United States General Accounting Office

GAO

Report to Congressional Requesters

March 2003

RESULTS-ORIENTED CULTURES

Creating a Clear Linkage between Individual Performance and Organizational Success

GAO

Accountability ★ Integrity ★ Reliability

GAO-03-488

March 2003

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Creating a Clear Linkage between Individual Performance and Organizational Success

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Highlights

Highlights of GAO-03-488, a report to congressional requesters

Why GAO Did This Study

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. High-performing organizations have found that to successfully transform themselves, they must often fundamentally change their cultures so that they are more results-oriented, customer-focused, and collaborative in nature. To foster such cultures, these organizations recognize that an effective performance management system can be a strategic tool to drive internal change and achieve desired results.

Based on previously issued reports on public sector organizations' approaches to reinforce individual accountability for results, GAO identified key practices that federal agencies can consider as they develop modern, effective, and credible performance management systems.

www.gao.gov/cgi-bin/getrpt?GAO-03-488.

To view the full report, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

Public sector organizations both in the United States and abroad have implemented a selected, generally consistent set of key practices for effective performance management that collectively create a clear linkage—"line of sight"—between individual performance and organizational success. These key practices include the following.

1. Align individual performance expectations with organizational goals. An explicit alignment helps individuals see the connection between their daily activities and organizational goals.

2. Connect performance expectations to crosscutting goals. Placing an emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.

3. Provide and routinely use performance information to track organizational priorities. Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.

4. Require follow-up actions to address organizational priorities. By requiring and tracking follow-up actions on performance gaps, organizations underscore the importance of holding individuals accountable for making progress on their priorities.

5. Use competencies to provide a fuller assessment of performance. Competencies define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.

6. Link pay to individual and organizational performance. Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable, and transparent performance management systems with adequate safeguards.

7. Make meaningful distinctions in performance. Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to reward top performers and deal with poor performers.

8. Involve employees and stakeholders to gain ownership of performance management systems. Early and direct involvement helps increase employees' and stakeholders' understanding and ownership of the system and belief in its fairness.

9. Maintain continuity during transitions. Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

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Abbreviations

BLM	Bureau of Land Management
DOT	Department of Transportation
FAA	Federal Aviation Administration
IRS	Internal Revenue Service
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPS	Ontario Public Service
TSA	Transportation Security Administration
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

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G A O
Accountability * Integrity * Reliability

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

March 14, 2003

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Jo Ann Davis
Chairwoman
Subcommittee on Civil Service and Agency Organization
Committee on Government Reform
House of Representatives

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. High-performing public and private organizations here in the United States and abroad have found that to successfully transform themselves, they must often fundamentally change their cultures so that they are more results-oriented, customer-focused, and collaborative in nature. To transform their cultures, high-performing organizations have recognized that an effective performance management system can be a strategic tool to drive internal change and achieve desired results.[1]

Effective performance management systems are not merely used for once- or twice-yearly individual expectation setting and rating processes, but are tools to help the organization manage on a day-to-day basis. These systems are used to achieve results, accelerate change, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. The Office of Personnel Management (OPM) recognizes that performance management systems are to extend beyond rating individual performance.[2] According to OPM, performance management is the systematic process by which an

[1]U.S. General Accounting Office, *High-Risk Series: Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003).

[2]U.S. Office of Personnel Management, *A Handbook for Measuring Employee Performance: Aligning Employee Performance Plans with Organizational Goals* (Washington, D.C.: September 2001).

organization involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of the mission and goals.

Recently, the Congress and the administration have pinpointed potential solutions for modernizing performance management systems and, specifically, making meaningful distinctions in performance. In November 2002, the Congress passed the Homeland Security Act of 2002,[3] which provides for the increase of the total annual compensation limit for senior executives in those agencies that have been certified by OPM and the Office of Management and Budget (OMB) as having performance appraisal systems that, as designed and applied, make meaningful distinctions based on relative performance. For 2003, the senior executive total compensation limit would increase from $171,900 to $198,600.

In February 2003, the administration proposed for fiscal year 2004 to allow managers to increase pay beyond annual raises for high-performing employees. OPM would administer a $500 million Human Capital Performance Fund for the purpose of allowing agencies to deliver additional pay to certain employees based on individual performance or other human capital needs, in accordance with plans submitted to and approved by OPM. In addition, the administration also has proposed creating a wider, more open pay range for senior executive compensation, thus allowing for pay to be more directly tied to performance.

At your request, this report identifies key practices for federal agencies to consider to develop modern, effective, and credible performance management systems. To identify the key practices, we reviewed our issued reports on performance management that draw from the experiences of public sector organizations both in the United States and abroad.[4] While these organizations developed different performance management systems to reflect their specific structures, priorities, and cultures, they implemented these key practices to reinforce individual

[3]Pub. L. 107-296, Sec. 1322.

[4]U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002); *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, GAO-02-862 (Washington, D.C.: Aug. 2, 2002); and *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements*, GAO-01-115 (Washington, D.C.: Oct. 30, 2000).

accountability for results. Consistent with these key practices, GAO has implemented a performance management system that reinforces individual accountability for results that has features such as broadbanded pay-for-performance and a set of validated competencies intended to link employee performance to our strategic plan and core values. We included the agency examples illustrating the key practices primarily from these issued reports and added examples from other GAO reports, where appropriate. For additional information on our objective, scope, and methodology, see appendix I.

Results in Brief

Federal agencies can develop effective performance management systems by implementing a selected, generally consistent set of key practices. These key practices helped public sector organizations both in the United States and abroad create a clear linkage—"line of sight"—between individual performance and organizational success and, thus, transform their cultures to be more results-oriented, customer-focused, and collaborative in nature. (See fig. 1.)

Figure 1: Key Practices for Effective Performance Management

1. **Align individual performance expectations with organizational goals.** An explicit alignment of daily activities with broader results helps individuals see the connection between their daily activities and organizational goals and encourages individuals to focus on their roles and responsibilities to help achieve those goals.

2. **Connect performance expectations to crosscutting goals.** High-performing organizations use their performance management systems to strengthen accountability for results, specifically by placing greater emphasis on fostering the necessary collaboration, interaction, and teamwork across organizational boundaries to achieve these results.

3. **Provide and routinely use performance information to track organizational priorities.** High-performing organizations provide objective performance information to individuals to show progress in achieving organizational results and other priorities and help them manage during the year, identify performance gaps, and pinpoint improvement opportunities.

4. **Require follow-up actions to address organizational priorities.** High-performing organizations require individuals to take follow-up actions based on performance information available to them. By requiring and tracking such follow-up actions on performance gaps, these organizations underscore the importance of holding individuals accountable for making progress on their priorities.

5. **Use competencies to provide a fuller assessment of performance.** High-performing organizations use competencies, which define the skills and supporting behaviors that individuals need to effectively contribute to organizational results, and are based on valid, reliable, and transparent performance management systems.

