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The Efficacy of Performance-Based Pay in Selected County Governments: What Motivates Adoption and is it Achieving what was Expected?

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Abstract

The Efficacy of Performance-Based Pay in Selected County Governments:
What Motivates Adoption and is it Achieving what was Expected?

By

Timothy J. Houle

MAPA, Hamline University, 2004

BA, Hamline University, 1985

Dissertation Submitted in Partial Fulfillment
of the requirements for the Degree of
Doctor of Public Administration
Public Administration Program
School of Business

Hamline University

February, 2016

Abstract

This exploratory study examines the degree to which counties had carefully thought-out motivations for the adoption of performance pay systems, the degree to which they were using objective measures to gauge whether it was achieving those objectives, and the degree to which they believed it was achieving its intended objectives. Results indicated that adopting a performance pay system is not something to be entertained lightly. It requires more work, more discipline, more managerial courage, more training, more support, and will cause more heated internal conversations about compensation than more traditional compensation system alternatives. It is equally clear that traditional compensation systems create more rewards for those doing the least effort and for those doing the least to advance an organization's mission than a performance pay system. The traditional system relies almost exclusively on the intrinsic motivation of employees who seek employ in the public service. A well-crafted and executed performance management system that incorporates best management practices designed to thoroughly and constantly review the system's efficacy and fairness, coupled with a market-driven performance pay system, coupled with a robust set of additional strategies to create a high quality of employee worklife (recognition programs, tenure recognition and other similar environmental programs) does have the potential to create a higher-performing, more mission-driven focus linking employee performance to organizational results. But, if an organization cannot or will not make the necessary investments for all of that to be true, a poorly administered system will do more harm than good.

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CHAPTER 1

HISTORY OF THE PROBLEM

Since perhaps the dawn of time, loyalty to the sovereign has been rewarded and disloyalty has been punished. It's not really that difficult to understand why. Those with power tend to like to keep it; with power comes perquisites such as more lavish lifestyles, ordering of society along lines that most support your interests, and so on. To those who are disloyal or actively opposed to what the sovereign wants done, the sovereign will take steps, sometimes very drastic steps, to minimize the degree to which that disloyalty can impede what the sovereign wants. This isn't a new concept; it has likely been this way since when man first organized themselves into anything approaching organized clans.

In those earliest of days, the rewards and punishments could often involve the difference between living relatively well or relatively poorly and even the difference between life and death. As humans evolved into "higher" level creatures and organized into "civil" societies, the means of rewards and punishments have changed and, generally, are not as barbaric as once seen, with, of course, notable exceptions still present in the world today. In more civilized societies, these rewards and punishments have evolved into what we understand as political systems today.

This system of loyalty and punishments has existed within our own United States since its earliest days as well. The original bureaucracy for the newly-minted Government of the United States in 1789 consisted of a small number of employees who worked in three federal departments: State, Treasury, and War. At that time, our first President, George Washington

promised to hire people “as shall best be qualified.” Interestingly, however, the people he hired mostly belonged to the budding “faction” referred to as Federalists—the group with whom Washington most identified his own beliefs and policies as in alignment (The Bureaucracy: The Real Government, 2014). So, while Washington professed to be hiring on the basis of merit, it’s hard to conclude that was more narrowly defined to mostly be those best-qualified *and* in alignment with his views. That’s not a shocking revelation, but maybe a revealing one for the President most Americans would likely identify as being above politics.

What is more interesting is how Washington called forth in his Farewell Address a warning to his fellow citizens about the dangers of “factions” or political parties to the roots of liberty and to the republic itself:

“All obstructions to the execution of the laws, all combinations and associations, under whatever plausible character, with the real design to direct, control, counteract, or awe the regular deliberation and action of the constituted authorities, are destructive of this fundamental principle, and of fatal tendency. They serve to organize faction, to give to an artificial and extraordinary force; to put, in the place of the delegated will of the nation the will of a party, often a small but artful and enterprising minority of the community; and, according to the alternate triumphs of different parties, to make the public administration the mirror of the ill-concerted and incongruous projects of faction, rather than the organ of consistent and wholesome plans digested by common counsels and modified by mutual interests.

However combinations or associations of the above description may now and then answer popular ends, they are likely, in the course of time and things, to become potent engines, by which cunning, ambitious, and unprincipled men will be enabled to subvert the power of the people and to usurp for themselves the reins of government, destroying afterwards the very engines which have lifted them to unjust dominion” (Washington’s Farewell Address, 1796).

On the one hand, Washington had employed in federal service those who mostly agreed with his views and, in parting, warned Americans of associations along just such lines as injurious to the

health and long-term prospects for our nascent union. His views were either motivated by experience with the effects of some of his own actions, an interest in cementing in place those whose views agreed with his own for perpetuity, or more noble expressions of philosophy about what he really believed to be best serving the common good. Regardless of the motivation, it is difficult to read these words and not think about contemporary situations and reflect on how prescient his words ultimately became.

During Washington's term, Thomas Jefferson, a fellow Virginian, but a Democratic Republican, had served as Washington's Secretary of State. Jefferson frequently engaged in heated debates with then-Secretary of the Treasury, Alexander Hamilton, a Federalist, about what federal policy should be and how far-reaching it should extend, so much so that it became a source of irritation for President Washington. In what is most commonly used to associate Washington with the Federalists, Washington most frequently came down on Hamilton's side of the arguments, much to the chagrin of Jefferson (Ellis, 2005).

Four years after Washington left office in 1800, Thomas Jefferson successfully ran for President against incumbent President John Adams, also a Federalist, who had served as Washington's Vice-President. Not surprisingly, then, when Jefferson assumed office, he dismissed many of the Federalists then serving as employees of the federal government and replaced them with people who were members of his own party. In doing so, he first initiated the age-old process of rewarding political loyalists and punishing political opponents with jobs in the service of the sovereign to the American federal government. So began the patronage system of federal employment, commonly referred to at the time as "rotation-in-office."

Because of the size of the federal government in those early years, this was not a sizeable rotation. Over time, however, as the federal government grew, this rotation-in-office based on political loyalty swinging on who occupied the White House and their political party preference, became an increasing burden on the President. A newly-elected President was bombarded with requests from across the country for federal employment, consuming an ever-increasing amount of their time and even their schedules. In those earlier days of the republic, it was common for Presidents to hold visitor hours and for many of the people who made appointments to see the President to implore him for a federal job.

It was not until the time of Andrew Jackson, in 1829, however that this rotation-in-office was very significant. Jackson is largely credited (or blamed) for cementing the patronage or “spoils” system in place. Following the adage “to the victor goes the spoils,” when Jackson was elected, he brought a whole new group of “Jacksonian Democrats” into office with him. Jackson argued that the spoils system brought greater rotation in office and that this was healthy to the bureaucracy to clear out government workers who had been employed by previous Administrations to protect against them becoming corrupt (The Bureaucracy: The Real Government, 2014). What was new about what Jackson did is that he had succeeded five Democratic-Republican Presidents before him so he was not replacing the federal workers based on loyalty to a party, he was replacing them on the basis of loyalty to the party as *he* defined it. Thus began the system of political appointment based largely on the basis of political support and work, as opposed to merit that is measured by objective criteria (Legal-Dictionary, 2014). During the 1800s, the size of the federal bureaucracy continued to grow, though modestly by

current standards. There were, however, expanding needs that citizens were expecting government to provide. As America grew westward, new federal agencies grew up to support the migration, land-granting, and serving new areas with postal services. During this period, more and more federal jobs were filled based on patronage. With the onset of the Civil War, federal jobs swelled as more and more people were needed in government positions to sustain the war effort. Abraham Lincoln identified the job of filling federal jobs as a never-ending demand on his time that he so preciously needed for more urgent matters (Kearns-Goodwin, 2012). As noted by Henry Clay, after an election, government officials are “like the inhabitants of Cairo when the plague breaks out; no one knows who is next to encounter the stroke of death (Ramos, 2006, p. 1).” And, yet the practice continued.

To be sure, the patronage system had its defenders and detractors. Defenders would routinely point to how this system would encourage greater political participation by providing incentives for helping in party-related activities. They pointed out that the patronage system guarantees some turnover, thereby bringing in a fresh perspective which, they argued, was a healthy thing and encouraged new ideas and creative thinking. In addition, the patronage system puts people into government positions who agree with the governing philosophy of the person ostensibly charged with running the government. They also held that it minimized the possibility of entrenched workers becoming corrupt. Even critics of the patronage system have agreed that patronage at the highest levels of government was appropriate so that an elected executive could implement their philosophy of government by placing political appointees as the heads of government departments, a practice which is still commonly used today by Presidents, Governors, and Mayors. Critics, however, also pointed to the lack of qualifications needed for

performing what were becoming more and more specialized functions. The high turnover also contributed to no institutional memory and, therefore, mistakes of the past were more frequently repeated than served the public's interests. They also argued that when someone knew their job was temporary, they had a greater tendency to manage their work to shorter-term purposes and were more likely to try to extract as much personal benefit during their tenure than if they enjoyed the prospect of longer-term employment.

Widespread disapproval of the graft and corruption rampant within the public service under the patronage or "spoils" system grew steadily after the Civil War, but it was not until the assassination of President James Garfield in 1881 that the patronage system ran into any kind of organized resistance (Britannica, 2014). Garfield was killed by Charles Guiteau, who was a deranged and disgruntled office-seeker to whom Garfield had denied a government job. After Garfield's assassination, Congress passed the Pendleton Act, which was the first institution of a federal civil-service system where employment was to be granted exclusively on merit. The Act provided for selection of federal employees through the use of competitive exams, rather than ties to politicians or political affiliation (Princeton, 2014). In addition, it also made it illegal to fire or demote federal employees for political reasons. This first undertaking was not very broad and covered only about 10% of the federal workforce. The Act also created a Civil Service Commission to administer the system. While the Pendleton Act was designed to neutralize political influence over the Civil Service, it was not particularly effective because it covered so few federal workers and most of them it covered were low-level positions. For instance, when President Benjamin Harrison took office in 1889, 31,000 federal postmaster positions changed hands (Legal-Dictionary, 2014).

Over time, however, the influence of the Pendleton Act grew. Contained within its provisions was one which allowed the President to expand the coverage of the Act to more and more federal positions. Whether motivated by a desire to cement in place their own appointees for more lasting influence beyond their term of office, or by a sincere desire to professionalize and insulate the federal workforce from undue political influences, subsequent Presidents routinely expanded the coverage of the Act. President Grover Cleveland, for instance, expanded coverage of the Act to 40% of the federal workforce and, today, coverage is almost 90% (Pendleton Civil Service Reform Act—American Studies, 2014).

All the while these changes are occurring, in the background there are compensation decisions being made for employees, whether within the patronage system or the civil service system. The purpose of pay (World Bank, 2014), of course, is “to compensate the employee for work done, to motivate the employee to perform well and to retain the employee avoiding the need for extensive recruitment and training for replacements.”

Compensation systems under the Civil Service Act were standardized around the concepts of fairness and equity for positions of similar levels of responsibility or scope (Nelson, 2008). In its earliest conceptions, the civil service compensation system would allow for annual increases in the earliest years of employment and slower rates of increases in the later years; though, over time, the increases in later years were accelerated to be annually as well. This model was intended to pay a very senior person at the top of the market rate for a position making it less likely that they would leave their position for another one for more pay; at the same time, it created more rapid increases (at first) for those at the entry level so that their rate of acceleration

in pay compelled them to stay in their position. The framework, as opposed to the pay rate changes governed by political loyalties and rewards of the patronage system, was designed to be a replicable structural framework, regardless of the political administration in power.

Patronage systems were not limited to the federal government either. Throughout American history, state and local governments also employed large patronage systems. Big city political “machines,” so termed for their mechanical efficiency in electing and re-electing party bosses, were dominant features of the political landscapes of New York City, Boston, Chicago, Kansas City, and many other places. In rewarding their supporters with jobs, these machines not only rewarded people for their past political support, but also motivated them to contribute future support as the primary means for them to retain their jobs. Machines were organized all the way down to the lowest units of city blocks with someone assigned to talk to their neighbors regularly about the benefits the “machine” provided, what a good job it was doing, and encouraging (and in many cases intimidating) neighbors into going to the polls and voting for the “right” candidate (Legal-Dictionary, 2014).

Some of the most colorful stories and characters in American political history come from big city machines and the “bosses” who ran them. Among the most colorful was the big city machine of New York City, most commonly referred to as Tammany Hall, which dominated city politics for about 75 years beginning as early as the mid-1850s (Wiles, 2014). The most famous Boss was a man named William March Tweed, who was widely viewed as having used the machine to advance not only the city’s political system, but also to line his own pockets. An estimated \$75 to \$200 million were swindled from the City during Tweed’s tenure as head of Tammany Hall

from 1865 to 1871. Samuel Tilden, who ran for President against Rutherford Hayes in 1876, was head of New York State's Democratic party is credited with rooting out Tweed's corruption, though it took him an entire decade to do so.

The New York machine may be most colorfully known for a plain-speaking character named George Plunkett who liked to deliver lessons in city government administration from his perch on the shoe-shine stand. Plunkett stayed on top for seven decades in the rough and tumble of New York City politics. When asked how he did it, he said:

“Tammany is the ocean, reform the waves and there is a lot of unofficial patronage to ride out the storms if you know the ropes. Why don't reformers last in politics? Because they are amateurs and you must be a pro. Politicians do not have to steal to make a living because a crook is a fool and a politician can become a millionaire through ‘honest graft.’” Wiles, 2014, p. 2.

What Plunkett and Tammany excelled at was organization, integration of new immigrants into their political system, and using patronage jobs to instill ongoing loyalty to the machine. During this time in American history, more than half of New York's populations were immigrants who did not speak the language nor understand our laws. One valuable service the machines did provide was the inculcation of those immigrants into the American political system in a way not seen today. Largely, this was done through organizing efforts, not unlike what you see in modern political campaigns, but these political organizations were glued together with the public's money: patronage jobs. People who were rewarded with a government job had a great incentive to keep the machine in power so they would be block captains at the precinct level, visiting with the people in the neighborhoods and making sure they knew the benefits the machine was providing for them and their families. At any given time there were upwards of

30,000 local precinct captains in the five boroughs of New York and each borough contained roughly 12,000 municipal jobs creating a built-in network of loyalists paid for with someone else's money.

The benefits of the machine extended beyond simply employment. The highly decentralized organization created a network of locally-connected advocates for when individuals had troubles with the law (History, 2014). A criminal judge, for instance, who had been appointed or was being kept in office by Tammany Hall, would give special heed to a local ward boss asking for leniency for transgressions committed by people who may have been largely ignorant of the law. Such efforts were rewarded by those individuals and their families with gratitude expressed at the polls in support of the machine. Those not inclined to remember their benefactors in that way would not be so lucky the next time around.

The machine was also the only potent social welfare institution during this time. The machine was a source of food, coal, and rent money, as well as a job for the poorest of society, among them the same immigrants who, upon arrival, had no place to stay and no way to support themselves. As an example of the intimate involvement of the machine in people's everyday lives, in the course of one day, Tammany Boss Plunkett "assisted the victims of a house fire, secured the release of six 'drunks' by speaking on their behalf to a judge, paid the rent of a poor family to prevent their eviction and gave them money for food, secured employment for four individuals, attended the funerals of two of his constituents (one Italian, the other Jewish), attended a Bar Mitzvah, and attended the wedding of a Jewish couple from his ward" (Wikipedia, 2014).

Through this use of highly-organized networks and the intricate system of rewards and punishments, Tammany Hall absolutely dominated New York City politics. So much so that between 1860 and 1930, anti-machine reformers only held the mayor's office and control of the City for a total of ten years (Wiles, 2014). This era is sometimes referred to as the Gilded Age, however, because, while machines were good at winning elections, they were not as good at solving underlying social problems. Governments at the national, state, and local level were preaching laissez-faire policies that had the primary benefits of the economic and political system accruing to the robber barons of the time and the least to the average American. In addition, ironically, as a machine becomes entrenched, it tends to reserve its largesse for those who are already within the system and have historically been unpopular with those marginalized on the outside. The rise of racial minorities in urban settings brought this issue to the fore as machines began to be seen as the last defense of white neighborhoods against growing black populations (Britannica, 2015). So, while machines were dominant for a time, they did not last. Ultimately, civil service reform efforts beat back the dominance of the machine, even Tammany Hall's dominance.

New York was not unique in that regard. Cities and even states across the nation mirrored New York's experience of both the rise and the fall of patronage systems of public employment.

Famous bosses and their political machines included Frank Hague of Jersey City, New Jersey; Ed Crump of Memphis, Tennessee; James Michael Curley of Boston, Massachusetts; Huey Long of Louisiana; Gene Talmadge of Georgia; Tom Pendergast of Kansas City, Missouri; Theodore Bilbo of Mississippi; Arthur Samish of California; Richard Daley of Chicago, Illinois; and, George Cox of Cincinnati, Ohio (Watkins, 2015).

