

Statement of

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before the

**United States Senate
Committee on Homeland Security and Governmental Affairs**

**Subcommittee on the Oversight of Government Management,
the Federal Workforce, and the District of Columbia**

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Chairman Akaka and Ranking Member Voinovich: thank you for the opportunity to discuss “Improving Performance: A Review of Pay-for-Performance Systems in the Federal Government.”

I am Executive Director of the IBM Center for The Business of Government. We operate as a “think tank” that connects public management research with practice. Since 1998, the IBM Center has helped public sector executives improve the effectiveness of government with practical ideas and original thinking. We sponsor independent research by top minds in academe and the nonprofit sector, and we create opportunities for dialogue on a broad range of public management topics. The Center is one of the ways that IBM seeks to advance knowledge on how to improve public sector effectiveness. The IBM Center focuses on the future of the operation and management of government.

The question of how to compensate civil servants remains a thorny issue. Public sector positions no longer necessarily offer a job for life and federal departments and agencies are increasingly in competition with the private sector to recruit and retain top performers. One solution – widely used in some parts of the private sector – is to replace or complement the traditional civil service system of automatic salary increases based on length of service with financial reward for good performance or performance-related pay. Performance-related pay refers to the variable part of pay, awarded on an individual or a team or group basis – depending on performance.

In order to gain a better understanding of the challenges and issues related to performance pay, the IBM Center has sponsored and published three research reports by several public management experts. These, as well as all of our over other 200 reports, are available at no charge on the Center website at www.businessofgovernment.org.

Pay banding

The first report, *Designing and Implementing Performance-Oriented Payband Systems*, is by James R. Thompson, Associate Professor, University of Chicago, Graduate Program in Public Administration. According to Professor Thompson, there is widespread agreement among those who have examined compensation practices in the federal government that the approach embodied by the traditional General Schedule is obsolete. A common complaint is that the system is too rigid and that the 15-grade structure induces excessive attention to minor distinctions in duties and responsibilities. Another concern is that pay increases are granted largely on the basis of longevity rather than performance.

Paybanding is not a new concept to the public sector. The essential concept is that for the purpose of salary determination, positions are placed within broad bands instead of narrow grades. The cumulative number of federal employees working within payband systems as of late 2006 was under 250,000. According to Thompson, the preponderance of data shows that these systems have achieved high levels of employee acceptance. However, the degree of success seems to vary, depending on how the systems were designed and implemented.

Thompson's report describes nine different performance-oriented payband systems that have been in operation in the federal government - in some cases for more than two decades. He makes the case that successful designs are those that: (1) achieve a balance between efficiency, equity, and employee acceptance; (2) acknowledge the importance of "soft" as well as hard design features; and (3) fit the organization's context.

Performance Management

A second IBM Center report is *Managing for Better Performance: Enhancing Federal Performance Management Practices* by Howard Risher, Consultant, and Charles H. Fay, Professor of Human Resources and Labor Relations, Rutgers University School of Management and Labor Relations. Their report reviews the history of performance management efforts within the federal government and discusses the successes, challenges, and failures over the years. In addition, the report offers insights from other performance management experiences in both public and private sector organizations. The authors describe differences between private and public sector performance management practices, as well as present a comparative analysis of corporate and non-corporate use of good management practices. Finally, the authors - with over 50 years of experience between them - offer advice on immediate and long-term steps the federal government might undertake to improve performance management practices.

The authors report that performance management is recognized worldwide as a critical success factor in helping individuals and organizations achieve their goals. When done correctly, performance management becomes a powerful and effective tool to drive individual and organizational performance. When done poorly it can create an

atmosphere of distrust between managers and employees – ultimately limiting performance and the organization’s ability to achieve its full potential.

For this reason, Risher and Fay argue that the responsibility for effective management of employee performance rests squarely on the shoulders of executives and frontline managers. They emphasize that the management of people needs to be a core responsibility of every manager. In view of this, it is critical that managers understand and effectively practice the fundamentals of performance management – planning, monitoring, developing, appraising, and rewarding employee performance.

Performance Pay

The third report is *Pay for Performance: A Guide for Federal Managers*, by Howard Risher. Risher insists that research over the years confirms that organizations benefit when they recognize and reward employee and group performance. His thought-provoking guide provides advice to federal managers involved in the planning and implementation of pay-for-performance systems. He examines arguments for and against pay for performance, reviews various approaches to pay for performance, and discusses the challenges of implementing such systems. The report provides a framework for developing and evaluating specific pay-for-performance policies and management practices. Risher concludes with a comprehensive set of recommendations for the future: building support and "ownership" for the policy change, defining goals, preparing and supporting managers in their new role, enhancing employee understanding, assessing performance management system considerations, anticipating problems, and managing incentive bonus awards and non-cash awards.

Risher explains that for the new system to succeed, managers need to be comfortable with their new role in overseeing such systems. This makes it essential for them to play a role in planning and implementation of a new system. He argues that pay for performance, including the reward system, must be an integral part of an organization’s overall strategy to create a performance culture. Further, he contends that federal agencies will have to overcome barriers of cynicism and distrust among federal employees, and that because there will be “bumps and detours,” agencies should expect to adjust their plans with experience. He concludes that in the end, the new policy can be expected to contribute to improved agency performance.

Risher warns, however, that the transition will not be easy: “This may well prove to be the most difficult change any organization has ever attempted.” But in the end, he believes it will better serve the needs of the federal government than the current General Schedule salary system.

Conclusion

The question of how to compensate public employees remains a thorny one. Performance pay is an appealing idea, but research indicates that implementation as well as improving government performance remains complex and deceptively difficult – both

technically and politically. The IBM Center plans to continue to document changes underway and provide government executives with practical insight and actionable recommendations on the transformation of government underway in the United States and around the globe.

Thank you, again, Chairman Akaka, Ranking Member Voinovich and other Members of the subcommittee for holding this important hearing and for remaining engaged on the important issue of improving the management and performance of government.