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# RESULTS-ORIENTED CULTURES

## Using Balanced Expectations to Manage Senior Executive Performance





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Highlights of GAO-02-966, a report to Subcommittees on International Security, Proliferation, and Federal Services and on Oversight of Government Management, Restructuring, and the District of Columbia, Senate Committee on Governmental Affairs

### Why GAO Did This Study

Effective performance management systems link individual performance to organizational goals. In October 2000, the Office of Personnel Management amended regulations to require agencies to link senior executive performance with organizational goals; to appraise executive performance by balancing organizational results with customer satisfaction, employee perspective, and other areas; and to use performance results as a basis for pay, awards, and other personnel decisions. Agencies were to establish these performance management systems by their 2001 senior executive performance appraisal cycles.

Because they implemented a set of balanced expectations prior to the Office of Personnel Management requirement, GAO studied the Bureau of Land Management's, Federal Highway Administration's, Internal Revenue Service's, and Veterans Benefits Administration's use of balanced expectations to manage senior executive performance in order to identify initial approaches that may be helpful to other agencies in holding senior executives accountable for results.

### What GAO Found

The agencies GAO reviewed developed an initial set of balanced expectations for senior executives to address in their individual performance plans. GAO found that these agencies are in the early stages of using a set of balanced expectations to appraise senior executive performance and there are significant opportunities to strengthen their efforts as they move forward in holding executives accountable for results. Specifically, more progress is needed in explicitly linking executive expectations for performance to organizational goals. In addition, while these agencies address partnering with customers and other stakeholders, greater emphasis should be placed in fostering the collaboration within and across organizational boundaries to achieve results. Successful organizations understand that they must often change their culture to successfully transform themselves, and such change starts with top leadership. Senior executive performance expectations to lead and facilitate change could be a critical element as agencies transform themselves. The agencies generally agreed with these conclusions, as well as the selected initial implementation approaches GAO identified, as shown below.

#### Selected Initial Implementation Approaches to Manage Senior Executive Performance that May Be Helpful to Other Agencies

**Provide Useful Data.** The agencies disaggregated data from agencywide customer and employee surveys. In addition, the Bureau of Land Management and Veterans Benefits Administration provide senior executives with objective data through real-time data systems so that executives can track their individual progress against organizational goals.

**Require Follow-up Action.** The Internal Revenue Service requires senior executives to develop action plans to follow up on customer and employee issues identified through agencywide surveys. The Federal Highway Administration requires executives to use 360-degree feedback instruments to solicit employee views on their leadership skills and then incorporate action items into their performance plans for the next fiscal year.

**Make Meaningful Distinctions in Performance.** The agencies are working at making distinctions in senior executive performance. To recognize varying levels of significance and complexity among executive performance, the Internal Revenue Service established an executive compensation plan that assigns executives to bonus levels with corresponding bonus ranges based on levels of responsibilities and commitments.

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**Abbreviations**

|      |  |
|------|--|
| BLM  | Bureau of Land Management              |
| FHWA | Federal Highway Administration         |
| GPRA | Government Performance and Results Act |
| IRS  | Internal Revenue Service               |
| OPM  | Office of Personnel Management         |
| RAC  | resource advisory council              |
| VA   | Department of Veterans Affairs         |
| VBA  | Veterans Benefits Administration       |



United States General Accounting Office  
Washington, D.C. 20548

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September 27, 2002

The Honorable Daniel K. Akaka  
Chairman  
The Honorable Thad Cochran  
Ranking Minority Member  
Subcommittee on International Security, Proliferation, and  
Federal Services  
Committee on Governmental Affairs  
United States Senate

The Honorable Richard J. Durbin  
Chairman  
The Honorable George V. Voinovich  
Ranking Minority Member  
Subcommittee on Oversight of Government Management,  
Restructuring, and the District of Columbia  
Committee on Governmental Affairs  
United States Senate

Leading organizations have recognized that a critical success factor in fostering a results-oriented culture is a performance management system that creates a “line of sight” showing how unit and individual performance can contribute to overall organizational goals and helping them understand the connection between their daily activities and the organization’s success. Effective performance management systems first align leadership’s performance expectations with organizational goals and then cascade performance expectations through all levels in the organization. Effective systems are not merely once- or twice-yearly expectation setting and appraisal tools, but can help the organization manage on a day-to-day basis. Leading organizations use their performance management systems to achieve results, accelerate change, and facilitate communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. Thus, an effective performance management system can be a strategic tool for organizations to drive internal change and achieve external results.

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We have observed that modernizing performance management systems and linking them to agency strategic plans and desired outcomes should be a top priority as agencies seek to transform their cultures in response to existing and emerging challenges and opportunities.<sup>1</sup> Performance management systems in leading organizations typically seek to achieve three key objectives. First, they strive to provide candid and constructive feedback to help individual employees maximize their contribution and potential in understanding and realizing the goals and objectives of the agency. Second, they seek to provide management with the objective and fact-based information it needs to reward top performers. Third, performance management systems provide the necessary information and documentation to deal with poor performers. Most federal performance management systems fail to achieve these objectives.

In January 2001, GAO designated strategic human capital management as a governmentwide high-risk area.<sup>2</sup> One of the key areas challenging federal agencies is creating results-oriented organizational cultures. Many agencies lack organizational cultures that promote high performance and accountability, which are critical to successful organizations. To help agency leaders effectively lead and manage their people and integrate human capital considerations into daily decision making and the program results they seek to achieve, we developed a strategic human capital model.<sup>3</sup> The model highlights the kinds of thinking that agencies should apply, as well as some of the steps they can take, to make progress in managing human capital strategically. As detailed in that model, one critical success factor is to link unit and individual performance to organizational goals.

To help agencies hold senior executives accountable for organizational results, the Office of Personnel Management (OPM) amended regulations for senior executive performance management in October 2000. These amended regulations on governing performance appraisals for senior executives require agencies to establish performance management systems

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<sup>1</sup> U.S. General Accounting Office, *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, [GAO-02-940T](#) (Washington, D.C.: July 15, 2002).

<sup>2</sup> U.S. General Accounting Office, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

<sup>3</sup> U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 15, 2002).

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that (1) hold senior executives accountable for their individual and organizational performance by linking performance management with the results-oriented goals of the Government Performance and Results Act of 1993 (GPRA), (2) evaluate senior executive performance using measures that balance organizational results with customer satisfaction, employee perspectives, and any other measures agencies decide are appropriate, and (3) use performance results as a basis for pay, awards, and other personnel decisions. Agencies were to establish these performance management systems by their 2001 senior executive performance appraisal cycles.

The first objective of this report was to describe the sets of balanced expectations selected federal agencies used to appraise senior executive performance for organizational results, customer satisfaction, and employee perspectives. Our second objective was to identify the initial implementation approaches these agencies have taken to manage senior executive performance that may be helpful to other agencies as they implement OPM's amended regulations governing senior executive performance management systems. We selected the Bureau of Land Management (BLM), Federal Highway Administration (FHWA), Internal Revenue Service (IRS), and Veterans Benefits Administration (VBA) because they used a set of balanced expectations to manage the performance of all or a significant portion of their senior executives prior to the OPM requirement. IRS incorporated balanced expectations into its senior executive performance management system in response to the Internal Revenue Service Restructuring and Reform Act of 1998; the other agencies established their systems administratively to emphasize senior executives' accountability for organizational results and other expectations. As appropriate, agencies developed the performance expectations for senior executives' individual plans to meet particular program and management objectives and agency needs. To describe agencies' expectations for senior executive performance, we used the categories prescribed by OPM's regulations—organizational results, customer satisfaction, and employee perspective. For additional information on our objectives, scope, and methodology, see appendix I.

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## Results in Brief

BLM, FHWA, IRS, and VBA are in the early stages of implementing new performance management systems for their senior executives. Each agency has taken the first step in developing an initial set of expectations for senior executives to address in their individual performance plans that are intended to balance accountability for organizational results with a focus on customer satisfaction and a consideration of employee

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perspectives. The agencies offered a menu of expectations for senior executives to choose from and incorporate into their individual performance plans. The agencies subsequently used these expectations as the basis of senior executives' performance appraisals.

- **Organizational results.** To appraise senior executives' contributions to organizational results, the agencies identified (1) core competencies and supporting behaviors for senior executives to follow that are intended to achieve results, such as learning about current issues and applying that knowledge to make sound decisions or pursuing business excellence, and (2) to only a limited extent, targets for senior executives to meet that are directly linked to organizational goals, such as the average return on sales of acquired properties or the percent of cases meeting accuracy standards.
- **Customer satisfaction.** The agencies set expectations for senior executives to address customer satisfaction in their individual performance plans and appraised their performance on the basis of partnerships formed, customer feedback, and improved products and services.
- **Employee perspectives.** The agencies set expectations for senior executives to address employee perspectives in their individual performance plans and appraised their performance on the basis of the training provided to staff, safe and healthy work environment, teamwork, employee satisfaction, and fairness and diversity.

In addition, we identified an initial set of selected implementation approaches BLM, FHWA, IRS, and VBA are taking that may be helpful to other agencies as they manage senior executive performance against balanced expectations. BLM, FHWA, IRS, and VBA:

- **Provide useful data.** The agencies provide senior executives with objective data to help them manage their balanced expectations during the year. For example, data systems at BLM and VBA provide real-time data to help senior executives track their individual performance against organizational results and allow them to compare their performance against others. In addition, the agencies disaggregated data from agencywide surveys so that the results were applicable to the senior executives' customers and employees.



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- **Require follow-up action.** IRS and FHWA require senior executives to identify action items to follow up on customer and employee issues. For example, IRS requires executives to hold workgroup meetings and develop action plans to follow up on customer and employee issues identified through agencywide surveys. In addition, FHWA requires senior executives to use 360-degree feedback instruments to solicit employee views on the executives' leadership skills and then incorporate action items into their individual performance plans based on the results.
  - **Make meaningful distinctions in performance.** The agencies are working at implementing effective performance management systems that make meaningful distinctions in senior executive performance, such as by identifying varying levels of significance and complexity among senior executive performance and considering these levels in awarding bonuses. Towards this end, IRS established an executive compensation plan for determining base salary, performance bonuses, and other awards for senior executives that corresponds bonus levels to different levels of responsibilities and commitments. FHWA weights the elements it uses to appraise senior executive performance to make distinctions among its executives' performance.