In fact, the Pendergast machine in Kansas City provided the political start for a young, failed haberdasher named Harry Truman. In 1926, Truman was elected through the machine to be the presiding county judge, one of the three administrators who ran the county agencies, in Jackson County, Missouri outside of Kansas City and rode the city machine all the way into the U.S. Senate (Truman Presidential Library, 2013). Pendergast's machine was rife with corruption and ties to organized crime and, while Truman was never effectively associated with that element of the machine, he was dogged during his early tenure in the Senate with being "Pendergast's man." In 1939, Pendergast was caught taking a \$750,000 bribe and went to federal prison at Leavenworth; and, while he got out on good behavior after serving just one year, he was forbidden as a condition of his parole to ever engage in politics again (a fascinating condition in and of itself given his First Amendment rights!). In an indication of the loyalty that the machine could generate, however, despite all of that checkered history, when Pendergast died in January of 1945, he was eulogized by then Vice-President and soon-to-be President Harry Truman, saying "He was always my friend, and I have always been his." Watkins, 2014, p. 45.

The vacillation between how much patronage in government serves the interests of the political leaders to effectively govern while maintaining the professionalism and neutrality of the federal workplace is an ongoing discussion today. In 1978, Congress, out of concern that the federal bureaucracy was too independent and unresponsive to elected officials, including themselves, eliminated the Civil Service Commission and replaced it with the Office of Personnel Management, under closer control of the President. The Act also created the Senior Executive Service, which granted Presidents greater authority in assigning top federal supervisory employees to the agency of the President's choosing (Legal-Dictionary, 2014).

The major provisions in the Act included requiring performance appraisals for all employees, merit pay on a variety of levels but focusing primarily on managerial levels, and modifications for dealing with poor performers (Wikipedia, 2013). This first venturing into merit pay for federal employees was a substantial break from the long tradition of automatic salary increases based on length of service. Under the Act, those employees covered by these provisions received only half of their annual increases automatically and the other half was tied to their performance. A key part of this new system, however, was that it was designed to be revenue neutral. As such, in order for anyone to benefit from this new performance-based upside salary potential, someone else had to financially suffer.

The major positive impacts of the Act were that it clarified job expectations and began an evolving process of defining goals and objectives for federal jobs. Its greatest failure was in not effectively establishing its intended linkage between pay and performance. This failure had a number of causes, not least of which was a lack of adequate funding. In addition, because the Act focused primarily on establishing that link just for managers, it often produced results in which managers found themselves receiving less pay than their non-managerial counterparts because the counterparts were still under the traditional step-and-grade compensation system, which produced higher wage inflation rates. In addition, these first efforts to define and measure job expectations were not particularly well-refined. As such, some complained that the system produced arbitrary results between and among managers' ratings leaving many to view it as an unfair assessment of performance. Finally, the public's negative reaction to senior federal executives who were assessed favorably and received large salary increases was unanticipated.

Reform along these lines continued, however, with the adoption of the Performance Management and Recognition System (PMRS) in 1984 (Wikipedia, 2013). Continued efforts to refine performance expectations and measures contributed to greater accuracy in performance evaluations. In addition, the Act provided limits on minimum and maximum levels of pay increases to limit the disparity among those employees covered by merit pay provisions. A Performance Standard Review Board was also created for each department to assist in developing further credibility in the performance measures used for performance assessments; the Act required that a majority of the members of these boards had to be employees covered by the merit pay provisions of the Act.

Although this reform was seen as a significant improvement over the previous effort, PMRS lasted only from 1984 to 1991. Critics continued to cite that the new system, even though improved, still contained inadequate discrimination between and among performance levels, did not contain adequate performance findings and had little demonstrable evidence that the system produced improved performance. Interestingly, again, it was not the linkage of performance to pay, per se, that contributed to the demise of these efforts, but rather that the linkage to pay increased the importance of getting the performance assessment done with high accuracy and credibility—when the performance assessment wasn't good enough, the system could not sustain itself.

Subsequently, various federal government agencies continue to dabble in variations on pay-for-performance compensation systems. More will be covered on that in the next section. As of this writing, however, there has been no comprehensive system installed in the federal government to

link pay with performance. That does not mean that the tension between civil service and political appointment has faded into history. Policymakers continue to desire to have a highly responsive delivery system for their preferred programs and services. Good government advocates continue to desire protections for government employees from undue political influence that could motivate them to advance their political superior's political agendas instead of the public's. The debate is ongoing.

Contemporary evidence of this tension and movement between civil service employment protected from undue political influence and at-will political employment that is hyper-responsive to political influence can be seen in recent news reports of delays in serving patients at Veteran's Administration hospitals throughout the nation, which ultimately led to the resignation of the head of the Veteran's Administration Eric Shinseki, and subsequent calls for greater flexibility in disciplining and removing federal employees, especially senior leaders, who fail to serve well.

Senior leaders in that instance were accused of covering up long patient waiting times and inferior health outcomes, including premature deaths. When investigations showed that there did seem to be a systematic white-washing of information to suit the demands of the department's politically-appointed leadership, the response was not to change the reporting relationships, but rather to want to overhaul the people holding those leadership roles. The political appointees were the first casualties, but subsequent calls for reform led to the adoption of provisions that allowed lower levels of the Veterans Administration to be hired and fired more easily than other similarly-ranked employees within other departments of the government, thereby extending the

reach of at-will political appointment deeper into the grades of federal employment than has been seen since the 1970s.

It is hard to conclude that there is one right mix of at-will political employment and protected civil service employment. At-will employment is the dominant form of employment in the private sector stemming from the belief that so closely tying the employee's fortunes to that of the enterprise is how to produce the best outcome for everyone. Verkuil (2015) argues, however, that the goals for public service are not so clearly defined. Further, he asserts that healthy civil service protections for public employee guarantees the institutional memory to survive changing political administrations and is the equivalent in human infrastructure as roads and bridges are to physical infrastructure in maintaining our system of governance. Yet, he also acknowledges that we need both forms of infrastructure to be resilient to changing environmental conditions, both political and environmental (hurricanes, terrorist attacks, and so on).

Those very types of reforms are frequently called for from among citizens and public policy advocates as well. Recently, the Partnership for Public Service (2014) called for a dramatic overhaul of the federal civil service system. In their report, they argued,

“There is an absence of clarity and consequence regarding individual and organizational performance. Top performers seldom receive sufficient rewards, poor performers are rarely fired or demoted, and managers are not held accountable for how well they manage employees or the outcomes of the work they oversee.

What was once a unified civil service system with a set of common rules and procedures has become deeply fractured, with numerous agencies having obtained special exemptions from Congress that give them greater leeway in setting pay, classifying jobs, hiring and rewarding top-

performing employees, even while other agencies are saddled with the outdated General Schedule (GS) system created in 1940. As a result, agencies wind up competing among themselves for critical talent, as well as with the private sector, and those organizations with the added flexibilities end up having a distinct advantage.” Stier & Howell, Jr., 2014, p. 8.

Movements toward or away from pay-for-performance does not determine the right mix of at-will versus civil service employment for any point in time, but it is an issue that is contributing very much to the dialogue at the periphery. The fundamental issue is how responsive our public employment systems are to making a real difference on the objectives and goals that advance public policy outcomes that the public wishes government to pursue. Note this is not the same as saying the advance of public policy objectives that any given political leader wishes to advance. What we are left with is a highly decentralized and disbursed leadership model, which makes it more difficult for the civil service to be responsive. Compensation systems feed into that debate in so far as they examine the degree to which various models of compensation systems can effectively motivate greater advances to those objectives or not. Can the transparent debate and clarification of the appropriate goals and objectives of the civil service through the pluralistic political process ever well enough define performance expectations that are measurable and achievable such that linking performance to pay has any hope of advancing them more than not? Does linking compensation to a performance assessment process advance organizational outcomes more than not doing so? It’s an age-old question that has no easy answer; but, as we shall see, that has not prevented many from trying to do so.

CHAPTER 2

BACKGROUND AND STATEMENT OF THE PROBLEM

Background of the problem

Much has been written about merit-based or performance-based pay. While more of that literature pertains to the private sector, there is still a considerable body of research regarding the public sector. Little has been done empirically, however, to gauge the effectiveness of achieving desired outcomes through the use of performance-based pay.

Performance-based pay has been defined in any of a number of ways by various scholars. For instance, Risher (1999, Pg. 9) defines it as “a policy that links annual wage and salary increases to employee performance over the prior year.” Hoerr (1998, Pg. 326) describes it, in an educational institution, as “a system of teacher evaluation and remuneration that focuses on teaching performance, not just teacher longevity.” England and Pierson (1990) refer to a merit pay guide chart as a ‘look-up’ table for awarding merit increases based on (1) employee performance, (2) position in the pay range, and, in a few cases, (3) the time since the last pay increase. At the heart of the matter, a performance-based pay program is attempting to link compensation, and specifically future increases in it, to continuing increases in organizational and/or individual performance. As noted by Miller (2014), p. 1, “The message from the top down, enunciated at strategy meetings and then emphasized in calibration sessions, is that recommended rewards must reflect what the company is trying to accomplish.”

The philosophy of traditional compensation programs is rooted in a Frederick Taylor-like view of the needs of a compensation program (Risher, 1999). Workers were viewed as an extension of

the machines and the goal was to make them as efficient and reliable as the machines. What they were supposed to do was often documented in lengthy job descriptions. In that era, managers had a great deal of discretion to mete out rewards and punishments as they saw fit. As a result, the exercise of their discretion to hire, fire, discipline, and increase compensation based on favoritism or other reasons that would be illegal today was widespread. Understandably, workers rejected this methodology and fought back in the form of the rise of the labor union movement.

Traditional compensation systems with steps and grades was a management response to the outgrowth of labor unions, either in response to them forming or in an effort to avoid them forming. It was an effort by corporate management to reduce discretion given to front-line management in, among other things, compensation decisions. These systems were designed and administered by human resource professionals. They were certainly a reflection of their time as they were as rigid and structured as the work environments of their time. Their aim was to standardize the rates of increases for employees to eliminate bias and favoritism on the part of line managers.

As Risher (1999, Pg. 324) observed, “Since workers rarely moved from one employer to another, it was natural to focus on internal considerations. The model for job evaluations was developed by industrial engineers. In that environment, a worker’s performance was dictated by the machine that he tended; as long as he obeyed the rules and performed adequately, he could expect the standard pay increase.”

It would be difficult to argue that the needs and goals of that emerging industrial era are not vastly different than the needs and goals of today’s globalized, information-based society. Those

companies who were the cornerstone of the development of those kinds of compensation systems are frequently now fighting for their survival. We have become a knowledge-based and service-based economy in which “tending a machine” is the least important task. We now value problem-solving skills and customer service skills to the particular disfavor of those who may be more resistant to change. Edward Lawler, head of the Center for Effective Organizations at USC, and probably one of the most respected compensation experts, has focused his work on criticisms of the traditional compensation model. He probably did more to influence the demise of these systems than anyone. Lawler’s points, as summarized by Risher (1999), are in Figure 1.

This transformation in philosophy did not happen overnight, but more and more corporations

Figure 1 – Criticism of the Traditional Compensation Model

- Reinforces the importance of the job hierarchy at a time when organizations are trying to downplay their hierarchical differences to promote teamwork.
- Overemphasizes salary grade changes and promotions as the basis for salary increases rather than focusing on the need to develop and enhance job competence.
- Motivates “game playing” and dishonesty as the basis for justifying a higher salary grade.
- Hinders organizational change and downsizing since all job changes have to be re-evaluated under traditional compensation programs.
- Perpetuates overly rigid and inflexible rules governing compensation.
- Creates a sense of entitlement if pay is increased across the board.
- Takes too much time and costs too much to maintain the program.
- Requires excessive time to prepare for and make administrative decisions.
- Perpetuates bureaucratic management.
- Establishes implicit limits on what employees are willing to do since their pay is based on the duties listed in their job description.
- Creates tension between line managers and the human resources staff who are required to defend the program principles and “police” the decision process.

Lawler, as quoted by Risher (1999, Pg. 326)

sought out alternative compensation strategies.

According to Risher (1999), the early and consistent favorite of the private sector has been variations on performance-based pay programs to the point where today they are virtually the universal favorite of the private sector. He reports that surveys of company practice show that

97% of respondents have a merit pay policy, likening it to motherhood and apple pie within corporate circles. The performance-based pay philosophy has so permeated the U.S. corporate culture that we have coined the term “meritocracy” to distinguish our society from others.

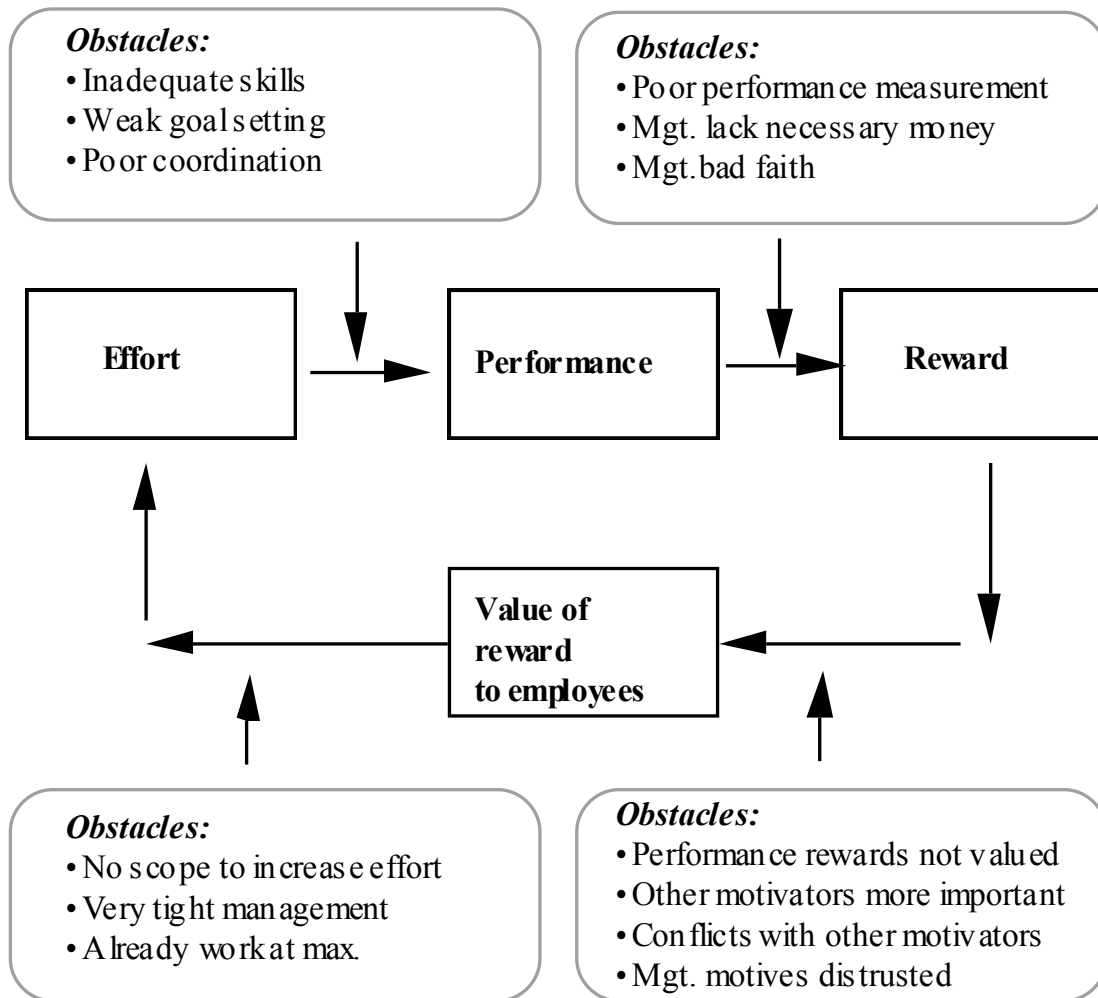
The psychological basis for the wisdom of performance-based pay is contained in expectancy theory, equity theory, and reinforcement theory. These psychological constructs, as outlined by Lowery, Petty, and Thompson (1995), play a significant role in determining whether and to what extent employees will embrace a particularly constructed compensation model, whether it be performance-based or otherwise. Expectancy theory holds that reward systems that are performance contingent should lead to higher levels of performance than systems not based on performance. There are three key building blocks upon which this theory is based. First, the effort-to-performance expectancy, which holds that employees have some expectation as to whether a particular level of effort will lead to a particular, desired level of performance. People have to believe that if they put out the effort, the performance will indeed follow. Second, employees also have an expectation about the likelihood of a reward following a particular level of performance. In order for a worker to be willing to invest the energy towards high performance, they must believe that to do so will improve their overall conditions and that their performance will ultimately be rewarded. Finally, the rewards must be sufficiently valued to elicit the performance-improving behavior. If these conditions are met, according to expectancy theory, then enhanced employee performance should result.

That said, there are, indeed, some obstacles to the successful application of the theory.

Employee effort may not result in improved performance for a variety of reasons, including lack

of skills or poor management (Marsden, 2003). Performance may not translate into reward if it is inaccurately measured or if there are budgetary constraints. In addition, the rewards may not be as highly valued as in the private sector, perhaps because public employees are motivated by other goals, such as the intrinsic interest of their work. Finally, the rewards, even if valued, may not result in extra effort if, for example, employees' jobs give them no authority or discretion to increase their performance. The boxes marked 'obstacles' (Figure 2) provide a good outline of the areas on which design of a performance pay plan should concentrate in order to maximize the chances of a successful program.

