

# **Pay for Performance**

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## **The Experiences of OPM's Personnel Demonstration Projects**

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## Key Practice— Link Pay to Performance

- Congress has taken steps to implement results-oriented pay reform.
  - DOD and DHS received flexibilities to design performance management systems and consider different approaches to pay.
- Over the past 25 years, federal agencies have been experimenting with pay for performance through OPM's personnel demonstration projects.
- What approaches did OPM's personnel demonstration projects take to implement their pay for performance systems?

# Scope

- The demonstration projects that we studied include:
  1. Navy Demonstration Project at China Lake (China Lake),
  2. National Institute of Standards and Technology (NIST),
  3. Department of Commerce (DOC),
  4. Naval Research Laboratory (NRL),
  5. Naval Sea Systems Command Warfare Centers (NAVSEA) at Dahlgren and Newport, and
  6. Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo).

# Approaches in Design and Implementation

- Using competencies to evaluate employee performance
- Translating performance ratings into pay increases and awards
- Considering employees' current salaries in making performance-based pay decisions
- Managing costs of the pay for performance system
- Providing information to employees about the results of performance appraisal and pay decisions

# 1. Using competencies to evaluate employee performance

- Competencies define the skills and supporting behaviors that individuals are expected to demonstrate and can provide a fuller picture of an individual's performance.
- The demonstration projects either applied
  - organizationwide competences or
  - individual position-based competencies.
- Core competencies applied organizationwide can help reinforce employee behaviors and actions that support the organization's mission, goals, and values and can provide a consistent message to employees about how they are expected to achieve results.

## Competencies (cont'd)

- AcqDemo evaluates employee performance against one set of “factors,” which are applied to all employees in the project:
  - problem solving
  - teamwork/cooperation
  - customer relations
  - leadership/supervision
  - communication
  - resource management
- China Lake, NIST, and DOC determine competencies based primarily on the individual position.

## 2. Translating performance ratings into pay increases and awards

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- Leading organizations seek to
    - create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results and
    - make meaningful distinctions between acceptable and outstanding performance of individuals and appropriately reward those who perform at the highest level.
  - While the demonstration projects made some distinctions among employees' performance, the data and experience to date show that making such meaningful distinctions remains a work in progress.
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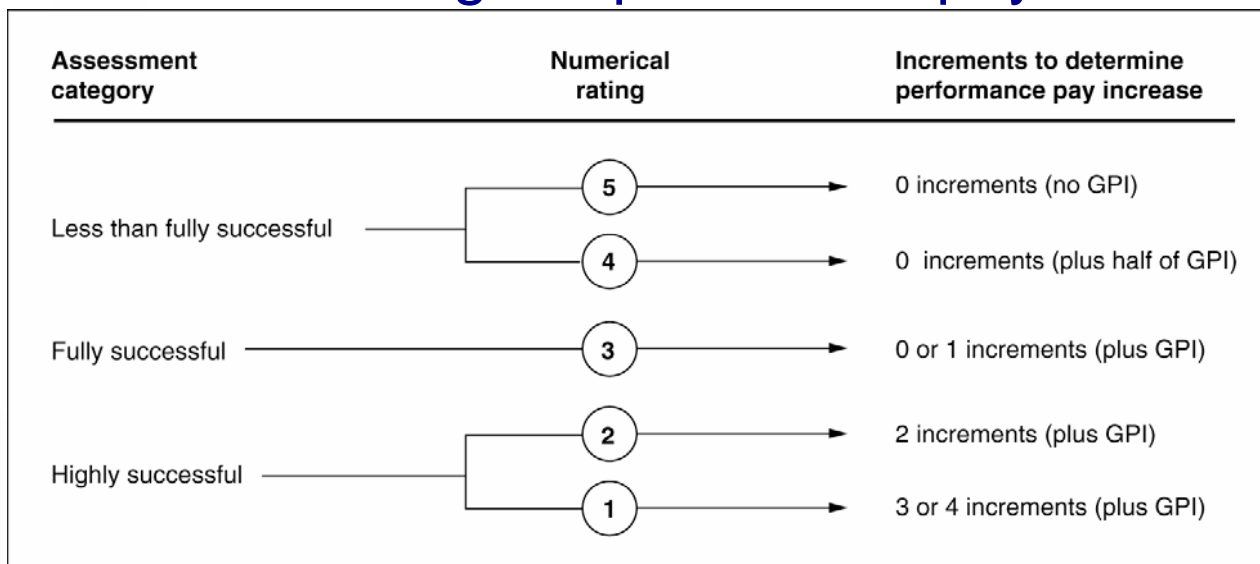
## Translating performance ratings (cont'd)