BLM, FHWA, IRS, and VBA recognize that they are in the early stages of implementation in using a balanced set of expectations as part of their senior executive performance management systems. Not surprisingly, therefore, there are significant opportunities to strengthen their efforts as they move forward in holding senior executives accountable for results. In particular, more progress is needed in explicitly linking senior executive expectations for performance to results-oriented organizational goals. Efforts at making this direct linkage were often very limited. In addition, while these agencies address partnering with customers and other stakeholders, greater emphasis should be placed in fostering the necessary collaboration both within and across organizational boundaries to achieve results.

Lastly, there is a growing recognition, driven by a variety of worldwide trends and pressing long-term fiscal challenges, that the federal government is on the brink of an enormous transformation in what the government does, how it does business, and, in some cases, who does the government's business. Ultimately, successful organizations understand that they must often change their culture to successfully transform themselves, and that such a change starts with top leadership. Senior

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executive performance and accountability for change management will therefore be critical to the success of the federal government's transformation. A specific performance expectation to lead and facilitate change could be a critical element as agencies transform themselves to succeed in an environment that is more results oriented, less hierarchical, and more integrated. The Commissioner of Internal Revenue provided written comments generally agreeing with the contents of a draft of this report. In addition, cognizant agency officials from BLM, FHWA, and VBA generally agreed with a draft of this report.

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## Background

Strategic human capital management, and specifically the need to develop results-oriented organizational cultures, is receiving increased attention across the federal government. The Congress has underscored the consequences of human capital weaknesses through a wide range of oversight hearings held over the last few years. In addition, to foster a results-oriented culture in federal agencies, the Congress is considering legislative proposals to, among other things, focus attention on the impact poor performance can have on the effectiveness of an organization and require agencies to have a chief human capital officer to select, develop, and manage a productive, high-quality workforce.

The President's Management Agenda, released in August 2001, identified human capital as one of the five key governmentwide management challenges currently facing the federal government. Subsequently, the Office of Management and Budget and OPM developed criteria that recognized the importance of creating a performance culture that appraises and rewards employees based on their contributions to organizational goals as a key dimension of effective human capital management.

We developed a model of strategic human capital management to highlight the kinds of thinking that agencies should apply, as well as some of the steps they can take, to make progress in managing human capital strategically.<sup>4</sup> The model consists of eight critical success factors, which are organized to correspond with four cornerstones of effective strategic human capital management: (1) leadership, (2) strategic human capital planning, (3) acquiring, developing, and retaining talent, and (4) results-oriented organizational cultures. Within the cornerstone of results-oriented

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<sup>4</sup> [GAO-02-373SP](#).

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organizational cultures, a critical success factor is linking unit and individual performance to organizational goals.

One way to reinforce accountability and alignment of individual performance expectations with organizational goals is through the use of results-oriented performance agreements. We have reported that other countries have begun to use their performance management systems as a strategic tool to help achieve results.<sup>5</sup> In particular, they use performance agreements to align and cascade organizational goals to individual performance expectations through several levels in their organizations. They also use performance agreements to help identify the crosscutting connections both within and between agencies and align the performance commitments of top-level executives with broader governmentwide priorities.

Further, our work has shown that U.S. agencies have benefited from their use of results-oriented performance agreements for political and senior career executives.<sup>6</sup> Although each agency developed and implemented performance agreements that reflected its specific organizational priorities, structures, and cultures, the performance agreements met the following characteristics. They

- strengthened alignment of results-oriented goals with daily operations,
- fostered collaboration across organizational boundaries,
- enhanced opportunities to discuss and routinely use performance information to make program improvements,
- provided a results-oriented basis for individual accountability, and
- maintained continuity of program goals during leadership transitions.

Prior to OPM amending its regulations on senior executive performance management systems, BLM, FHWA, IRS, and VBA implemented systems

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<sup>5</sup> U.S. General Accounting Office, *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, [GAO-02-862](#) (Washington, D.C.: Aug. 2, 2002).

<sup>6</sup> U.S. General Accounting Office, *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements*, [GAO-01-115](#) (Washington, D.C.: Oct. 30, 2000).

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that used a set of balanced expectations to manage senior executive performance. BLM implemented a balanced approach to manage its senior executive performance to focus attention and accountability on organizational priorities, make resource allocations, and minimize employee frustration. BLM incorporated performance elements in senior executives' individual performance plans for the rating year ending June 2000 that were structured around its strategic goals to (1) "Restore and Maintain the Health of the Land," (2) "Serve Current and Future Publics," and (3) "Improve Organizational Effectiveness." BLM also included a performance element in the senior executives' plans to "Improve Human Resources Management and Quality of Work Life." (For more information on BLM's senior executive performance plans, see app. II.)

FHWA implemented a balanced approach to managing its senior executive performance in response to its 1999 employee satisfaction survey. Specifically, the majority of employees that responded indicated that they did not understand their workgroup's role in implementing FHWA's corporate management strategies that were based on the Malcolm Baldrige National Quality Award and the Presidential Quality Award Criteria—leadership, strategic planning, customer and partner focus, information and analysis, human resource development and management, process management, and business results.<sup>7</sup> Beginning in fiscal year 2000, FHWA appraised senior executives on these corporate management strategies. (For more information on FHWA's senior executive performance plans, see app. III.)

In response to the Internal Revenue Service Restructuring and Reform Act of 1998, IRS initiated a method of measuring performance designed to foster quality service, promote compliance with the tax laws, and consider the impact on employees. In fiscal year 2000, IRS implemented a senior executive performance management system that aligned the executives' performance expectations with a set of balanced expectations consisting of employee satisfaction, customer satisfaction, and business results, and with two additional areas of responsibility—leadership and equal employment opportunity. (For more information on IRS's senior executive performance plans, see app. IV.)

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<sup>7</sup> The Malcolm Baldrige National Quality Award and the President's Quality Award are given to organizations for their overall achievements in quality and performance. In 2002, the President's Quality Award criteria were reoriented to be consistent with the President's Management Agenda.

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VBA adopted a balanced scorecard approach in fiscal year 1999 as a strategic management tool to drive organizational change, provide feedback to employees on measures they can influence, link performance appraisal and reward systems to performance measures, and provide incentives to managers to work as teams in meeting performance measures.<sup>8</sup> Its scorecard included measures for accuracy, speed and timeliness, unit cost, customer satisfaction, and employee development and satisfaction. VBA incorporated these measures in the performance appraisals for senior executives in its regional offices where the majority of senior executives are located. (For more information on VBA's senior executive performance plans, see app. V.)

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## Agencies' Balanced Expectations for Senior Executive Performance

Effective performance management systems translate organizational priorities and goals into direct and specific commitments that senior executives will be expected to achieve during the year. To this end, BLM, FHWA, IRS, and VBA developed a set of expectations for senior executive performance that were intended to balance organizational results, customer satisfaction, and employee perspectives and offered a menu of expectations for senior executives to incorporate into their individual performance plans. They appraised senior executives' contributions to organizational results by the core competencies and supporting behaviors senior executives followed or the targets they met. In addition, the agencies appraised senior executives' performance against their expectations for customer satisfaction and employee perspectives.

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## Organizational Results

OPM's regulations emphasize holding senior executives accountable for their individual and organizational performance by linking individual performance management with results-oriented organizational goals. To appraise senior executive contributions to organizational results, BLM, FHWA, IRS, and VBA identified core competencies and supporting behaviors for senior executives to follow, while VBA also identified targets for senior executives to meet that are directly linked to organizational results, as shown in table 1.

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<sup>8</sup> The balanced scorecard is a tool to measure performance at various levels of an organization and to provide employees with data to help them achieve individual and organizational results.

**Table 1: Examples of BLM’s, FHWA’s, IRS’s, and VBA’s Expectations for Senior Executive Performance in Contributing to Organizational Results**

| Basis for senior executive appraisals             | Examples of expectations to contribute to organizational results  |
|---|---|
| Core competencies and supporting behaviors        | <ul style="list-style-type: none"> <li>• Pursue business excellence through effective process management and the application of balanced measures.</li> <li>• Learn about current and emerging issues/developments in own field of expertise and apply knowledge to make technically sound operational decisions.</li> <li>• Understand and plan for the condition and use of the public lands by assuring that assessments and land use plans are completed.</li> <li>• Improve program accountability and performance by staying within the organizational cost targets and assuring the accuracy of cost data.</li> <li>• Make progress in the improved use of existing automation tools.</li> <li>• Develop and execute plans to achieve organizational goals.</li> <li>• Develop critical business metrics to measure the overall quality of processes and services and report results.</li> <li>• Translate strategies into unit, division, team, and individual action plans with performance measures based on the strategic objectives and performance goals.</li> </ul> |
| Targets directly linked to organizational results | <ul style="list-style-type: none"> <li>• Proportion of veterans who receive planned service and are rehabilitated, compared with all veterans who exit the program.</li> <li>• Average number of months from date of acquisition to the sale date of properties acquired due to defaults on Department of Veterans Affairs’ guaranteed loans.</li> <li>• Average number of days from when the veteran begins “employment services” status to when the veteran enters suitable employment.</li> <li>• Percent of original and reopened compensation and pension claims and appeals completed and determined to be technically accurate.</li> <li>• Cost per compensation claim completed.</li> <li>• Average return on sales of acquired properties.</li> </ul>  |

Source: BLM, FHWA, IRS, and VBA fiscal year 2001 guidance.