6. **Link pay to individual and organizational performance.** High-performing organizations seek to create pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results.

7. **Make meaningful distinctions in performance.** Effective performance management systems seek to achieve three key objectives to help make meaningful distinctions in performance. First, they strive to provide candid and constructive feedback to help individuals maximize their contribution and potential in understanding and realizing the goals and objectives of the organization. Second, they seek to provide management with the objective and fact-based information it needs to reward top performers. Third, they provide the necessary information and documentation to deal with poor performers.

8. **Involve employees and stakeholders to gain ownership of performance management systems.** High-performing organizations have found that actively involving employees and stakeholders in developing the performance management systems and providing ongoing training on the systems helps increase their understanding and ownership of the organizational goals and objectives.

9. **Maintain continuity during transitions.** High-performing organizations recognize that because cultural transformations take time, they need to reinforce accountability for organizational goals.

Source: GAO.

Beyond implementing these key practices, high-performing organizations understand that their employees are assets whose value to the organization must be recognized, understood, and enhanced. They view an effective performance management system as an investment to maximize the effectiveness of people by developing individual potential to contribute to organizational goals. To maximize this investment, an organization's performance management system is designed, implemented, and continuously assessed by the standard of how well it helps the employees help the organization achieve results and pursue its mission.

Because the key practices and examples were drawn from previously issued GAO reports, we did not seek official comments on the draft report from agency officials. We provided the draft report to the Director of OPM for her information.

Background

Strategic human capital management is receiving increased attention across the federal government. In January 2001, we designated strategic human capital management as a governmentwide high-risk area and continued this designation with the release of *High-Risk Series: An Update* in January 2003.[5] Despite the considerable progress over the past 2 years, it remains clear that today's federal human capital strategies are not appropriately constituted to meet current and emerging challenges or drive the needed transformation across the federal government. One of the key areas that federal agencies continue to face challenges in is creating results-oriented organizational cultures. Agencies lack organizational cultures that promote high performance and accountability and empower and include employees in setting and accomplishing programmatic goals, 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. The model highlights the kind of thinking that agencies should apply, as well as some of the steps they can take, to make progress in managing human capital strategically.[6]

[5]GAO-03-120 and U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

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

Since we designated strategic human capital management as a high-risk area in January 2001, the *President's Management Agenda*, released in August 2001, placed the strategic management of human capital at the top of the administration's management agenda. In October 2002, OMB and OPM updated the standards for success in the human capital area of the *President's Management Agend*a, reflecting language that was developed in collaboration with GAO. To assist agencies in responding to the revised standards and addressing the human capital challenges, OPM released the *Human Capital Assessment and Accountability Framework*. One of the standards of success in the framework is a results-oriented performance culture, specifically a performance management system that effectively differentiates between high and low performance.

On September 24, 2002, we convened a forum to discuss useful practices from major private and public sector organizational mergers, acquisitions, and transformations that federal agencies could learn from to successfully transform their cultures and that the then proposed Department of Homeland Security could use to merge its various originating agencies or their components into a unified department.[7] The participants identified the use of performance management systems as a tool to help manage and direct the transformation process. Specifically, performance management systems must create a line of sight showing how team, unit, and individual performance can contribute to overall organizational results. The system serves as the basis for setting expectations for employees' roles in the transformation process and for evaluating individual performance and contributions to the success of the transformation process and, ultimately, to the achievement of organizational results.

Key Practices for Effective Performance Management

An effective performance management system can be a strategic tool to drive internal change and achieve desired results. We found that public sector organizations in the United States and abroad have implemented a selected, generally consistent set of key practices as part of their performance management systems. Federal agencies can implement these practices to develop effective performance management systems that help create the line of sight between individual performance and organizational

[7]U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

success and transform their cultures to be more results-oriented, customer-focused, and collaborative in nature.

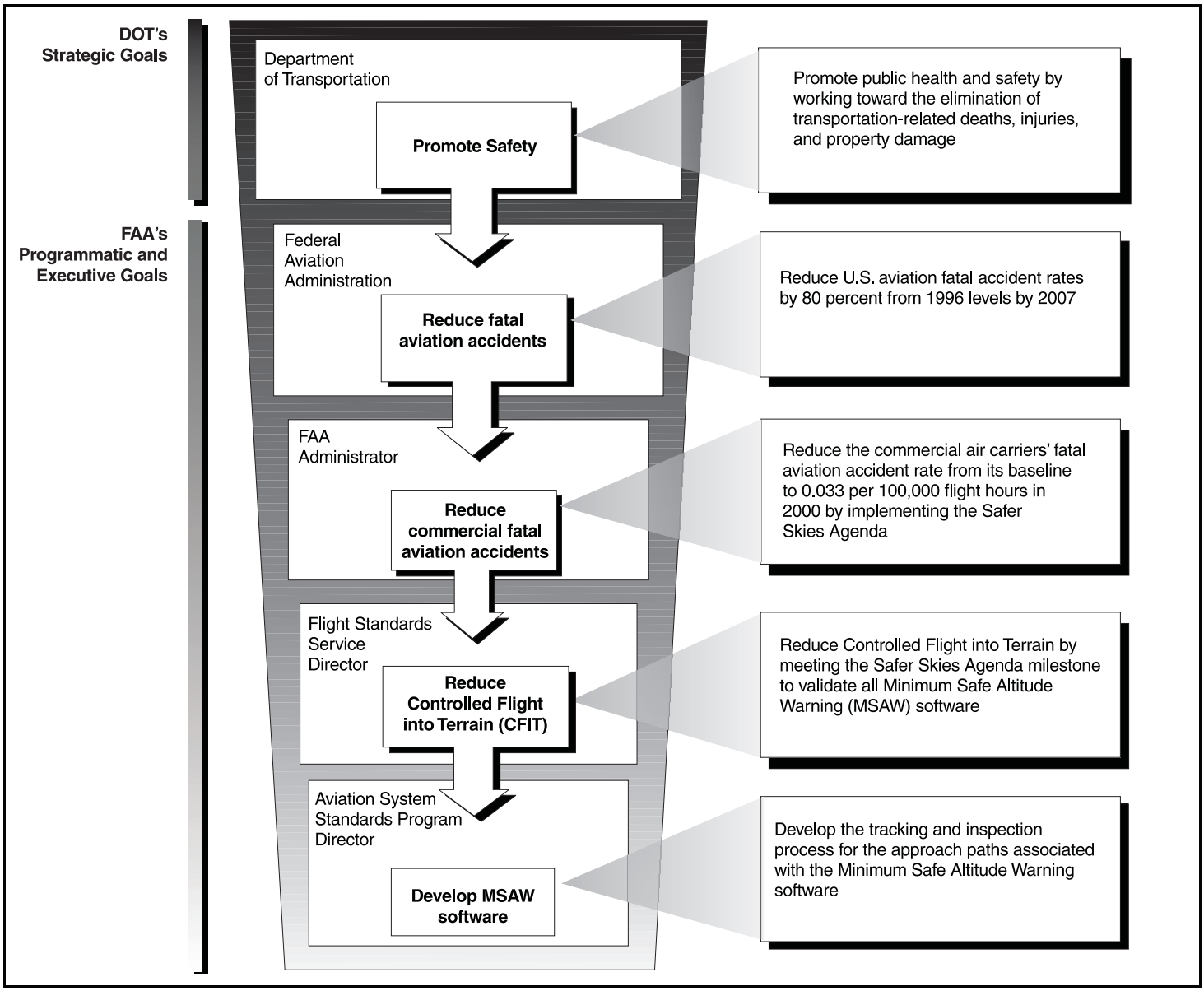
Align Individual Performance Expectations with Organizational Goals

