes were more difficult to achieve. For example, in 1995, NYRO management informed the staff that the abuse of sick leave and the misuse of telephones by a relatively small number of employees was affecting teamwork and damaging the office's standing versus other VA regional offices. As a result, by 1996, the office had taken 52 disciplinary and adverse actions because of leave abuse and telephone misuse. In fiscal year 1996, the office had 22 unfair labor practice charges filed against it, 43 grievances, and 16 arbitrations. Dealing with these actions required an investment of resources, NYRO reported, but was necessary "if the NYRO was to stay focused on its vision and the results it hoped to achieve."

Unintended Consequences

Pilot project officials told us of some unintended consequences their agencies encountered in implementing their new employee performance management approaches, some finding that employees might try to game the system or might perceive a lack of fairness in its implementation.

Some pilot project officials noted that in establishing new goals and measures or new appraisal systems for their employees, they had encountered cases in which employees were "gaming" the system—that is, manipulating the performance measures to make their performance look better than it might actually have been. For example, FETC's human resources director said that when 360-degree appraisals were first tested at the Morgantown center, some of the staff in one work team scored one another with 10's—the highest possible score—in all of the ratings categories of the 360-degree survey. These employees, the same official told us, were called into his office and informed that management was aware of this attempt to game the system and that it would not be tolerated. He said that word of these sessions spread through the center and that gaming has not been a problem since then. Nonetheless, the same official said that, with experience, FETC perceived a need to ensure that 360-degree scoring is done more consistently and equitably than in the past, especially since two research facilities—at Morgantown, WV and Pittsburgh, PA, were merged into one. To make scoring less subjective, the official said, FETC intended to better define the rating factors used in the 360-degree survey form and, where feasible, include measurable performance goals for employees.

At AAA, agency officials pointed out the possibility of employees gaming performance indicators, but also the possibility that the use of the indicators themselves might skew performance. For example, because AAA's performance management efforts centered on improving the agency's service to its customers, the members of Team 15 were given performance goals based on the composite scores received on customer surveys. However, the Auditor General said, he had found that some program directors were sending out fewer customer surveys than others, targeting them toward respondents who were more likely than others to give them positive ratings. He said the agency needed to give more attention to the comments that customers wrote on the survey forms and to the circumstances surrounding the ratings to better understand their basis. AAA officials said this was necessary to avoid an unintended consequence: that auditors might try so hard to get high customer survey scores that they would sacrifice their independence. Their concern was that auditors might be afraid that their audit findings could jeopardize the customer survey scores on which their performance was evaluated.

The experiences of the pilot projects we reviewed indicated that employees' perceptions of unfairness were often factors in the extent to which these organizations won support for their new employee performance management approaches. Some examples are as follows:

- At AAA, the Auditor General said the uniform ratings for Team 15 members met with resentment from some lower-level staff, who felt that GS-15 managers were being held less accountable for their performance than they were. Some of the Team 15 members with whom we spoke raised a similar concern on their own behalf.
- At ARL, the use of metrics as performance indicators remained a point of contention, according to the pilot project manager, who said that some directorate heads initially felt they were assigned metrics that were inappropriate to their areas.
- At SBA, some of the district directors with whom we spoke said that because district directors were given measurable performance goals while other senior SBA managers were not, the "performance bar" was higher for them than for the others. Some of the district directors regretted that their goals were now assigned by the Office of Field Operations rather than

negotiated with the administrator, as was done in 1994 and 1995. One district director said that if a district office meets its goals one year, the goals go up the next, so that "no good deed goes unpunished."

- At VA's NYRO, officials said, some employees who had experienced peer assessments by team members were not convinced of the competence of some of their team members to assess others' performance.

Officials at the six pilot agencies we reviewed were generally aware of the kinds of fairness concerns raised by employees. Pilot project officials commonly reported specific steps taken to keep abreast of the views of the managers or other employees who were the focus of the agencies' performance management efforts. These steps ranged from the creation of a District Directors Advisory Council at SBA to periodic "internal climate surveys" to keep abreast of all employees' views at NYRO. The attempts to gather information and learn from experience were in keeping with the view expressed by several pilot project officials—that their transition to performance-based management and to employee performance management systems that were aligned with organizational missions and goals was continuing, but that this "work in progress" was not yet complete.

We are sending copies of this report to the Ranking Minority Member of the Subcommittee; to the Chairman and Ranking Minority Member of the House Committee on Government Reform and Oversight and the Senate Committee on Governmental Affairs and its Subcommittee on International Security, Proliferation, and Federal Services; the heads of the six agencies we reviewed; the Director, OPM; and other interested parties. We will also make this report available to others upon request.

Major contributors to this report are listed in appendix VII. Please contact me at (202) 512-8676 if you have any questions concerning this report.

Sincerely yours,

Michael Brostek

Michael Brostek
Associate Director, Federal Management
and Workforce Issues

Contents

Abbreviations

AAA	Army Audit Agency
ARL	Army Research Laboratory
DA	Department of the Army
DOC	Department of Commerce
DOD	Department of Defense
FETC	Federal Energy Technology Center
GAC	Group Awards Committee
HRM	human resource management
METC	Morgantown Energy Technology Center
NIST	National Institute of Standards and Technology
NOAA	National Oceanic and Atmospheric Administration
NYRO	New York Regional Office
OAR	Office of Oceanic and Atmospheric Research
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PBO	performance-based organization
R&D	research and development
SBA	Small Business Administration
SES	Senior Executive Service
TAPES	Total Army Performance Evaluation System
TEAMS	Technical Energy/Environmental and Management Services
TQM	total quality management
VA	Department of Veterans Affairs

Case Study: The Army Audit Agency and "Team 15"

The Army Audit Agency (AAA), headquartered in Alexandria, Virginia, is the Department of the Army's (DA) internal audit organization. In fiscal year 1997, AAA employed about 650 persons, of whom about 580 were professional auditors.

According to the Auditor General, by 1992, AAA had come to believe that budget pressures and downsizing threatened the agency's survival. To ensure AAA's viability, he said, the agency needed to move away from its traditional approach—one he called the "gotcha" role—to one more focused on service to its Army clients. To help accomplish this culture change, he turned to the agency's GS-15 managers and initiated a performance management effort called "Team 15."

