

109642

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C. 20548

~~10,475~~

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M. EDT
THURSDAY, JUNE 14, 1979

STATEMENT OF
DONALD L. SCANTLEBURY
DIRECTOR
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION
BEFORE THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON CIVIL SERVICE
ON
[FEDERAL PRODUCTIVITY AND PERFORMANCE APPRAISAL SYSTEMS]

H. R.

H.R. 02907

Madam Chairwoman and Members of the Subcommittee:

We are here today at your request to discuss productivity in the Federal Government, and the role of performance appraisal systems in enhancing productivity improvement. In your letter of May 16, 1979, you asked that we address a number of issues relating to the need for productivity improvement efforts in the Federal Government, the problems and status of Federal Government productivity activities, and our opinions of the direction future programs should take. Within this framework I will discuss performance appraisal systems and how they can be used to improve Federal Government performance.



109642

Testimony
005592

The Federal Government has a major impact on our national productivity growth both directly through ongoing programs and indirectly through taxes, subsidies, regulations, fiscal policies, and the like. Between 1967 and 1977, the Federal Government's productivity increased an average of 1.3 percent annually. With Federal civilian employee compensation and benefits at \$54 billion, not including the Postal Service, this limited productivity growth is a concern to the President, the Congress, and the general public.

The current national economic situation has caused the public to look very critically at the Government's costs and benefits. Inflation is troubling at all income levels, and people are searching for the best buy for a dollar--whether that dollar is spent for gas or Government services.

The benefit to be derived from improved efficiency of the Federal work force is enormous. The most obvious result is that either the level of services could be increased by using the same number of workers or the work force could be cut and result in budget reductions. For example, if overall productivity could be increased by an additional 1 percent, 29,000 fewer employees would be needed to provide the present level of Government services. To achieve such results, however, Government managers must go beyond merely occasionally installing efficient practices. They must actively participate in a continuing and coordinated productivity improvement programs.

The goals of a Federal productivity program should not be viewed only in terms of achieving a given numerical level of annual productivity growth. To do so would unnecessarily limit the focus of a program that can improve Government services without increasing taxes. Instead, the goal of such a program should be to establish and maintain a coordinated effort to improve Federal productivity. At this time there are many diverse and sometimes conflicting efforts to improve productivity. The Federal productivity program should provide a focus for all of these activities and enable them to act in unison.

GAO ASSESSMENTS OF PAST
PRODUCTIVITY EFFORTS

We in GAO have had a long and continuing interest in improving the management and efficiency of the Federal work force and have undertaken a major effort to

- monitor the status of productivity in the Government,
- identify problems associated with its improvement, and
- improve the state-of-the-art in evaluating productivity programs.

As we view past productivity efforts we find the following problems have limited progress toward improving Government productivity:

First, there has been no continuing focal point to lead Federal productivity efforts. Over the past few years leadership responsibility for Federal productivity has been shifted

between OMB, the Joint Financial Management Improvement Program, the National Center for Productivity and Quality of Working Life, and now to the Office of Personnel Management.

Second, there is a tendency toward rhetoric. While discussions about poor productivity performance show concern for better Government, the time for mere discussion is past. We and others have spent much time and effort making Federal managers and Congress aware of the Government's current low productivity performance and its impact. Energy now needs to be turned toward actively improving productivity.

Third, there has been a lack of action directed toward overcoming the barriers to improving productivity. These barriers include the absence of profit motive, diverse missions, lack of high-level interest, both in the Executive branch and the Congress, disincentives of classification standards and the budget process, absence of specific goals, and unnecessary regulations that erode managers ability to manage.

Fourth, there has been little effort aimed at developing, using, and refining performance measures. Managers have often postponed using performance measures on the basis that available measures are either of inadequate quality or are not applicable to their needs. Unfortunately, postponement is often also related to a lack of support and commitment on the part of managers. While it is true that certain types of work are difficult to measure with reasonable accuracy, the majority of Government

operations have specific, definable, and measurable goals and outputs. Measures can gradually be refined to the desired degree of accuracy, but only, of course, if managers are using them. Refinement of performance data often rests solely on continual collection of data, use of the data, and evaluation of the usefulness in order to make needed changes. Management commitment, however, is needed at all levels. Further, timetables need to be established for holding managers accountable for developing and using measures for their organizations.