An explicit alignment of daily activities with broader results is one of the defining features of effective performance management systems in high-performing organizations. These organizations use their performance management systems to improve performance by helping individuals see the connection between their daily activities and organizational goals and encouraging individuals to focus on their roles and responsibilities to help achieve these goals. Such organizations continuously review and revise their performance management systems to support their strategic and performance goals, as well as their core values and transformational objectives.

High-performing organizations can show how the products and services they deliver contribute to results by aligning performance expectations of top leadership with organizational goals and then cascading those expectations down to lower levels. To this end, we reported that in fiscal year 2000 the Federal Aviation Administration (FAA) was able to show how the Department of Transportation's (DOT) strategic goal to promote public health and safety was cascaded through the FAA Administrator's performance expectation to reduce the commercial air carrier fatal accident rate to a program director's performance expectation to develop software to help aircraft maintain safe altitudes in their approach paths, as shown in figure 2.[8]

[8]GAO-01-115.

Figure 2: Aligning FAA Individual Goals with DOT and FAA Organizational Goals



Source: GAO, DOT, and FAA.

Note: GAO analysis of DOT and FAA planning documents.

The FAA Administrator's performance agreement for fiscal year 2000 included a performance expectation to reduce the commercial air carrier fatal accident rate by implementing the Safer Skies Agenda. As part of implementing the Safer Skies Agenda, the Flight Standards Service Director had a performance expectation to meet milestones for reducing a type of crash called controlled flight into terrain, which occurs when pilots lose their sense of the plane's relation to the surface below. Among these milestones included validating Minimum Safe Altitude Warning software, which had to be developed by the Aviation Systems Standards Program Director. This software system is designed to aid air traffic controllers through both visual and aural alarms by alerting them when a tracked aircraft is below, or predicted by the computer to go below, a predetermined minimum altitude.

Similarly, we recently reported that as a first step in establishing a permanent performance management system, the Transportation Security Administration (TSA) has implemented standardized performance agreements for groups of employees, including transportation security screeners, supervisory transportation security screeners, supervisors, and executives.[9] These performance agreements include both organizational and individual goals and standards for satisfactory performance that can help TSA establish a line of sight showing how individual performance contributes to organizational goals. For example, each executive performance agreement includes organizational goals, such as to maintain the nation's air security and ensure an emphasis on customer satisfaction, as well as individual goals, such as to demonstrate through actions, words, and leadership, a commitment to civil rights. To strengthen its current executive performance agreement and foster the culture of a high-performing organization, we recommended that TSA add performance expectations that establish explicit targets directly linked to organizational goals, foster the necessary collaboration within and across organizational boundaries to achieve results, and demonstrate commitment to lead and facilitate change. TSA agreed with this recommendation.

We reported in September 2002 that some agencies set targets for individual performance that were linked to organizational goals. For example, the Veterans Benefits Administration (VBA) identified targets with specific levels of performance for senior executives that were

[9]U.S. General Accounting Office, *Transportation Security Administration: Actions and Plans to Build a Results-Oriented Culture*, GAO-03-190 (Washington, D.C.: Jan. 17, 2003).

explicitly linked to VBA's priorities for fiscal year 2001 and the Department of Veterans Affairs' (VA) strategic goals for fiscal years 2001 to 2006.[10] 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 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 senior executive in the Nashville regional office had a performance expectation for his office to meet a target of 8.6 months.

Connect Performance Expectations to Crosscutting Goals

As public sector organizations shift their focus of accountability from outputs to results, they have recognized that the activities needed to achieve those results often transcend specific organizational boundaries. Consequently, organizations that are flatter and focused on collaboration, interaction, and teamwork across organizational boundaries are increasingly critical to achieve results. High-performing organizations use their performance management systems to strengthen accountability for results, specifically by placing greater emphasis on fostering the necessary collaboration both within and across organizational boundaries to achieve results.

For example, in August 2002, we reported that Canada's agricultural department, Agriculture and Agri-Food Canada, used individual performance agreements to specify the internal or external organizations whose collaboration is needed to help individuals contribute to the departmental crosscutting goals or areas.[11] Specifically, the head of the department's Market and Industry Services Branch had in his 2001-02 performance agreement the expectation to "lead efforts to develop the department's ability to deal with emerging technical trade issues" that aligned with the crosscutting area of "international issues." The agreement also listed two internal units whose collaboration was needed to meet the expectation—the department's Research Branch and its Strategic Policy Branch—as well as two external organizations—the Canadian Food Inspection Agency and Health Canada. While the performance agreement

[10] GAO-02-966.

[11] GAO-02-862.

provides a vehicle for identifying and communicating with the various organizations associated with each crosscutting performance expectation, the department leaves it up to individuals to determine how to collaborate with their organizations when working to fulfill their performance agreements.

Similarly, we reported in October 2000 that the Veterans Health Administration's (VHA) Veterans Integrated Service Network (VISN) headquartered in Cincinnati implemented performance agreements that focused on patient services for the entire VISN and were designed to encourage the VISN's medical centers to work collaboratively.[12] In 2000, the VISN Director had a performance agreement with "care line" directors for patient services, such as primary care, medical and surgical care, and mental health care. In particular, the mental health care line director's performance agreement included improvement goals related to mental health for the entire VISN. To make progress towards these goals, this care line director had to work across each of the VISN's four medical centers with the corresponding care line managers at each medical center. As part of this collaboration, the care line director needed to establish consensus among VISN officials and external stakeholders on the strategic direction for the services provided by the mental health care line across the VISN; develop, implement, and revise integrated clinical programs to reflect that strategic direction for the VISN; and allocate resources among the centers for mental health programs to implement these programs.

Provide and Routinely Use Performance Information to Track Organizational Priorities

High-performing organizations provide objective performance information to individuals to show progress in achieving organizational results and other priorities, such as customer satisfaction and employee perspectives, and help individuals manage during the year, identify performance gaps, and pinpoint improvement opportunities. Having this performance information in a useful format also helps individuals track their performance against organizational goals and compare their performance to that of other individuals.