- The demonstration projects took different approaches in translating performance ratings into permanent pay increases, one-time awards, or both. They
  - established predetermined pay increases depending on a given performance rating
  - delegated the flexibility to individual pay pools to determine how ratings translate into pay increases, awards, or both.



## Translating performance ratings – pre-determined pay increases (cont'd)

- China Lake's assessment categories translate directly to a predetermined range of permanent pay increases:



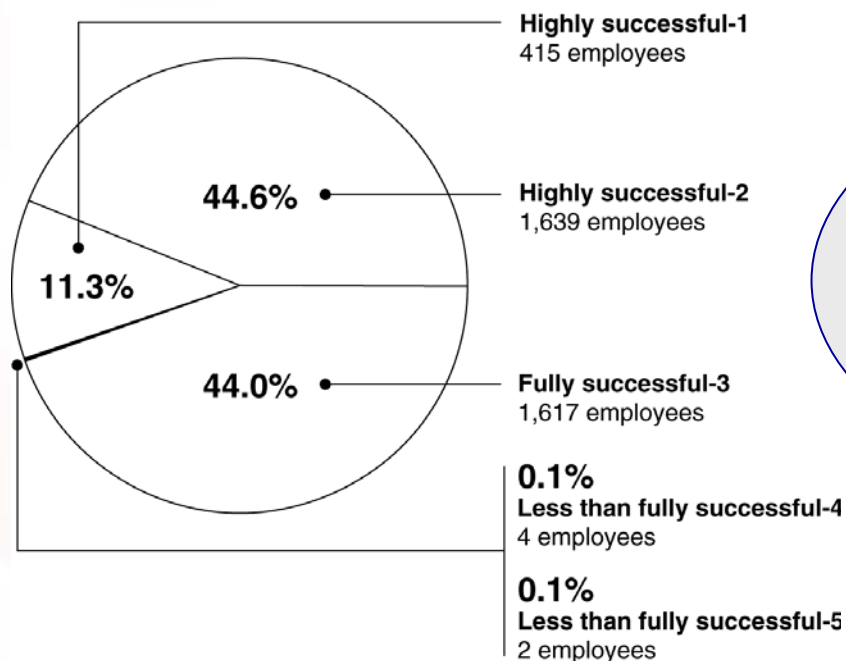
Source: GAO analysis of DOD data.

Note: An increment is a permanent pay increase of about 1.5 percent of an employee's base salary

Note: GPI is the annual general pay increase

# Translating performance ratings – pre-determined pay increases (cont'd)

- China Lake made some distinctions in performance across employees' ratings in its 2002 rating cycle.



Source: GAO analysis of DOD data.

As a point of comparison, in 2002, about 48 percent of GS employees across the executive branch under a similar five-level rating system were rated in the highest category and less than 1 percent were rated as less than fully successful.

## Translating performance ratings – delegated pay decisions (cont'd)

- At DOC, pay pool managers have the flexibility to determine the amount of the pay increase, award, or both for each performance score.
- Supervisors are to evaluate employees on a range of performance elements on a scale of 0 to 100. Employees with scores
  - less than 40 are to be rated as “unsatisfactory” and are not eligible to receive pay increases or awards, including the GPI and the locality pay adjustment
  - over 40 are to receive the full GPI and locality pay adjustment; and are eligible for a performance pay increase, award, or both. The amount of the pay increase and/or award are determined by pay pool managers.
- Analysis of DOC data suggests that delegating flexibility to individual pay pools to determine performance awards could explain why, across pay pools, some employees with lower scores receive larger awards than employees with higher scores.

## Translating performance ratings (cont'd)

- Our analysis also shows that in its 2002 rating cycle, DOC made few distinctions in performance in its distribution of ratings:
  - 100 percent of employees scored 40 or above and over 86 percent of employees scored 80 or above and
  - no employees were rated as unsatisfactory.