Core competencies and supporting behaviors: The agencies identified core competencies and supporting behaviors for senior executives to follow that are intended to contribute to their agencies’ achievement of performance goals. For example, FHWA set a performance expectation for senior executives to develop strategies to achieve FHWA’s strategic objectives and performance goals. To help meet this expectation, the Director of Field Services-South convened the “Southern Executive Safety Summit” in 2000 to address the region’s highway fatality rates—the highest in the nation—and their impact on FHWA achieving its goal on safety. The participants, including state and federal transportation and safety officials from the region, learned what each state was doing to decrease fatality rates and discussed how to create new safety strategies for each state and the region as a whole. Following the summit, Kentucky, North Carolina, and Mississippi held subsequent state safety summits and pursued numerous initiatives to reduce fatalities. The senior executive reported in his self-

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assessment for fiscal year 2001 that many states in the region have experienced a reduction in the number of highway fatalities since the Southern Executive Safety Summit, which is helping FHWA meet its goal of reducing the number of highway-related fatalities by 20 percent in 10 years.

Similarly, to address IRS's performance expectation for senior executives to develop and execute plans to achieve organizational goals, a senior executive who is the area director for compliance in New York has a performance expectation in his fiscal year 2002 individual performance plan to ensure that taxpayers affected by the events of September 11, 2001, are treated and audited according to their circumstances, and that the compliance guidelines and policy regarding affected taxpayers are adhered to. In particular, these taxpayers—including individuals and businesses—were not to be audited for prior tax years before the end of March 2002, if such an audit was necessary.

To contribute to its strategic goal to restore and maintain the health of the land, BLM set an expectation for senior executives to understand and plan for the condition and use of public lands. In particular, the senior executive who heads the Colorado state office had a performance expectation in her individual performance plan for the 2001 performance appraisal cycle to conduct land use assessments and complete plans as scheduled for the Gunnison Gorge National Conservation Area. In her self-assessment for the 2001 performance appraisal cycle, she stated that she began conducting land use assessments for Gunnison Gorge and approved "pre-plans," which outline the anticipated schedule, budget, and stakeholder involvement to complete a land use plan.

Targets directly linked to organizational results: VBA identified targets with specific levels of performance for senior executives to meet. These targets link to the priorities in VBA's balanced scorecard and the Department of Veterans Affairs' (VA) strategic goals. For example, to contribute to VA's strategic goal to "provide 'One VA' world class service to veterans and their families through the effective management of people, technology, processes and financial resources" and to address its priority of accuracy, VBA set a national target of 72 percent for fiscal year 2001 for the accuracy rate of original and reopened compensation and pension claims and appeals that were completed and determined to be technically accurate. To contribute to that national target, the senior executive in the Nashville regional office had a performance expectation for his office to meet a target accuracy rate of 59.2 percent. Similarly, to further contribute to VA's strategic goal of world-class service and to address its priority of speed and

timeliness, VBA set a national target for property holding time—the average number of months from date of acquisition to date of sale of properties acquired due to defaults on VA guaranteed loans—of 10 months for fiscal year 2001. To contribute to the national target, the same senior executive had a performance expectation for his office to meet a target of 8.6 months.

## Customer Satisfaction

OPM's regulations recognize that senior executives in public sector organizations face the challenging task of balancing the needs of multiple customers, who at times may have differing or ever competing expectations. Customer involvement is important to first make senior executives aware of differing or competing expectations and to then build partnerships and coalitions to reach mutual understanding of the issues. To this end, BLM, FHWA, IRS, and VBA set expectations for senior executives to address customer satisfaction in their individual performance plans and appraised their performance on the basis of partnerships, customer feedback, and improved products and services. Examples of the agencies' expectations for customer satisfaction are shown in table 2.

**Table 2: Examples of BLM's, FHWA's, IRS's, and VBA's Customer Satisfaction Expectations for Senior Executive Performance**

| Basis for senior executive appraisals | Examples of customer satisfaction expectations   |
|---------------------------------------|--|
| Partnerships                          | <ul style="list-style-type: none"> <li>• Balance a variety of federal, state, and local interests through timely and enhanced consultation, cooperation, and communication to build consensus.</li> <li>• Establish cooperative and constructive relationships, networks, and alliances that facilitate input from a wide range of internal and external stakeholders.</li> <li>• Engage customers and stakeholders in alternative dispute resolution to manage and/or resolve conflicts in a positive and constructive manner.</li> </ul>         |
| Customer feedback                     | <ul style="list-style-type: none"> <li>• Identify customer and partner needs and measure their level of satisfaction.</li> <li>• Receive and act upon feedback from customer surveys, listening sessions, focus groups, and other learning techniques.</li> <li>• Percentage of veterans giving a high rating on the satisfaction surveys.</li> <li>• Percentage of veterans' satisfaction with the way VBA handled their claims.</li> </ul>   |
| Improved products and services        | <ul style="list-style-type: none"> <li>• Initiate actions and manage risks to develop new products and services within or outside the organization.</li> <li>• Use customer input to improve products and services to ensure customer and partner needs are met.</li> <li>• Act to continuously improve products and service.</li> <li>• Percentage of callers who get through, but hang up before being connected to an employee.</li> <li>• Average length of time that a caller waits before being connected to the telephone agent.</li> </ul> |

Source: BLM, FHWA, IRS, and VBA fiscal year 2001 guidance.



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Partnerships: Partnerships and coalitions can help senior executives work collaboratively with their customers to ensure that the organization takes into account their multiple interests and achieves results. BLM's senior executives have relied on resource advisory councils (RAC) consisting of local residents with diverse interests as a way to involve customers, identify issues, and reach a reasonable degree of consensus regarding BLM's land management programs. To meet BLM's expectation to establish cooperative and constructive relationships that facilitate input from a range of stakeholders, the senior executive who heads the Montana state office set an expectation to expand partnerships and maintain close working relationships with national interest groups in his individual plan for the 2001 performance appraisal cycle. This senior executive solicited feedback from the Central Montana RAC to discuss among his customers how to balance the ongoing, yet potentially competing uses—including recreation, grazing, and oil and gas leases—of a 150-mile stretch of the Missouri River and surrounding areas. According to the senior executive, the RAC recommended that ongoing uses continue, but that this stretch receive special protection from further development. In his self-assessment for the 2001 performance appraisal cycle, the senior executive stated that he continues to use the RAC as a highly effective citizen advisory group that plays a significant role in land management deliberations.

Customer feedback: Customer feedback can help senior executives determine customers' needs and their levels of satisfaction with existing products and services. To hold its senior executives accountable for customer satisfaction, senior executives in VBA's regional offices had performance expectations to meet targets for veterans giving a high rating on satisfaction surveys. Specifically, the senior executive in the Nashville regional office had a target in fiscal year 2001 to attain 85 percent in overall satisfaction in a national survey of customers using vocational rehabilitation and employment services and support.

In addition, to address his performance expectation for customer satisfaction, the senior executive who heads VBA's Waco regional office convened frequent "town hall" meetings to listen to veterans' needs and discuss VBA issues, such as legislative changes that affect the processing of veterans' claims. According to this executive, the town hall meetings helped improve his customer satisfaction levels because veterans identified the concerns that were most important to them, gained direct access to the VBA employees working on their benefit claims, and were better able to understand the claims process. Specifically, the senior executive reported in his self-assessment that during fiscal year 2001 he worked with local

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service officers to identify in advance those veterans planning to attend the town hall meetings, had their claims folders available for review at the meetings, and was thus able to enhance outreach programs.

Improved products and services: Senior executives can use the feedback from customers to enhance the customers' understanding of the organization and make improvements in the organization's products and services. For example, to meet IRS's performance expectation for senior executives to address customer satisfaction by continuously improving products and services, a senior executive responsible for submission processing and taxpayer assistance had a performance expectation in her fiscal year 2001 individual performance plan to develop a communication plan. This plan was intended to better serve customers by helping improve their knowledge and understanding of the tax return process.

To hold its senior executives accountable for improved products and services, VBA set targets for executives to achieve, such as the abandoned telephone call rate—the percentage of callers who get through to VBA, but are put on hold and hang up before being connected to an employee. Specifically, for fiscal year 2001, the senior executive in the Nashville regional office had a target for his office for an abandoned telephone call rate of not more than 5 percent for customers' inquiries of VBA's benefit programs, such as compensation and pension services.

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## Employee Perspectives

OPM's regulations recognize that an agency's people are vital assets and people achieve organizational goals and results. Accordingly, the regulations call for senior executive performance plans and appraisals to contain performance expectations on employees' perspectives. To this end, BLM, FHWA, IRS, and VBA set expectations for senior executives to address employee perspectives in their individual performance plans and appraised their performance on the basis of the training provided to staff, safe and healthy work environment, teamwork, employee satisfaction, and fairness and diversity. Examples of the agencies' expectations for employee perspectives are shown in table 3.

**Table 3: Examples of BLM's, FHWA's, IRS's, and VBA's Employee Perspective Expectations for Senior Executive Performance**

| Basis for senior executive appraisals | Examples of employee perspective expectations  |
|---------------------------------------|--|
| Training                              | <ul style="list-style-type: none"> <li>• Ensure that employees have the tools and training to perform their jobs.</li> <li>• Create an environment for continuous learning and development opportunities.</li> <li>• Ensure that plans exist and are adequately implemented to recruit, train, retain, motivate, empower, and advance employees.</li> <li>• Ensure workforce has skills aligned with the agency's objectives.</li> <li>• Help attract and retain well-qualified employees.</li> <li>• Ensure that the organization focuses appropriate resources on employees' needs.</li> </ul> |
| Safe and healthy work environment     | <ul style="list-style-type: none"> <li>• Provide a safe, healthy work environment.</li> <li>• Provide leadership and direction to identify initiatives that improve the quality of worklife of employees.</li> <li>• Commit resources to making the organization workplace friendly.</li> <li>• Create an environment conducive to performance excellence and personal and organizational growth.</li> </ul>   |
| Teamwork                              | <ul style="list-style-type: none"> <li>• Effectively use ongoing feedback and coaching to promote cooperation, teamwork, knowledge/skill sharing, and goal accomplishment.</li> <li>• Motivate employees to achieve high performance through open and honest communication and involve them in decision making.</li> <li>• Promote and maintain an effective labor-management relations program that incorporates the principles of partnership.</li> <li>• Create an environment in which knowledge is managed, shared, and used effectively.</li> </ul>  |
| Employee satisfaction                 | <ul style="list-style-type: none"> <li>• Employees' satisfaction with their jobs.</li> <li>• Employees' overall satisfaction with the organization.</li> </ul>   |
| Fairness and diversity                | <ul style="list-style-type: none"> <li>• Take steps to implement equal employment opportunity goals.</li> <li>• Require all subordinate managers and supervisors to receive diversity awareness and equal opportunity training.</li> <li>• Establish a zero tolerance standard for discrimination, harassment, and hostile work environments.</li> </ul>   |

Source: BLM, FHWA, IRS, and VBA fiscal year 2001 guidance.