To this end, we described in September 2002, the Bureau of Land Management's (BLM) Web-based data system called the Director's Tracking System that collects and makes available on a real-time basis data on each

[12] GAO-01-115.

senior executive's progress in his or her state office towards BLM's organizational priorities and the resources expended on each priority.[13] In particular, a BLM senior executive in headquarters responsible for the wild horse and burro adoptions program can use the tracking system to identify at anytime during the year where the senior executives in the state offices responsible for this program are against their targets and what the program costs have been by state.

To address progress towards its performance goals, we reported in October 2000 that VHA produced quarterly Network Performance Reports that presented both VHA-wide and VISN-specific progress on each of the goals in the then 22 VISN directors' performance agreements.[14] VHA's then Chief Network Officer and each of the VISN directors used these performance reports to inform quarterly meetings they had and to discuss each VISN's progress towards the goals in the director's performance agreement. Specifically, the Network Performance Report issued in May 2000 showed that 90 percent of the patients in VISN 5 located in Baltimore received follow-up care after hospitalization for mental illness in the third quarter of fiscal year 2000. Further, that VISN produced biweekly performance reports that allowed it to monitor its three medical centers' progress on the VHA-wide performance goals in the VISN director's performance agreements. For example, the VISN's biweekly performance report for August 2000 showed that the VISN-wide rate for follow-up care after hospitalization for mental illness remained at 90 percent, while its three medical centers ranged from 89 to 91 percent for follow-up care.

In addition to showing progress in achieving organizational results, high-performing organizations also provide performance information on other priorities, such as customer satisfaction and employee perspectives. We reported in September 2002 that to emphasize a balanced set of performance expectations, some agencies disaggregated customer and employee satisfaction survey data so that the results were applicable to an executive's customers and employees.[15] For example, from its Use Authorization Survey administered to various customers in fiscal year 2000, BLM disaggregated the survey data to provide the applicable results to individuals who head the state offices. Specifically, the executive in the

[13]GAO-02-966.

[14]GAO-01-115.

[15]GAO-02-966.

Montana state office received data for his state showing that 81 percent of the grazing permit customers surveyed gave favorable ratings for the timeliness of permit processing and for service quality. The executive addressed the results of the customer survey in his self-assessment for the 2001 performance appraisal cycle.

We also reported that to help senior executives address employee perspectives, the Internal Revenue Service (IRS) disaggregated 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.[16] The Gallup Organization administered this survey to all IRS employees. The survey comprised Gallup's 12 questions (Q12);[17] additional questions unique to IRS, such as views on local union chapters and employee organizations; and questions on issues IRS has been tracking over time. Gallup provided the results for each workgroup. For example, an executive could compare the performance of his or her workgroup to that of other operating divisions and to that of IRS as a whole. Specifically, for the 2001 survey, an executive's workgroup scored 3.68 out of a possible 5 for the question "I have the materials and equipment I need to do my work right" compared to the IRS-wide score of 3.58. To allow individuals to benchmark externally, Gallup compared each workgroup's results to the 50th (median) and 75th (best practices) percentile scores from Gallup's Q12 database. To benchmark internally, IRS provided the servicewide results from the previous year's survey in each workgroup report.

Require Follow-up Actions to Address Organizational Priorities

High-performing organizations require individuals to take follow-up actions based on the performance information available to them. By requiring and tracking such follow-up actions on performance gaps, these organizations underscore the importance of holding individuals accountable for making progress on their priorities.

To help address employee perspectives in their senior executive performance management system, we reported in September 2002 that the Federal Highway Administration required senior executives to use 360-

[16]GAO-02-966.

[17]Gallup identified 12 questions that measure employee perspective and, according to Gallup, the responses to these questions link directly to organizational outcomes.

degree feedback instruments to solicit employees' views on their leadership skills.[18] Based on the 360-degree feedback, senior executives were to identify action items and incorporate them into their individual performance plans for the next fiscal year. While the 360-degree feedback instrument was intended for developmental purposes to help senior executives identify areas for improvement and was not included in the executive's performance evaluation, executives were held accountable for taking some action with the 360-degree feedback results and responding to the concerns 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 used 360-degree feedback instruments to improve their personal leadership competencies.

We also reported that to address employee perspectives based on the performance information obtained through its employee survey, IRS required senior executives to hold workgroup meetings with their employees to discuss the workgroups' survey results and develop action plans to address these results.[19] 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 this executive's workgroup meetings on the 2001 employee survey results, employees identified the need for recruiting supervisory special agents to even out some of the workload. Subsequently, the senior executive set a performance expectation in his fiscal year 2002 individual performance plan to ensure that the field office had a strong recruitment program to attract viable candidates.

[18]GAO-02-966.

[19]GAO-02-966.

Similarly, for its customer satisfaction survey, the former Commissioner of Internal Revenue set an expectation that the senior executives who head the business units develop action plans based on the performance information from IRS's customer survey that are relevant to the needs of their particular customers.[20] For example, an IRS senior executive who is the area director for compliance in Laguna Niguel, California, developed a consolidated action plan based on the plans he required from each of his territory managers that identified ways to improve low scores from the customer survey. Specifically, the senior executive had an expectation in his action plan to improve how customers were 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 planned to ensure that territory managers solicited 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 was being made in achieving the collection and examination customer satisfaction goals.

Use Competencies to Provide a Fuller Assessment of Performance

High-performing organizations use competencies to examine individual contributions to organizational results. Competencies, which define the skills and supporting behaviors that individuals are expected to exhibit to carry out their work effectively, can provide a fuller picture of an individual's performance.

To help reinforce employee behaviors and actions that support the agency's mission, we reported that in fiscal year 2000, IRS implemented a performance management system that requires executives and managers to include critical job responsibilities with supporting behaviors in their performance agreements, which serve as the basis for their annual performance appraisals.[21] The critical job responsibilities, which represent IRS's core values, include leadership, employee satisfaction, customer satisfaction, business results, and equal employment opportunity and are

[20]GAO-02-966.

[21]U.S. General Accounting Office, *Performance Management Systems: IRS's Systems for Frontline Employees and Managers Align with Strategic Goals but Improvements Can Be Made*, GAO-02-804 (Washington, D.C.: July 12, 2002).

further defined by supporting behaviors—broad actions and competencies that IRS expects its executives and managers to demonstrate during the year. The critical job responsibilities and supporting behaviors are intended to provide executives and managers with a consistent message about how their daily activities are to reflect the organization's core values. Three of the five critical job responsibilities—customer satisfaction, business results, and employee satisfaction—align with IRS's strategic goals as shown in figure 3. For example, by establishing a critical job responsibility and supporting behavior in customer satisfaction, IRS aligns managers' performance to its strategic goal of "top-quality service to each taxpayer in every interaction."