PERFORMANCE MEASURES
ARE NEEDED FOR GOOD
MANAGEMENT

Holding managers accountable for improving productivity requires that there be tools available for assessing managers' performance. For assessment purposes, performance measurement systems such as productivity and work measures provide tools by which changes--hopefully improvement changes--can be tracked. In this manner, performance measures identify the need for both rewards and adverse action. The development of productivity data requires quantification of outputs, such as goods and services produced, and inputs, such as staff-hours or other resources used in production. A work measurement system requires these two components plus some standard or expected rate of production. Therefore, these three things--output, input, and standards--form the building blocks of a measurement system.

A prerequisite to using productivity data is a determination of the technical feasibility of measuring an agency's workload and staff productivity in a manner that will be reliable and useful. Agencies, programs, or activities with clearly defined missions are most amenable to measurement. On the other hand, some agency objectives are more difficult to measure. Generalized services, like providing medical care or law enforcement, are less conducive to measurement than routine processing of cases or applications.

Some types of activity, such as research, are not quantifiable under current methodologies and should be recognized as such. It has been our experience, however, that such activities are a small part of the overall Government workload; our work with Federal productivity measurement systems has shown that the majority of Federal activities can be measured.

There is one other point that I want to emphasize here. Efficiency measures do not comment on the appropriateness of an activity itself. Thus, limiting one's perspective solely to performance measures can lead to a conclusion that an activity is efficient, but not to a conclusion about its need or effectiveness. By the same token, a sole concentration on results achieved can produce these results at a far greater cost than necessary because wasteful and inefficient methods were followed. Although I will be concentrating on efficiency measures in this testimony, I want to stress that

both efficiency and effectiveness measures are necessary to get a true picture of an organization's performance.)

Observations from past reviews

We have conducted a number of evaluations of performance measurement in the Federal agencies. In these reviews we have generally found three barriers to effective measurement systems

- inaccurate measurement data,
- untimely and inaccurate reporting, and
- lack of managerial commitment.

Each of these problems contributes to the lack of use of performance measures as a tool for improving productivity. Inaccurate measurement data is developed when work measurement is not based on efficient methods of accomplishing tasks or is not regularly reviewed. As a consequence, the measurement system loses credibility and usefulness. We found this to be the case at the Government Printing Office and the Department of Defense. The Government Printing Office updated standards solely on historical performance instead of examining changes in the process. If output declined for any reason, the standard also declined; 13 of 17 operations examined showed such declines, resulting in increased costs of \$86,000.

The Department of the Army had standards that allowed a given amount of time to perform certain tasks. On this basis, management determined that labor was performing at 12 percent

above standard. However, when the standards were properly adjusted, it was determined that labor was actually performing at 19 percent below standard.

Reporting systems can be inaccurate and misleading if there is a lack of control or monitoring of information. When reporting problems are combined with poor standards, the validity of performance measurement data is further jeopardized. We found this type of situation at the Postal Service. The Postal Service had a complex measurement system in its mail processing operation that produced inflated productivity data due to errors in reporting output data, incorrect procedures, arbitrary adjustments, and inadequate equipment. Unfortunately, the Postal Service decided to eliminate the system rather than make needed changes.

In another example of reporting problems, at the Government Printing Office we found that improper training of measurement clerks resulted in inflating the reported performance level for one section of proofreaders. If that section had actually been performing at the erroneously reported level--which was the average for all other proofreaders in GPO--the savings would have amounted to \$400,000 annually.

The lack of managerial commitment magnifies and perpetuates problems of inaccuracies and poor reporting. Further, managerial indifference prevents full utilization of performance measurement data. For example, the Postal Service produced reports

which allowed them to review the relative efficiency of various offices, but the reports were not used by upper level management. In another example, the Veterans Administration has good work measurement data, but we found the data was not used for developing staff requirements. Performance measurement data can be made even more useful by integrating it with other systems such as zero-based budgeting and accounting systems, and as such can be used for analytical and comparative purposes. However, interest and management commitment are needed to achieve this end.