Team 15 was composed of the agency's 21 GS-15 managers, 17 of whom were program directors. The Auditor General said that as heads of the functional areas into which AAA's audit work is organized, the program directors could play a critical leadership role in creating a customer service orientation throughout the agency. In 1994, following 2 years of agencywide total quality management (TQM) efforts, AAA issued its first 5-year strategic plan. The plan included the long-term goal of "service to the customer." Beginning with the 1995-1996 ratings year, Team 15 was established and "service to the customer" was made an explicit part of its members' performance plans.

As in the past, Team 15 members' performance plans were to conform with the departmentwide Total Army Performance Evaluation System (TAPES), which includes a five-level rating scale. However, Team 15 members' performance plans were now to include performance expectations mirroring the AAA strategic plan's customer service goals. For example, one of the performance expectations for Team 15 members for the 1996-1997 ratings year was to "Develop a 96-97 audit program that focuses on the Army's needs, issues and concerns as demonstrated by at least a 4.5 composite rating by the Secretariat and DA Staff of their satisfaction with the subjects and timeliness of our scheduled audit services." The quantitative measure of performance was to be provided by customer surveys distributed to audit requesters and audited parties after each audit. The surveys asked respondents for ratings in such areas as competence of the auditors, treatment of the client, and usefulness of the audit. Respondents were asked to provide a rating in each area on an ascending scale of 1 to 5 and to add their comments on problems or issues they perceived and on additional services they might desire.

According to AAA officials, another new feature of Team 15 was that the Auditor General assigned the Team 15 members identical performance expectations. The Auditor General said his intent was to encourage program directors to put teamwork ahead of their individual interests in pursuing agencywide goals. In addition, he said that during the 1995-1996 and 1996-1997 ratings years, he gave all Team 15 members identical ratings. He said his intent was to convey to the team members the message that their individual accomplishments were dependent on how the team performed as a whole.

Team 15 members’ performance bonuses were also identical; each Team 15 member received a performance bonus of $800 at the end of the 1995-1996 ratings year, and $1,400 at the end of the 1996-1997 ratings year.

At the time of our review, AAA had not formally evaluated the Team 15 approach. The Auditor General said that various measures, such as cycle time and customer surveys, were used as indicators of team and individual performance. AAA officials said that customer ratings of AAA’s audit work were rising, but they did not know whether this was the result of including customer service goals in Team 15 members’ performance plans. The officials also said it was their impression that the Team 15 approach had improved communications and teamwork.

The Auditor General said he planned to retain the Team 15 concept, but with modifications. He said that, beginning with the 1998-1999 ratings year, he would assign the team members more individualized performance expectations, still aligned with the agency’s strategic goals but tailored to their specific functional areas. Further, he said, beginning with the 1997-1998 ratings year, he would give team members ratings and performance bonuses based on their individual performance. The Auditor General gave two reasons for these modifications. First, he said that although most of the program directors had subscribed to AAA’s new emphasis on customer service, teamwork, and the use of TQM, some had not; they were good at what they had been doing, he said, but they had been doing it their way for a long time and were reluctant to change. Second, he cited concerns among some lower-level staff with the fact that all GS-15s received the same rating regardless of their individual performance. The Auditor General said that the dissatisfied staff members had asserted that some GS-15 managers were being held less accountable for their performance than employees below the GS-15 level.

AAA did not create a team structure comparable to Team 15 for audit managers and staff below the GS-15 level. But beginning with the

1997-1998 ratings year, performance standards for managers and staff from the GS-14 level down to the GS-12 level were instituted that were explicitly aligned with AAA's five new "Corporate Goals and Measures," including (1) value to the Army, (2) customer satisfaction, (3) world class workforce, (4) cycle time (timeliness), and (5) information technology. Developed by five AAA employee teams working under the auspices of the agency's Quality Council, the performance standards were tailored to the duties of employees at the GS-14 level (primarily audit managers) down to the GS-12 level (auditors). For auditors at the GS-11 level down to the GS-5 level, performance standards were not explicitly aligned with the Corporate Goals and Measures. Instead, each employee's performance plan included a statement highlighting the relevance of the Corporate Goals and Measures and the fact that accomplishing individual performance objectives would contribute to the agency's ability to meet its strategic goals. The Auditor General said that the new performance standards for employees other than Team 15 members were one step in an ongoing attempt to cascade the goals of the organization down to individual employee performance plans.

Case Study: The Army Research Laboratory and the Performance Evaluation Construct

With principal locations in Adelphi and Aberdeen, Maryland, the Army Research Laboratory (ARL) is the Army Materiel Command's "corporate" laboratory. According to its mission statement, ARL does "fundamental and applied research to provide the Army with key technologies and the analytical support necessary to assure supremacy in future land warfare." In fiscal year 1997, ARL employed over 2,300 people, of whom about 1,400 were scientists and engineers.

ARL was formed in October 1992 through the consolidation of seven formerly independent Army laboratories. According to ARL's pilot project manager, the new laboratory's emphasis on fundamental and applied research was a major change from the "full spectrum" research and development (R&D) mission of its seven predecessor organizations, which, in addition to research, had carried out a variety of development, engineering, and initial production tasks. He said the consolidation was seen as an opportunity to introduce performance-based management practices—namely, strategic planning and organizational performance evaluation—to make ARL function in a more businesslike fashion.

As a research organization, a key challenge for ARL lay in developing meaningful performance measures. As ARL and others have noted, the results of research are often unpredictable and often require long time frames in which to become apparent.[1] Further, as ARL's Director pointed out, the value of research outcomes is not always quantifiable. He added, however, that while he believed that measuring the outcomes of research itself was not feasible, reporting on such performance characteristics as the relevance, productivity, and quality of the laboratory's work was possible and, indeed, vital for managing the organization. ARL's strategy for performance measurement was to focus on the performance and functional health of the laboratory, gathering a range of information that was both qualitative and quantitative. ARL called its approach the "Performance Evaluation Construct."

The Construct included peer review, customer feedback, and metrics. According to the pilot project manager, these three tools could be used "in various combinations and to varying degrees" to provide information on the performance and functional health of the laboratory and its components. Additionally, for ARL's senior executives—i.e., the heads of ARL's seven technical directorates and centers—the Construct could be

[1] Applying the Principles of the Government Performance and Results Act to the Research and Development Function: A Case Study Submitted to the Office of Management and Budget, Dr. Edward A. Brown, Army Research Laboratory, 1996. See also Measuring Performance: Strengths and Limitations of Research Indicators (GAO/RCED-97-91, Mar. 1997).

used by the director to align their performance expectations with organizational goals and to reinforce accountability through ratings and performance bonuses.[2]

ARL officials said that at the beginning of each ratings year, the director met individually with the laboratory's senior executives to establish their performance expectations. If peer reviews of previous or ongoing work raised performance issues, these were to be addressed in the new expectations. Further, the director would set a customer service goal keyed to the directorates' ratings on customer surveys. The surveys, sent to customers to whom ARL had delivered specific products, asked questions about such things as timeliness, technical quality, and value of the work. The surveys used an ascending rating scale of 1 to 5; the goal for the directorates' average scores on these questionnaires was set at 4.8.[3]

The customer survey scores were one of the metrics for which specific goals were included in the senior executives' performance plans. According to the pilot project manager, ARL's metrics covered inputs and outputs but not outcomes. Metrics were considered "countables" that have only limited value as measures of an R&D organization's results but which can provide management with useful information on the organization's functional health.