Figure 3: Alignment of Strategic Goals, Critical Job Responsibilities, and Supporting Behaviors for Enforcement Group Managers

Source: GAO and IRS.

Note: GAO analysis of IRS's group manager performance management system.

The other two critical job responsibilities, leadership and equal employment opportunity, reinforce behaviors that IRS considers necessary for organizational change and an open and fair work environment.

We described in August 2002 how the United Kingdom considers competencies in evaluating executives.[22] The executives in the Senior Civil Service have performance agreements that include both business objectives and certain core competencies that executives should develop in order to effectively achieve these objectives. For example, an executive and his supervisor select one or two competencies, such as "thinking strategically," "getting the best from people," or "focusing on delivery." Each competency is further described by several specific behaviors. For example, the competency of "getting the best from people" includes behaviors such as "developing people to achieve high performance;" "adopting a leadership style to suit different people, cultures, and situations;" "coaching individuals so they achieve their best;" and "praising achievements and celebrating success." The supervisor evaluated the executive's demonstration of these selected competencies and the achievement of business objectives when determining the size of the annual pay award.

Similarly, we described in August 2002 how New Zealand's Inland Revenue Department evaluated the performance of its employees against results and core and technical competencies and weighted these results and competencies differently in each employee evaluation depending on the position.[23] All employees were evaluated on their commitments to deliver results, which account for 40 to 55 percent of their overall performance evaluations. In addition, all employees were evaluated against core organizational competencies such as customer focus, strategic leadership, analysis and decision making, and communication, which make up 20 to 50 percent of their evaluations. Some employees who have special knowledge and expertise in areas such as tax policy, information technology, and human capital were also evaluated against technical competencies that may account for 20 to 35 percent of their overall performance evaluations.[24] An employee who was considered fully successful in achieving his or her performance commitments, but does not demonstrate the expected competencies, may not be assessed as fully successful in his or her

[22]GAO-02-862.

[23]GAO-02-862.

[24]The precise mix and weight is based on considerations such as job requirements and specific agency initiatives that place a greater emphasis on a particular competency, such as customer service. The system permits flexibility provided that the mix and weighting for each employee adhere to the ranges set by the department and are clearly articulated, consistently applied, and transparent.

particular position. Conversely, if an employee demonstrated the expected competencies, but did not achieve the agreed to performance commitments, he or she could also be considered less than fully successful. As part of the department's review of the program conducted in 2000, both managers and staff cited the department's policy of evaluating individual performance based on both results and competencies as a better way to measure staff performance than focusing on only results or competencies alone.

Link Pay to Individual and Organizational Performance

High-performing organizations seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. At the same time, these organizations recognize that valid, reliable, and transparent performance management systems with adequate safeguards for employees are the precondition to such an approach.

For example, we reported in August 2002 how Canada links pay to the performance of its senior executives through its Performance Management Program.[25] Under the Performance Management Program, introduced in 1999, a significant portion of the total cash compensation package that top and senior executives can receive takes the form of "at-risk" pay. This annual lump-sum payment ranges from 10 to 15 percent of base pay for senior executives, and as high as 25 percent for deputy ministers. Another central feature of Canada's Performance Management Program is that both increases in base salary and at-risk pay are only awarded to executives who successfully achieve commitments agreed to in their annual performance agreements. These commitments are of two types: "ongoing commitments," which include continuing responsibilities associated with the position, and "key commitments," which identify priority areas for the current performance cycle. Departments award increases in base pay to executives who successfully carry out their ongoing commitments and award at-risk pay to individuals who, in addition to meeting all ongoing commitments, also successfully deliver on key commitments. Executives who do not meet at least one key commitment are not eligible for this lump-sum performance award. Under the Performance Management Program, there are no automatic salary increases connected with length of service.

[25] GAO-02-862.

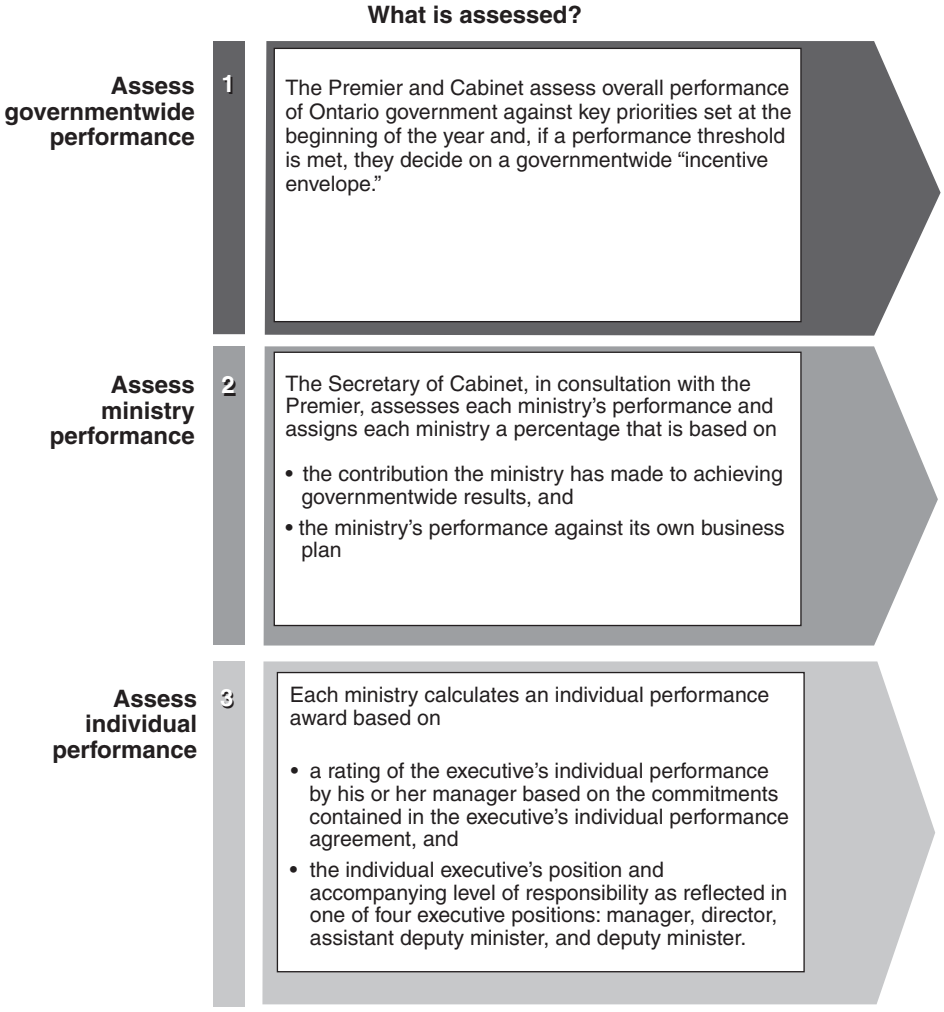
The Ontario Public Service (OPS) links executive performance pay to the performance of the provincial government as a whole, the performance of the executive's home ministry, the contribution of that ministry to overall governmentwide results, as well as the individual's own performance.[26] The amount of the award an individual executive can receive ranges from no payment to a maximum of 20 percent of base salary. To determine the amount of performance pay for any given fiscal year, the Premier and Cabinet, the top political leadership of the Ontario government, first determine whether and to what extent the government as a whole has achieved the key provincial goals it established at the beginning of the fiscal year. If they determine that the government has met a threshold of satisfactory performance, these officials designate a certain percentage as the governmentwide "incentive envelope," which represents the percentage that will be the basis for subsequent calculations used to determine performance awards. The Secretary of Cabinet, in consultation with the Premier, then assesses each ministry's performance based on the ministry's relative contribution enabling Ontario to achieve its key provincial goals and the ministry's performance against its own approved business plan. As a result of this assessment, each ministry receives an amount equivalent to a specific percentage of the ministry's total executive payroll for performance awards. Finally, each ministry determines the actual amount of an executive's performance award by assessing both the individual's actual performance against his or her prior performance commitments as well as the individual's level of responsibility.