Figure 2 – Outline of the 'expectancy' framework



Marsden, 1998, Pg. 3

Equity theory provides another vehicle for examining the effectiveness of pay on performance and overall employee job satisfaction. According to this theory, also as outlined by Lowery, Petty, and Thompson (1995), employees provide inputs to their organization through work effort and in return receive outputs from the organization, such as pay. Employees will compare their ratio of inputs to outputs to the ratio of inputs to outputs for other employees. If they perceive that they are either over- or under-rewarded, if they feel that an inequity exists, they may adjust

their performance in an effort to correct the inequity. Thus, if a compensation system, even one based on performance, affects an employee's feelings of equity, performance may be affected.

Therefore, according to Lowery, Petty, and Thompson (1995, Pg. 477), "a pay-for-performance system which rewards higher performing employees with more pay based on their higher level of inputs, relative to lower performing employees, should result in feelings of satisfaction." Hyde (2005, Pg. 5) calls this the true test of performance pay, indicating there must be "sufficient variability in pay so outstanding performers receive large rewards, average performers get small raises . . . and poor performers get no increase."

As also noted by Lowery, Petty, and Thompson (1995, Pg. 475), "The concept of performance-based pay is so intuitively appealing that it seems almost ludicrous to disagree with it. Most people would agree that people who perform at a higher level should be paid more than those whose performance is not as high." Yet, merit-based pay programs have had a significantly more difficult time catching on in the public sector. In fact, they have frequently failed (Risher, 1999).

Reinforcement theory provides the third philosophical basis for performance pay systems. Risher (2004) explains reinforcement theory as emphasizing the importance of reinforcing desired behaviors by linking consequences with desired results or behaviors in as timely a fashion as possible. This can mean quick rewards for the behavior you want to see more of or swift negative consequences for the failure to produce desired results. Further, the theory argues for a variability in the reward cycle such that a reward or "punishment" is not exacted every time, which is likely more practical at any rate. This theory is classic behavior modification.

In addition, there is other evidence that indicates that a pay-for-performance system will create a greater sense of ownership and, therefore, commitment to the organization that is offering it (Brown and Sessions, 2006). Brown and Sessions (2006) hypothesized a continuum of vesting in your organization from those who are working on a fixed-rate to those who have the potential for performance pay to those who are self-employed or own the business. They used an experience-earnings profile to determine whether compensation and, by extension, positive organizational outcomes are related to the way in which an employee is compensated. Their findings did show a statistically significant difference that followed on their original hypothesis. Specifically, performance pay does move an employee along the experience-earnings profile from the fixed-rate employee, but not as far along the continuum as the self-employed individual.

Performance pay has, of late, become somewhat of a management fad among federal agencies. It has become the announced compensation philosophy for the Department of Homeland Security and the Department of Defense (Risher, 2004). Risher is doubtful, however, that these federal agencies have the systems in place to make their programs succeed. Risher suggests this is not because the employees are so different. In fact, he documents focus group findings from a study of General Services Administration federal employees indicating:

- Employees want to have their value or contributions recognized and rewarded.
- Employees want to feel they are accomplishing something they view as important. They will work very hard to achieve goals. It is the desire for a sense of accomplishment or achievement that drives performance.
- Employees want to grow in their jobs and to enhance their competence.
- Employees look for opportunities to fully use their capabilities and look for challenging jobs.

Clearly, you could hear the same motivations expressed in a focus group of any private sector pool of employees.

Obviously, in both the public and the private sector, these motivations are not values held by all employees. Workers can get turned off at work from cumulative negative experiences and they would then be less receptive to performance pay plans. Ironically, most of the triggers for such a negative orientation are often the result of bad supervision in the first place (Risher, 2004).

In the rest of the federal service, it began slowly and primarily as an initiative to incent and reward senior executives and has slowly worked its way down the food chain (Hyde, 2005). Hyde (2005) indicates that while this movement has been progressing slowly for years, it has not been without its setbacks. Historically, the performance appraisal process was based on behaviorally anchored rating scales that were notorious for inflated ratings that were not necessarily related to any positive organization outcomes. Reforms are now in process, but progress remains slow. Hyde (2005) notes that in order for this effort to ultimately be successful, gains in productivity, however those agencies may define them, must exceed the costs of the performance measurement itself. Further complicating the task is that much federal work is multidimensional, done in teams with multiple stakeholders and with multiple objectives. Hyde (2005) references some studies that suggest that linking pay to individual performance may undercut things like teamwork, levels of cooperation, and relationships among teams within organizations. In the end, the success of this initiative within the federal civil service is far from a settled question.

There are many reasons why the majority of the public sector has not embraced performance

based pay plans as enthusiastically as the private sector. Greene and Scott (1991) suggest a number of reasons why public organizations continue to use traditional time-based pay programs. These include that time-based programs allow a public agency to predict its future costs with more certainty, it avoids the difficulties associated with performance evaluation, it is generally more acceptable to union leaders and in situations where employees do not believe management has the ability to fairly administer a merit program, and it greatly reduces disagreements (appeal/litigation) over evaluations of individual performance.

For instance, employee performance evaluations might arguably be more difficult to do in the public sector where the more clear objectives of market share and net profit are not available to guide decisions as to the quality of employees' or team performance. There can be little question but that the public sector is more heavily unionized than the private sector and therefore unions' preference for the time-based programs will have a more heavily-weighted impact. In addition, the presence of a political leadership might well contribute to a lack of faith in the ability of "the system" to fairly and equitably administer a performance-based program. Finally, it is not hard to conceive of the additional aversion the public sector has to appeals and litigations of salary decisions that might be more likely to be opened up under a performance-based program.

It seems that these reasons would be enough to explain why merit-based programs are more prevalent in the private sector than in the public sector, but it is more difficult to see how these reasons alone can explain why they are nearly universally used in the private sector and used so sparingly in the public sector. Risher (1999) suggests some additional reasons, including that corporate pay programs remain, by policy, shrouded in secrecy where individual pay programs,

pay increases, and pay levels are still confidential, making it easier to live with differences in pay rates; corporate employees rarely have a protected right to file grievances or otherwise appeal if they don't like a pay decision. In addition, an intangible difference is the relative obsession with performance in the corporate world where every corporate employee knows the bottom line and the need to perform better than the competition—the need to sustain and improve high performance is an accepted goal providing an unquestioned acceptance of merit pay.

Risher (1999, Pg. 10) argues, however, that probably the most important difference, albeit intangible, is the way in which the public versus the private sector views the application of merit-based pay programs:

For reasons that go back in history, the public sector has often pushed for merit pay as a rationale for denying increases to poor performers. In contrast, the emphasis in the corporate world is on recognizing and rewarding the better performers. Few corporate employees are denied increases, and that possibility is almost forgotten. The emphasis on granting extra money means that merit pay is much more positively perceived in the private sector than in the public one.

There could be a variety of reasons for this, including the influence of the added political environment at work in the public sector or, possibly, tighter budgets. Regardless the reason, it can easily be seen that, if true, it would have a dramatic dampening effect on support for the system. There wouldn't necessarily be any benefit to satisfactorily performing employees or high performing employees, but there would be a punishment for poor performing employees. Where is the constituency to support this plan among employees? It is a case in point that an elected body can substantially influence organizational culture and change initiatives but it

cannot sustain them without some consent, even if only grudging, from the managed workers themselves.

One finding of a study done by Seay, Smith, and Crews (1995), however, when taken together with future demographic changes necessitated by the retiring of the Baby Boom generation and the likely resultant workforce shortage, is that performance-based programs seem to be more widely accepted by younger people. In a study examining superintendent versus school board chair perceptions of performance based pay programs, the researchers found a statistically significant difference in the responses of the interview subjects based on their age. They found that, among superintendents, the age most favoring performance-based pay were those between the ages of 31-40 years of age (how many superintendents do you really think there are younger than 31?!) While the group who were the least in favor of it were 51 and older. This suggests that the next generation of workers may come with radically different expectations about how they expect rewards to be distributed in the future.

Opposition to performance-based pay in the public sector has been broad and fairly consistent. In fact, the summer 2000 convention of the National Education Association, a teachers' union, rejected a rather weak proposal to use performance evaluations to pay bonuses to teachers (Lewis, 2000). Nonetheless, there are examples in the research. One example is one adopted by the Piscataway Township, New Jersey, Public Schools in 1991 (Geiger, 1993). This particular program was adopted for the administrators in the school's system. Another example, in a local government setting, is the city of Normandy Park, Washington, in which a pay-for-performance system is in place for all employees and was designed in a high-involvement way with

participation and cooperation from their collective bargaining units (MacReynold and Hopkins, 1998). Scott, Markham, and Vest (1996) provide yet another example of a merit pay program they are evaluating three years after its implementation at a public transit authority; it was available only to non-union managerial, professional, technical, and clerical positions. There are, of course, widely scattered examples across the country, including Hamilton County Ohio Department of Human Services (County News, 2002), Fairfax County Virginia (ICMA IQ Report, 2007), among others.

More recently, teachers in three Minneapolis schools and the school district in Waseca, Minnesota agreed to participate in a pilot program in which merit increases would be offered to teachers who achieve certain benchmarks of performance (Curriculum Review, 2004). The merit increases range up to \$8,000, which might explain the teachers' willingness to pilot the program. Subsequently, the Waseca school district ended its pilot program in 2006. Minneapolis, in contrast, has expanded the program and now has 14 schools using the system (Office of the Legislative Auditor, 2009).

Another Minnesota example is performance pay established within the Dakota County Attorney's Office (Backstrom, 2009). This system rates the work of the county's assistant county attorneys on a variety of factors, including performance on skills deemed fundamental to the practice of public sector law, developmental skills, and personal motivational factors. Further, the system establishes different performance levels expected based on the different grade associated with the various attorney job classifications.

Yet another Minnesota example is in Scott County (Abboud & Kemme, 2010). This

performance pay system grew out of necessity from declining tax revenues brought on by the crisis of the Great Recession, but was also the outcome of years of building a performance culture. County leadership had spent years building trusting relationships with its union counterparts, which led, in part, to securing union leadership for the transition. Even then, the system is very difficult to sustain. According to Abboud & Kemme (2010, p. 44), “For this system to work, it requires flawless execution, trust from employees, and leadership collaboration. . . . [A] performance culture requires a clear definition of performance, a solid goal-setting process, and a significant investment in education and communication to foster an environment of trust. . . . Pay for performance is an extension of the organization’s culture, which takes years to build.”

The trend toward performance pay does appear to be growing, but even that is not a universally held view. W. Edward Deming was a consistent critic of performance pay and, in surveys of workers, performance-based rewards and advancement potential often score low on features that make up an attractive place to work (Risher, 2004). Other research suggests that employees are not that significantly motivated by the prospect of higher pay (Crum, 2003). Crum further notes that if the pool of resources for performance pay is insufficient, as he argues it frequently is in the public sector, then to give the top 20% a pay increase of sufficient size to potentially alter their behavior might mean that the next 60% of the workforce would get less than they otherwise would have received, producing disastrous consequences for the organization. Finally, some argue that the performance pay will not be adopted until there is a sufficient crisis that is powerful enough to drive people to be more willing to experiment with new initiatives (Kramer, 1995). So while there is a theoretical basis for performance pay systems, it remains unclear to

what extent employees will fully embrace them, especially in public service where the connections between pay and performance may be more tenuous and the amount of the reward more uncertain and unstable.

What little research there is available on public sector performance pay systems casts grave doubts on the efficacy of such plans (Prentice, Burgess, and Propper, 2007). In fact, in a May, 2005 Policy Brief from the Organisation for Economic Co-Operation and Development (OECD)(Pg. 14), the opposite was found:

While performance-related pay appears to motivate a minority of staff in the public sector, a large majority just do not see it as an incentive to work better. Extensive staff surveys, conducted notably in the United Kingdom and the United States, showed that despite broad support for the *principle* (emphasis added) of linking pay to performance, only a small percentage of employees thought their existing performance pay schemes provided them with an incentive to work beyond job requirements and in many cases they found it divisive.

Most government workers, particularly those in non-managerial roles, consider basic pay and how it compares to the wider job market as far more important than supplementary pay increases for performance. This is because performance rewards are often limited in the public sector, but also because job content and career development prospects have been found to be the strongest incentives for public employees. PRP (performance related pay) is unlikely to motivate a substantial majority of staff, irrespective of the design.

Marsden, (1993) reports similar findings in that although many public employees thought that

linking pay to performance was a good idea (57% of Inland Revenue Tax Service staff in 1991 agreed performance pay was a good principle), very few agreed that it worked well to motivate them within their own performance pay plan. Even worse, there was substantial percentages of employees who said that the operation of their performance pay plan in fact caused jealousies, undermined cooperation with colleagues and with management, and that management used performance pay to reward their favorite employees. Apparently the feeling was somewhat mutual as line managers who were charged with doing the appraisals reported some loss of cooperation from among the rank and file.

It would seem that performance pay is an idea with broad appeal, but does it have broad efficacy? Many studies have concluded that the impact of performance pay on performance is limited, and can in fact be negative (OECD, 2007). Other studies by the OECD suggest that it is very complex and difficult to implement. These studies also conclude that the impact of performance pay at the managerial level had failed to achieve key motivational benchmarks for effective performance pay, in part, because of poor designs and also because of implementation problems. More importantly, however, the studies also concluded that these systems failed because performance assessment is so inherently difficult in the public sector (Marsden, 1993; OECD, 2007). Performance measurement in the public sector requires a great degree of supervisory judgment. The definition of good performance itself is quite subjective and complex. In the public sector, in particular, there is a great deal of difficulty finding suitable quantitative indicators. In addition, performance objectives often change with government policy and with changes in governmental administrations.

The International City/County Managers Association (2007) also detailed a number of reasons why performance pay programs can struggle in the public sector. Given limited budgets, if the pool for merit increases is similar in size to the former method of step-and-grade increases, then merit pay is a zero-sum game—increases given to some are at the expense of those withheld from others. In addition, unless performance management has been done well, many years of ineffective reviews or past merit pay abuses may also contribute to resistance. Evaluation rating inflation over time, when performance reviews were not tied to performance may make the transition very difficult when employees will need to be more accurately stratified according to their real contribution to the organization's success. Finally, the public sector is much more heavily unionized and organized labor's resistance is common. The International Public Management Association for Human Resources (2007) lists lack of managerial trust as a major contributor to failure of merit pay systems.

There is also an interesting new body of work called Self-Determination theory being advanced that studies what motivates human performance from more of a Maslow's hierarchy sort of approach. Basically, the research suggests that people ought to be paid sufficiently to meet their basic needs and then higher-order methods of motivation should be used to enhance performance (Pink, 2011). In a meta analysis of 92 studies, Judge (2010) concluded that there is very little correlation, less than 2%, between salary and job satisfaction. This was true whether controlled for region of the world or for rank within an organization. This is consistent with research from the Gallup organization (2006) showing no significant difference in employee engagement by pay level. These works are suggesting that money does not motivate performance.

Taken further, work by Deci (1999), synthesizing the results of 128 controlled experiments, highlighted consistent negative effects of incentives—from marshmallows to dollars—on intrinsic motivation. Intrinsic motivation, which is related to wanting to do a task for the sheer joy or stimulation of doing it, contrasts with extrinsic motivation, which would be focused on the completion of a task in order to achieve some kind of external reward unrelated to the task itself. Deci's work suggests that there may be some natural tension between intrinsic and extrinsic incentives on human performance. For example, Deci's found that for every standard deviation increase in reward, intrinsic motivation for interesting tasks decreases by about 25%. When rewards are tangible and foreseeable (if subjects know how much extra money they will receive) intrinsic motivation decreases by 36%. Importantly, however, he also found that for uninteresting (rote or repetitive) tasks, extrinsic rewards, like money, actually increases motivation. Deci's (Pg. 659) conclusion is noteworthy that "strategies that focus primarily on the use of extrinsic rewards do, indeed, run a serious risk of diminishing rather than promoting intrinsic motivation."

Expanding on the question of whether extrinsic rewards versus intrinsic rewards make a difference in the motivation to perform various types of tasks e.g. simple, less interesting tasks versus more complex or interesting tasks, Weibel, Rost, and Osterloh (2009) also found that it does. Overall, their findings indicate that there is a significant and positive correlation between public sector pay for performance systems and organizational performance, but that this effect is moderated by task type. For less interesting tasks, there was a greater positive effect and for more interesting tasks, there was actually a negative effect. In a nursing home setting, for instance, performance pay did improve quality indicators of nursing care that were especially

routine (Weissert & Frederick, 2013).

A subsequent study found similar findings, except that the crowding out of intrinsic motivation by extrinsic rewards was found to be linked to pro-social activities (Belle, 2015). In this study, Belle found that for activities that have a visible prosocial impact that would maximize an individual's social standing, monetary reward were more effective if they are secret rather than open. In other words, if an individual perceives that the pursuit of the monetary reward is perceived by others as greedy, the motivation of the pay is drastically mitigated. Further, the study found that non-monetary rewards did not seem to suffer the same fate.