By benchmarking against "world class" research organizations with functions similar to those of ARL, such as the National Institute of Standards and Technology in the public sector and Bell Labs in the private sector, ARL established a set of about 60 metrics. ARL's metrics included—among many others—the numbers of technical objectives accomplished, refereed journal articles written, technical reports produced, patents received, PhDs on the staff, and others for monitoring personnel and fiscal resources. All of these metrics were tracked by some functional office of the laboratory, but of these metrics, only about 15 were chosen by the director for special emphasis and are used to set expectations for the directorate heads' performance. Through his choice of metrics, the director could focus the efforts of the senior executives in accordance with the year's organizational goals and seek continuous improvement of the laboratory's research environment. Further, the

[2]ARL had 11 technical directorates during the time the pilot project was in effect. In fiscal year 1997, ARL reorganized its business lines into 5 directorates of from 200 to 400 employees each, and 2 centers of about 100 each.

[3]In addition, the Director required that if any score on any survey were lower than 3.0, or if any survey contained a negative comment from a customer, the cognizant senior executive would personally contact the customer within 5 working days to resolve the problem.

director said, by choosing to emphasize certain metrics, he could continue to influence the evolution of ARL's culture from "full-spectrum" R&D to a focus on fundamental and applied research—an ongoing effort that began with ARL's creation in 1992. For example, he said, his emphasis on the numbers of papers written and the percentage of PhDs on the staff reinforced ARL's goal of being a world-class research organization.

According to the pilot project manager, the goals assigned to the senior executives for the various metrics varied by directorate. For example, the head of a directorate oriented toward basic research would be assigned a relatively higher goal for the number of refereed journal articles produced by the staff, whereas the head of a directorate oriented toward applied research would be expected to produce a higher number of technical reports for customers.

ARL officials also said that senior executives' performance plans were to include their top five or six project-specific goals for the year. These project-specific goals were to correspond with goals appearing in the laboratory's annual performance plan.

At the end of the ratings year, ARL officials said, the director prepared the ratings of all the senior executives, using the Army's departmentwide TAPES evaluation forms, which use a five-level descending rating scale. In turn, these ratings were to be reviewed by an independent board whose members were selected by the director for 1-year terms. Besides reviewing the ratings, the board was to make performance bonus recommendations. Senior executives' bonuses for exceptional performance ranged from 5 percent to 20 percent of salary. In a given year, according to the deputy chief of staff, no more than 45 percent of the senior executives could receive a bonus.[4]

In theory, the director said, the laboratory's annual performance goals, which were reflected in the performance plans of the senior executives, cascade to each employee level. However, the director said, this did not happen consistently throughout ARL. The pilot project manager said that no formal process had been established to ensure that it did. Speaking more broadly, the pilot project manager said that strategic human resource planning had not yet been integrated into the laboratory's overall strategic plan, and that deployment down to the workforce and first-level

[4]At the time of our review, some GS-15 managers were acting directorate heads. These managers were rated by ARL's director, but their ratings were not reviewed by the board. Further, these managers were not eligible for senior executive bonuses but were eligible for special act awards of up to $7,500.

supervisors was inconsistent. Nonetheless, he said, that directorate heads were expected to—and did—hold their project chiefs accountable for the specific projects they supervised and that project chiefs were expected to hold their lower level project employees accountable for the results expected of them.

Based on directorate heads with whom we spoke, ARL's planning and evaluation efforts appear to have made a difference in accountability at the senior executive level. For example, two of the directorate heads with whom we spoke came to ARL from other government laboratories; both said they felt more accountable under a system in which strategic planning was used. One said that each component of his former laboratory "did its own thing," whereas at ARL, all components were working toward the same organizational goals.

ARL planned to continue applying all three elements of the Performance Evaluation Construct—peer review, customer feedback, and metrics. The pilot project manager said that the scientific community recognizes the importance of subjecting scientific research to the scrutiny of experts and that ARL's peer reviews, which have been done under contract by the National Research Council, have led to improvements in the technical quality of ARL's work. Average customer ratings, ARL officials reported, had risen since the inception of customer surveys in 1993 from 3.7 to 4.3. The officials said that other metrics had also risen. For example, the number of journal articles produced by the staff had increased by 155 percent; the percentage of PhDs on the staff had risen from 22 to 27; and the number of guest researchers into and out of ARL had increased by 48 percent and 293 percent, respectively. Laboratory officials said while metrics such as these had risen, all of ARL's metrics are subject to continuing reevaluation of their value, collectability, amenity to validation, and the message they send to the workforce. The pilot project manager pointed out that "what gets measured gets done" and said that "we need to assure ourselves that we are measuring the right things so that we will do the right things."

Case Study: The Federal Energy Technology Center and Its Team-Based Performance Management Approach

Formed in 1997 by the organizational merger of two Department of Energy technology research centers, the Federal Energy Technology Center (FETC) performs research, development, and demonstration projects on advanced technology for fossil fuel energy and environmental protection. Most of its funding is spent on cost-shared projects with the private sector. FETC has research facilities at two locations, Morgantown, WV, and Pittsburgh, PA. As of September 1997, FETC employed about 550 federal workers, most of whom were engineers and scientists, and the services of about 400 site support contractor employees.

FETC's new approach to its work began at the Morgantown site before the merger.[1] In the early 1990s, the director of the Morgantown center concluded that, because the facility's workload in research and demonstration projects was increasing even as the size of its staff was not, its mission accomplishment could be enhanced through the introduction of TQM principles. As part of the TQM approach, the technical staff was to work in teams, rather than as individuals working on their own projects, and with managers working more as the coaches of teams than as supervisors in the traditional sense. To help achieve this transition, the Morgantown center introduced a team-based performance management approach that it hoped would enhance teamwork, improve productivity and quality, and help the center accomplish its performance goals.