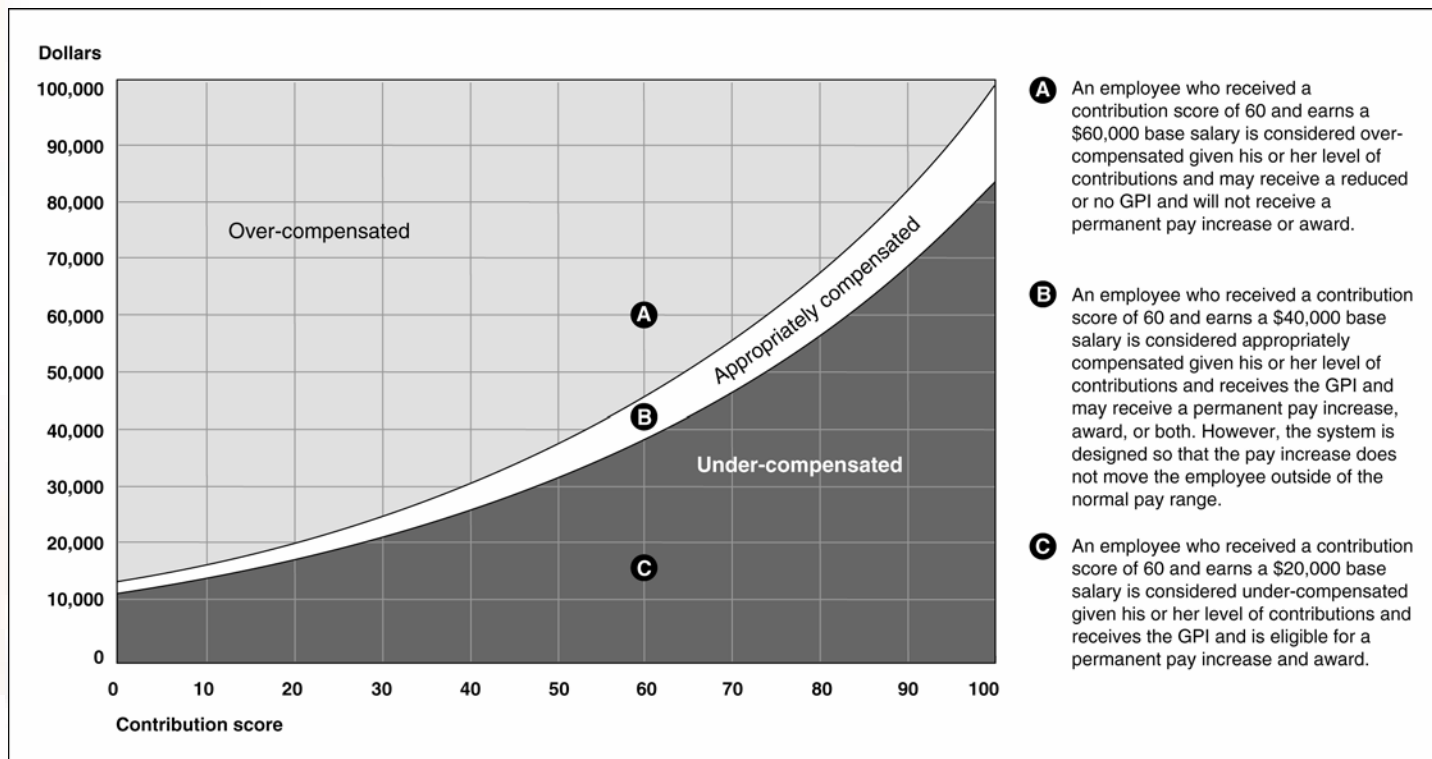
As a point of comparison, in 2002, about 99.9 percent of GS employees across the executive branch under a similar two-level rating system passed and about 0.1 percent failed.

### 3. Considering current salaries in making pay decisions

- Demonstration projects intend to make a better match between an employee's compensation and his or her contribution to the organization. Thus, two employees with comparable contributions could receive different pay increases and awards depending on their current salaries. At AcqDemo
  - Supervisors recommend and pay pool managers approve employees' "contribution scores."
  - Pay pools then plot contribution scores against the employees' current salaries and a "standard pay line" to determine given their contributions if employees are
    - "appropriately compensated,"
    - "under-compensated," or
    - "over-compensated".