For example, in the 1999–2000 performance cycle, the Premier and Cabinet determined that the government as a whole had met a threshold of satisfactory performance and set an incentive envelope of 10 percent. The Secretary of Cabinet and the Premier then assessed the performance of a particular ministry deciding that it had a "critical impact" on the government's ability to deliver on its results that year, including the roll out of its quality service and e-government initiatives. They also found that this ministry "exceeded" the key commitments established in its business plan. In this case, the ministry received an amount equivalent to 12.5 percent of its executive payroll towards performance payments. Individual awards, depending upon the performance and position of the executive, ranged from no payment to 15 percent, and could have reached as high as 20 percent under the program's regulations. In contrast, during the same performance cycle, the Secretary of Cabinet and the Premier found that

[26] GAO-02-862.

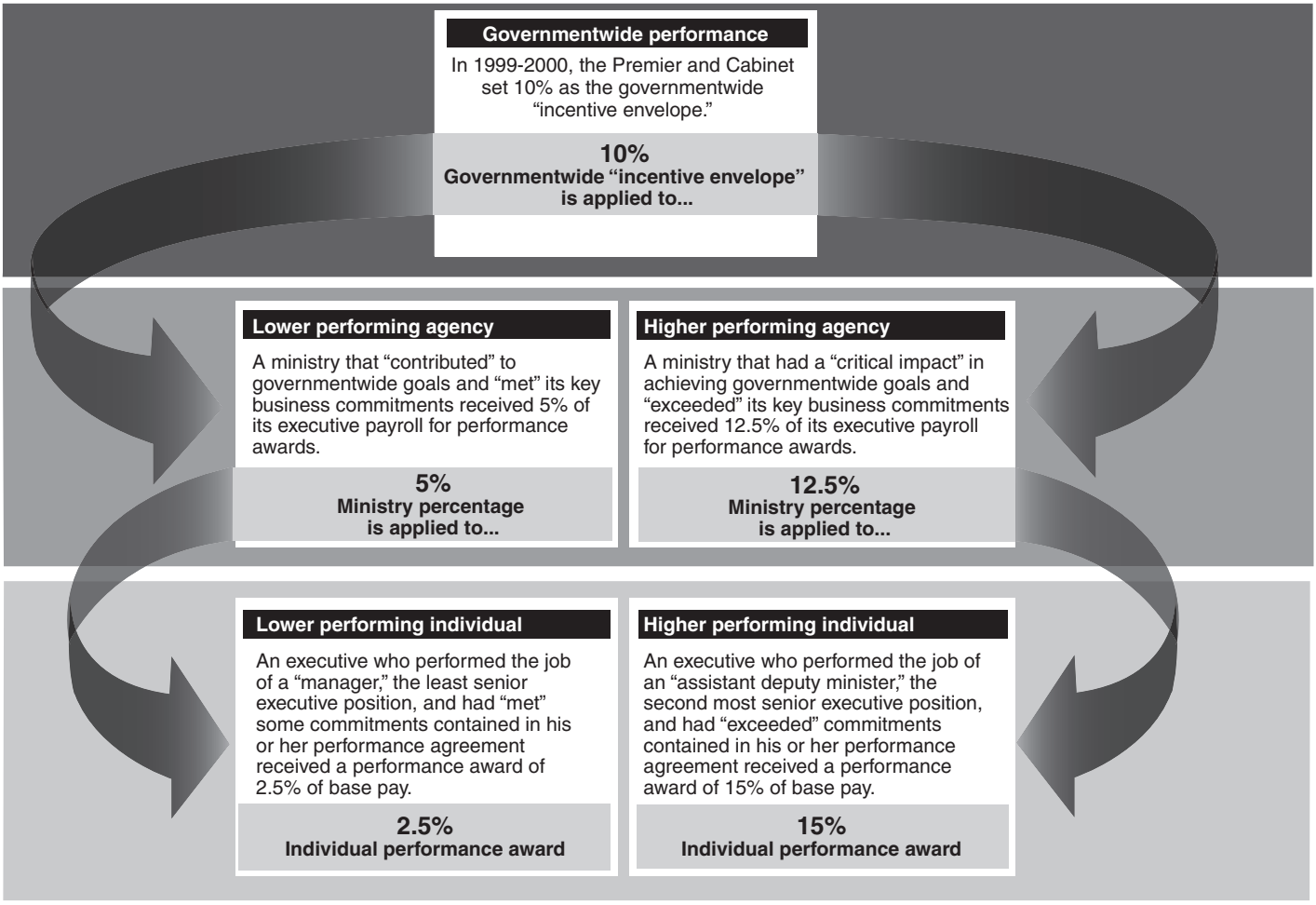
another ministry had only "contributed" to governmentwide goals while having "met" its business commitments. Accordingly, this ministry received only 5 percent of its executive payroll towards performance payments. Individual awards in this case ranged from no payment to 7.5 percent. (See fig. 4.)

Figure 4: Process for Awarding Performance Pay to Executives in OPS



Source: GAO and Centre for Leadership, Ontario Cabinet Office.

How does the process work?
An example of how OPS awarded executive performance pay in 1999-2000.



Note: GAO presentation of information from the Centre for Leadership, Ontario Cabinet Office.