The team-based performance management approach included (1) a 360-degree feedback system, under which employees' performance—that of managers and supervisors alike—would be assigned scores by fellow employees and customers, and through which distinctions could be drawn among performers for purposes of performance improvement and recognition; (2) formal performance appraisals using a two-level rating scale (i.e., meets or exceeds expectations/fails to meet expectations) that was adopted to help eliminate barriers to communications between supervisors and employees; and (3) a team awards approach to support better organizational performance.

Both 360-degree feedback and formal performance appraisals were means of aligning employee performance management with organizational

[1]The Morgantown center used these performance management approaches during the years (1994 to 1996) it was a pilot project under the Government Performance and Results Act of 1993 and through 1997, when FETC was formed. The approaches were being incorporated into FETC with certain modifications, and we refer to them as FETC initiatives. However, most of the information we present about the initiatives came from the Morgantown experience.

goals.[2] According to FETC guidelines for its performance management processes, the performance elements and standards in each employee's formal performance appraisal were to support the organization's strategic plan. The ratings factors used in 360-degree feedback largely paralleled these performance elements and standards; this allowed the 360-degree feedback results to be used in developing formal performance ratings and for drawing distinctions among performers.

Under the 360-degree feedback system, each employee was to be rated by the six to eight members of a group consisting of his or her supervisor, subordinates (where applicable), peers, and internal customers. The employee and his or her supervisor would agree to the membership of this group at the beginning of the year. Each member of the group was to assign scores to the employee's performance on a 360-degree survey form, using an ascending scale of 0 to 10. In addition, the scorers could provide comments on the employee's performance. The 360-degree survey listed a series of factors and subfactors on which to score the employee; these corresponded directly with the performance elements appearing in the employee's formal performance appraisal. The scores were to be averaged and the scorers' comments were to be consolidated using software customized for that purpose. The supervisor was to use this information in developing the employee's formal rating, discussing with the employee areas for performance improvement and recommending individual performance awards. In addition, when giving the formal rating to the employee, the supervisor was to provide the results of the 360-degree feedback. Each employee was to receive a written report that included both the aggregate results and the individual scorers' inputs, but without the scorers' identities.

When FETC introduced the new system, the scoring factors on employees' 360-degree survey forms and the performance elements in their formal performance appraisals emphasized the competencies and behaviors considered necessary to support team efforts to meet FETC's strategic goals, rather than measurable employee performance objectives. For example, in 1994, the strategic plan for the Morgantown facility's Technical Energy/Environmental and Management Services (TEAMS) business sector included the goal to "Develop a fully acknowledged, internally and externally supported TEAMS business… structured to serve a variety of customers." TEAMS employees' 360-degree survey forms included the

[2]The approach applied to all employees except its five senior executives, who were under the governmentwide Senior Executive Service (SES) performance management system. However, the five senior executives were to participate as raters and/or reviewers under FETC's performance management approach.

scoring factor, “Customer Service and Product Delivery,” that aligned with this strategic plan goal. Further, members of the employees’ feedback groups were to consider such subfactors as these: “Support to Strategic Objectives—Understands his/her job in the context of METC’s Strategic Plan, and performs the job consistent with… those plans” and “Customer Focus—Identifies customers, understands their needs and focuses own and team’s work on delighting the customer through on-time delivery of quality services and products.”

Under the two-level rating approach, employees were to receive a formal rating of either “meets or exceeds expectations” or “fails to meet expectations.” According to FETC officials, the two-level ratings scale unlinked individual performance awards from formal performance standards and ratings, while still meeting the requirements of Office of Personnel Management (OPM) performance management regulations. Rather than using formal ratings either to draw distinctions among employees who met or exceeded expectations or to determine individual performance awards, FETC used the scores that employees received on their 360-degree feedback surveys. The annual performance rating of “meets or exceeds expectations” was the determining factor in retaining or separating an employee.

According to an FETC human resources official involved in the process, FETC used the two-level rating approach because it would counter the “grade [ratings] creep” that, when FETC had used a five-level scale, had led to over 90 percent of employees being rated in the top two categories. It would also help FETC avoid the labeling of employees (e.g., “successful” or “highly successful”) that had occurred using both the five-level scale and the three-level scale that FETC had adopted as an alternative. The official said that FETC expected the two-level ratings to help eliminate barriers to communications during performance reviews. Supervisors, it was felt, could spend less time defending the ratings they had assigned, while employees would find it easier to accept and make use of feedback that was provided by their peers and customers through the 360-degree process. The official added her view that for a two-level formal rating scale to work, a separate approach, such as the 360-degree feedback system, must exist for determining distinctions among performers who meet or exceed expectations and for creating the kind of feedback that employees are likely to use to improve their performance.

In addition to the performance awards available to individual employees, FETC developed a team awards approach, under which teams could nominate themselves for awards. A Group Awards Committee (GAC) was created to determine criteria for group awards, review nominations, and recommend to the director which teams should receive them. The GAC would also recommend the form (cash or noncash) of awards and, in the case of cash awards, the amount. In 1995, the highest cash awards for members of teams in the highest award category was $900.

According to FETC officials, the intent of the group awards approach was to recognize teams and groups who had worked together to achieve accomplishments consistent with FETC's strategic plan. The group awards were another means of reinforcing the team approach to achieving FETC's mission. The reason for having teams nominate themselves was to encourage teams or groups to review their accomplishments at least yearly, and to apply the awards criteria to their own performance. The criteria, such as "value of the result" to the center and "customer satisfaction," were designed to be supportive of organizational goals.

According to FETC's chief engineer, the agency has not evaluated its team-based performance management approach. He said that because the Morgantown facility had not previously measured team performance, the basis did not exist for comparing current and past productivity. However, it was his view that 360-degree feedback and team building (including the use of team awards) led to better performance by improving workplace communications and idea sharing and by creating a greater awareness among employees of their personal strengths and weaknesses.

According to officials in FETC's human resources division, the 360-degree feedback approach needed refinement, especially to make the scoring of employees by their peers more consistent and equitable. The division director said that when the Morgantown and Pittsburgh facilities were merged organizationally into FETC, the staff at the two sites rated employees very differently. He attributed the variation to the different amounts of experience Morgantown and Pittsburgh employees had gained in using the 360-degree approach. He believed that, to make the system more consistent in its application and to make the scoring less subjective, FETC needed to better define the rating factors used in the 360-degree survey form and, where feasible, include measurable performance goals. The inclusion of measurable performance goals, another human resources official said, was something FETC expected to begin pilot testing beginning in fiscal year 1998.