This suggests that higher-order or social-order functions may be inhibited by a performance based pay system whereas lower order functions are enhanced leading some to conclude that a focus on performance management but without the linkage to performance pay may produce better outcomes than linking outcomes to pay (Frey, Homberg, and Osterloh, 2013). For all the debate about linking performance to pay, there seems to be much more clear agreement among practitioners that the value of an effective performance management system by itself is clear (Kavanagh, 2013). In fact, some suggest that an effective performance management system will, by itself, improve strategic decision-making, but also note that other factors, such as effective governance and funding diversity also play a role in that (LeRoux & Wright, 2010).

In addition, the connection between intrinsic versus extrinsic motivation and job satisfaction does not appear to be a direct line (Stazyk, 2009). As might be expected, even if there is a higher than average degree of intrinsic motivation among public employees, there is a range of the degree to which this is a primary motivation. Stazyk's (2009) work suggests that performance

pay systems crowd out intrinsic motivation for public service primarily among only those who had high intrinsic motivation to begin with. More importantly his findings indicated that this crowding effect had no measurable impact on overall job satisfaction.

The evidence about this linkage, however, between an intrinsic, public-service motivation versus an extrinsic compensation reward is not at all conclusive. French and Emerson (2014), found that the level of intrinsic versus extrinsic motivation varied considerably from one person to the next concluding that people come into public service for a variety of reasons, that the reasons can be both intrinsic and extrinsic for any given individual, and that the proportion of intrinsic to extrinsic can vary from one individual to the next. Their conclusion was that there is no overarching reason why people choose to work in public service and that people who seek security, better pay, or better fringe benefits are also attracted to public service within various public service roles.

Motivation is not the only factor either as there is also some evidence to indicate that public employees who work in a performance pay system are less happy than those who do not (Choi & Whitford, 2013). This seems to reinforce other findings suggesting public sector workers are less in favor of tying their compensation changes to performance factors. In the private sector, 54% believe that their salary should reflect their own performance, 36% think it should be based on inflation or the cost of living change, and 32% think it should be based on their experience (CIPD, 2013). In the public sector, 55% of workers feel their pay should reflect inflation or changes in the cost of living, 36% believe it should be based on individual performance, and 33% think it should be based on their experience. It is unclear, however, if these perceptions are

based on the differences in experience and exposure of public sector workers versus private sector workers to variable compensation systems in general.

Another recent study (Cho & Perry, 2011) also found a strong correlation between employee engagement levels and intrinsic motivations. Analysing real-world data from a representative sample of over 200,000 U.S. public sector employees, the results showed that employee engagement levels were three times more strongly related to intrinsic rather than extrinsic rewards, but that both motives tend to cancel each other out. In other words, when employees have little interest in external rewards, their intrinsic motivation has a substantial positive effect on their engagement levels. However, when employees are focused on external rewards, the effects of intrinsic motives on engagement are significantly diminished. According to Cho and Perry, this means that employees who are intrinsically motivated are three times more engaged than employees who are extrinsically motivated, such as by money. Quite simply, these findings suggest you're more likely to enjoy your job if you focus on the work itself, and less likely to enjoy it if you're focused on money. Further, and more importantly, they suggest that the more people are focused on their salaries, including an emphasis on pay for performance, the less they will focus on satisfying their intellectual curiosity, learning new skills, or having fun, all of which, arguably, are the very things that make people perform their best. Pink (2011) suggests that extrinsic rewards, by their very nature, narrow our focus.

Of course, not all empirical evidence points to performance pay being a failure. Even if the intended results aren't always achieved, there is some data to suggest that performance pay systems have often been positively correlated with a more general organizational strategy to

redefine the objectives of public service work, to make it more responsive to the needs of citizens, or at least, to be better adapted to the wide diversity of expectations placed upon it by different groups of citizens (Marsden, 2003). When performance pay systems have a strong focus on goal-setting and organizational objectives, they can provide a conduit through which management can communicate the new set of objectives to employees. There is some evidence to suggest that the new organizational objectives are better internalized by employees than in the absence of the performance pay system. As Marsden notes (Pg. 7), “For example, in the British tax service, one of the goals of the performance pay system introduced in 1993-94 was to get away from defining job performance in relation to a set of fixed standards, and move towards objectives that were agreed between line managers and employees. The latter could be more easily adapted both to the abilities of individual employees, and to the varied needs of the different parts of the tax service.” In essence, the move to the performance pay plan provided a context within which individual objectives could be more meaningfully determined.

Most recently, advancement of performance pay in the public sector also appears to have been significantly impacted by the effects of the Great Recession. A recent survey by the International Public Management Association for Human Resources (IPMA-HR, 2012) finds that organizations reporting the use of any form of variable compensation, the most prevalent of which is performance pay, dropped from 45 percent in 2007 to 29 percent in 2012. Overall, this appears to have been due to broad cost-cutting strategies related to controlling labor costs, including freezing pay, layoffs, hiring freezes, and so on. This points to another issue with performance pay in that changing economic conditions can radically alter the degree to which a motivation can be created through compensation during periods when compensation increases

are being strangled.

From an overall perspective, a study by the Office of the Auditor of the Metro Council of Portland, Oregon (2004) details twelve factors that it says contribute to the success of performance pay systems in public entities and nine factors that inhibit success. Those factors that they indicate advance success are:

- A compelling, well-defined, fully-articulated and fact-based business need.
- Employees who are highly motivated by monetary rewards.
- Clear links between the organization's objectives, employee performance, and pay.
- Meaningful rewards consistent with individual, team and organizational achievements.
- Structured and consistently-applied performance management systems.
- Measuring the performance pay program itself for success.
- Employee participation in design, implementation, and monitoring.
- Full and consistent funding.
- Continuous training for new and existing managers and staff.
- Program proponents who lead by example.
- The switch to performance-based compensation is positioned as an organizational development initiative.
- Continuous flexibility and refinement.
- Those factors that they suggest inhibit the success of a performance pay program in public entities are as follows:
- Failure to link employee performance objectives to the organization's objectives produces weak support within the organization.
- Invalid performance appraisals lead directly to program credibility problems.
- Lack of adequate financial rewards and budget cycle barriers inhibit program success.
- The performance reward connection is not clear.
- The performance-effort connection is not clear.
- Money may not be a prime motivator for some employees.
- Performance pay can become an administrative burden.
- Faulty assumptions by performance pay proponents lead to unmet expectations.

Finally, performance pay programs have failed when participants, policy makers, media, or others publicly criticized one or more aspects of the plan, subjecting an entire system to a level of scrutiny it could not withstand.

Broderick and Mavor (1991) argued much the same up by saying,

“Our review of existing theory, diverse types of research, and clinical experience suggests that there are certain preconditions that appear to be necessary (though not sufficient) for pay for performance to do more good than harm: for instance, ample performance-based rewards available to be distributed; participants who are knowledgeable about the linkage between their actions and rewards received; credible indices of performance; and incentives for those doing the performance appraisal to do it well versus incentives for them to *not* differentiate among subordinates. To the extent that some of these necessary preconditions may not be satisfied in many government contexts, there is reason to question whether the prerequisites for beneficial effects are satisfied.” p. 36.

Lawler (1990) probably best summed up the challenges with merit-based pay systems, whether they are public sector or private sector. He points out that in order for a merit system to be effective, there must be credible and comprehensive measures of performance and that without these it is impossible to relate pay to performance. He points out that in most organizations, performance appraisals are not done well and, as a result, no good measures of individual performance exists. In addition, he notes that in many situations work performance is simply not easily measured by focusing on an individual’s performance versus the team’s performance.

The ultimate conundrum of performance pay is thus accurately and objectively measuring performance, something that should arguably be done well for a variety of reasons, including giving employees credible performance feedback and creating benchmarks of organizational performance. There are tools to assist organizations with doing this (Poister, 2003), but it requires a commitment that many public sector organizations may not have the time, energy, or inclination to pursue, especially after cutbacks in staffing in the public sector associated with the Great Recession.

Lawler (1990) further argues that in the absence of objective measures, most organizations rely on the subjective judgments of managers and these judgments are often seen by subordinates as unfair, invalid and discriminatory. As that perception persists, the system simply does not deliver the change in performance that it was intended to deliver. Lawler suggests that these problems are not insurmountable, but rather require careful planning and execution. A study by the Metropolitan Council of Portland (2004) concluded that pay for performance for public entities can only succeed “when the political climate is right, employees accept it, managers are trained to implement it fairly and consistently and agencies monitor it regularly.” p. 2.

Theorists have also long noted that organizational performance is not simply the aggregation of individual performance; organizations are complex social environments creating a mismatch between the simplicity inherent in merit pay programs and the complexities of organizations (Pearce, 1987). This question of the proper level of aggregation for performance incentives versus group incentives is an interesting area for study all by itself. One study concluded that Americans, for instance, dislike group incentives and prefer individual incentive programs whereas European workers appear to get satisfaction from group incentives as well as individual incentives (Mogultay, 2013). Another study found (Haerter, 1992) suggests that there are five factors which influence aggregation, which are outlined in Figure 3, below.

Figure 3 – Factors Influencing Aggregation Level

<u>Factors</u>	<u>Favors Individual</u>	<u>Favors Group, Plant or Total Organization</u>
Technology	Low complexity; individual tasks that are not interdependent	High complexity; interdependent tasks
Trust	Good supervisor--subordinate relationships high trust of supervisor	Good trust in organization Good communication about organizational work objectives and performance
Size	Large; individual Lost in larger system	Small; individual can influence and relate to group and/or plant events
Information System	Good measures at individual level	Good measures only at group or plant level
Union Status	Non-Union	Union or Non-Union

Note: Factors influencing aggregation level on an individual level carry upward to the group, plant, or total organization.

Haerter, 1992, Pg. 26

While the public sector has been slow to implement performance-based pay programs, there are, indeed, enough instances of its implementation, most commonly among senior executives, to take the notion seriously as a matter for study if, for no other reason, than to help discern whether

“rising and falling tides of interest in the various incentive plans have more to do with changing social, political, and economic fashions than with accumulating scientific evidence on how well the plans work” (Blinder, 1990, Pg. 3).

The idea of this research is to define some bases upon which to begin to judge the degree to which public managers are thinking of the full complexities of human motivation when contemplating the pursuit of a performance-based pay system. Was a decision to pursue such a system just a philosophical predisposition to pay being based on performance, as it seems to be in the private sector? Was there any contemplation of the nature of public sector work versus private sector work? Was there any contemplation of the impacts providing external rewards might have on intrinsic motivation? Measuring the degree to which this is a thoughtful decision by public managers should help to advance the dialogue by future public managers considering the same course.

Statement of the problem

What are the motivating factors that lead a public manager to institute a performance-based compensation system and do they take any steps to measure whether or to what degree they were achieved?

CHAPTER 3

METHODOLOGY

Research questions

- What were the motivating factors for instituting a performance based compensation

model?

- What measures, if any, were established to measure the success of the advancement of those motivational factors for instituting the plan?
- What are the results of those measures, if any? Did they achieve what they set out to achieve?

Rationale/theoretical framework

There is much literature about the fact that performance-based pay programs are popular in the private sector and why they are not as popular in the public sector. What is difficult to find is good data to empirically indicate the efficacy of such systems, either in the public sector or the private sector. Expectancy, equity, and reinforcement theory predict that a positive correlation will exist between outcomes in organizations that have performance-based pay programs from those that do not. Self-determination theory suggests that, especially where high-level complex tasks are involved, the opposite will result. The private sector's wild abandon in favor of such systems is strong anecdotal evidence of such a correlation, at least for private sector organizations (would so many be continuing to engage in the practice if it didn't work?).

Intuition suggests that there should be a relationship. Yet, one wonders whether that is easier in the private sector than in the public sector where sales figures are more easily counted versus the number of social pathologies corrected.

Much of the data that does exist, albeit sketchy, is on performance-based pay in the federal civil service. There are substantial differences between the federal civil service with its massive breadth and depth of services to that of a local unit of government, such as a county. This

remains true even if the local unit of government is a large, urban county. A large, urban county is still much smaller, more nimble, and less bureaucratic than the federal government; and, as a result, trying to determine the efficacy of performance-based pay in counties by looking at results from the federal level does not necessarily produce valid results. Using statistical techniques as directly applied to counties that use a performance-based pay system, however, should produce results more useful to counties considering such a move and is relatively unexplored territory.

The value of this research, therefore, will be to try to ascertain whether counties in selected areas of the country that have pursued a performance pay system had a specific objective or sets of objectives in mind when they decided to pursue the course and whether or to what degree those objectives are being measured and met.

Hypotheses

- There will be a specific set of organizational objectives identified prior to adoption of a performance-based pay system.
- There will be measures of the degree to which the adoption of the performance-based pay system advanced the stated organizational objectives.
- The measures will demonstrate advancement of prior-defined and key organizational objectives.

Importance of the study

As mentioned in the literature review, public sector organizations have some significant

institutional resistance to performance-based pay programs. Yet, the demographics indicate that if public agencies want to attract the best talent, they may need to do a better job of rewarding those who perform better than others. The difficulty of making such a transition in the public sector is an extremely significant hurdle to overcome. Adding to the height of the hurdle is the vacuum created by the lack of empirical data to show that the effort is worth it in terms of superior outcomes after taking into account the energy necessary to pull it off. In the absence of proof that indeed performance-based pay programs achieve better net outcomes, why would you make this transition?

In the private sector, faith and intuitive belief may be enough; in the alternative, they may more easily be able to see the improvement to their bottom line or sales figures, and so on. In the public sector, it is more difficult to evaluate superior performance, which is precisely why this study would be so important. There is ample evidence that a poorly designed and administered merit system can do more harm than good (Lawler, 2000). While this will not end up being the definitive study or the final one on the topic, it is necessary to lay a basic exploratory foundation upon which further research can be done, the ultimate goal of which will be to determine and improve the efficacy of such systems as they will undoubtedly become more prevalent in the public sector.

Assessing the degree to which existing performance-based pay systems have been adopted with specific organizational objectives in mind and with measurable results being tracked helps to sort through the conflicting research on how to best design and to what purposes such a system should serve. The study should help to shed light on the purposefulness with which existing

practitioners have pursued performance-based pay and the degree to which they are thoughtfully studying its actual impacts.

Definition of terms

For the purposes of this study, these terms will have the following definitions:

Organizational Outcomes: clearly defined measures of the organization's primary objectives of performance through measurable results regularly reported.

Performance-Based Pay Program: any compensation policy that links annual wage and salary increases to employee performance on some predetermined period-over-period comparison.

Employees: the number of full-time equivalent (FTE) employees employed by the political subdivision being examined.

Employee Engagement: The rate at which employees are willing to engage in discretionary effort in their jobs as measured through the use of a survey at least once per year.

Employee Retention: the rate at which employees exit the organization measured as a annual percentage of the total workforce.

Employee Satisfaction: the degree to which employees are satisfied with their work environment as measured by a survey with standardized questions at least once per year.

Performance Distinction: a noted difference in the performance of two or more employees in the achievement of key organizational objectives that the organization wishes to either reward or punish.

Recruitment: the ability to attract new employees to come to work for the organization as measured by some objective measure, such as time to recruit, number of applicants, and so on.

Stakeholder (Citizen) Satisfaction: the degree to which stakeholders or citizens are satisfied with the quality of the public services they receive as measured by a survey with standardized questions administered either annually in a randomized sample or to recipients of services immediately following their receipt of the service.

Senior Executives: those managers, supervisors, or department heads who are paid in the top ten percent of the organization's compensation system.

Wage Inflation: the amount of increase in the total wages paid to employees, not counting new

or eliminated positions, expressed as a percentage increase over the previous year's base costs.

Research design

The research design will be a qualitative, exploratory pre-experimental design. Selection will not be based on random assignment, but rather on whether a performance-based pay program is already in place in the organization or not. The expectation is that the number of jurisdictions that have a performance-based pay program in place already will significantly reduce the availability of subject organizations for the study group. As such, selection will be based on screening those that have a performance-based pay system into the study group based on prior research to identify such. While such organizations are clearly the exception and not the norm, there should be enough organizations so situated in the public sector that no difficulty is expected in locating subjects for the test group.

Once located, test subjects will be given a standardized interview so as to allow for a probing style of questioning that first requires the interviewee to volunteer information free-form so as to really explore prior motivation, but become more specific to probe additional potential motivators and the degree to which they have influenced decisions. Further, questions will be asked about each identified motivator to explore what specific measures may or may not exist to verify that the motivating factors are being achieved and, if so, to what degree.

Description of research methodology

The first step in the research will be to identify county government organizations with performance-based pay programs. The plan will be to contact each of the study states' membership associations for counties to identify which of their member jurisdictions meet the

criteria of having a performance-based pay system. As each organization is identified, contact will be personally initiated to set up an appointment with the human resources or chief administrative officer in each organization with whom to conduct the interview. At the conclusion of the interview, each participant will be asked if they are aware of any other county within their state that has also developed a performance-based pay system to verify the comprehensiveness of the counties that were identified by the state associations.