**Training:** Senior executives can provide employees with the necessary training and continuous developmental opportunities to perform their jobs more effectively. To address VBA's performance expectation for senior executives to ensure that plans exist and are adequately implemented to recruit, train, retain, motivate, empower, and advance employees, the senior executive in VBA's Manila, Philippines, Regional Office and Outpatient Clinic conducted focus groups to identify actions needed to respond to the results of the 1999 employee survey. One action was to task a training committee to develop and implement a Training Needs Assessment tool to determine employees' training needs and to schedule training for fiscal year 2002. The senior executive stated in his self-assessment for fiscal year 2001 that the employees and their supervisors used the assessment tool to establish individual development plans and the

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training committee has been scheduling training sessions to ensure that individual development plans are met.

To meet BLM's expectation for senior executives to help attract and retain well-qualified employees, the senior executive who heads BLM's Nevada state office set a performance expectation for the 2001 performance appraisal cycle to maintain a trained and motivated workforce. This executive worked with his Human Resources Development Committee, composed of representatives from the eight BLM field offices in Nevada. The committee meets regularly to identify employee issues, make recommendations, and implement actions. Specifically, with input from the committee, the senior executive developed a Statewide Mentoring Program to enhance and promote opportunities for employees' skill development and to assist them in achieving their career goals. The senior executive did not discuss the mentoring program in his self-assessment for the 2001 performance appraisal cycle, but generally stated that his office provided training to enhance leadership and interpersonal skills.

Safe and healthy work environment: Senior executives can provide employees with safe, secure, and healthful work conditions to ensure that the workspace is conducive to effective performance. To address VBA's expectation for senior executives to provide a safe, healthy work environment in fiscal year 2001, the senior executive who heads VBA's Manila, Philippines, Regional Office and Outpatient Clinic worked with employees to improve the security and safety of the regional office. Specifically, to prepare the office in case suspicious materials are received, the senior executive reviewed and updated its emergency evacuation plan and then met with employees to ensure they understood the plan's procedures and were comfortable with their responsibilities. In addition, he worked with the Regional Security Office to provide security awareness training to employees and held several emergency drills to test employees' responses. He stated in his self-assessment for fiscal year 2001 that while employees were still concerned with security, he believed confidence in their safety and welfare had improved.

Teamwork: Senior executives can encourage a teams-based approach to help improve employee morale and job satisfaction by creating an environment that is open to communication and has a sense of shared responsibility for accomplishing organizational goals. To create an environment in which knowledge is managed, shared, and used effectively, FHWA encourages its senior executives to use organizational self-assessments to solicit employee perspectives and gauge their employees'

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work environment. FHWA provides sample questions for these self-assessments that are based on the Malcolm Baldrige criteria. For example, the senior executive heading the Office of Information and Management Services required each of her three divisions to complete an organizational self-assessment in 2001. FHWA employees trained in the Baldrige criteria facilitated the half-day sessions for each division. As a result of the sessions, the office consolidated the three divisions' self-assessments and summarized the office's "strengths" and "opportunities for improvement" in a report. The report identified one of the office's strengths to be management's support and approval for training, and one of its opportunities for improvement to be keeping employees' individual development plans up to date. In response, the senior executive identified in her individual performance plan a specific expectation of updating individual development plans for every employee by April 30, 2002.

To meet IRS's performance expectation for senior executives to motivate employees to achieve high performance through open and honest communication and involve them in decision making, a senior executive who is the area director for compliance in New York included an expectation in his fiscal year 2001 individual performance plan to look for partnering opportunities to maximize problem resolution and employee involvement, while developing and maintaining effective relationships with the seven National Treasury Employees Union chapters in his area.

Employee satisfaction: Senior executives can monitor employees' satisfaction with their work environment to gauge if they feel empowered and motivated to contribute to organizational goals. For senior executives in the regional offices, VBA set a target for employee satisfaction that senior executives were to achieve for fiscal year 2001. Based on a 1-to-5 scale, the target was set by estimating the average response on two questions from the employee satisfaction survey. The two questions ask about the employee's satisfaction with his or her job and the employee's overall satisfaction with the organization. For example, VBA set a national target score of 3.6 for employee satisfaction in the compensation and pension services business line in fiscal year 2001. All regional offices contribute to the target for this business line. Specifically, the senior executive in the Nashville regional office had a performance expectation for his office to meet a target score of 3.5 for employee satisfaction.

Fairness and diversity: Senior executives can foster fairness and diversity by protecting the rights of all employees, providing a fair dispute resolution system, and working to prevent discrimination through equality of

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employment and opportunity. To meet BLM's performance expectation for senior executives to establish a zero tolerance standard for discrimination, harassment, and hostile work environments, a senior executive who heads BLM's Nevada state office set an expectation in his individual plan for the 2001 performance appraisal cycle that he would demonstrate commitment to nondiscrimination in the workplace by ensuring fair access to developmental opportunities for employees.

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## Initial Implementation Approaches to Manage Senior Executives' Performance

While the four agencies tailored their performance management systems to fit their organizational and operational needs, we identified an initial set of implementation approaches that BLM, FHWA, IRS, and VBA are taking that may be helpful to other agencies as they manage senior executive performance against balanced expectations. BLM, FHWA, IRS, and VBA

- provide useful data,
- require follow-up actions, and
- make meaningful distinctions in performance.

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## Provide Useful Data

Providing objective data for organizational results, customer satisfaction, and employee perspectives can help senior executives manage during the year, identify performance gaps, pinpoint improvement opportunities, and compare their performance to other executives. Specifically, the agencies

- developed data systems so that senior executives can track their individual performance against organizational results, and
- disaggregated customer and employee satisfaction survey data.

Developed data systems: To help senior executives see how they are contributing to organizational results during the year, BLM and VBA developed data systems for executives to use to track their individual performance against organizational results. For example, BLM's Director's Tracking System collects and makes available on a real-time basis data on each senior executive's progress in their state offices towards BLM's national priorities and the resources expended on each priority. In particular, a BLM senior executive in headquarters responsible for the wild horse and burro adoptions program can use the tracking system to identify

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where the senior executives in the state offices are against their targets and what the program costs have been by state. Specifically, as of mid-June 2002, the BLM state director in California had completed 532 adoptions at a total cost of \$460,000 towards his target of 1,150 adoptions for fiscal year 2002. Similarly, the state director in Montana had completed 46 adoptions at a total cost of \$63,000 towards his target of 300 adoptions.

VBA also developed a data system that tracks organizational and individual performance. Its balanced scorecard data are updated monthly and senior executives and other employees can access the data through the agency's Intranet. The balanced scorecard compares actual performance against the targets set for the national and regional office levels. According to VBA officials, the scorecard helps employees understand how they can affect the results of the organization. Senior executives refer to the balanced scorecard data at their leadership meetings, discuss how they performed relative to the scorecard, and identify the causes behind outstanding and poor performance.

Disaggregated survey data: Specific customer and employee feedback helps senior executives pinpoint actions to improve products and services for customers and to enhance employee satisfaction. BLM, FHWA, IRS, and VBA disaggregated the data from agencywide customer and employee satisfaction surveys so that the results were applicable to a senior executive's customers and employees. For example, from its Use Authorization Survey administered to its various customers in fiscal year 2000, BLM disaggregated the survey data to provide the applicable results to individual senior executives who head the state offices. Specifically, the senior executive in the Montana state office received data for his state showing that 81 percent of the grazing permit customers surveyed gave a favorable rating for the timeliness of permit processing and for service quality. In his self-assessment for the 2001 performance appraisal cycle, he stated that issuing grazing permits has progressed without any problem or backlogs and that permittees have not experienced any delays.

VBA disaggregates its survey results to the regional offices and policy and program support offices that are larger than 15 employees in order to allow the senior executives to determine actions that are appropriate for their offices. In 2001, VBA administered its most recent employee survey to measure aspects of organizational climate related to high performance. For each question on the survey, VBA provided the office results and the VBA average, as well as baseline data from surveys conducted in 1997 and 1999. For example, 47 percent of the employees surveyed in the St. Paul regional

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office either strongly agreed or agreed that managers provided an environment that supports employee involvement, contributions, and teamwork. According to the 2001 survey results, this percentage is slightly higher than the VBA average of 43 percent and indicated an improvement from the 33 percent the office scored on this question in both the 1997 and 1999 employee surveys. VBA compiles a national report of the results so that senior executives can compare how their office scored against other offices and VBA as a whole.

IRS disaggregates data to the workgroup level from its IRS/National Treasury Employees Union Employee Satisfaction Survey, which measures general satisfaction with IRS, the workplace, and the union. The Gallup Organization administers this survey to all employees, which is comprised of Gallup's 12 questions ("Q12");<sup>9</sup> additional questions unique to IRS, such as views on local union chapters and employee organizations; as well as questions on issues IRS has been tracking over time. Gallup provides the results for each workgroup. For example, a senior executive can compare how his workgroup performed to other operating divisions and to IRS as a whole. Specifically, one senior executive's workgroup scored 3.68 out of a possible 5 for "having the materials and equipment they need to do their work right" compared to the IRS-wide score of 3.58 on the survey. To allow senior executives and managers to benchmark externally, Gallup compares each workgroup's results to the 50th (median) and 75th (best practices) percentile scores from Gallup's Q-12 database. To benchmark internally, IRS provides the servicewide results from the previous year's survey in each workgroup report.