Make Meaningful Distinctions in Performance

Effective performance management requires the organization's leadership to make meaningful distinctions between acceptable and outstanding performance of individuals and to appropriately reward those who perform at the highest level. In doing so, performance management systems in high-performing organizations typically seek to achieve three key objectives: (1) they strive to provide candid and constructive feedback to help individuals maximize their contribution and potential in understanding and realizing the goals and objectives of the organization, (2) they seek to provide management with the objective and fact-based information it needs to reward top performers, and (3) they provide the necessary information and documentation to deal with poor performers.

We reported that IRS recognizes that it is still working at implementing an effective performance management system that makes meaningful distinctions in senior executive performance.[27] 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. IRS piloted the compensation plan in fiscal year 2000 with the top senior executives who report to the Commissioner of Internal Revenue and used it for all senior executives in fiscal year 2001. To recognize performance across different levels of responsibilities and commitments, IRS assigned 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 impact on IRS's overall mission and goals. For example, the Commissioner of Internal Revenue or the Deputy Commissioner assigns senior executives to bonus level three—considered to be the level with the highest responsibilities and commitments—only if they are 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 1.

[27] GAO-02-966.

Table 1: IRS's Bonus Levels and Bonus Ranges of Base Salary for Senior Executive Summary Evaluation Ratings for Fiscal Year 2001

Bonus levels	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%

Source: IRS.

Note: Bonuses paid to IRS career senior executives are governed by the limits set forth in 5 U.S.C. 5384 and 9505, which provide that bonuses shall be not less than 5 percent of basic pay.

To help ensure realistic and consistent performance ratings, each IRS business unit had 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 were assigned, the senior executives' ratings were converted into points—an "outstanding" rating converted to six points; an "exceeded" rating to four points, which is the baseline; a "met" rating to two points; and a "not met" rating to zero points. If the business unit exceeded its point budget, it had 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. 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 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.

To stress making performance results the basis for pay, awards, and other personnel decisions for senior executives, OPM implemented amended regulations for senior executive performance management requiring agencies to establish performance management systems for the rating cycles beginning in 2001. These systems are to hold senior executives accountable for their individual and organizational performance by linking performance management with results-oriented organizational goals and evaluating senior executive performance using measures that balance

organizational results with customer satisfaction, employee perspectives, and other measures agencies decide are appropriate. According to OPM, these regulations require agency leadership to expect excellence and take action to reward outstanding performers and deal appropriately with those who do not measure up.

Involve Employees and Stakeholders to Gain Ownership of Performance Management Systems

High-performing organizations have found that actively involving employees and stakeholders, such as unions or other employee associations, when developing results-oriented performance management systems helps improve employees' confidence and belief in the fairness of the system and increase their understanding and ownership of organizational goals and objectives. Effective performance management systems depend on individuals', their supervisors', and management's common understanding, support, and use of these systems to reinforce the connection between performance management and organizational results. These organizations recognize that they must conduct frequent training for staff members at all levels of the organization to maximize the effectiveness of the performance management systems.[28] Overall, employees and supervisors share the responsibility for individual performance management. Both are actively involved in identifying how they can contribute to organizational results and are held accountable for their contributions.

We described in August 2002 that, when reforming their performance management systems, public sector organizations in other countries consulted a wide range of employees and stakeholders early in the process, obtained direct feedback from them, and engaged employee unions or associations.[29]

Consult a Wide Range of Stakeholders Early in the Process. An important step to ensure the success of a new performance management system is to consult a wide range of stakeholders and to do so early in the process. For its new Senior Civil Service performance management and pay system, the United Kingdom's Cabinet Office recognized the importance of meeting with and including employees and stakeholders in

[28]U.S. General Accounting Office, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

[29]GAO-02-862.

the formation of the new system. The Cabinet Office obtained feedback from various employee associations, a civil servant advisory group, a project board composed of personnel directors, and permanent secretaries

As part of Canada's effort to consult stakeholders concerning its new performance management system, the government convened an interdepartmental committee to explore and discuss possible approaches, consulted networks of human capital professionals and executives across the country, and engaged top executives through the Committee of Senior Officials, consisting of the Clerk of the Privy Council and heads of major departments and other top officials.

Obtain Feedback Directly from Employees. Directly asking employees to provide feedback on proposed changes in their performance management systems encourages a sense of involvement and ownership, allows employees to express their views, and helps validate the system to ensure that the performance measures are appropriate. Asking employees to provide feedback should not be a one-time process, but an ongoing process through the training of employees to ensure common understanding of the evaluation, implementation, and results of the systems.

For example, the United Kingdom's Cabinet Office provided a packet detailing proposed reforms of the existing performance management system to approximately 3,000 members of the Senior Civil Service in a large-scale effort to obtain their feedback on the proposed changes. In addition, each department also held consultations where individuals listened to proposed reforms. More than 1,200 executives (approximately 40 percent of the Senior Civil Service) participated in the process. The Cabinet Office then collected and incorporated these views into the final proposal, which was adopted by the government and implemented in April 2001.

Engage Employee Unions or Associations. We have previously reported that in the United States obtaining union cooperation and support can help to achieve consensus on planned changes, avoid misunderstandings, and assist in the expeditious resolution of problems.[30] Agencies in New Zealand and Canada actively engaged unions or employee associations when making changes to performance management systems.

[30] GAO-01-1070.

In New Zealand, an agreement between government and the primary public service union created a "Partnership for Quality" framework that provides for ongoing, mutual consultation on issues such as performance management. Specifically, the Department of Child, Youth, and Family Services and the Public Service Association entered into a joint partnership agreement that emphasizes the importance of mutual consideration of each other's organizational needs and constraints. For example, two of the objectives stated in the 2001–02 partnership agreement were to (1) develop the parties' understanding of each other's business and (2) equip managers, delegates, and members with the knowledge and skills required to build a partnership for a quality relationship in the workplace. Department and union officials told us that this framework had considerably improved how both parties approach potentially contentious issues, such as employee performance management. Also included in the partnership agreement were measures to evaluate the success of the relationship such as (1) sharing ownership of issues, plans, and outcomes and (2) quickly resolving issues in a solution-focused way, with a reduction in grievances.

The government of Canada repeatedly consulted with the Association of Professional Executives of the Public Service of Canada (Association) about its proposed reforms to the executive performance management system and accompanying pay-at-risk provisions. This dialogue began prior to the system's rollout and continued through initial implementation during which the Association was actively involved in collecting feedback from executives as well as making recommendations. For example, as part of an assessment of Canada's Performance Management Program, based on consultations the Association had with its membership after the first year of the program, the Association identified several issues needing further attention, including the need to provide executives with additional guidance on how to develop their individual performance agreements, particularly with regard to identifying and selecting different types of performance commitments. This recommendation and others were shared with the government, and the official Performance Management Program guidance issued the following year incorporated these concerns.

Maintain Continuity during Transitions

The experience of successful cultural transformations and change management initiatives in large public and private organizations suggests that it can often take 5 to 7 years until such initiatives are fully implemented and cultures are transformed in a substantial manner. Because this time frame can easily outlast the tenures of top political appointees, high-performing organizations recognize that they need to

reinforce accountability for organizational goals during times of leadership transitions through the use of performance agreements as part of their performance management systems.