Incentives will not likely be used, depending instead on the extension of the professional courtesy of one practicing (and researching) public practitioner to another as the incentive for the interview to be conducted. At the conclusion of the interview, an offer will be made to share research results with whomever they wish to designate within their organization. A follow up letter thanking them for participation in the interview and, again, offering to share the results of the interview will be sent post-interview.

Limitations of methodology

One of the limitations of this study will clearly be the degree to which the researcher can construct perfected test groups. First of all, the number of counties using performance-based pay programs will be limited. Secondly, finding them might become time consuming. As such, cost of constructing a reasonably balanced test group might well be a limitation.

Since finding a good test study group might be time consuming and difficult, it will be imperative that the ones identified willingly participate. Persistence and the pursuit of professional courtesies will become a necessary strategy. Pursuing the interviews in the context of the potential for this researcher to also implement a performance-based pay system for his

present employer, which is in fact the case, will also help establish the need for good information on which to pursue the extension of the professional courtesy.

Focus group follow-up would be an excellent way to delve more deeply into survey results to provide a springboard for subsequent research topics; however, given how widely dispersed geographically the test group is expected to be, it is unlikely that will be financially feasible.

Adequate records of the participants should be kept on file should some subsequent researcher wish to follow up this research in that manner.

Study delimitations

One of the delimitations of the study is to focus on counties. This focus was selected as a way of trying to better ensure a healthy independent study group and to work with organizations large enough that their adoption might most likely be based on sound human resource strategies designed to achieve well-defined organizational objectives. In addition, given their larger size within local units of government, they might more likely have performance-based pay programs in place and stabilized than other units of local government that may be, on balance, smaller in size. In addition, the larger the public organization, the more senior executives that the performance-based pay program might apply to and therefore the larger the potential population as well. Finally, to limit the study to local governments including only counties allows for a cleaner data set in so far as the work of counties are more similar to each other than to transit authorities, schools and so on.

Another of the delimitations is the choice of outcomes for which the research will test. In particular, the outcomes the research will analyze, for purposes of correlation, will be the factors

that are identified as having motivated the adoption of a performance-based pay system. At first, the interview will be structured in an open-ended way to probe without bias what the interview subject might volunteer as having been their motivation without any prompting. Following that, prompted questions will explore the degree to which identified potential motivating factors might have been behind adoption, to include employee satisfaction, employee retention, organizational outcomes, stakeholder (or citizen) satisfaction, wage inflation, performance distinction, or recruitment. As such, a delimitation from the identified potential motivators are the limits to those offered to the interview subject from the list above. Finally exploration will occur about the degree to which there are measures in place to verify the degree to which these motivating factors have been achieved and, if so, to what degree, further delimiting the research to that which the subject had put in place prior to adoption.

Another delimitation will be to limit the research to the states of Wisconsin, Florida, Virginia, Maryland, Texas, California, and New York, the reasoning being that they probably have the highest ratio of large counties. The research will also include Minnesota as the author has a particular interest in what is happening within the state in which he practices. This may or may not affect the external validity of the final results.

Finally, one other delimitation of the study is the results will need to be stratified by the state within which the county is located. The stratification is necessary in order to make valid comparisons of the degree to which state policy may be impacting the adoption rate or the measurement of motivating factors related to the adoption of a performance-based pay system. Additional analysis may need to be completed and/or adjustments may be need to be done to the

final data collected to try to minimize the impact of other independent variables on the survey results, e.g. differences in state preferences for particular types of services, different methods of controlling for state-to-state variation in the duties assigned to political subdivisions, and so on.

Selection of subjects

Subjects will be selected for the test group based on the existence of a performance-based pay program in their jurisdiction. They will be identified by contacting the membership associations for each type of public organization in each of the target states to get contact information for each member of theirs that meets the operational definition of an existing performance based pay system. It is expected that the test study group will necessarily need to essentially self-select as the population of organizations with such a program in place is expected to be relatively low. Once the test group is so self-selected, a baseline analysis of critical characteristics, such as population, annual expenses, numbers of employees, and so on, will be done to identify the relative nature. Close care will need to be taken to try to minimize external variables which might affect the outcomes. Being an exploratory design, however, such variability is expected to a certain degree and should be dealt with more fully in subsequent research or a more experimental design.

Instrumentation

Instrumentation will be through a survey that will be personally administered. The survey will be one developed for this specific research and designed to capture information on the motivating factors that led to the adoption of a performance-based pay system. In addition, the survey will capture population, state, number of employees, annual budget, and how many and to

which employee classifications (if appropriate) the performance-based pay program applies. It will be pre-tested by administering it over the telephone to a selected group of the proposed participants from the largest organizations involved. It will then be modified based on the feedback received from them. Subsequently, it will be consistently used with all jurisdictions meeting the definitional parameters of the study in the selected states.

Data collection and recording

The data will be collected via telephone interview with the study author recording all of the responses. The interviews will be recorded to allow for the researcher to have a free-flowing discussion and subsequently record the answers. Permission for the recording will be secured at the beginning of the interview. The data will be tallied onto an Excel spreadsheet for later statistical analysis.

Because the data has to do with compensation information of public sector organizations, which should in all states be deemed to be public information, it is not anticipated that data privacy concerns will be present. If necessary, a coding scheme will be developed to protect any confidential information collected, though none is anticipated.

Data analysis

In analyzing the data, the jurisdictions will be stratified according to budget size (to approximate different sized organizations) and state. Tallies of the response rates for each of the volunteered motivational factors will be compiled, response rates for the suggested motivational factors will be similarly tallied and numbers of valid measures of the achievement of the motivating factors will also be tallied. Results will be analyzed and reported on the degree to which there were

independently-volunteered motivations, the degree to which each suggested motivation was acknowledged, and the degree to which verification is being monitored on the degree to which actual achievement of the motivating factors is being done.

Final presentation of the data will be in a chart form summarizing the major characteristics of the responses by stratified category. Relative frequency indicators will be included within each stratified group to indicate the relative prevalence of the variables within any sub-groups.

Finally, a narrative presentation of the findings and conclusions will be written as part of the completion of the study. It is anticipated that the final results will be in publishable form.

Discussion of reliability and validity of the study

As this is a qualitative, exploratory, pre-experimental design, this study is not intended to be generalized to the population as a whole, but rather is intended to serve as a launching point for more in-depth research. As such, it could not be considered to have a high degree of external validity. In addition, the internal validity will need further research. It is possible that there are alternative causes of fluctuations in the organizational outcomes measured other than simply the performance pay program. This research should help to show, however, that there is indeed a clear set of consistently identified factors that motivate managers to adopt a performance-based pay program and to begin to point future researchers in appropriate directions about the degree to which it effectively achieves the outcomes those motivating factors represent. In addition, it should help direct future research toward establishing a clearer link and that more sophisticated research is warranted to further isolate the performance pay program as the dependent variable causing the changes in outcomes. If the hypotheses are proved incorrect, it will lend additional

credibility to undercutting conventional wisdom on the efficacy of performance pay programs.

In terms of the reliability of the variables, the researcher expects a high degree of reliability in the survey responses on the size of the organization. Reliability will not be as strong as it relates to the motivating factors that organizations identify as prior-defined as there may be some motivation for the organizations to represent better forethought in adopting a performance-based pay system than actually existed, but it should still be fairly high.

Ethical and diversity considerations

Participation in the survey is voluntary, though most of the selected states could be expected to have some public information statutes, which might statutorily require the release of the data being requested. Incentives would likely improve the survey response rate, but are not planned at this time. Recordings will be made of each telephone interview, but subject permission will be sought at the beginning of each taping and, if consent to tape is not given, at the subject's option, either the interview will commence without taping or the interview will be cancelled. As such, there are no ethical considerations with the recording of the interviews. There appears to be no other diversity or ethical considerations involved in this research project.

Overview of proposal

This research is intended to begin to empirically establish the motivating factors for county government organizations in adopting a performance-based pay system and explore to what extent they employ measures to validate the success of the program achieving its intended purposes and, if available, to what extent in the states of Minnesota, Wisconsin, Florida, Virginia, Maryland, Texas, California, and New York. The target audience for this research is

any public administrator or board contemplating the implementation of a performance-based pay system. Funding to cover the cost of the research will come from personal sources. Additional possibilities would include grants from foundations as well as contributions from similarly-situated counties, or their professional associations, who might also be interested in the results.

In the study, counties with performance-based pay programs will be interviewed and the results tallied and analyzed to determine what the motivating factors were that led to the adoption of a performance-based pay system; what measures, if any, were put into place to track and measure the extent to which the program achieved its intended results; and, if available, to what extent those results were achieved. The measures of success for the test are: Identifying what the motivating factors were for the installation of a performance-based pay system; identifying what measures, if any, were put into place to track the degree to which the intended results were achieved; and, using those measures, where available, identifying the degree to which those results were achieved. These measures are intended to identify what are the primary motivating factors that lead to the adoption of a performance-based pay system for county governments and, potentially, to show a positive, statistically valid correlation between those county organizations employing a performance-based pay program and improved organizational outcomes. If, on the other hand, no specific motivating factors can be identified, or, moreover, if no such correlation is shown, it would lend additional credibility to those skeptics who see performance-based pay programs as either an institutional fad, something that is counter-productive to organizational outcomes, or as something that can more easily apply in the private sector, where widgets are easier to count, than in the public sector, where outcomes are much more difficult to measure.

Under either circumstance, there is no expectation of a definitive answer to this complex question, but rather that this research will shed additional light onto the most productive path for further inquiry.

CHAPTER 4

Data collection

Telephone surveys of the IRB-approved dissertation survey were conducted in January through March, 2014. Hamline University's IRB approval number for this study was received from Matthew Olson, Hamline University IRB Chair, on June 20, 2013. 115 telephone surveys were conducted using Survey Monkey to collect and store the responses. 16 respondents who had been thought to have a performance based pay system in place indicated that they had no such system in place, leaving 99 respondents who were able to complete the entire survey.

Respondents who were interviewed were identified by a number of methods. Contact was made with state associations, as originally planned, within the states that were originally called out for study: Minnesota, Wisconsin, Florida, Virginia, Maryland, Texas, California, and New York. It was apparent early into the process of trying to identify counties within those states that had performance based pay systems in place that Minnesota, Wisconsin, Florida, and Virginia were states where that would be productive. Unexpectedly, Maryland, Texas, California, and New York turned out not to be for a variety of reasons.

In the case of Texas, discussions with the Texas association of counties revealed that there was only one county executive in the state in Tarrant County. The Texas association did not think

there were any instances of pay for performance that existed within any county in the state.

Repeated contacts to Tarrant County to ask about their system went unanswered. In the end, no surveys were produced from any Texas county.

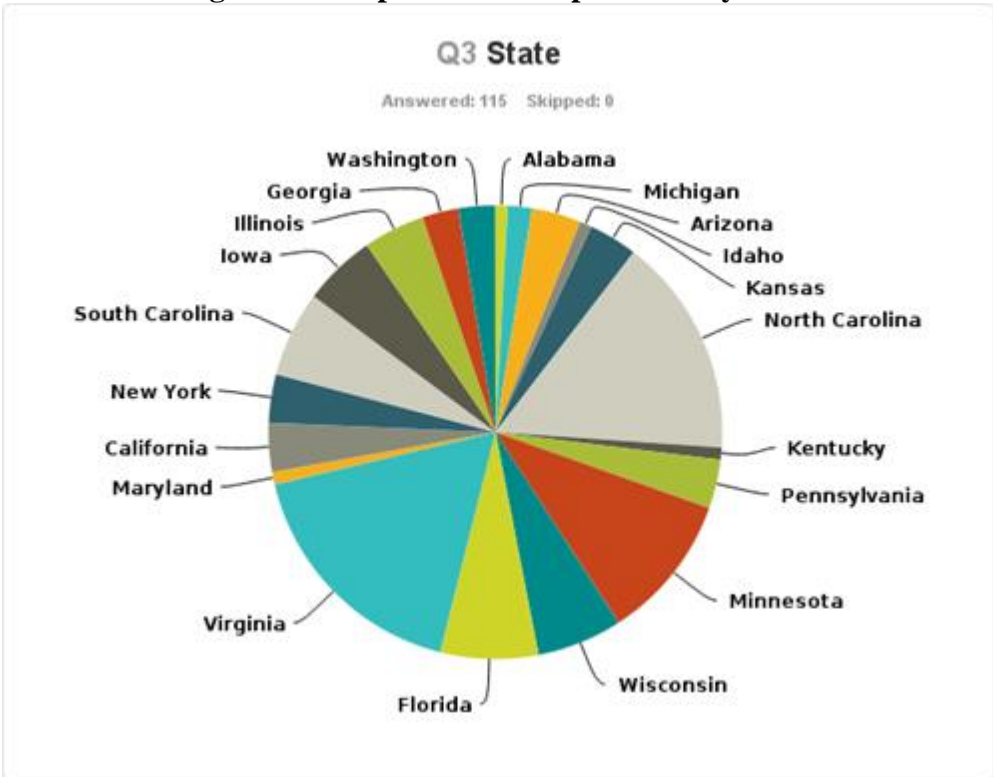
In New York, repeated overtures to both the New York association of counties and the New York chapter of the International City/County Manager Association (ICMA), including multiple follow-up telephone calls, were unproductive. Throughout most of the period during which interviews with counties were being conducted, no counties in New York had thus been identified as fitting the study criteria since no information was forthcoming from the source of that. Moreover, neither association responded to requests to send an inquiry directly to New York counties asking if they fit the study criteria. In the end, through a conversation with the staff at the New York ICMA, they suggested one contact person, Ian Coyle, County Administrator of Livingston County. In contacting Mr. Coyle, he was pursuing his own graduate studies and, hence, agreed to send out a survey to other ICMA member counties, which, as it turns out, are only those counties in New York without an elected county executive. In the end, the study did successfully include five counties from New York.

A similar experience ensued within California and Maryland as well such that in Maryland, only one successful interview was conducted and, in California, only four successful interviews were conducted. As such, within the target states identified at the onset of the research, only 60 successful interviews were completed and those in New York, California, and Maryland came very late in the interview process and only after aggressive attempts to identify study participants. As such, mid-way through the process of identifying counties to interview for

inclusion in the study, it appeared that the numbers of successful interviews was going to be too few in order to justify any appropriate conclusions, even exploratory ones, and the decision was made to expand the scope of states to include in the research.

Inquiries were then made to expand the scope to include any state bordering on one of the originally targeted states or those with an active ICMA chapter, which ended up including, North Carolina, South Carolina, Georgia, Washington, Pennsylvania, Illinois, Indiana, Michigan, Ohio, West Virginia, Colorado, Arizona, Iowa, Oregon, Delaware, New Jersey, Connecticut, Rhode Island, Massachusetts, Vermont, New Hampshire, Maine, Alabama, Idaho, Kansas, Kentucky, interviews were conducted within the following states: South Carolina, Iowa, Illinois, Georgia, Washington, Pennsylvania, Kentucky, North Carolina, Kansas, Idaho, Arizona, Michigan, and Alabama. The proportion of respondents, by state is shown in Figure 4.

Figure 4 – Proportion of Respondents by State



Characteristics of the county respondents show that performance pay is not limited to any particular-sized organization or community. Figure 5, depicts the range of county sizes and Figure 6, below, depicts the community sizes of the counties included.