The same human resources official told us that the inclusion of measurable performance goals in employees' 360-degree survey forms and in their formal performance appraisals was intended to emphasize employees' contributions to their teams as well as to measure their individual job performance. The official said that including measurable goals would allow for performance expectations that were more explicitly aligned with the agency's annual performance plans and that would provide for greater individual accountability. In addition, measurable performance goals, as opposed to such scoring factors as organizational values and interpersonal skills, would allow FETC to better track individual and team performance against organizational goals and to base individual awards specifically on job performance.

Case Study: The National Oceanic and Atmospheric Administration: Securing SES Commitment to Strategic Planning

The National Oceanic and Atmospheric Administration (NOAA) is a Department of Commerce agency whose mission is to describe and predict changes in the earth's environment as well as to conserve and manage the nation's coastal and marine resources to ensure sustainable economic opportunities. NOAA has five major components (the National Weather Service; the National Environmental Satellite, Data, and Information Service; the National Marine Fisheries Service; the National Ocean Service; and the Office of Oceanic and Atmospheric Research) and an extensive nationwide field structure. NOAA is headed by an administrator who also holds the title of Undersecretary of Commerce for Oceans and Atmosphere. At the time of our review, NOAA had approximately 12,200 employees, of whom about 120 were Senior Executive Service (SES) members.

In 1993, according to the Counselor to the Administrator, NOAA's new leadership concluded that NOAA lacked a systematic means of establishing its goals and evaluating its budgetary needs and therefore introduced agencywide strategic planning. She said that agencywide strategic planning was intended to help create an agencywide framework for decisionmaking, emphasize long-term rather than short-term planning, and allow agency policy to drive the agency's budget rather than vice versa. She said, further, that agencywide strategic planning was a significant change for an agency that had traditionally been managed via "stovepipes" to its component organizations and whose senior managers were not accustomed to considering their own plans in the context of the agency's overall mission and goals. She said that, for agencywide strategic planning to work, NOAA's leadership felt it was crucial that these senior managers buy into the process. One way NOAA tried to gain their participation was by involving them in the planning; another way was to make support for agencywide strategic planning a critical element of the senior executives' performance plans.

At the time of our review, NOAA's planning cycle included (1) a 10-year strategic plan updated periodically; (2) a 5-year implementation plan that identified the strategies NOAA would follow to accomplish its strategic goals; (3) 1-year operating plans for the agency and its component organizations, defining the year's specific performance goals; and (4) an evaluation of the agency's and each of its components' progress toward achieving its annual performance goals. The 5-year implementation plan was to be updated annually and drive the agencywide budget submission for the following year.

In 1994, NOAA identified a set of seven agencywide strategic goals. For each goal, NOAA established a cross-functional strategic planning team whose members were drawn from all the agency's line offices. The purpose of the teams was to develop integrated strategies for accomplishing the agency's goals. According to the director of human resources, about 90 percent of the agency's senior executives were involved in these teams, either directly or by providing staff from their organizations. NOAA's first strategic plan, developed in 1994, was the work of the strategic planning teams.

NOAA's seven agencywide goals were not structured along organizational lines; nor did all of them apply to all of NOAA's components. But each NOAA component was to produce an annual operating plan describing its strategy for accomplishing the agencywide goals for which it did have responsibility. NOAA made overall "strategic plan support" a critical element in its senior executives' performance plans, generally assigning it a weight of 30 percent in their performance ratings. In addition, NOAA created an explicit alignment between senior executives' performance and their organizational goals by making them directly accountable for the goals included in their organizations' annual operating plans. The Counselor to the Administrator said that, as NOAA evaluated the progress made on organizational and agencywide goals as part of its annual planning cycle, this alignment allowed the agency simultaneously to monitor program performance and individual managers' performance.

At the end of the ratings year, senior executives were to prepare self-assessments based on their accomplishment of their annual goals. In addition, the senior executives' superiors would assign them ratings on a five-level scale.[1] The self-assessments and the ratings would then be forwarded to NOAA's Performance Review Board for review and disposition. This process did not change with the advent of agencywide strategic planning. However, the formula for allocating SES performance bonus funds eventually did change to some extent. SES performance bonus funds had been calculated at approximately 3 percent of total SES payroll; the agency decided in 1997 to withhold 10 percent of this 3 percent for disbursement by the administrator to senior executives who had contributed the most to NOAA's strategic goals. In fiscal year 1996, 41 NOAA senior executives received performance bonuses ranging from 5 percent of salary to $11,217, and 11 received executive salary increases.

[1]Other NOAA employees were to be rated using two-level approaches.

NOAA officials told us that another way in which senior executives were held accountable for performance was through quarterly reviews. Agency officials told us these reviews were full-day events at which the heads of the five NOAA component organizations and other NOAA managers briefed the administrator and other top agency leaders on the progress made under their yearly operating plans. NOAA officials said that if goals or milestones were not being met, the responsible managers were expected to explain why this occurred and how they intended to meet them.

At the time of our review, NOAA officials said, there was a clear alignment between SES, organizational, and agency goals. No requirement had been imposed to ensure that this alignment existed for staff below the SES level. According to the Counselor to the Administrator, NOAA's leadership wanted to see how well the practice was working at the SES level before extending it to others. She said that NOAA planned eventually to include strategic planning goals in the performance plans of GS-15 and GS-14 office directors. She added that it would be a challenge to instill an awareness at all levels of the organization of how employees' individual efforts contribute to the agency's strategic goals.

One NOAA manager we spoke with echoed this concern. He said that although he felt it was implicitly understood that senior executives should cascade strategic planning goals down to the performance plans of lower level staff, he said it was not clear to managers how to translate the agency's strategic goals into individual employees' performance expectations.

NOAA officials said that in an effort to make employees more aware of the relationship between their jobs and the agency's goals, a segment on agencywide strategic planning was included in the supervisory training given new supervisors. Further, the officials said that when senior managers visit NOAA's field offices, they hold forums with the staff at which they discuss the agency's strategic goals. In addition, as part of their career development, some NOAA staff members have been detailed to the strategic planning office for periods of 1 year to 18 months to become familiar with the strategic planning process.