# Considering current salaries (cont'd)

## AcqDemo's Consideration of Current Salary in Making Performance Pay Decisions



Source: DOD.

## Considering current salaries (cont'd)

- AcqDemo reported that it has made progress in matching employees' compensation to their contributions to the organization.
- From 1999 to 2002,
  - appropriately compensated employees increased from about 63 percent to about 72 percent,
  - under-compensated employees decreased from about 30 percent to about 27 percent, and
  - over-compensated employees decreased from nearly 7 percent to less than 2 percent.

## 4. Managing costs of the pay for performance system

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- OPM reports that the increased costs of implementing alternative personnel systems should be acknowledged up front and budgeted for.
  - Major cost drivers of implementing their pay for performance systems.
    - salaries,
    - training, and
    - automation and data systems
  - The demonstration projects used a number of approaches to manage these costs.
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## Managing Salary Costs

- Cumulative percentage increases in average salaries varied in contrast to their General Schedule (GS) comparison groups.
- After the first year, the differences between the demonstration project employees and their GS comparison group ranged from –2.9 to 2.7 percentage points.
- We were not able to determine whether total salary costs for the demonstration projects were higher or lower than their GS counterparts.

## Managing Salary Costs (cont'd)

- **Considering fiscal conditions and the labor market**
  - NAVSEA's Newport division is financed in part through a working capital fund, so it must adjust pay increase and awards budgets when necessary to remain competitive with the private sector. It also considers the labor market when determining how much to set aside for pay increases and awards.
- **Managing movement through the pay band**
  - China Lake and NAVSEA's Dahlgren division, have "speed bumps" in their pay bands to ensure that only the highest performers move into the upper half of the pay band.
- **Providing a mix of awards and performance pay increases**
  - At NAVSEA's Newport division, as employees move higher into the pay band, they are more likely to receive awards than permanent increases to base pay.

## Managing training costs

- Training was prior to implementation, as well as periodically after implementation to refresh employee familiarity with the system.
- Training was designed to help employees
  - understand competencies and performance standards
  - develop performance plans
  - become familiar with evaluation process

## Managing training costs (con't)

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- Direct costs included contractors, materials, and travel.
- Indirect costs included employee time spent developing, delivering, or attending training.
- Relying on current employees to train other employees.
  - China Lake, DOC, and NAVSEA's Dahlgren and Newport divisions, managed training costs by on the demonstration project. According to project officials, while there are still costs associated with developing and delivering in-house training, total training costs are generally reduced.

## Managing costs of data systems

- Modified existing data systems rather than designing new systems to meet their needs.
  - NAVSEA's divisions worked together to modify DOD's existing Defense Civilian Personnel Data System.
  - DOC imported the performance appraisal system developed by NIST and converted the payout system to a Web-based system.
  - NIST used in-house employees to develop a data system to automate performance ratings, scores, increases, and awards.
- Combined use of in-house employees and contractors.
  - NRL reported estimated savings of 10,500 hours of work, \$266K, and 154 reams of paper since implemented in 1999.