Figure 5 – Range of County Size

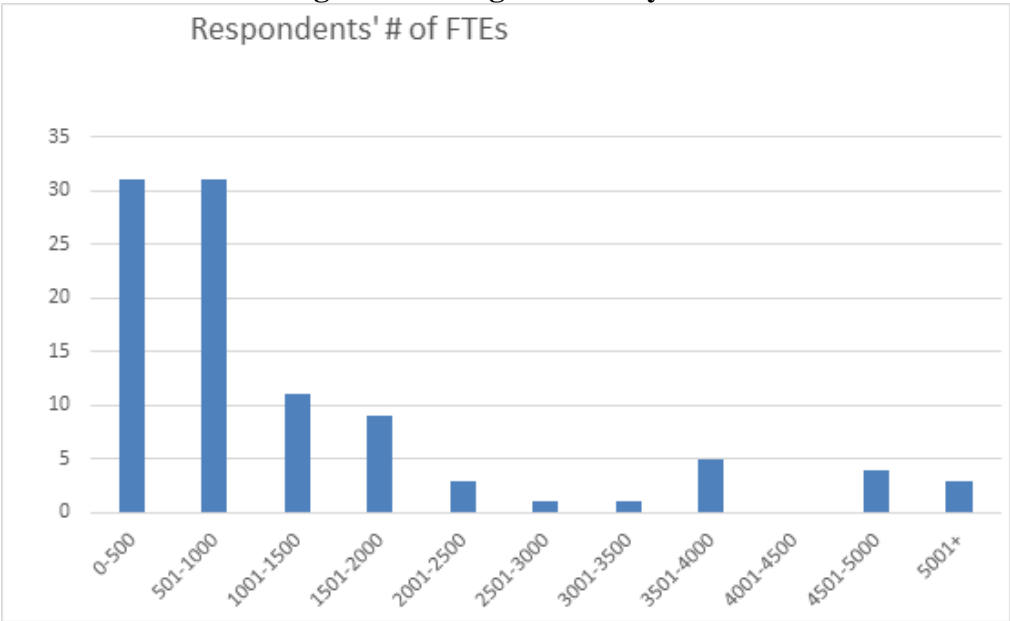
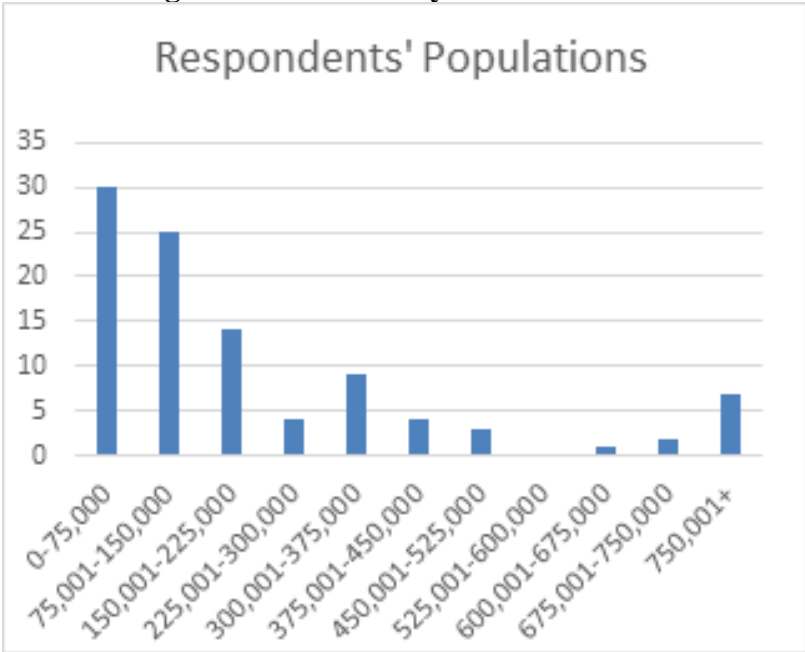


Figure 6 – Community Size of Counties

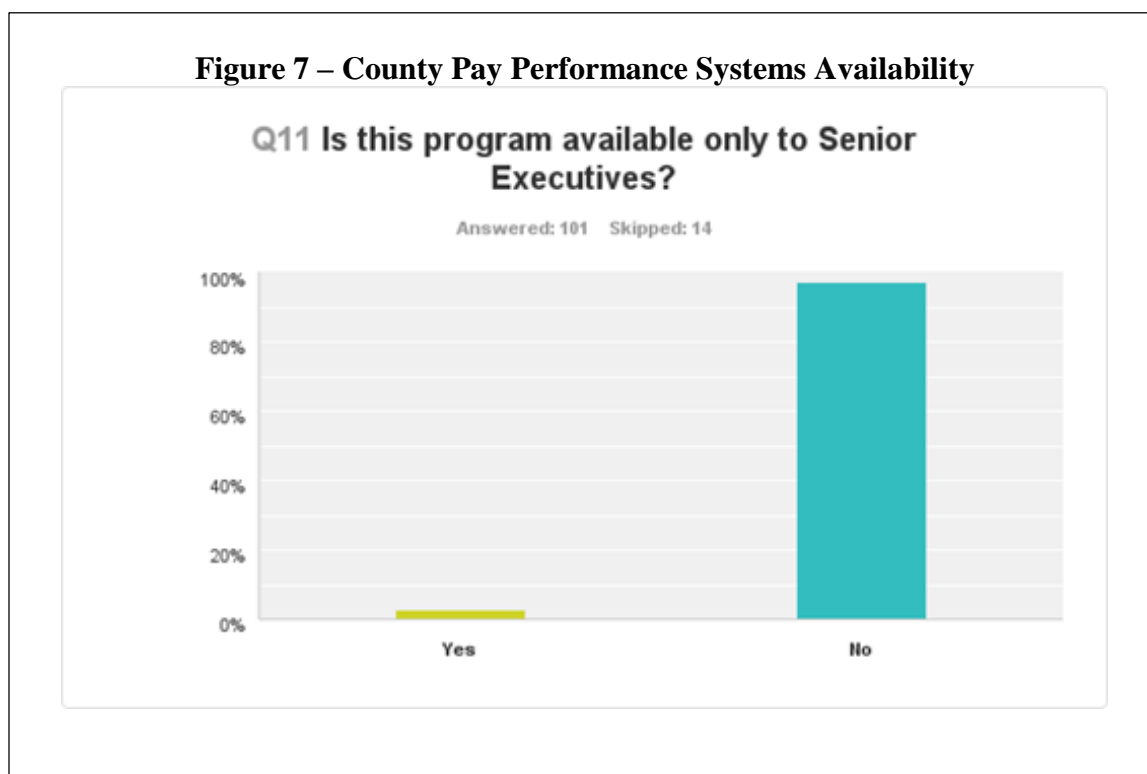


Scheduling times for the interview at a time that would be mutually agreeable turned into one of the most significant challenges and required multiple callbacks and messages. Consistent with the IRB-approved plan, respondents were told that participation was voluntary and were asked for their permission about recording, when it was used. It became apparent as interviews were being conducted that all necessary information was able to be collected and input as the survey was being administered and, as a result, recording interviews was discontinued early on in the process and the question requesting permission to record was dropped. Interviews were collected over a three month period.

During the course of the interviews, an unexpected delimitation emerged. The focus of the research questions was on the *original* motivation for the pursuit of a performance based pay system. In a small minority of cases, typically concentrated in those counties in Virginia, North Carolina, and Minnesota where performance based pay systems have the longest established history of use, the person that was being interviewed, usually the Human Resources Director and/or the County Administrator, was not employed by the organization at the time of inception of the program. In those circumstances, the interviewee was asked to answer the questions based on the organizational history that had been passed along to them and to use their knowledge of the organization's culture to inform their best estimates as to the most appropriate responses. Incidence of this delimitation was sufficiently low as to not be believed to have substantially altered the findings.

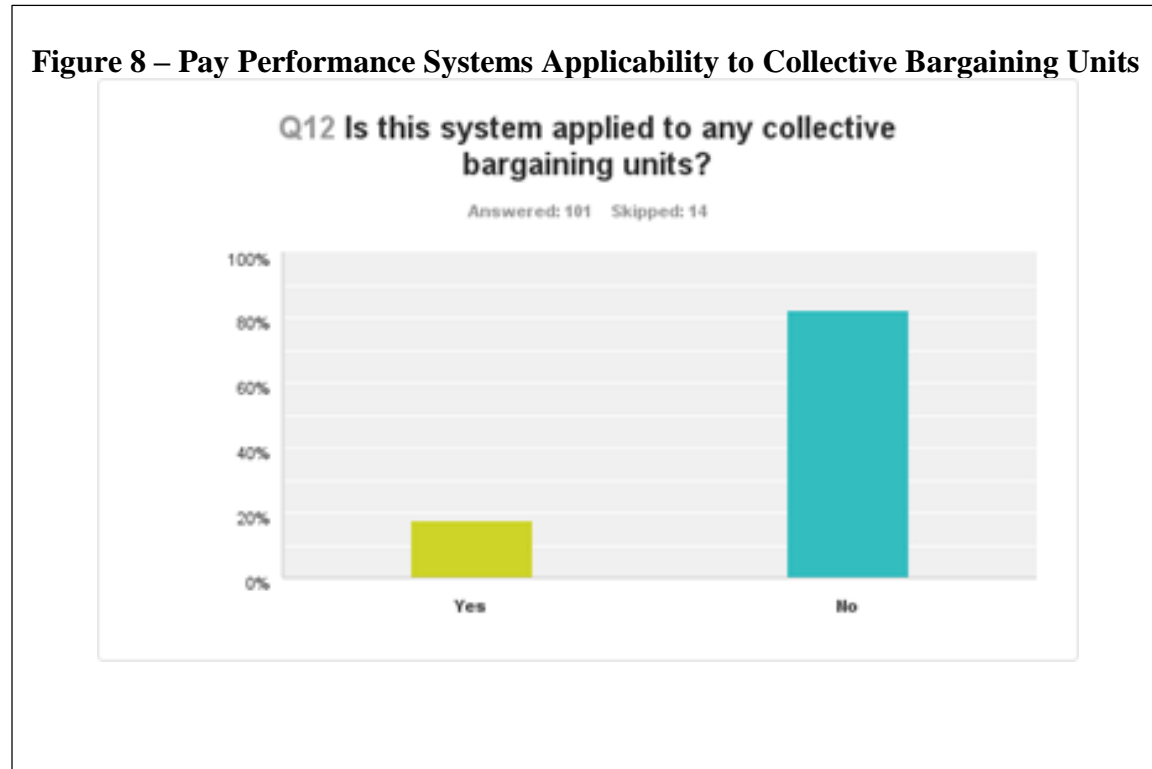
One of the hypotheses about this study was that it would find that a substantial portion of the pay for performance systems in place would show that the systems were dominated as being applied

to only Senior Executives of the county. The hypothesis was based, in part, in the belief that these were relatively new systems in most places and, therefore, there might be more experimentation with them among non-union groups, especially among senior executives. The results did not bear that out to be true. As figure 7, below, illustrates, the vast majority of county pay for performance systems were applied not just to Senior Executives.



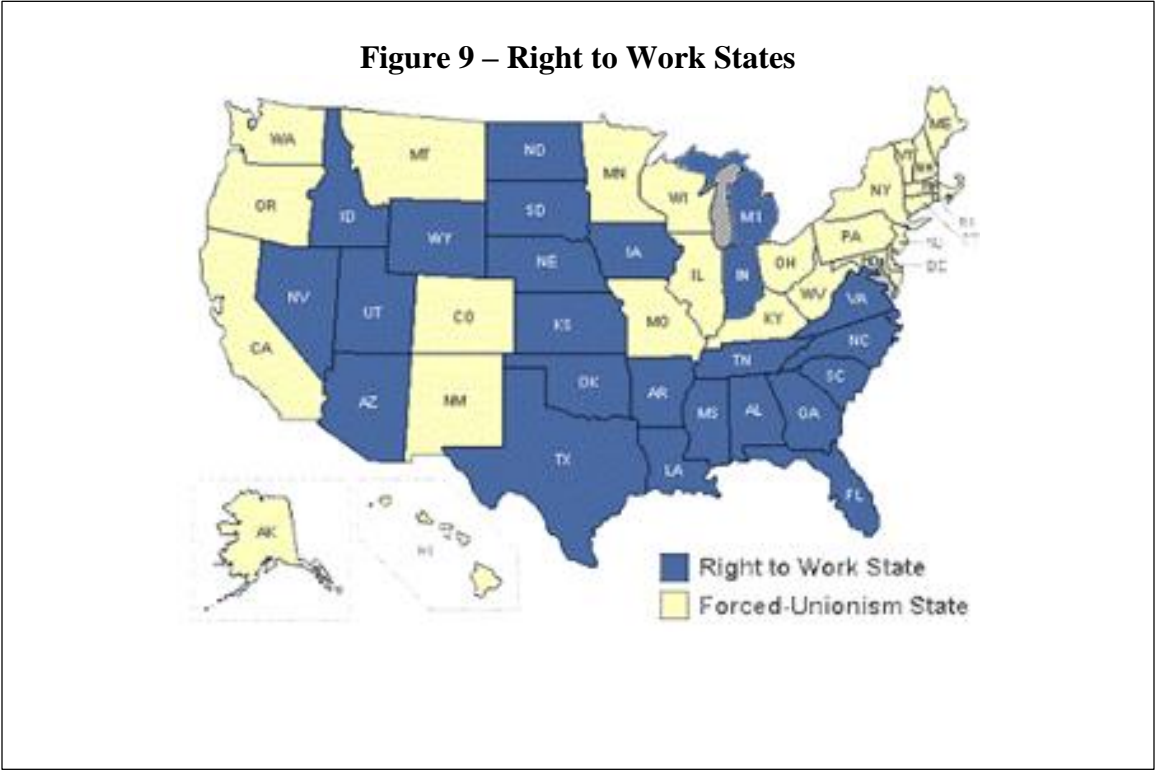
This question of to whom pay for performance systems are applied became more interesting when inquiring about the number of systems that were applied within collectively bargained environments. As figure 8, below, illustrates, the rate of adoption in collectively bargained environments is relatively low and those that are in place are primarily confined to Minnesota. More importantly, the research design failed to take into account which states were “Right to Work” states and which had more liberal laws protecting the rights of public employees to

unionize.



This became quickly relevant in that Right to Work states rarely had to even consider the union issues associated with a performance pay system as they rarely had unions to contend with in advancing such systems. Not surprisingly, perhaps, the states with the highest percentage of instances in which a pay for performance system was applied to 100% of its employees also tended to be those states that were Right to Work states, which can be seen in Figure 9, below. Interviews with practitioners in Minnesota clearly identified the speed of possible adoption and resistance to it among public employee unions as major obstacles to overcome. So it is all the more surprising to find that Minnesota was one of the states with the highest incidence of pay for performance systems among those this study could identify.

Source: National Right to Work Legal Defense Foundation, Inc.



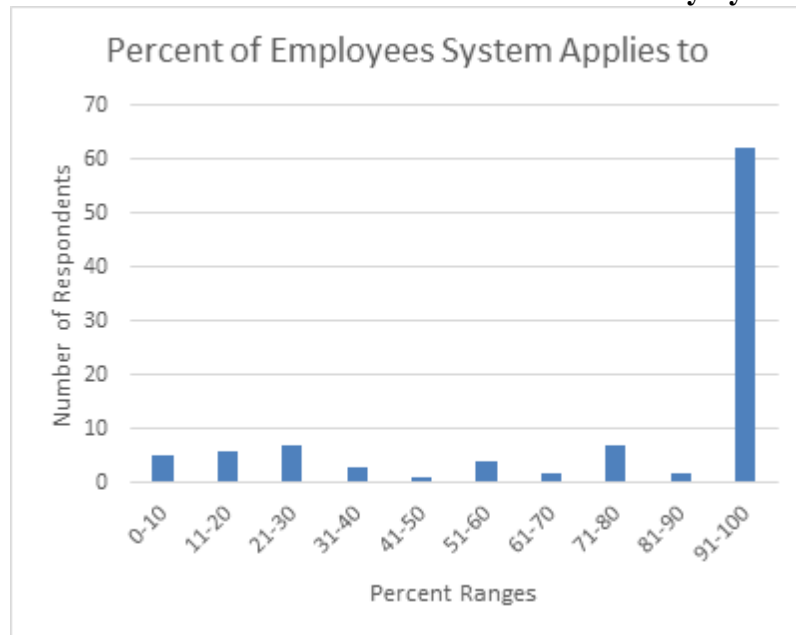
In addition, interviewees from Wisconsin also noted the dramatic impact that the adoption of Act

10 in 2011 had on their adoption of performance pay systems. Most of the systems that have been adopted in Wisconsin were systems that were put in place after Act 10 was adopted; interviewees regularly cited the radical drop in public employee union membership in Wisconsin as foundational in their decisions to revamp their compensation practices in line with performance pay. It was clear in many of those conversations that there had been much greater reluctance to go down that path while public sector unions were strong. Evidence from the study strongly suggests that the prevalence of strong public employee unions has a chilling effect on, but does not completely extinguish the adoption rates of performance pay systems.

In what might very well be a statement about the prevalence of and strength of public employee unions in the targeted states, Figure 10 shows the percent of the workforce to which performance pay is applied among the respondent counties. Clearly, the vast majority of systems applied to almost all employees. The targeted states did end up being disproportionately right-to-work states and, in the case of Wisconsin, just recently joined that group, but even in a state with strong public employee unions, like Minnesota, where the organization decides to pursue a performance pay program, it is typically looking for it to become the new standard for how it compensates its employees. Moreover, Figure 11 results show that many of these performance pay systems have been in place for a significant length of time. Many of those longer running systems were in Right to Work states on the east coast, including Virginia, North Carolina, and South Carolina, quite a few of which had been in existence for 20 or more years. In states like Minnesota's with strong public employee unions, it was much more likely for those systems to be at 8-10 years or less. In those states with strong public employee unions, it became clear in the interviews that a strong executive and board commitment to a compensation system other

than the traditional step-and-grade system was a driving force behind the creation of those systems.