The SES officials we spoke with at NOAA said that their involvement in agencywide strategic planning helped them understand how their individual goals and measures fit into NOAA's institutional goals and the goals of other NOAA component organizations. One senior executive said that the quarterly review process increased accountability; now, he said, goal setting must be well thought out, and priority-setting had gained new importance. The Counselor to the Administrator said that NOAA's component organizations now have common goals, resulting in a more cogent understanding of the agency's mission and integrated strategies for accomplishing it. Moreover, she said that strategic planning had helped NOAA articulate and justify why it should stay intact as an agency and that it had brought more rigor to planning and budgeting. She cautioned, however, that NOAA was still learning the strategic planning process; that its goals and measures needed to be periodically reevaluated, particularly to make them more outcome-oriented; and that achieving the change in organizational culture required for successful strategic planning remained a challenge. NOAA's director of human resources agreed, saying that "the stovepipes are breaking down," but that there was still a way to go.

Case Study: The Small Business Administration and Goal Setting for District Directors

The Small Business Administration (SBA) administers loans and other programs that annually provide approximately $10 billion in small business financing. In fiscal year 1997, SBA had about 2,900 regularly funded full-time employees. SBA is organized into 15 headquarters program offices, each headed by a program manager; 10 regional offices, each headed by a Schedule-C regional administrator; and 69 district offices, each headed by a district director. The majority of district directors are GM-15s; a small portion are SES members.

In a March 1994 memo to SBA managers and district directors, SBA's administrator announced that he had signed a performance agreement with the President identifying four policy goals that would become the basis for agencywide performance plans (which he referred to alternatively as business plans). At the same time, the administrator announced that SBA had become a Results Act pilot project and that his intent was to make SBA a results-oriented agency, one run in a manner similar to that of successful businesses.

The administrator sought to emphasize SBA's client services, especially those involving capital lending to what were identified as underserved segments of the small business community, such as minorities, women, and veterans. The administrator stated that SBA's district offices were "the primary vehicle for the Agency to achieve its mission." Accordingly, he made the district offices the focus of agency performance, signing performance agreements with the district directors through which each of them would be held accountable for accomplishing a specific share of the agency's capital lending goals.[1] In addition, the Administrator established (1) a system for monitoring the district offices' performance, (2) peer review panels so that recommendations on district managers' ratings and performance bonuses would be made by their peers, and (3) a performance bonus pool for the district directors so that performance could be linked to compensation.

When goal setting for the district offices began in 1994, district office lending goals were negotiated by SBA's administrator, deputy administrator, and the district directors. SBA's agencywide lending goals for fiscal years 1994 and 1995 were derived by totaling the lending goals negotiated between the administrator and the district directors.

[1]An SBA official told us that the administrator signed performance agreements with 12 headquarters managers as well but that district directors were the only SBA officials for whom programmatic goals tied to the agency's business plan were systematically included in performance appraisals.

Beginning in fiscal year 1996, under SBA's next administrator, goal setting became a more top-down process. Yearly goals for the district offices were to be developed by SBA's Office of Field Operations, using a model based on market size, historical lending data, expected market penetration rates, and other factors. The district directors were to be given these goals on yearly goal sheets distributed by Office of Field Operations. The goal sheets reflected another change that took place in fiscal year 1996: an expansion in the kinds of goals for which targets were assigned. Goals now fell into three main categories: program goals, management goals, and internal control. Program goals continued to focus on capital lending (particularly to underserved segments of the small business community) and other financing activities, such as portfolio management and surety bond guarantees. Management goals focused on SBA's public outreach and small business technical assistance programs, some of which involved partnering with other service organizations. An SBA official explained that the management goals were less directly targeted at measurable accomplishments than the program goals, and were established to provide a kind of "health index" of the district offices. Internal control covered functions such as (1) annually reviewing small businesses participating in SBA's Minority Enterprise Program to ensure their compliance with applicable laws, regulations, and SBA operating procedures or (2) monitoring the Small Business Development Program to maintain financial integrity by ensuring that objectives, costs, and program implementation complied with applicable laws and regulations.

To track the performance of the district offices, SBA developed an on-line District Office Goal Monitoring System. Using this system, district directors and their employees could check the current status of their offices' capital lending performance against the year's goals. They could also check other district offices' performance. The information was to be updated each weekend and available to SBA employees each Monday morning. According to the supervisory field operations analyst who maintains the Goal Monitoring System, it has not only provided performance data for SBA management but has proven to be a motivator for district office staffs. Two of the three district directors we spoke with concurred, one saying that the performance figures posted on the wall each Monday morning were his staff's "biggest motivator."

Besides the inclusion of quantitative goals in the district directors' performance expectations, another change, affecting non-SES district directors only, was the way in which their ratings and bonus determinations were made. During fiscal year 1995, the administrator established a peer review board consisting of five non-SES district directors and two non-voting members (the Assistant Administrators for Human Resources and Equal Opportunity and Civil Rights Compliance).[2] The board was to review the non-SES district directors' initial ratings as prepared by the regional administrators, along with statements submitted by the non-SES district directors comparing their accomplishments against their performance expectations. The board would then recommend to the Associate Administrator for Field Operations the district directors' final ratings and performance bonuses.

In fiscal year 1996, under the new SBA Administrator, the peer review board system was discontinued. Since then, the regional administrators have submitted district directors' ratings and performance bonus recommendations directly to the Associate Administrator for Field Operations, as they did prior to fiscal year 1995.

In 1994, along with the new emphasis placed on district directors' performance, the Administrator created a new performance bonus pool for non-SES district directors. Similar to the pool already in place for SES members, the bonus pool for non-SES district directors was limited to 2 percent of the non-SES district directors' payroll as of the end of the fiscal year. No more than 60 percent of the non-SES district directors could receive bonuses in the same year. SBA officials told us that the size of district directors' bonuses was dependent on their annual performance ratings, which used an ascending five-level rating scale. A district director with a summary rating of 5 (outstanding) could receive a performance bonus of as much as $5,000; one with a summary rating of 4 (exceeds fully successful) could receive as much as $3,500. SBA's Assistant Administrator for Human Resources said that district directors who received a summary rating of 3 (fully successful) could get a bonus, but that this did not happen often because not enough money was available to do so. The bonus pool for non-SES district directors was still being used at SBA during fiscal year 1997.

SBA officials said that district directors are rated and rewarded on how well their district offices have performed against the year's goals.[3] The officials reported that in fiscal year 1995, the first year in which district directors had capital lending goals for underserved segments of the small

[2]An alternate board reviewed the performance appraisals of the five district directors who were on the primary board.

[3]In addition, other management-related issues were considered in performance appraisals, such as budget, personnel/human resources, equal employment opportunity, and information resources management.

business community included in their performance plans, lending to all such categories increased over the previous year. For example, loans to minority-owned businesses increased by 53.2 percent, to women-owned businesses by 85.6 percent, and to veteran-owned businesses by 42.9 percent.