The type of managerial commitment needed can be seen in the Canadian Government. Recognizing the importance of performance information for sound control by managers, the Canadian Government issued, in 1976, a policy which directs departments and agencies to measure regularly the ongoing performance of their programs for internal management and for supporting budget requests. Further, they have established a target date for these measures to be implemented by 1980.

We have become convinced that poor utilization of performance measures is born of the fact that there are more disincentives than incentives to using them. The disincentive of potentially reducing a manager's work force, and hence his or her grade level, is well known, as is the fact that measures make managers' performance more visible. In order to overcome these disincentives, we feel there are three approaches to fostering successful performance measurement programs.

These approaches are:

- using auditing to examine and report on the use of productivity data,
- requiring the use of productivity data in the budget process, and
- linking managers' pay to their performance, and using productivity data to aid in assessing performance.

Using the audit function to point out the status and improvements needed in specific productivity programs has proven to be effective and should continue to be used. However, it is an after-the-fact pressure point. My previous remarks delineated many findings of GAO's audits, consequently we will not delve deeply into audits at this point. Rather, I would like to look at the budget process and pay-to-performance programs.

Using productivity data
in the budget process

The budget process, as the lifeblood of Federal agencies, provides the most appropriate method for encouraging management improvement in agencies. Using productivity data is a most effective way for agencies to support and demonstrate productivity improvements. However, as the budget process now functions, many agency executives and managers believe that demonstrating productivity related improvements often result in penalties rather than rewards. Examples given to us include arbitrary

across-the-board reductions in staffing and reduction of the next year's budget to force continued productivity improvement. Officials in all of the agencies we have contacted gave examples of how budget reviews in both the Office of Management and Budget and the Congress seemed insensitive to what agencies believed were innovative proposals to increasing productivity. To them, the distressing message was that genuine efforts at improving productivity were often met with at best, apathy, or at worst, arbitrary budget cuts.

This management environment can be significantly improved by providing meaningful incentives to agency managers. This will require an attitudinal change about the significance of efficiency and good management. The change in attitudes must be reflected in the budgetary process--both at OMB and in Congress--and at the individual employee level. Without attaching real importance to programs designed to improve management, those programs are likely to fail.

Although productivity data is available in most agencies, its use by agencies, the Office of Management and Budget, and the Congress has been limited. This, in our opinion, is detrimental to the allocation of resources and to the efficiency of Federal activities.

We believe OMB and Congress can encourage the use of productivity data by

--requesting it to support requests for staffing increases,

- requesting concise statements on the status of agency or department productivity improvement programs, work measurement systems, and the extent to which budgets are based on productivity data,
- creating an atmosphere of positive reinforcement for using productivity data through budgetary and organizational incentives, and
- encouraging agencies to identify major productivity improvements possible through investment in capital equipment.

This type of emphasis has been demonstrated to have a significant and positive impact on an agency's productivity.

Using productivity data
to appraise performance

In order for managers to be concerned about performance measures, the measures must be part of the system by which they are evaluated and rewarded. Performance appraisals form one of the fundamental cornerstones in the reform of Government management and its productivity. The Civil Service Reform Act now provides an excellent opportunity for increasing the use of measures by making them an integral part of managers' evaluations.

Performance appraisal requirements of the act cover four types of employees: senior executives, managers (GS-13, 14, and 15), supervisors (although not separately mentioned in

the act), and other employees. The act requires that the performance appraisal systems be used to make decisions on

--performance awards, in the form of annual bonuses and other cash awards, for members of the Senior Executive Service who provide distinguished and meritorious service and;

--merit pay for managers at the GS-13, 14, and 15 levels.

For senior executives, performance appraisals must be based on organizational as well as individual performance. The act similarly encourages use of organizational performance measures for managers GS-13, 14, and 15. Organizational performance would also be a part of appraisals for many supervisors.

For managers and senior executives the performance of the organization for which the individual is responsible is one of the most important facets of performance appraisal. The performance standards of the responsible manager will include the expected organizational accomplishments for which the manager is to be held accountable. Thus, executives and managers at almost any level could be held accountable for the productivity of the organizations they direct and the individuals they supervise as well as for processes they manage.