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## Require Follow-up Actions

As part of its senior executive performance management system, IRS and FHWA require their senior executives to follow up on customer and employee issues. To improve customer satisfaction, the Commissioner of Internal Revenue set an expectation that the business units, headed by senior executives, develop action plans based on customer survey data that are relevant to the needs of their particular customers. IRS provided guidance to senior executives and managers to help them understand and interpret the customer survey data, identify areas for improvement, and develop action plans to respond to customers' issues and concerns.

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<sup>9</sup> Gallup identified 12 questions that measure employee perspective and, according to Gallup, the responses to these questions link directly to organizational outcomes.



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For example, to address the customer satisfaction expectation in his fiscal year 2002 individual performance plan, an IRS senior executive who is the area director for compliance in Laguna Niguel, California, requires each of his territory managers to present an action plan identifying ways to improve low scores from customer surveys. He then rolls up these managers' plans into a consolidated area action plan for which he is responsible. Specifically, an expectation in his action plan is to improve how customers are treated during collection and examination activities by ensuring that examiners explain to customers their taxpayer rights, as well as why they were selected for examination and what they could expect. Further, the senior executive plans to ensure that territory managers solicit feedback from customers on their treatment during these activities and identify specific reasons for any customer dissatisfaction. In his midyear self-assessment for fiscal year 2002, the senior executive stated that substantial progress is being made in achieving the collection and examination customer satisfaction goals.

Similarly, to address employee perspectives, IRS requires senior executives to hold workgroup meetings with their employees to discuss the workgroups' Employee Satisfaction Survey results and develop action plans to address these results. According to a senior executive in IRS's criminal investigation unit, the workgroup meetings were beneficial because they increased communication with employees and identified improvements in the quality of worklife. For example, through the workgroup meetings, employees identified the need for recruiting supervisory special agents to even out some of the workload. Subsequently, the senior executive set an expectation in his fiscal year 2002 individual performance plan to ensure that the field office has a strong recruitment program to attract viable candidates. He also has an expectation to ensure his field offices hold timely workgroup meetings and develop and implement action plans to address concerns identified during these meetings.

To reinforce the importance of follow-up action, IRS developed a Web-based database system to track workgroup issues across IRS. According to an IRS official, the system is being upgraded to improve its usefulness for senior executives and will allow them to track their progress in completing the actions identified in the workgroup meetings. In addition, all employees will be able to access summary information to help identify trends in the data across workgroups. The system will also provide employees with the opportunity to share best practice information on resolved workgroup issues.

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To help meet their employee perspective performance expectations, FHWA requires senior executives to use 360-degree feedback instruments to solicit employee views on their leadership skills. Based on the 360-degree feedback, senior executives are to identify action items and incorporate them into their individual performance plans for the next fiscal year. FHWA piloted the 360-degree feedback instrument for half its leadership team of senior executives in fiscal year 2001 and scheduled the rest for fiscal year 2002. The 360-degree feedback process is designed to provide an executive direct input from various sources—peers, customers, and subordinates—and to compare those results to a self-evaluation and input from a supervisor.

While the 360-degree feedback instrument is intended for developmental purposes to help senior executives identify areas for improvement and is not included in the executive's performance evaluation, executives are held accountable for taking some action with the 360-degree feedback results and responding to the concern of their peers, customers, and subordinates. For example, based on 360-degree feedback, a senior executive for field services identified better communications with subordinates and increased collaboration among colleagues as areas for improvement, and as required, he then incorporated action items into his individual performance plan. In fiscal year 2001, he set a performance expectation to develop a leadership self-improvement action plan and identify appropriate improvement goals. In his self-assessment for fiscal year 2001, he reported that he improved his personal contact and attention to the division offices as evidenced by a 30 percent increase in visits to the divisions that year. Also, he stated that he encouraged his subordinates to assess their leadership skills. Consequently, 9 of his 11 subordinates are using 360-degree feedback instruments to improve their personal leadership competencies.

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## Make Meaningful Distinctions in Performance

According to OPM, the amended regulations were designed to recognize that effective performance management requires agency leadership to make meaningful distinctions between acceptable and outstanding performance of senior executives and to appropriately reward those who perform at the highest level. Effective performance management systems provide agencies with the objective and fact-based information they need to distinguish levels of performance among senior executives and serve as a basis for bonus recommendations.

OPM data on senior executive performance ratings indicate that agencies across the federal government are not making meaningful distinctions

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among senior executives' performance. Specifically, agencies rated about 85 percent and 82 percent of senior executives at the highest level their systems permit in their performance ratings in fiscal years 2000 and 2001, respectively. Nearly all of the senior executives are rated using three- and five-level rating systems with the majority of senior executives rated under five-level systems.<sup>10</sup> When disaggregating the data by rating system, the percentage of senior executives that received the highest level rating under five-level systems was approximately 77 and 75 percent in fiscal years 2000 and 2001, respectively. In the same period, the percent of senior executives receiving the highest level rating under three-level systems was about 99 percent.

In addition, OPM data show that, governmentwide, approximately 52 percent of senior executives received bonuses each year since fiscal year 1999. Between fiscal years 1999 and 2001, the average bonus payment increased from about \$10,200 to \$12,300.<sup>11</sup> OPM officials told us that they plan to closely monitor the distribution of fiscal year 2002 performance ratings and bonuses.

IRS, FHWA, VBA, and BLM recognize that they are still working at implementing effective performance management systems that make meaningful distinctions in senior executive performance. For example, IRS established an executive compensation plan for determining base salary, performance bonuses, and other awards for its senior executives that is intended to explicitly link individual performance to organizational performance and is designed to emphasize performance. To recognize performance across different levels of responsibilities and commitments, IRS assigns senior executives to one of three bonus levels at the beginning of the performance appraisal cycle. Assignments depend on the senior executives' responsibilities and commitments in their individual performance plans for the year, as well as the scope of their work and its

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<sup>10</sup> The rating levels for five-level systems include "unsatisfactory," "minimally satisfactory," "fully successful," "first level above fully successful," and "second level above fully successful"; and the three-level rating systems include "unsatisfactory," "minimally satisfactory," and "fully successful."

<sup>11</sup> By regulation, bonus amounts paid to individual career senior executives are limited to between 5 and 20 percent of the executive's basic pay. Agency bonus totals cannot exceed the greater of 10 percent of the aggregate career senior executive basic pay or 20 percent of the average rates of career senior executive basic pay. In compliance with the Internal Revenue Service Restructuring and Reform Act of 1998, IRS's bonus totals cannot exceed 5 percent of the aggregate career senior executive basic pay.

impact on IRS’s overall mission and goals. For example, the Commissioner of Internal Revenue or Deputy Commissioner assigns senior executives to bonus level three—considered to be the level with the highest responsibilities and commitments—only if they are a part of the Senior Leadership Team. IRS restricts the number of senior executives assigned to each bonus level for each business unit.

In addition, for each bonus level, IRS establishes set bonus ranges by individual summary evaluation rating, which is intended to reinforce the link between performance and rewards. The bonus levels and corresponding bonus amounts of base salary by summary rating are shown in table 4.

**Table 4: IRS’s Bonus Levels and Bonus Ranges of Base Salary for Senior Executive Summary Evaluation Ratings<sup>a</sup>**

| Bonus level | Met      | Exceeded  | Outstanding |
|-------------|----------|-----------|-------------|
| 3           | 5 to 10% | 10 to 15% | 15 to 20%   |
| 2           | 5%       | 5 to 10%  | 10 to 15%   |
| 1           | 0%       | 5%        | 5 to 10%    |

<sup>a</sup>Bonuses paid to IRS career senior executives are governed by the limits set forth in 5 USC 5384 and 9505, which provide that bonuses shall be not less than 5 percent of basic pay.

Source: IRS guidance for fiscal year 2001.

To help ensure realistic and consistent performance ratings, each IRS business unit has a “point budget” for assigning performance ratings that is the total of four points for each senior executive in the unit. After the initial summary evaluation ratings are assigned, the senior executives’ ratings are converted into points—an “outstanding” rating converts to six points; an “exceeded” to four points, which is the baseline; a “met” to two points; and a “not met” to zero points. If the business unit exceeds its point budget, it has the opportunity to request additional points from the Deputy Commissioner. IRS officials indicated that none of the business units requested additional points for the fiscal year 2001 ratings.

IRS piloted the compensation plan in fiscal year 2000 with the top senior executives that report to the Commissioner of Internal Revenue and used it for all senior executives in fiscal year 2001. For fiscal year 2001, 31 percent of the senior executives received a rating of outstanding compared to 42 percent for fiscal year 2000, 49 percent received a rating of exceeded

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expectations compared to 55 percent, and 20 percent received a rating of met expectations compared to 3 percent. In fiscal year 2001, 52 percent of senior executives received a bonus, compared to 56 percent in fiscal year 2000. IRS officials indicated that they are still gaining experience using the new compensation plan and will wait to establish trend data before they evaluate the link between performance and bonus decisions.

FHWA weights the elements it uses to appraise senior executive performance to make meaningful distinctions among its senior executives. These elements include (1) strategic and performance plan accomplishments and corporate management improvements and results and (2) job significance and complexity. The senior executives receive a score totaling 100 points, with a maximum of 70 points for strategic and performance plan accomplishments and corporate management improvements and results, and a maximum of 30 points for job significance and complexity. FHWA provides definitions for assigning points. For example, to receive all 70 points for strategic and performance plan accomplishments, the executive must achieve all the performance expectations identified in the individual performance plan, including exceptional advancement on the corporate management strategies. To receive all 30 points for job significance and complexity, the executive must have a position that is highly visible, with a high degree of difficulty due to legislation, court decisions, political pressures, and other factors. Rating officials use these scores in assigning a rating to senior executives of “achieved results,” “minimally satisfactory,” or “unsatisfactory.” In fiscal year 2001 and 2000, all 45 senior executives received a rating of achieved results. FHWA recommended 20 of the 45 senior executives (44 percent) receive bonuses in fiscal year 2001 and 22 of the 45 executives (49 percent) in fiscal year 2000. For both years, each senior executive recommended for a bonus received one.