The three district directors we spoke with said that having specific goals in their performance plans made them feel accountable for their performance. One district director said that with specific goals in mind, the staff now works harder to generate demand for SBA services and provide technical assistance to customers.

According to the Assistant Administrator for Human Resources, SBA requires district directors to cascade the goals they are assigned down to their staffs' individual performance appraisals whenever possible. The assistant administrator said that a recent check by the Office of Human Resources showed that the practice of cascading district office goals down to the staff's performance appraisals was not widespread. The three district directors we spoke with varied in their approaches to doing so. For example, one district director structured his office into teams and divided the district office goals among the teams; another cascaded the district office goals down to managers only—that is, employees at the GS-13 level and above. All three district directors we spoke with made use of spot cash awards to the staff. Because of SBA's new focus on performance by the district offices, the formula for distributing funds for spot cash awards among SBA offices was changed to make more money available in the field.

SBA officials said they expected the practice of aligning the district directors' goals with those of the agency to continue and that the practice would eventually be expanded to include other senior managers as well. A new administrator—SBA's third since 1994—joined the agency in February 1997. In the administrator's comments on GAO's review of SBA's March 1997 draft strategic plan, she stated that she intended "to begin a process where the managers have a significant hand in refining the goals, strategies, and performance measures. SBA will link performance appraisals with performance against the goals in the annual business plan."[4]

SBA officials said the new administrator brought with her a new vision for the agency, part of which was to transform SBA from direct service

[4] SBA's Draft Strategic Plan (GAO/RCED-97-205R, July 11, 1997).

provider to lender/overseer. The officials said this change would require that the agency's goals be refined and that it would be a challenge to translate the new administrator's vision for SBA into measurable outcomes that could be included in SBA managers' performance plans. However, SBA's chief of staff said that the new administrator was committed to making SBA managers accountable for results, and that output measures served a useful purpose in that regard.

Case Study: VA's New York Regional Office and Its "Scorecard" Driven, Team-Based Approach to Performance Management

Located in New York City, the New York Regional Office (NYRO) of the Department of Veterans Affairs (VA) serves veterans and their families in eastern New York, New York City, and Long Island, by processing their claims for disability payments and other veterans' benefits. NYRO receives about 500,000 telephone calls and 35,000 visits from veterans and their families each year. NYRO has about 270 employees, of whom about 180 are in the Veterans Benefits and Services Division—the focus of the Results Act pilot that ran from 1993 to 1996.

During the early 1990s, VA encouraged its regional offices to do more to overcome slow claims processing and poor service to veterans and their families. At that time, NYRO was processing claims in assembly-line fashion, with each claim undergoing 20 to 30 specific steps involving 12 or more different clerks, adjudicators, and ratings specialists. NYRO decided to replace this claims process with one that would incorporate TQM principles, and that would allow employees to take on wider responsibilities in claims processing and to work in self-directed work teams.[1] Under the new process, a group as small as three employees—one case technician and two case managers—would process an individual benefit claim from start to finish.

The Veterans Benefits and Services Division was restructured into four core groups, each comprising four work teams. Through reclassification, at least 10 previously existing positions—clerical, professional, and supervisory—were combined to create three new positions: case technicians (GS-3 through GS-5), case managers (GS-5 through GS-12), and coaches (GS-11 through 13). The new NYRO work teams generally consisted of four case technicians, seven case managers, and a coach. Case technicians performed duties that previously had been assigned to four different clerks, while case managers adjudicated claims and interacted with claimants by phone or in person, thereby performing duties that previously had been assigned to four other positions. Coaches, in keeping with TQM practice, focused more on coaching the team than on supervision, but performed some conventional supervisory duties as well, such as preparing formal performance evaluations.

With the adoption of its new team structure and work processes, NYRO retired its previous performance measures—timeliness, quality, and

[1]For discussions of NYRO's self-directed work teams, see Veterans' Benefits: Status of Claims Processing Initiative in VA's New York Regional Office (GAO/HEHS-94-183BR, June 17, 1994) and Management Reform: Status of Agency Reinvention Lab Efforts (GAO/GGD-96-69, Mar. 20, 1996). VA's claims processing is also discussed in Veterans' Benefits: Better Assessments Needed to Guide Claims Processing Improvements (GAO/HEHS-95-25, Jan. 13, 1995).

productivity—as obsolete. After some study of private sector performance measures, NYRO implemented the "balanced scorecard," a system of performance measurement intended to provide a balanced picture of the results it was achieving and to balance the needs and expectations of its stakeholders. NYRO officials said the five balanced scorecard measures—speed, accuracy, cost, customer satisfaction, and employee development—have been incorporated into NYRO's performance management at the division, core group, and team levels, and are used to focus the staff on organizational goals.

According to NYRO, the balanced scorecard measures, while not included in individual employees' performance expectations, nonetheless drive NYRO's employee performance management approach. Although strategic goals and performance measures are established at the organizational level, officials said, it is at the team level that organizational performance measures are brought into each employee's "line of sight." Using balanced scorecard measures, teams are assigned annual performance targets that are aligned with NYRO's strategic goals. Each team's progress toward these targets is closely tracked. Through peer assessment, each employee is given feedback on the employee's contribution to the team's performance. At the end of the year, the team's performance determines the amount of money that is made available to reward team members.

According to NYRO, each of the five balanced scorecard measures—speed, accuracy, cost, customer satisfaction, and employee development—can include submeasures that are established each year. In fiscal year 1996, for example, "speed" included such submeasures as the average number of days taken to complete a claim, the average number of days unprocessed claims were pending, and the number of pending claims that were more than 6 months old. For a given measure, a team would receive an overall score based on its performance on all the submeasures. According to NYRO, the submeasures are aligned with measurable objectives and broader strategic goals identified in NYRO's annual Quality Plan. For example, in fiscal year 1996, the submeasure involving the number of pending claims that were more than 6 months old was used to support the organizational objective to "reduce C&P [compensation and pension] cases [pending] over six months to 1000," which was itself a supporting objective under the strategic goal to "improve customer service."

Each year, according to the NYRO assistant director, NYRO managers work with the teams to set expectations regarding the five balanced scorecard measures. A team's total possible score on the balanced scorecard is 100; its actual score is calculated by aggregating, on a weighted basis, its scores for speed, cost, customer satisfaction, and employee development. Customer satisfaction carries a possible 28 points; speed, cost, and employee development each carries a possible 24 points. Accuracy is considered a threshold issue; a team cannot earn points on the other balanced scorecard measures unless it conducts accuracy reviews of its claims processing.