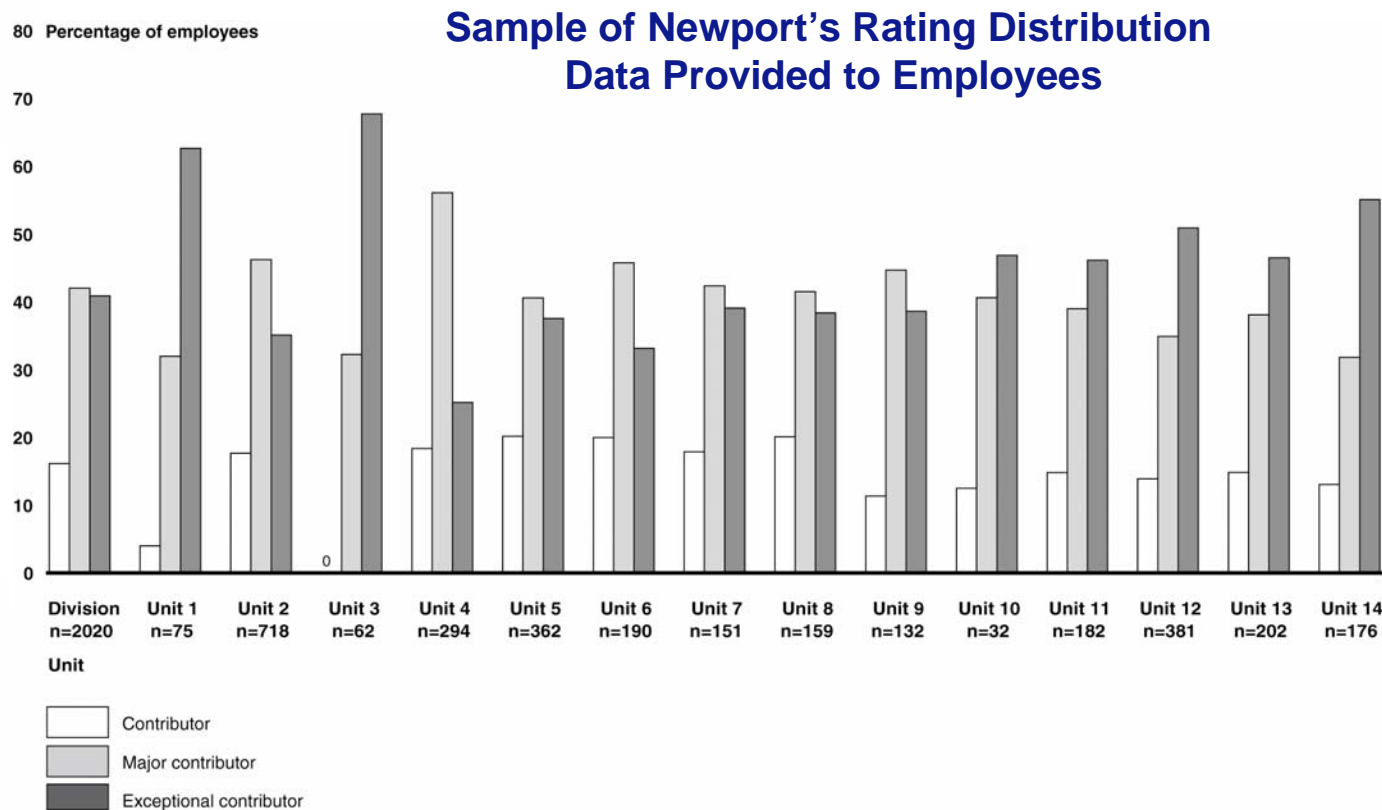
## **5. Providing information to employees about the results of performance appraisal and pay decisions**

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- A performance management system should have adequate safeguards to ensure fairness and guard against abuse.
- One such safeguard is to ensure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process.
- NIST, NAVSEA's Newport Division, NRL, and AcqDemo publish information for employees on internal Web sites about the results of performance appraisal and pay decisions, such as
  - the average performance rating,
  - the average pay increase, and
  - the average award for the organization and for each individual department.

# Providing information to employees (cont'd)

At NAVSEA's Newport division employees can compare their performance rating category against others in the same unit, other units, and the entire division,



Source: DOD.

# Concluding Observations

- We strongly support the need to expand pay for performance in the federal government.
  - How it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful.
- demonstration projects experiences can provide insights into how some organizations within the federal government are implementing pay for performance.
- They show an understanding that how to better link pay to performance is very much a work in progress at the federal level.
- Additional work is needed to strengthen efforts to ensure that performance management systems are tools to help the demonstration projects manage on a day-to-day basis.



# Concluding Observations

- There are opportunities to
  - Use organizationwide competencies to evaluate performance to reinforce behaviors and actions
  - Translate employee performance so that managers can make meaningful distinctions between top and poor performers with objective, fact-based information
  - Provide information to employees about the results of the performance appraisals and pay decisions to ensure reasonable transparency and appropriate accountability mechanisms are in place.

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**Human Capital: Implementing Pay for Performance at  
Selected Personnel Demonstration Projects  
(GAO-04-83)**