For VBA, a task force was established in April 2001 to review VBA’s claims processing. It found that 82 percent of VBA’s senior managers were recommended to receive either a performance bonus or an increase in senior executive rank in 2000 when performance for the organization as a whole was considerably below program goals and performance varied among regional offices. Stating that there must be appropriate rewards for outstanding performance and negative consequences for those who do not perform according to their performance agreement, the task force recommended that detailed performance agreements be incorporated into the performance standards for the senior executives in the regional offices.

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Following VA guidance for bonuses in fiscal year 2001, senior executives in VBA receive bonuses by demonstrating significant individual and organizational achievements during the performance appraisal year as evidenced by clearly documented, specific executive achievements, such as substantive improvements in the quality of work or significant cost reductions. In fiscal year 2001, 50 percent of the senior executives in VBA received a bonus, with 24 of the 50 executives receiving the highest performance rating of “outstanding.”

BLM appraises senior executives’ performance and recommends them for performance awards based on their achievement of the performance elements in their individual performance plans and the executives’ demonstration of leadership excellence. BLM rates its senior executives’ performance as “pass,” “provisional,” or “fail.” Senior executives receive a pass rating if they fulfill the fully successful standards for the performance elements in their performance plans. All of the senior executives received a pass rating in the 2000 and 2001 performance appraisal cycles. For the 2000 and 2001 performance appraisal cycles, the Department of the Interior guidance limited BLM’s total number of senior executive nominations for performance awards, including the Secretary’s Executive Leadership Award, performance bonuses, or pay rate increases, to no more than 45 percent or 9 of its career senior executives as of the end of the appraisal cycles. Of BLM’s 17 rated career senior executives, 4 received performance bonuses, 3 received pay rate increases, and 1 received the Secretary’s Executive Leadership Award in 2000. In 2001, of BLM’s 19 rated career senior executives, 5 received performance bonuses and 4 received pay rate increases.

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## Conclusions

Leading organizations use their performance management systems to achieve results, accelerate change, and facilitate communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. Toward this end, BLM, FHWA, IRS, and VBA are in the early stages of implementing their new performance management systems for senior executives. In particular, while these agencies identified core competencies and supporting behaviors for senior executives to follow that are intended to contribute to results, they identified to a much lesser extent targets for senior executives to meet that are directly linked to organizational goals. In addition, they identified expectations for senior executive performance for customer satisfaction and employee perspectives.

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These agencies have taken the first steps in creating a performance management system for senior executives that is a strategic tool for holding individuals accountable for their contributions to results and organizational success. Their initial implementation approaches to manage senior executives' performance recognize the importance of providing useful data so that executives can track their individual performance against organizational results on a real-time basis and the benefit of requiring follow-up action on customer and employee issues through workgroup meetings and action plans. However, these agencies also acknowledge that they are still working at implementing effective systems that can make meaningful distinctions in performance.

There are significant opportunities to strengthen these efforts as they move forward in holding senior executives accountable for results. In particular, more progress is needed in explicitly linking senior executive expectations for performance to results-oriented organizational goals, fostering the necessary collaboration both within and across organizational boundaries to achieve results, and demonstrating a commitment to lead and facilitate change. These expectations for senior executives will be critical to keep agencies focused on transforming their cultures to be more results oriented, less hierarchical, and more integrated, and thereby be better positioned to respond to emerging internal and external challenges, improve their performance, and assure their accountability.

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## Agency Comments

We provided a draft of this report in August 2002 to the Secretaries of the Interior, Transportation, the Treasury, and Veterans Affairs and the Commissioner of Internal Revenue for their review. We received written comments from the Commissioner of Internal Revenue stating that our draft report accurately accounted for the factors that influence IRS's executive performance management and compensation system (see app. VI). In addition, cognizant agency officials from the Departments of the Interior, Transportation, and Veterans Affairs responded that they generally agreed with the contents of the draft report. In some cases, they also provided technical comments to clarify specific points regarding the information presented. Where appropriate, we have made changes to this report that reflect these technical comments.

We are sending copies of this report to the Secretaries of the Interior, Transportation, the Treasury, and Veterans Affairs; the Commissioner of Internal Revenue; and the Director of OPM. We will also make this report

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available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me or Lisa Shames on (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov). Janice Lichty and Bryan Rasmussen were key contributors to this report.

Sincerely yours,

A handwritten signature in black ink that reads "J. Christopher Mihm". The signature is written in a cursive style with a large, stylized "J" and "M".

J. Christopher Mihm  
Director, Strategic Issues



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# Objectives, Scope, and Methodology

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To meet our objectives, we focused our review on federal agencies that have implemented a set of balanced expectations in their performance management systems for all or a significant portion of their senior executives prior to the Office of Personnel Management (OPM) amending the regulations. Based on research and interviews with knowledgeable officials, we identified agencies that had relevant experience in using a set of balanced expectations for senior executive performance management systems. Among the possible agencies with relevant experience, we selected the Bureau of Land Management (BLM), Federal Highway Administration (FHWA), Internal Revenue Service (IRS), and Veterans Benefits Administration (VBA) because they provided variation in mission, size, and organizational structures.

To describe the sets of balanced expectations these agencies used to appraise senior executive performance, we collected and analyzed agencies' strategic plans, annual performance plans, and performance reports; personnel policies and memoranda; survey instruments and analyses; and the individual performance plans and self-assessments of the senior executives we interviewed. We used the categories in OPM's regulations to classify the agencies' expectations for senior executive performance—organizational results, customer satisfaction, and employee perspectives. Based on our review of the agencies' expectations, we identified and categorized the general approaches that agencies took to contribute to organizational results, customer satisfaction, and employee perspectives, as shown in tables 1, 2, and 3 and included a sample of expectations along these approaches. Our analysis and characterization for categorizing the performance expectations and examples of those expectations was independently reviewed and agreed upon for the three categories.

To identify the initial implementation approaches these agencies have taken that may be helpful to other agencies as they manage senior executive performance against the balanced expectations, we interviewed senior executives in person or over the telephone at the four agencies. At BLM, FHWA, and VBA, we randomly selected 10 career senior executives to interview at each agency, including 5 executives randomly drawn from central headquarters and 5 executives randomly drawn from the field offices. At IRS, because of the larger number of senior executives, we randomly selected 21, or 10 percent, of the career senior executives to interview, including at least 5 executives randomly drawn from central headquarters and at least 5 executives randomly drawn from the field offices. The random selections covered two or more levels of the Executive

Schedule for senior executives in each agency. This sample is representative of the senior executives at their respective agencies.

We identified the examples described in this report through our interviews with senior executives and other agency officials. We did not independently verify the testimonial evidence from the interviews or the documents that senior executives and agency officials provided to us. We also did not attempt to assess the prevalence of the examples we cite among the senior executives within the same agency. Therefore, senior executives other than those cited for a particular example may, or may not, be engaged in the same actions.

In addition, we spoke with the Commissioner of Internal Revenue, the former Under Secretary of Benefits for VBA, and the former Deputy Director for BLM to discuss their agencies' experiences and challenges in implementing balanced expectations in their performance management systems. We interviewed agency officials responsible for managing human capital, implementing the Government Performance and Results Act (GPRA), and administering agencywide customer and employee satisfaction surveys, as well as other agency officials identified as having particular knowledge of balanced expectations and performance management in general. We spoke to OPM officials responsible for the senior executive performance management regulations to discuss the development and implementation of the regulations, as well as officials responsible for amending and implementing the general workforce performance management regulations. Lastly, we met with the President of the Senior Executives Association and other subject matter experts from the National Academy of Public Administration, Brookings Institution, and PricewaterhouseCoopers Endowment for The Business of Government. We performed our work in Washington, D.C. from October 2001 to July 2002 in accordance with generally accepted government auditing standards.

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# BLM's Senior Executive Performance Plans

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## Performance Elements

BLM's senior executive performance plans for the 2001 performance appraisal cycle from July 1, 2000, through June 30, 2001, are structured around four performance elements that correspond with BLM's strategic goals. These performance elements and their fully successful performance standards include the following.

Restore and maintain the health of the land: Understand and plan for the condition and use of the public lands by conducting assessments and completing land use plan evaluations; restore at-risk resources and maintain functioning systems, particularly riparian areas and watersheds; incorporate management land health standards into decisions and plans; implement the National Fire Plan; and emphasize resource protection by assuring that work commitments for monitoring and inspection are met, appropriate enforcement actions are taken, and results are recorded.

Serve current and future publics: Ensure the National Environmental Policy Act and environmental analyses are sufficient to sustain program decisions; reduce threats to public health, safety, and property by completing deferred maintenance projects; continue action on energy and mineral leases, permits, and claims; implement BLM's wild horse and burro national strategy in accordance with program directives; and improve land, resource, and title information by participating in the development and implementation of bureauwide data standards.

Improve organizational effectiveness: Continue to improve customer service through timely and enhanced consultation, cooperation, and communication with government officials and others to build consensus; review public comment cards and survey results to determine where improvements can be made; expand partnerships to implement on-the-ground activities; implement the service-first concept and improve overall services; and improve program accountability and performance by staying within the organizational cost targets and assuring the accuracy of cost data, conducting the work aligned with cost targets, and improving work processes and internal management practices based on analyses of management and evaluation data, such as activity-based cost data.

Improve human resources management and quality of worklife: Develop a strategy to provide for a needed workforce by developing and implementing a response to the workforce plan; maintain a trained and motivated workforce by implementing plans and strategies to improve the satisfaction of BLM employees by assuring each employee has a current

position description and individual performance plan linked to the strategic plan, and providing appropriate training for employees at all levels; demonstrate improvement in diversity and composition of the workforce as measured by the percent of hiring opportunities in which diversity candidates are placed; demonstrate commitment to nondiscrimination in the workplace by ensuring that individuals are not denied employment or career advancement opportunities due to gender, race, and other factors; and provide development opportunities to subordinates to help them participate in the goal of achieving workforce diversity.

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### Performance Standards for Elements

BLM included the fully successful performance standards for each of the performance elements in the executive's individual performance plans, described above. Executives receive a rating of "pass" if they meet the fully successful standard for an element. Executives could also receive a rating of "provisional" or "fail" for each element.