At this point , I believe it is important to specify that performance appraisal is not the same as nor a substitute for performance standards or productivity measurement programs.

It is a management tool which can promote improved productivity by recognizing and rewarding the performance of individuals who contribute to better productivity. This does not mean, however, that the rewards should go only to those employees whose output, by whatever measure, meets or exceeds expectations. This would over emphasize the quantity of results or or outputs and ignore managerial competence and functional and interpersonal relations skills.

Performance appraisals
and incentive awards
based on performance
measures

An appraisal system based on performance measures is highly conducive to an effective incentive awards program. The proper use of incentive awards can result in significant productivity improvements. Currently, however, Government rewards are not generally linked to organizational goals and objectives, and existing performance measures are not utilized.

This was clearly shown in our examination of 13 agencies, of which only two related their incentive awards to organizational goals. Even though most of the 13 Federal activities had established organizational goals, and further, had management information systems which related actual performance to organizational goals, these organizations generally did not hold managers accountable or reward them on how well they achieved their goals.

In contrast, private companies use incentive plans that are directly linked to company goals. Such plans start at the top where decisions are made and then filter through the management structure. Generally the goals for top managers involve company profits and rates of return. These managers are eligible for incentive awards based on how successful the business is in meeting its goals and upon their personal contributions to the success.

Increases in productivity through the use of an effective incentive awards program is well documented both in private sector companies and in Government activities. For example, a Navy activity we reviewed achieved noteworthy gains in this way. Initially low productivity, leave abuse, high turnover, and low morale among data transcribers were serious problems at a West Coast naval shipyard. The Navy installed a system to identify and award employees whose performance exceeded normal expectations. During the first year the new incentives program was used, productivity increased 18 percent. In addition, overtime requirements which had previously averaged 54 hours per week were virtually eliminated and a significant work backlog was eliminated. Because of the improvements at this shipyard, the program was implemented and had the same positive results at other West Coast shipyards. The Navy is currently trying

to implement a similar program for all installations employing data transcribers. They have projected minimum annual cost savings of \$920,000.

Although there is a direct and frequently measurable relationship between an incentives program and an organization's productivity, incentives alone will not bring about higher productivity. Some organizations have erred in the past by assuming that incentives alone would increase productivity. Incentives obviously are not a substitute for good management; rather, they are part of an effective managerial approach to obtaining higher productivity levels. But we believe it is equally incorrect to assume that an efficient work force or higher productivity levels can exist without an incentive awards program.

CONCLUSIONS

In conclusion, I would like to emphasize that [improving the poor Federal productivity performance requires top level focus and emphasis on improving productivity, and managerial commitment to using performance measurement systems.] In order to make these systems effective, though, managers need more than a vague concern for better Government; they need incentives that affect them on a daily basis. These would include:

Important to have all these systems and factors

--Rewarding managers and employees for productivity improvements within their organizational units.

These rewards may take the form of cash awards, special recognition, or bonuses.

--Providing managers with flexibility to manage resources unencumbered by certain personnel constraints and arbitrary controls.

--Giving organizations recognition for productivity improvements in the budget process, perhaps by allowing them to share in the savings produced.

Although the Civil Service Reform Act of 1978 is a positive step in increasing manager accountability and relating pay and awards to employee performance, this alone will not provide the needed improvements in productivity. Much will depend on the future work of the Office of Management and Budget, the Office of Personnel Management, the Congress and, of course, individual agencies.

We believe that the Office of Management and Budget should

--establish a policy which directs departments and agencies to measure regularly the ongoing performance of these programs] and establish a target date for these measures to be implemented,

--require productivity data to support agency budget requests,

- provide departments and agencies with incentives in the budget process to improve management,
- identify management issues for the attention of departments and agencies, and
- provide support for agency management improvement efforts.

The Office of Personnel Management should

- ensure that agencies have quantifiable performance measures in their performance appraisal and incentive awards programs to provide the proper link between pay and performance,
- provide technical assistance to departments and agencies in the development of performance measures.

- - - - -

This concludes my statement; I would be pleased to answer any questions the Chairwoman or members of the Subcommittee may have.