Figure 10 – Percent of Workforce Where Performance Pay System Applies

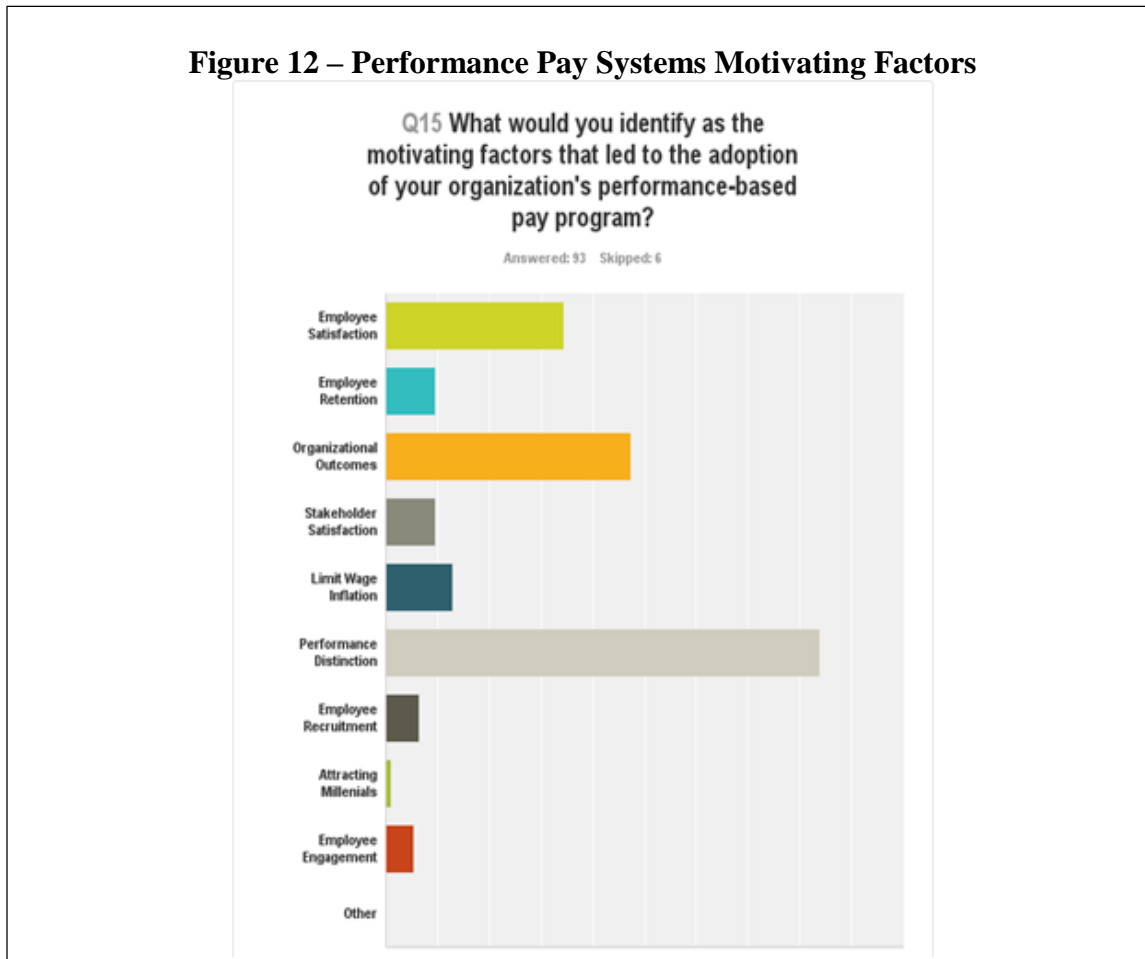


Hypotheses Findings

The basis for this research was to test three hypotheses:

- There will be a specific set of organizational objectives identified prior to adoption of a performance-based pay system.
- There will be measures of the degree to which the adoption of the performance-based pay system advanced the stated organizational objectives.
- The measures will demonstrate advancement of prior-defined and key organizational objectives.

During the interviews, respondents were asked to self-identify what they thought the motivations were for the adoption of their performance pay system. Figure 12 details the rates at which certain things were self-identified as being a motivation. Noteworthy, and probably not surprisingly, distinguishing employees' performance was, far and away, most frequently identified as a motivation for the adoption of a performance pay system being cited by 83.9% of respondents. The next highest self-identified responses were improved organizational outcomes (47.3%), employee satisfaction (34.4%), limiting wage inflation (12.9%), with the rest of the answers all at under 10%. The list of potential responses was fixed and the interviewer was simply listening to hear if answers were volunteered within the established categories.

Figure 12 – Performance Pay Systems Motivating Factors

When respondents were prompted with a listing of the same potential motivators and asked if these items had been part of their motivation, answers changed, as outlined in Figure 13. When prompted, respondents much more frequently cited performance distinction at 97%, followed by employee engagement at 85.9%, organizational outcomes at 84.8%, employee retention at 73.7%, employee satisfaction at 71.7%, stakeholder satisfaction at 59.6%, limiting wage inflation at 31.3%, and attracting Millennials was lowest at 19.2%. The order of the top answer did not change, but employee engagement edged out improved organizational outcomes for second place and limiting wage inflation fell from the third most frequently cited answer in the self-identified

list to the second lowest cited answer in the list of prompted choices. This seems to suggest that the motivations that respondents self-identified exhibited a significant tendency to over-simplify their motivations for the adoption of their performance pay system; but, when given a range of choices, frequently gravitated toward a multitude of motivations. This may highlight a communications challenge with employees about the strategic organizational purposes that those organizations adopting such systems are pursuing; if there are many reasons for the pursuit of such a system, but only few are offered, might that not lead to more confused employees and thereby create more difficulties in trying to achieve the true objectives?

Figure 13 – Performance Pay Systems Motivating Factors

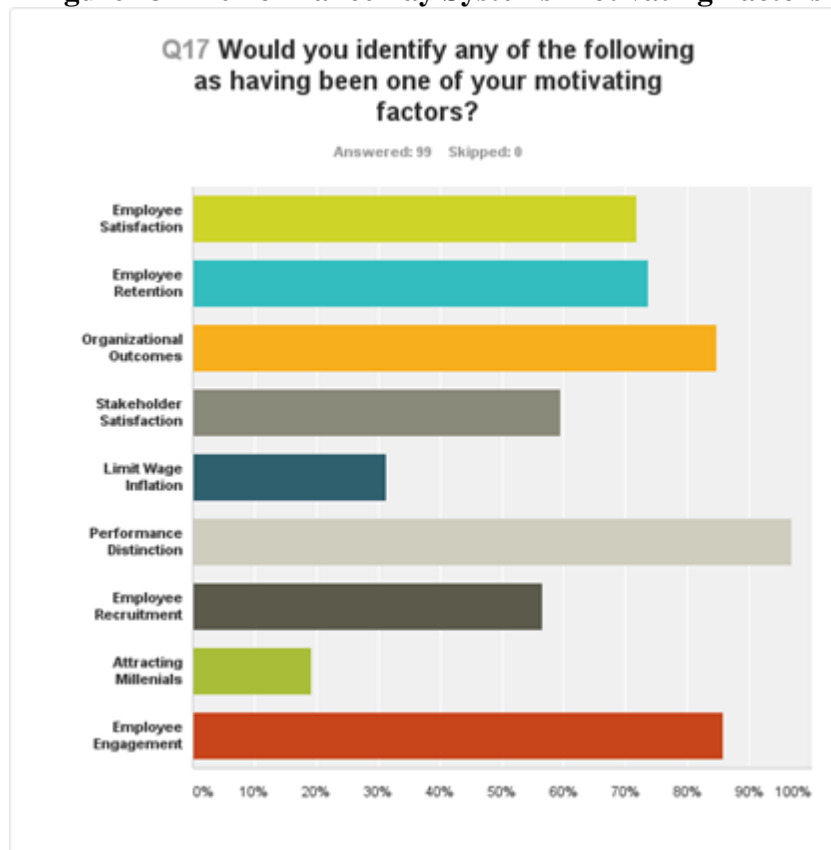
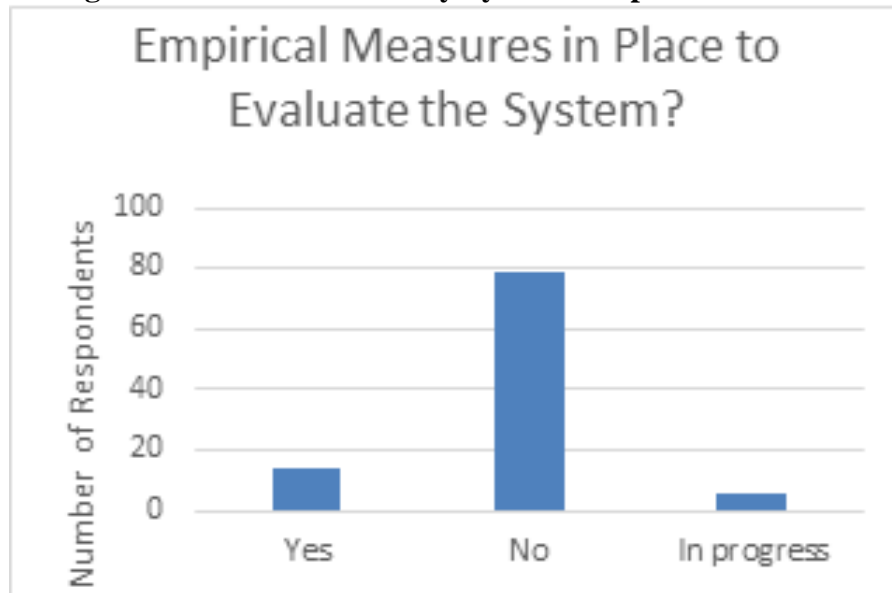
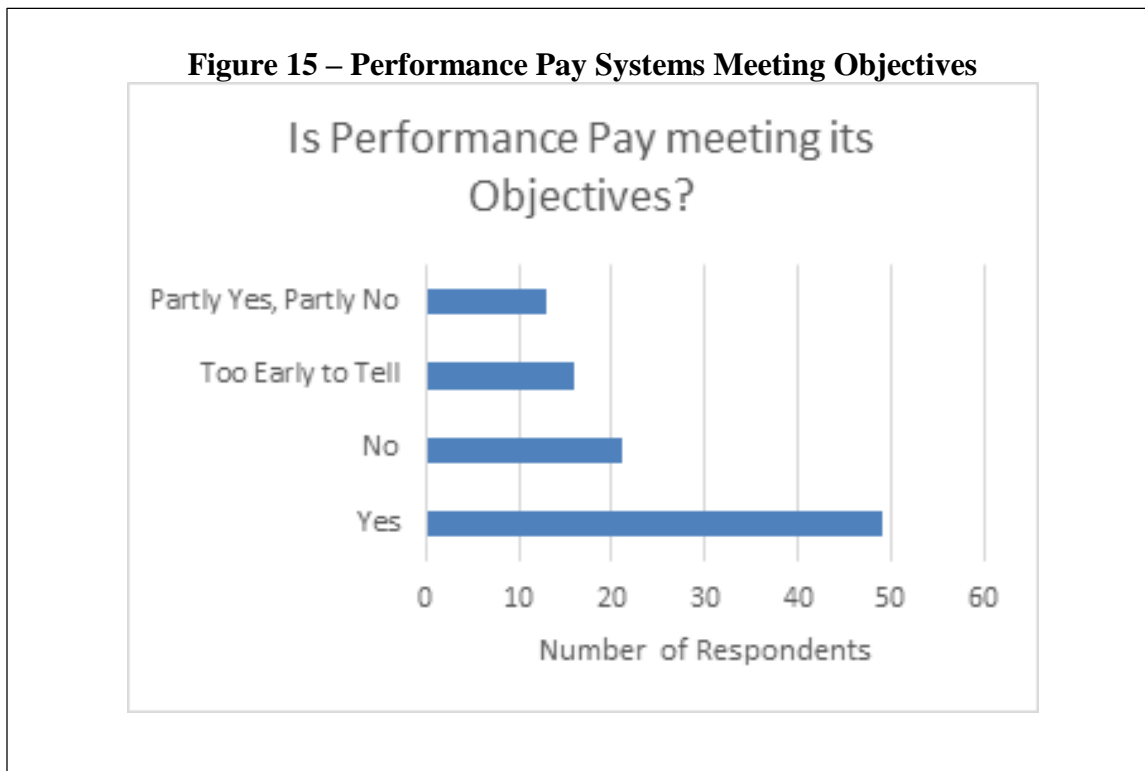


Figure 14 – Performance Pay Systems Empirical Measures

In examining the degree to which respondent counties are using an empirical measure to gauge the effectiveness of its performance pay program at achieving the intended objectives, the results are pretty stark. As Figure 14 shows, there is a nearly five-to-one margin of respondents who have absolutely no measures in place to evaluate the degree to which their performance pay program achieves the objectives they identify that it is intended to achieve. This seems especially noteworthy given the trend of local governments toward a more outcomes-based, data-driven approach to decision-making in recent years. The adoption of a performance pay program appears to be driven by something other than an empirical objective, which will be discussed more in the findings section below.



The lack of empirical measures did not prevent respondents from forming or expressing an opinion on whether they thought their performance pay program was achieving the objectives it was intended to achieve. Figure 15 shows that a clear majority of over 60% believe that it is achieving its intended objectives in whole or at least in part. Interestingly, however, there is a notable percent of over 20 percent of respondents who did not feel as if the programs were achieving its intended objectives, which will, as well, be discussed in the findings section below.

Finally, there was also a notably significant number of respondents that simply indicated that it was too early to tell as their program was too new.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

Discussion of Hypotheses Findings

In nearly every case, respondents were able to quickly answer with a plausible set of answers in regards to what objectives their performance pay program was intended to achieve at its inception. There were often multiple responses that indicated that there had, indeed, been discussion and thought put into why their organization had decided to embark on this path. Moreover, their responses indicated that they had a good understanding of at least some of the likely outcomes they could achieve and some reservations about the limitations of what such a system could achieve.

Not surprisingly, when the question was posed as an open-ended question there were fewer responses than when it was a closed-ended list of possibilities supplied to them. This could be attributed to any number of factors. It could be that their recollections had faded and, especially in the case of those counties whose systems were more than 8 years old, it seems as if that's a very likely reason for the disparity. It could also be that it is simply the difference between the human mind's ability to engage in recall versus recognition. It could, however, also potentially reflect that there was not as thorough a consideration of potential objectives as respondents would have liked to convey; or, that respondents wanted suggested objectives to have been part of their initial deliberations whether that was, in fact, the case or not.

What is more interesting, perhaps, is how the responses changed between the open-ended and the closed-end questions. In the open-ended question, only four results garnered response rates

greater than 10%, which were, in order of frequency, drawing performance distinctions, improved organizational outcomes, employee satisfaction, and limiting wage inflation. In the closed-ended question, response rates for all questions exploded such that only one response had a response rate less than 30%. Moreover the ranking of the top four responses changed. The top four responses in the closed-end question were, in order, drawing performance distinctions, employee engagement, improved organizational outcomes, and improved employee retention. Limiting wage inflation which had been in the top four responses in the open-ended question dropped all the way to second-lowest ranked answer in the closed-ended question.

It is interesting to note that the more altruistic values of employee engagement and employee retention so significantly outpaced the more fiduciary value of controlling labor costs between the two questions. Employee satisfaction, which was in the top four in the open-ended question, was only narrowly knocked out of the top four answers in the closed-ended question. Both drawing performance distinctions and improving organizational outcomes stayed in the top four no matter which way the question was asked. An area of future potential study is the degree to which the more altruistic value might represent the values that practitioners want to believe is motivating them and to what degree the fiduciary value is actually driving them. These findings do lend credibility to the theory that improving organizational outcomes and drawing performance distinctions between and among varying levels of employee performance are consistent motivations for the adoption of a performance pay system.

Maybe the most interesting finding related to the hypotheses of this study is the absolute dearth of objective measures to evaluate the effectiveness of performance pay programs at achieving the

objectives they were put in place to achieve. An overwhelming 80% of respondents had no objectives measures in place and no efforts underway to acquire them. The strong sense in conducting the interviews was that there was a much stronger philosophical basis for the adoption of a performance pay program than it was something that needed ongoing evaluation. For the vast majority, it was as though paying people on the basis of their individual contributions was to be accepted as an article of faith without the need to demonstrate its effectiveness. This seems to be a different standard than is being applied to many of the organizational objectives of county governments nationwide where the development of objective measures of the degree to which the organization is actually, in fact, advancing its mission is becoming more and more commonplace. It does not appear to display the same intellectual rigor in the two parts of our practice.

Among the small minority who were measuring the effectiveness of their system, the measures they most frequently gravitated to did reasonably relate to at least one of their intended objectives. For instance, there were a few who evaluated the performance rankings that were given to employees at the macro level to examine the spread of employee ratings. In so doing, they were effectively evaluating the degree to which the system was producing the kinds of distinctions between and among employees that they had intended for it to achieve. This will be discussed further in the section below on other general findings. The most frequently cited measure reported, from among the less than 20 percent who cited having a measure at all, was retention rates, which does effectively measure the degree to which the intended objective of managing employee retention rates is being achieved.

A couple of other respondents used annual employee satisfaction surveys as a measure of the degree to which their system was advancing employee satisfaction. In these latter two instances, however, while the measures are reasonably related to a stated objective of their performance pay program, there are many other contributing factors to employee retention and satisfaction such that it is much less clear to what degree their organizations' performance pay program was motivating change in those measures versus other unrelated factors, such as the economy, labor shortages in particular job classes, quality of supervision, and so on.

Finally, some respondents in that small minority of respondents who indicated they were measuring the effectiveness of their performance pay program cited measures that could most generously be characterized as surrogate measures for the objectives that they stated they had intended for the system to achieve. Among these were references to absenteeism rates, market pay rates, and ties to performance-based budgeting. While these are important and laudable things for an organization to measure, the research question here is whether they would be reasonably related to the stated objectives cited for the adoption of their performance pay program. That connection seems more distant and less clearly related than the others mentioned by some respondents. That said, they may be decent surrogate measures for the intended objectives, a practice fairly common in trying to evaluate the achievement of other organizational objectives, such as environmental protection, protecting the most vulnerable in our society, and so on.