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### Performance Standards for Summary Ratings

Executives receive a summary rating of "pass" if they fulfill the fully successful standards for all the performance elements in their performance plans. Executives could also receive a summary rating of "provisional" or "fail."

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### Proposed Revisions for the 2002 Rating Year Performance Plans

According to BLM officials, BLM is planning to revise the performance elements in its senior executive performance plans for the 2002 performance appraisal cycle to reflect the priorities of BLM and the Department of the Interior. The elements include GPRA, key management objectives, the President's Management Agenda, and 4Cs philosophy (consultation, cooperation, communication, all in the service of conservation). Each performance element will include a fully successful performance standard. The performance elements and standards include the following.

- GPRA— (1) Restore and maintain the health of the land by conducting assessments and completing land use plan actions as planned, (2) serve current and future publics by ensuring the National Environmental Policy Act and environmental analyses are sufficient to sustain program decisions implementing the President's Energy Plan while assuring that the National Environmental Policy Act and planning guidelines are met, and (3) implementing BLM's wild horse and burro national strategy.

- **Key management objectives**—Implement the Director's priorities by (1) assisting in the development of options to establish conservation reserves, (2) improving the productivity and diversity of public lands, (3) executing the National Fire Plan, (4) developing opportunities for alternative sources of energy in land use planning and program implementation, (5) completing new or revised land use plans as proposed in congressional justifications, and (6) achieving targets for abandoned mine lands/herd management areas consistent with the revised wild horse and burro strategy and BLM's annual performance plan.
- **President's Management Agenda**—Improve financial management, improve performance and budget integration, implement e-government, make progress in the strategic use of human capital, and develop and implement BLM's competitive sourcing plan. Specific ways to address these areas were included.
- **4Cs philosophy**—Demonstrate innovative approaches to implementing the Secretary's 4Cs so that those impacted by BLM decisions are considered and their concerns addressed; and demonstrate personal leadership through significant contributions to achieving the organization's goals, positioning the organization for the future, through complex situations and working with others.

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# FHWA's Senior Executive Performance Plans

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## Performance Elements

FHWA's senior executive performance plans for fiscal year 2001 consist of performance objectives that senior executives work to achieve during the year. FHWA requires its senior executives to set critical and noncritical performance objectives that are tailored to their responsibilities within their respective offices and aligned with the FHWA Administrator's performance agreement with the Secretary of Transportation. These objectives are to contribute to FHWA's corporate management strategies, which are based on the Malcolm Baldrige and the Presidential Quality Award criteria. These criteria include the following.

- **Leadership**—Strengthen FHWA's Leadership System, through training and other developmental initiatives, for the agency's new organizational culture; set the vision and direction, ensure accountability, and provide the resources to deliver the products and services to the customers in an excellent and timely manner.
- **Strategic planning**—Translate strategies into unit, division, team, and individual action plans with performance measures based on the strategic objectives and performance goals.
- **Customer and partner focus**—Identify customer and partner needs and measure their level of satisfaction; achieve success through extensive cooperation and partnering with state and local transportation agencies; receive and act upon feedback from customers and use that information to improve products and services to ensure customer and partner needs are met.
- **Information and analysis**—Identify and develop key business information systems that meet and track the Department of Transportation and FHWA strategic goals; create an environment in which knowledge, as a key asset of the agency, is managed, shared, and used effectively.
- **Human resource development and management**—Increase employee technical competence, authority, and the tools needed to meet agency and customer needs; continue to develop and utilize the full potential of the agency's human resources and create an environment that is conducive to performance excellence and personal and organizational growth.

- Process management—Design, manage, and improve key processes to achieve better results; use customer- and employee-focused support, service, and delivery processes to continually improve performance and enhance products and services.
- Business results—Develop critical FHWA business metrics to measure the overall quality of processes and services and report results; use customer feedback and benchmark high-performance organizations to continuously improve overall performance for the customers.

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## Performance Standards for Elements

FHWA appraises senior executives on their achievement towards each critical and noncritical performance objective.

Initial assessment ratings: For each performance objective in their individual performance plan, senior executives receive an assessment of “achieved results,” “minimally satisfactory,” or “unsatisfactory.”

- Achieved results—Performance that fully meets, exceeds, or demonstrates sufficient progress toward the attainment of the objective as defined by the performance targets.
- Minimally satisfactory—Performance that only partially meets or only partially demonstrates sufficient progress toward the attainment of the objective as defined by the performance targets.
- Unsatisfactory—Performance that fails to meet or demonstrate sufficient progress toward attainment of the objective as defined by the performance targets.

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## Performance Standards for Summary Ratings

FHWA appraises senior executives on their achievement towards all the performance objectives in their individual plans.

Summary ratings: Senior executives receive a summary rating on the achievement of their performance objectives. The summary rating levels include “achieved results,” “minimally satisfactory,” and “unsatisfactory.”

- Achieved results—All critical objectives must be assessed achieved results. No more than one noncritical objective can be assessed minimally satisfactory and none can be assessed unsatisfactory.

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- Minimally satisfactory—One or more critical objectives or two or more noncritical objectives assessed minimally satisfactory, or one or more noncritical objectives assessed unsatisfactory.
  - Unsatisfactory—Unsatisfactory assessment on any critical objective.



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# IRS's Senior Executive Performance Plans

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## Performance Elements

IRS's senior executive performance plans for fiscal year 2001 are structured around responsibilities, commitments, and a retention standard.

Responsibilities: The responsibilities reflect the core values of IRS that are shared by all executives and managers for achieving performance excellence. The responsibilities are structured around (1) leadership, (2) employee satisfaction, (3) customer satisfaction, (4) business results, and (5) equal employment opportunity.

- **Leadership**—Successfully leads organizational change, effectively communicates the mission and strategic goals to employees and other stakeholders, responds creatively to changing circumstances, and uses sound judgment to make effective and timely decisions.
- **Employee satisfaction**—Ensures that a healthy work environment is maintained, creates an environment for continuous learning and development opportunities, and effectively uses feedback and coaching to promote teamwork and skill sharing.
- **Customer satisfaction**—Listens to customers, analyzes their feedback to identify their needs and expectations, builds strong alliances, and involves stakeholders in making decisions and achieving solutions.
- **Business results**—Develops and executes plans to achieve organizational goals, leverages resources to maximize efficiency and produce high quality results, and learns about current and emerging issues in own field of expertise.
- **Equal Employment Opportunity**—Takes steps to implement equal employment opportunity; cooperates with equal employment opportunity officials on complaints; assigns work and makes employment decisions without regard to sex, race, color, national origin, and other factors; and monitors work environment to prevent instances of prohibited discrimination and/or harassment.

Commitments: Executives are to identify commitments they will accomplish during the year that are based on the responsibilities. The commitments describe a limited number of critical actions; objectives, such as personal development objectives; and/or results that the executive will work to achieve. They are specific to each executive and should be derived from, and directly contribute to, the program priorities and

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objectives established by the organization's annual business or operations plan. In addition, senior executives are to establish a principal commitment in their individual performance plans focused on the overall attainment of objectives to accomplish the operating division's performance plan.

Retention standard: IRS developed a performance standard relating to the fair and equitable treatment of taxpayers that senior executives must meet.<sup>12</sup> The retention standard states: "Consistent with the individual's official responsibilities, administers the tax laws fairly and equitably, protects taxpayers' rights, and treats them ethically with honesty, integrity, and respect." According to IRS, the executive and supervisor review the retention standard to ensure mutual understanding.

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## Performance Standards for Elements

IRS appraises senior executives on their achievement towards their responsibilities, commitments, and retention standard.

Responsibilities: The executives receive a rating on how well they achieved their responsibilities during the year and the actions taken to support the accomplishment of the strategic goals and annual business plan. These ratings include the following.

- Exceeded—In addition to placing appropriate emphasis on the five sets of responsibilities, served as a role model in one or more of the five sets. Actions taken were exemplary in promoting accomplishment of the annual business plan and strategic goals.
- Met—Placed appropriate emphasis on each of the five sets of responsibilities. Appropriate actions were taken to support accomplishment of the annual business plan and strategic goals.
- Not met—Placed insufficient emphasis on one or more sets of responsibilities. Actions taken were inappropriate, ineffective, or undermined strategic goals or annual business plan accomplishment.

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<sup>12</sup> For more information on IRS's retention standard, see U.S. General Accounting Office, *Tax Administration: IRS' Implementation of the Restructuring Act's Personnel Flexibility Provisions*, [GAO/GGD-00-81 \(Washington, D.C.: Apr. 28, 2000\)](#).

Commitments: The executives receive a rating on how well they achieved the desired results outlined in their performance commitments. The ratings include the following.

- Exceeded—Overcame significant obstacles, such as insufficient resources, conflicting demands, or unusually short time frames, in achieving or exceeding desired results.
- Met—Achieved or made substantial progress toward achievement of desired results.
- Not met—Did not achieve or make substantial progress toward achievement of desired results.

Retention standard: Executives are rated on whether they met or failed to meet their retention standard.

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## Performance Standards for Summary Ratings

Senior executives receive a summary evaluation, which combines the ratings they received for their responsibilities, commitments, and retention standard. Summary evaluation ratings include the following.

- Outstanding—The executive met the retention standard and performed as a model of excellence by exceeding the responsibilities and commitments in the individual performance plan, despite constantly changing priorities, insufficient or unanticipated resource shortages, and externally driven deadlines. The executive consistently demonstrated the highest level of integrity and performance in promoting the annual business plan and IRS's strategic goals and objectives. The executive's effectiveness and contributions had impact beyond his or her purview.
- Exceeded—The executive met the retention standard and generally exceeded both the responsibilities and commitments in the individual performance plan. However, the executive may have met the retention standard and demonstrated exceptional performance in either responsibilities or commitments and met the expectations of the other. The executive may have overcome significant organizational challenges, such as coordination with external stakeholders (e.g., the National Treasury Employees Union and the Congress) or insufficient resources. The executive's effectiveness and contributions may have had impact beyond his or her purview.