According to NYRO, the progress that teams make toward their annual performance targets is monitored monthly using balanced scorecard assessments. The teams' scores are aggregated to produce semiannual scores for the core groups and the division. NYRO officials said that the balanced scorecard is the primary means of helping to ensure that all employees, from team members through agency managers, are meeting performance targets critical to NYRO's strategic goals and objectives. At the team level, the officials said, employees were to meet weekly to discuss the team's progress; they were to review its balanced scorecard performance each month. At these meetings, employees could use data gathered in a variety of ways to help assess team performance. For example, each team would receive information on customer satisfaction from a monthly, contractor-conducted telephone survey of customers and would receive data on the speed of its claims processing from NYRO's computerized information system.

According to the human resources manager, each team member's contribution to the team's performance is assessed yearly by the other team members. Since 1994, NYRO has tested two approaches to providing feedback via peer assessment. One approach was tested in 1994, 1995, and 1997. Under this approach, each team was to hold a year-end meeting at which the members shared observations—both positive and negative—about each others' contributions.

Another, more structured, approach was tested in 1996 and is in use again in 1998. Under this approach, team members are to score each other on five criteria, using an ascending scale of 1 to 5, and provide written comments to support their scores. The five peer assessment criteria are not identical to the five balanced scorecard measures used at the division, core group, and team levels. NYRO said the difference reflected a move away from having individual performance standards that focus on individual productivity and toward having individual performance standards that focus on the employee's contribution to the team in meeting its organizational outcome measures. Accordingly, the five criteria used in peer assessment at NYRO are output, customer service, reliability, team support, and accuracy. A software application is used to consolidate the peer assessment scores and the written comments relating to each team member, and then the coach is to discuss the results with team members individually.

Officials at NYRO said that the main purpose of peer assessment is to identify the areas in which employees can improve their individual performance and thereby contribute more effectively to the performance of the team. If an employee's peers indicate, through their scoring and comments, that the employee is not contributing sufficiently to the accomplishment of the team's performance goals, then the coach is to assess the situation to determine if a problem exists. The coach and NYRO management are then to decide what further action may be appropriate, such as counseling or an individual performance improvement plan. According to NYRO's assistant director, employees have demonstrated their willingness to use the peer assessment tool to provide credible feedback to each other and to provide managers with a team perspective on individual members' contributions; during 1996, for example, 34 (18 percent) of the 186 team members who participated in peer assessment were flagged by their teams as needing improvement.

According to the assistant director, peer assessments, at this time, do not directly determine the formal performance ratings that coaches prepare for the team members. Rather, coaches are to prepare formal performance ratings based on the information gathered, plus their own understanding of each employee's performance. Team coaches themselves are scored by their team members, but the coaches' formal performance ratings are prepared by the division leadership, using observations on the coaches' performance drawn not only from their team members but from other NYRO associates of theirs who have knowledge of their performance.

During the period covered by the pilot project, employee performance ratings at NYRO had five levels, ranging from "unacceptable" to "outstanding." Beginning in fiscal year 1998, NYRO adopted a two-level approach ("unacceptable" and "successful"), in conformance with new VA policy. With the exception of the NYRO director, who is a member of the SES and therefore subject to a different system, all NYRO employees are to be rated using the two-level system.

Performance was tied to compensation at NYRO through a team-based approach that NYRO called "variable pay." Traditionally, NYRO said, the organization had rewarded employees for individual performance based on standards identified for individual positions. In contrast, the new system used awards at the core group level to reinforce the importance of working together and achieving organizational goals. NYRO officials said that the variable pay system included three methods of distributing annual cash awards. First, management awarded each of the four core groups an amount that was based primarily on the group's overall scorecard performance. The amount going to each core group was to be divided among the members of the four teams in the core group. In fiscal year 1996, team members in the highest-rated core group each received $400. Second, the four coaches in each core group were given $1,000 to allocate among the core group employees whom they agreed had contributed the most during the year, either to team performance or to various core group efforts. Third, each team was given $1,000 to be allocated among the team members, without input from the coach. NYRO officials said that some teams divided the money equally among their members, while others allocated the money among individual members on the basis of their contributions to the team. Employees who were under a performance improvement plan, or who had to address fundamental behavioral issues, or against whom a disciplinary action had been taken during the year, were not allowed to receive cash awards, except awards that were decided upon by team members under the last approach.

According to the NYRO assistant director, performance on some of NYRO's organizational measures, such as the number of cases pending and the scores received on customer satisfaction surveys, have improved in recent years. She cautioned, however, that although these are encouraging signs, the extent to which they can be directly attributed to NYRO's performance management efforts, such as the balanced scorecard, peer assessment, and variable pay, has not been formally evaluated. She noted that other factors have influenced productivity, such as hiring freezes (the NYRO staff was reduced from about 380 to about 270), government shutdowns, and the fact that many employees must be diverted from their work in order to be trained in the skills they need to manage the new claims process. The assistant director added that NYRO continues to refine its performance management approaches. Peer assessment, for example, may be adapted to more directly determine formal ratings, and may eventually be used to remove poor performers. In addition, the assistant director said, NYRO has been testing a variety of 360-degree feedback for its upper- and mid-level managers and team coaches; thus far, it has been used only as a development tool, but managers and coaches are expected to act upon the areas for improvement identified through the process.

In November 1996, OPM announced a proposed "VA Pay for Applied Skills Demonstration Project" covering NYRO and VA's Detroit Regional Office.[2] The proposal expands upon the human resource management (HRM) practices NYRO was developing during the Results Act pilot project phase—retaining, for example, the balanced scorecard, peer assessment, and variable pay—while describing a variety of HRM flexibilities to support mission accomplishment. Among other features, the proposal includes a compensation system that would use "skill blocks" for defining employees' technical and interpersonal skills. The compensation system would also include a skills-based approach to base pay for employees now covered under the GS system in grades GS-3 through GS-13. Employees would advance through three ranges of base pay corresponding with levels of skill blocks—fundamental, proficient, and expert—as they acquired and demonstrated the successful application of these skills. Variable pay would continue to be based on core group and organizational performance but could eventually include "goalsharing," which would fund variable pay according to a formula based on the savings produced and the goals achieved by the organization.

[2] Federal Register, Vol. 61, No. 223, Nov. 19, 1996, pp. 58942-58956.

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