At a recent GAO-sponsored roundtable, we reported on the necessity to elevate attention, integrate various efforts, and institutionalize accountability for addressing management issues and leading transformational change.[31] The average tenure of political leadership and the long-term nature of the change management initiatives that are needed can have critical implications for the success of those initiatives. Specifically, in the federal government, the frequent turnover of the political leadership has often made it difficult to obtain the sustained and inspired attention required to make needed changes.

The average tenure of political appointees governmentwide for the period 1990-2001 was just under 3 years.[32] In addition, career executives can help provide the long-term commitment and focus needed to transform an agency, but the retirement eligibility of executives is increasing.[33] For example, 71 percent of career senior executive service members will reach retirement eligibility by the end of fiscal year 2005—an historically high rate of eligibility. Without careful planning, the retirement eligibility rate suggests an eventual loss in institutional knowledge, expertise, and leadership continuity.

High-performing organizations use their performance management systems to help provide continuity during these times of transition by maintaining a consistent focus on a set of broad programmatic priorities. Performance agreements can be used to clearly and concisely outline top leadership priorities during a given year and thereby serve as a convenient vehicle for

[31]U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

[32]This analysis included only those appointed after October 1, 1989, (fiscal year 1990) who left before September 30, 2001 (fiscal year 2001). Political appointees who were appointed before October 1, 1989, or who had not left by September 30, 2001, were not included because they did not have appointment or separation dates and thus we could not determine their length of service. Separations included resignations, terminations, retirements, and deaths.

[33]U.S. General Accounting Office, *Senior Executive Service: Enhanced Agency Efforts Needed to Improve Diversity as the Senior Corps Turns Over*, GAO-03-34 (Washington, D.C.: Jan. 17, 2003).

new leadership to identify and maintain focus on the most pressing issues confronting the organization as it transforms. We have observed that a specific performance expectation in the leadership's performance agreement to lead and facilitate change during this transition could be a critical element as organizations transform themselves to succeed in an environment that is more results-oriented, less hierarchical, and more integrated.[34] More generally, the existence of an established process for developing and using performance agreements provides new leadership with a tested tool that it can use to communicate its priorities and instill those priorities throughout the organization.

We described in August 2002 how OPS and Canada's Performance Management Program institutionalized the use of performance agreements in their performance management systems to withstand organizational changes and cascaded the performance agreements from top leadership to lower levels of the organizations.[35] Since 1996, OPS has used performance agreements to align and cascade performance goals down to all organizational levels and all employees and has required senior executives to have annual performance agreements that link their performance commitments to key provincial priorities and approved ministry business plans. In 2000, OPS extended this requirement so that agreements are now required of all employees, from senior executives to frontline employees. Specifically, all employees develop individual performance commitments that link to their supervisors' performance agreements and their ministries' business plans. Senior executives and some middle-level managers and specialists also link commitments contained in their individual performance plans to the government of Ontario's key provincial priorities in areas such as fiscal control and management, human capital leadership, and fostering a culture of innovation.

Similarly, Canada's Performance Management Program cascades goals down through all levels of senior executives. It requires that each department's deputy minister—the senior career public service official responsible for leading Canadian government departments—has a written performance agreement that links his or her individual commitments to the organization's business plan, strategies, and priorities. From the deputy minister, commitments cascade down through assistant deputy ministers,

[34]GAO-02-966.

[35]GAO-02-862.

directors general, and directors. At every level, the performance agreement between each executive and his or her manager is intended to document a mutual understanding about the performance that is expected and how it will be assessed. Some agencies, such as Industry Canada and the Public Service Commission, have established their own programs to cascade commitments below the director level and require the use of performance agreements for some middle managers or supervisors within their organizations.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days from its date. At that time, we will provide copies of this report to interested congressional committees and the Director of OPM. We will also make copies 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 concerning this report, please contact me or Lisa Shames on (202) 512-6806 or at mihmj@gao.gov. Anne Kidd and Janice Lichty were key contributors to this report.

J. Christopher Mihm
Director, Strategic Issues

Objective, Scope, and Methodology

To meet our objective to identify key practices for effective performance management, we summarized our most recent reports on performance management for public sector organizations both in the United States and abroad.[1] We reviewed and synthesized the information contained in the reports to identify key practices for modern, effective, and credible performance management systems. We included the agency examples supporting the key practices primarily from the previous three reports and added examples from other GAO reports where appropriate. The specific objectives, scope, and methodology of each of these reports are included in the reports.

We discussed the set of key practices with agency officials at the Office of Personnel Management (OPM) responsible for performance management of the general workforce. We also spoke with the President of the Senior Executives Association and the Director of the Center for Human Resources Management at the National Academy for Public Administration to obtain any observations or general comments on the key practices we identified. Likewise, we provided the key practices, for their general comments, to the Presidents for the National Treasury Employees Union and the American Federation of Government Employees; the Director of the Office of Policy and Evaluation, U.S. Merit Systems Protection Board; and the Vice President for Policy and Research, Partnership for Public Service.

We did not seek official comments on the draft report from agency officials because the practices and examples were drawn from previously issued GAO reports. We provided the draft report to the Director of OPM for her information. We also did not update the examples, and as a result, the information in the examples may, or may not, have changed since the issuance of the report. We performed our work in Washington, D.C., from December 2002 through February 2003 in accordance with generally accepted government auditing standards.

[1]U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002); *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, GAO-02-862 (Washington, D.C.: Aug. 2, 2002); and *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements*, GAO-01-115 (Washington, D.C.: Oct. 30, 2000).

Related GAO Products

Major Management Challenges and Program Risks: A Governmentwide Perspective. GAO-03-95. Washington, D.C.: January 2003.

High-Risk Series: Strategic Human Capital Management. GAO-03-120. Washington, D.C.: January 2003.

Transportation Security Administration: Actions and Plans to Build a Results-Oriented Culture. GAO-03-190. Washington, D.C.: January 17, 2003.

Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces. GAO-03-2. Washington, D.C.: December 6, 2002.

Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies. GAO-03-293SP. Washington, D.C.: November 14, 2002.

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Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives. GAO-02-862. Washington, D.C.: August 2, 2002.

Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change. GAO-02-940T. Washington, D.C.: July 15, 2002.

Managing for Results: Building on the Momentum for Strategic Human Capital Reform. GAO-02-528T. Washington, D.C.: March 18, 2002.

A Model of Strategic Human Capital Management. GAO-02-373SP. Washington, D.C.: March 15, 2002.

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Human Capital: Using Incentives to Motivate and Reward High Performance. GAO/T-GGD-00-118. Washington, D.C.: May 2, 2000.

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