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- **Met**—The executive met the retention standard and the responsibilities and commitments in the individual performance plan with solid, dependable performance. The executive consistently demonstrated the ability to meet the requirements of the job. Challenges encountered and resolved are part of the day-to-day operation and are generally routine in nature.
  - **Not met**—The executive failed to meet the retention standard, responsibilities, and/or commitments. Repeated observations of performance indicated negative consequences in key outcomes, such as quality, timeliness, and business results. Immediate improvement is essential.

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# VBA's Senior Executive Performance Plans

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## Performance Elements

VBA's performance plans for its senior executives in the regional offices for fiscal year 2001 are structured around common performance elements—service delivery, organizational support/teamwork, leadership development, external relations, and workplace responsibilities.

Service delivery: The executive leads the regional office in the pursuit of outstanding performance in all applicable program areas, and as a team member helps the Service Delivery Network and VBA as a whole to improve performance. Appropriate emphasis is placed on the balanced scorecard and the executive's performance against the balanced scorecard targets. The categories of the balanced scorecard include:

- customer satisfaction—organizational perspective from the viewpoint of the veterans, service delivery partners, and other stakeholders;
- accuracy—the quality of work performed;
- speed or timeliness—the length of time it takes to complete specific end products or work units;
- unit cost—costs associated with producing a service or a product; and
- employee development and satisfaction—the skill level of the workforce, training needs, course development, and satisfaction with the job and organization.

Organizational support/teamwork: The executive regularly participates in activities and projects intended to further the goals of the Service Delivery Network and VBA as a whole while functioning as a dedicated and skillful team player. These activities typically require the contribution of local resources such as projects at the national level, special ad hoc efforts, and innovations. The executive is assigned to a certain number of projects during the year in light of the size of the executive's regional office.

Leadership development - executive competencies and qualifications: The executive identifies developmental activities in a proposed leadership development plan, which is to be submitted at the beginning of the performance year. The executive engages in substantial personal development activities such as attending training courses, reading books, and undertaking projects in order to develop skills. These activities focus on OPM's Executive Core Qualifications including leading change, leading

people, results driven, business acumen, and building coalitions and communications.

External relations: The executive builds effective, productive relationships with organizations external to VBA in order to further the department's goals and interests. Examples of activities include work on a Federal Executive Board project, participation in Veterans Integrated Service Network meetings, and relations with the media, congressional offices, and service organizations.

Workplace responsibilities: The executive assures a high quality of work life for all employees of the regional office by:

- promoting and maintaining an effective labor-management relations program that incorporates the principles of partnership;
- creating and maintaining a working environment that is free of discrimination and one that assures diversity in the workplace;
- ensuring that plans exist and are adequately implemented to recruit, train, retain, motivate, empower, and advance employees and that they promote the needs and goals of the individual and the organizations; and
- providing a safe, healthy work environment.

VBA identified indicators of performance for this element including performance management and recognition, employee development and training, equal employment opportunity policy statement, physical plant enhancements, and employee satisfaction surveys.

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## Performance Standards for Elements

Senior executives receive a level of achievement of "exceptional," "fully successful," or "less than fully successful" for each element in their individual performance plan as measured against the established performance requirements. For example, for organizational support and teamwork, the executive's performance is acceptable if the rater determines that completion of projects and innovations is substantially equal to agreed-upon expectations and the executive demonstrates cooperation with other executives in the attainment of these goals where applicable. For elements where a level of achievement other than fully successful has been assigned, the rating official must describe the executive's achievements on additional pages.

- **Exceptional**—Fully successful performance requirements for the element are being significantly surpassed. This level is reserved for employees whose performance in the element far exceeds normal expectations and results in major contributions to the organization.
- **Fully successful**—Performance requirements for the particular element when taken as a whole are being met. This level is a positive indication of employee performance and means that the employee is effectively meeting performance demands for this component of the job.
- **Less than fully successful**—A level of performance that does not meet the requirements established for the fully successful level. Assignment of this achievement level means that performance of the element is unacceptable.

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## Performance Standards for Summary Ratings

The senior executives receive a summary rating level of “outstanding,” “excellent,” “fully successful,” “minimally satisfactory,” or “unsatisfactory” performance based on the achievement levels assigned for each performance element.

- **Outstanding**—Achievement levels for all elements are designated as exceptional.
- **Excellent**—Achievement levels for all critical elements are designated as exceptional. Achievement levels for noncritical elements are designated as at least fully successful. Some, but not all, noncritical elements may be designated as exceptional.
- **Fully successful**—The achievement level for at least one critical element is designated as fully successful. Achievement levels for other critical and noncritical elements are designated as at least fully successful or higher.
- **Minimally satisfactory**—Achievement levels for all critical elements are designated as at least fully successful.
- **Unsatisfactory**—The achievement level(s) for one (or more) critical element(s) is (are) designated as less than fully successful.

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## Revisions to the Fiscal Year 2002 Performance Plans

For fiscal year 2002, VBA revised its performance plans for the senior executives in the regional offices to improve individual accountability for performance elements by linking organizational performance goals and actual performance with meaningful and measurable performance elements. VBA outlined specific sub-elements for the service delivery element and replaced the leadership development element with two additional elements—program integrity and information security. These revisions include the following.

Service delivery: This element focuses on the executive's performance towards the balanced scorecard targets at the regional office and national levels, in addition to specific performance priorities with corresponding targets.

- Achieve monthly rating production goals—The executive will meet monthly rating production goals in either 9 out of 12 months or meet or exceed overall average monthly production goals.
- Improve the timeliness of rating end products completed—The executive will meet the average days of completion for specific end products and improve a specified percentage based on his or her office's performance relative to the national performance. Also, the executive will improve the cycle times of claims processing in development, rating, and authorization time as shown in the Claims Automated Processing System records. In addition to reducing the cycle time, the executive will establish 70 percent of his or her claims, after December 1, 2001, within 7 days.
- Reduce total compensation and pension cases pending over 6 months—The executive will improve a specified percentage based on the percentage of fiscal year 2001 cases pending over 6 months. For example, if an executive's office has over 50 percent of compensation and pension cases pending over 6 months as of the end of fiscal year 2001, the executive will achieve a 5 percent improvement by the end of the 2002 rating year.
- Reduce the pending inventory of compensation and pension claims—The executive will reduce the number of rating and authorization cases pending by set targets for each office. Meeting these targets will reduce VBA's inventory of rating-related cases to a total of 315,586 cases and



reduce VBA's authorization cases by at least 20 percent by the end of the rating period.

- Reduce inventory of appeals and achieve improvement in remand timeliness—The executive will reduce the total number of pending appeals by 10 percent and will achieve a 10 percent improvement in the average number of days a remand is pending.
- Achieve established balanced scorecard targets—The executive's performance on this element will be determined by comparing the regional office's performance towards the regional office scorecard targets (weighted 80 percent) and the office's contribution to VBA's national scorecard targets (weighted 20 percent). The executive must achieve a minimum level of 90 percent of the composite target.
- Service delivery network resource center and regional processing organization functions<sup>13</sup>—Service delivery network resource center executives are required to meet specific monthly production targets either in 9 of 12 months or meet or exceed the overall average of monthly production goals. Regional processing organization directors will have an additional standard provided at a later date.
- Additional priorities as established by the Secretary for Veterans Affairs will also be used to evaluate performance in this element.

Program integrity: The executive will lead his or her regional office to ensure compliance with VBA's program integrity directives. The executive is responsible for ensuring that program integrity initiatives and policies are implemented, assessed through an effective internal control process, and adjusted as necessary to achieve appropriate results. The executive will accomplish this by adhering to VBA's program integrity directives and the Inspector General recommendations that are applicable and ensuring that on-site reviews do not reveal critical flaws in oversight of program integrity issues.

Information security: The executive must exercise due diligence in efforts to plan, develop, coordinate, and implement effective information security

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<sup>13</sup> VBA reorganized its regional office structure from nine service delivery networks to four areas in May 2002. With the reorganization, the service delivery network resource centers are now called resource centers.

procedures as identified by the Office of Management and Budget, the National Institute of Standards and Technology, Veterans Affairs' policies, and VBA guidance and policy documents. The executive will have met this element by ensuring that information system security plans exist and are implemented in accordance with the National Institute of Standards and Technology and Office of Management and Budget guidelines; ensuring that annual risk assessments are conducted for each identified information security—applications, hardware, software—to ensure that the identified risks, vulnerabilities, and threats are addressed by appropriate security controls; and ensuring that all employees comply with departmental training requirements to understand their information security responsibilities.

# Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D. C. 20224

September 9, 2002

Mr. Michael Brostek  
Director, Tax Administration and Justice  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Brostek:


Thank you for the opportunity to review and comment on your draft report entitled "Results-Oriented Cultures: Initial Approaches to Manage Senior Executive Performance Against Balanced Expectations (GAO-02-966)." Upon review, we were pleased the report recognized the great strides the IRS has made in redesigning our executive performance management system to provide useful data, require follow-up actions, and make meaningful distinctions in performance.

Your report is comprehensive and accurately accounts for the factors that influence our executive performance management and compensation system. While we have been pleased with the operation of the system thus far, we realize, as you note in your report, that more needs to be done with regard to explicitly linking executive expectations for performance to organizational goals and objectives. We currently use Performance Review Boards to ensure that the performance agreements and evaluations of our executives align with and reflect the Service's strategic goals, annual business plans, and organizational performance measures. We are continually improving our organizational performance measures to strengthen the linkage of executive expectations for performance to those organizational performance measures.

You also note in your report that the culture change necessary for organizational transformation begins at the top. We not only embrace that notion in the IRS, we practice it. Concurrent with the implementation of our new executive performance management system at the top of the organization, we implemented a similar performance management and compensation system for the next layer of management, and we anticipate expanding that system to the rest of our managers in FY 2003.

If you have any questions, you should feel free to contact Ronald P. Sanders, the Service's Chief Human Resource Officer, at (202) 283-9200.

Sincerely,

  
Acting for Charles O. Rossotti

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