Probably most importantly to these questions was how few organizational objectives practitioners identified that they were attempting to achieve in their program; and, how few had

measures of objectively evaluating the degree to which they were actually achieving it. Only 20% could cite any measure and, among the 20%, extremely few could cite more than one measure and no one had established a system of measurement that was directly linked to the stated objectives they were pursuing. Within the context of managing to achieve specific results, the evaluative practice was exceptionally thin.

Consistent with the clear finding that the adoption of a performance pay program was more a philosophical article of faith, it was not so surprising to find that a strong majority of respondents generally felt that it was achieving its intended objectives. For many, it seemed almost a self-fulfilling prophecy or something to be taken on faith like the goodness of motherhood and apple pie. It is hard to escape the conclusion that this confidence is more rooted in political principles than it is in good human resources or organizational management practices. Many respondents, for instance, talked about how this had been initiated by their governing board as a strategic objective. There are many things, however, that are initiated through the political process, such as protecting the environment, that have not necessarily led to the separation between the achievement of the political objective and the good, solid administration of how that objective is to be measured and advanced. Quintessentially, Woodrow Wilson's politics-administration dichotomy seems on display here, but there has not seemed to be the same degree of intellectual rigor put into the administration end of the equation in relation to performance pay programs as is regularly applied to other administrative advancements of political objectives. It seems almost as if the administrators are so convinced of the rightness of the political objective that it does not require as rigorous an administrative practice to prove the effectiveness of one compensation strategy over another. There are now a sufficient base of performance pay programs in place

among counties around the nation that the question of what type of employee compensation system produces better organizational results is open to scrutiny and good practice. If the answer to that question is already taken as an article of faith, then the concern becomes that we are blinded to the need to empirically analyze it.

There were also, among some of the respondents who thought that performance pay programs were not meeting their intended objectives, some who seemed just as philosophically pre-disposed against the success of a performance pay program and such an article-of-faith conclusion is equally troubling regardless of which side of the argument the conclusion is leaped.

That said, there were some clear-eyed skeptics, both among those who identified that the performance pay program was not achieving its intended objectives and, refreshingly, among those who indicated that they thought it was. From among this small subset, some of the most interesting and useful observations could be distilled and will be discussed more in the discussion of general findings below. This was a group of questioning, doubting, cheerleading, and thoughtful practitioners who anecdotally offered suggestions for other practitioners which will be included here.

**Discussion of
General
Observational
Findings**

Proponents of

“You will get what you incent and, to that extent, we get what we ask for. To the extent that we don’t always ask for the right thing, it can be counter-productive. It does achieve the administration of an effective compensation system that attracts and retains talent. It also does help us focus employee energies where we want them to be; it just requires us to be more strategic in what we direct them to and that is mostly a good thing.”

performance pay seem to have a healthy recognition that performance pay is not a panacea.

Many responding proponents of performance pay systems discussed warping influences it had on

human behaviors, such as spawning competition that was at times unhealthy, the tendency for managers to engage in grade inflation, demotivating influences on those not being rewarded as greatly, and so on. That said, many of those same respondents also argued that performance pay could not be evaluated in a vacuum; it had to be compared to the alternative systems of employee compensation and, among those alternatives, the traditional step-and-grade or flat-Cost-of-Living-Allowance (COLA) systems also have warping influences on human behavior. These respondents argued that you have to consider all of the pros and cons of each and, in so doing, many of them concluded that performance pay systems had fewer negative warping influences than other systems.

Some of the warping influences of traditional compensation systems frequently cited by responding proponents of performance pay systems included that those employees who work the least are receiving disproportionate rewards to their effort or results than those who are working

“The step and grade system is equal pay for unequal work and that’s just wrong.”

harder and/or achieving more,

rewards are unrelated to the

advancement of organizational

objectives or advancement of the organization’s mission, a step-and-grade system coupled with a COLA increase drives wage inflation above market norms, and so on.

Responding proponents of performance pay systems also, however, widely acknowledged that a step-and-grade system or flat-COLA system was substantially easier to administer and that an organization should only pursue a performance pay system if it had the interest, was willing to develop the capacity, and was willing to allocate sufficient managerial time and resources to do a high-quality job. In the absence of that conscious commitment, it was widely agreed that a poorly administered performance pay system

“Prior to implementing this, a lot of employee evaluations were not completed. After going into this, we’ve achieved much higher rates of participation. Employees are also asking what they need to do to achieve the higher level of pay.”

can do more harm than good. This was reinforced in the work of Daniel Pink (2011). It was widely understood that the success of a performance pay system was significantly dependent on the quality of the content and administration of the performance management system.

Importantly, respondents strongly indicated there was good reason for any organization to adopt a high-quality performance management system regardless of whether they wished to link compensation practices to it; but that, if you were going to link compensation practices to the performance management system, it was *essential* that the performance management system have high-quality content and be well-managed in its execution.

Some respondents from both among proponents and opponents of performance pay systems indicated that they did not believe that compensation was a very effective motivator for future performance, but proponents indicated they did think it was a good reward for past contributions. Organizations with the most well-developed systems discussed broad ranges of strategies to

reward past performance and motivate future performance. Among those strategies most

“There are clearly now objectives and measures that if you achieve them you will be rewarded. I’m not as sure or confident that this system means we are achieving more in our organizational workplans or advancing the mission.”

frequently cited, but beyond the scope of this research, were employee recognition programs, employee service awards, employee tenure

awards, training and development investments, ensuring employees are given challenging and stimulating work, appeals to the intrinsic motivations of public service work, appeals to the nobility of the mission of county government, and so on. In short, this subset of proponents who also reflected the limited efficacy of pay as a motivator reflected that performance pay systems would not create a high-performing organization by itself, but that, when coupled with other thoughtful strategies that take into account what we know about what motivates human behavior, it can and should be a part of that constellation of strategies.

One of the greatest challenges in the performance pay movement over the course of the last

“It hasn’t been funded for five years. Even before, when we were funding it, the amount it was funded was so minimal that it was hard to distinguish between those who met expectations and those who exceeded them. This really limits the motivation that the differential provides.”

number of years has been the impact that the Great Recession has had on wage movements of any kind in the public sector. When the compensation system is premised on

using an extrinsic motivator, the absence of the availability of resources to provide an extrinsic motivator has had a chilling effect. Many respondents noted that they believed the Great Recession had dealt their programs a setback in terms of their ability to continue to reinforce the strategic aims of their systems. What this reinforced in the broader sense was that the amount of

incentive that the reward can provide is directly linked to the perceived value of the amount of the reward offered.

The most frequently cited problem associated with performance pay programs was the tendency

“We are suffering significant grade inflation and, because it is inadequately funded, it has led managers to abuse the review process to give passing grade to employees in order to get them a raise that they then sometimes want to fire for poor performance. When that happens, the system is impairing our ability to manage to truly good performance.”

for managers to engage in grade inflation. Many respondents felt that some managers did this as a way of motivating their employees by making them feel better through a more positive performance ranking,

and some respondents felt that some managers did this as a way to get raises to people who they believed deserved pay increases, sometimes in contravention of organizational policy in regards to the compensation system. It is important to note here that many of these behaviors are frequently present (and maybe even more prevalent) in a traditional performance management system that has no ties to compensation practices, such as performance pay. In systems where there is an established linkage between pay and performance, however, these “alternative” motivations for manager performance within the traditional performance management system had the distinct effect of disabling an organization’s strategic linkages of pay to performance and what that linkage was intended to advance in terms of higher performance or advancement of organizational objectives.

Many respondents who noted this dysfunction toward grade inflation referred to this dynamic using terms like “motivations” or “pressures within the system” or “checks and balances.” They

argued that there were natural pressures built into a supervisor-subordinate relationship in which the supervisor wants to reward people who work for them and recognize them for the assistance they provide in essentially advancing the supervisor's standing within the organization, career, salary, department's objectives, and so on. For a manager to be required to draw performance distinctions, they suggested, can be disruptive to that relationship, something a manager intuitively perceives. Interestingly, some perceived this pathology to be even more prevalent among elected department heads. As such, these respondents indicated there needed to be strategic counter-pressures developed within the system to offset this "natural" pressure. Among the most frequently cited strategies:

A frequently cited best-management practice was to have a goal or target that the organization expected in terms of what their performance rating system would produce. In other words, what was the target or goal for how employee performance ratings would be distributed. Since this is, in a performance pay system, then linked to compensation, there should be a goal for how the ratings would be distributed in order to manage the financial impacts of the system. Some referred to this as their bell-curve target, a reference to bell-curve grading in education, and, most of those who spoke of this, spoke of intentionally weighting the bell curve toward a higher than average rating. As an example of this type of weighting the system toward positive ratings, an organization could plan to see a performance rating distribution of 5% of its employees scored as exceptional, 15% as exceeding expectations, 70% as meeting expectations, 5% needing improvement and 5% as unsatisfactory.

Some used this target curve as a forced-ranking system in which each manager was only allowed to give out a fixed number of “exceeds” ratings, a fixed number of “achieves” ratings, and was required to have a fixed number of “needs improvement/unsatisfactory” ratings. This strategy is identical to a bell-curve grading system in education where the performance of

“The failure has primarily been that it has had to be underfunded because of the Great Recession. The underfunding has required us to put limits on the number of really high performers. This has always been a struggle within the public sector, even before the Great Recession. We always had to place internal limits on the number of superior performers.”

the group determines how the various performance rating levels of individuals must be graded. This was the least frequently cited strategy as many felt that it forced an unnatural circumstance that did not allow managers to take into account realities of performance in the day-to-day world where project assignments or other circumstances might lead to a bona fide need or desire to rate people differently than a forced-curve ranking would require.

The more frequent best-management practice cited was to use this target rating curve more loosely as a guide to evaluate the performance of their managers within the context of how

“It provided a consistent method of completing employee performance reviews and held managers accountable to completing them. It achieved the goals we had, but did cause some problems, such as some Department Directors using this as a way to get their employees’ more money so we developed an internal review team to look at those with very high ratings or very low ratings.”

closely each manager made their targeted ranges, not as a forced ranking, but as one evaluation criteria in the performance rating of their supervisors. In other words, one of the key performance accountabilities

in the performance review process for supervisors was how well they had administered the performance management process of their subordinates using the targeted goals for performance

ratings distribution as a normalizing standard. Each organization gave different weight to this performance expectation and in no case was it the only key performance indicator for their supervisors, but it was a significant weight in most cases. In other words, each supervisor or manager was held accountable to how closely they achieved the target curve, not in a strict sense that it had to be done exactly, but in a general sense, allowing for variation to some degree.

Another best-management practice cited was to analyze the results of performance ratings within the organization and to cross-tab it by various criteria, such as by departments, by supervisors versus non-supervisors, by male versus female, and so on to see if there were any enlightening or disturbing trends that would suggest the system is not performing in expected ways such that corrective action can be taken. Many organizations who use this best practice enhance it by transparently sharing this analysis as part of management team meetings and openly discussing its implications for their performance in the administration of the performance management system. Many others also enhance this by doing the same with all employees.

Another best-management practice cited was to use the management team en-masse to check the performance rating behaviors of individuals within the group by doing what was referred to most

frequently as “internal calibration.”

“The system we used before produced about 80% of employees rated at “achieves.” We modified it and, afterward, used the management team to calibrate the results. We drove the results toward a bell curve—not forced rankings—but pushed toward a bell curve. It helped highlight who were the superstars and also highlighted who were the employees deficient in performance that we needed to more effectively deal with.”

The model here is to assemble your managers and require them to show all their ratings and present information to the group on the basis for any of their “outlier” ratings, those

that deviated from the middle or average or achieves ranking that a variation of a bell curve would suggest is where most employees would reside. In so doing, if a manager was rating disproportionately high, low, or average, it could be called out for open discussion about how that conclusion was arrived at and whether it was justified by the facts. What the group is looking for is that each manager is applying a consistent rigor, discipline, and managerial courage to their rankings and, by using the group to review the rankings, the system should better minimize supervisor bias or favoritism. According to Miller (2014), calibration makes it easier for managers to deliver difficult performance reviews and creates camaraderie and broader exposure among leaders and top talent within larger organizations.

The most robust performance pay systems utilized more than one and, in a few select cases, almost all of the best management strategies listed above. The more best management strategies that were employed, the more subtly nuanced was the discussion regarding the limitations and influencers on human motivation in complex, dynamic organizational systems and the more quietly confident were these particular practitioners that their performance pay system was superior to the traditional step-and-grade system or a flat-COLA system.

Recommendations

The research demonstrates that those who pursue a performance-based compensation system for purely philosophical reasons that dig no deeper than because they think it will improve performance over the step-and-grade system are missing the most important considerations that will lead it to success. Not surprisingly, the systems identified in the research that most commonly failed were in circumstances in which the result of the existing performance

assessment system, regardless of its own efficacy, were simply tied to compensation. What was clear is that simply linking employees' compensation to a flawed performance assessment process will do little good and, probably, great damage to the advancement of an organization's objectives.

What came clearly through the research and the BMPs is that the quality of the performance assessment system matters a great deal and that any hope of making an empirical difference in advancing an organization's objectives through this kind of system is dependent on a high-quality performance assessment process. Yet, anything short of perfection in a performance assessment process will create tensions and behaviors that will be detrimental to the advancement of organizational objectives. It would seem, in the end, that there is a very real and extremely delicate balancing equation here that must be struck: the performance assessment system has to be very, very good—good enough that the advantages it brings in focusing and marshalling the human talent resource toward the advancement of organizational objectives produces more advancement of those objectives than the negative implications it will also bring. As the quality of the performance assessment process improves, so, too, will its potential to, on balance, do more good than harm; but, conversely, the lower the quality of the performance assessment process, the greater the potential that linking it to performance will do more harm than good.

To that end, the research pretty clearly points out the easiest thing to do: maintain the status quo. Keep using the traditional step-and-grade compensation system to reward employees based on their length of service. It does not require sophistication of measurement systems, it does not

require defining the measurable outcomes that represent the value proposition that the public expects public agencies to accomplish, it engenders many fewer employee issues and grievances. In short, the manager's life will be much easier.

But that gets to a rather fundamental question about what is the leadership role of public administrators who are organizationally "in charge," e.g. Chiefs of staff, Agency heads, city and county administrators, school superintendents? There is, after all, a value proposition between the public and its government: The public expects certain deliverables or outcomes and the government attempts to deliver them in the best way they can. To be sure, there are vigorous debates between and among citizens and elected policymakers about the size and scope of government—to what ends should our government capacity be put? From a purely administrative point of view, however, once that size and scope is defined by the duly-elected representatives in this democratic republic, can we not all agree that the value proposition for that size and scope ought to be as vigorously pursued as possible? How could leaders ever conclude that good is good enough?

As the purchaser of the service—the master of the value proposition—how is the public to understand the degree to which the public promise—that reverent covenant that the government will, in point of fact, make a real difference—is achieved? Is it good enough to be able to demonstrate that the public servants tried their hardest? Or does the public expect that their government will actually achieve something, that public problems will be solved, that public good is tangibly advanced?

Considering something tangible like roads and bridges, the answer is clearer. The public hired

us to build and maintain roads and bridges. When bridges fall down, we fail. When roads don't get plowed after snowfalls, we fail. When engines fall out of cars because of the ride quality, we fail. And so measurable ways have been developed to see that these things either don't happen or do happen in the way we want them to. There are bridge sufficiency ratings to measurably evaluate the ongoing conditions of bridges; there are performance targets for when a road ought to have dry pavement following a snowfall; and, there is a ride quality index to measure inflections in road surfaces so we know how smooth the road is. Taken together and aggregated, evaluation of our system of bridges, our snowplowing performance, and our road maintenance performance take place against identifiable targets.

Findings then support that at, say, the level of a highway department, evaluation of the degree to which the individuals that comprise that department are collectively achieving the value proposition as it relates to roads and bridges. At the department level, we can effectively measure and evaluate the degree to which we are achieving the outcome that comprises the value proposition. It is still difficult to identify the degree to which an individual engineering aide or snowplow operator has contributed to the department's performance outcome. That requires "unbundling" the contributory actions taken by the individual to the achievement of the departmental outcomes. At the department level, you can focus on the outcome that is the value proposition; but, as you move to the individually-contributing employee, you are more likely to focus on the inputs they contribute that you know will produce a given outcome. This isn't a perfect science as there are other variables that influence the outcomes as well, e.g. weather variations, cost of salt, oil prices, and so on, that also contribute to the outcome of effectively maintaining roads and bridges, but it is better than paying no attention to the outcomes and what

actions lead to us achieving more of them.

Realistically, this work is exceptionally difficult. There are few places where that is more true than in any of the public sector's human service fields, e.g. social services, public health, and public safety. The public has determined, for instance, that chemical dependency has many deleterious effects on society and wants limits placed on the actions of people whose dependency leads them to anti-social behaviors, such as public drunkenness, crimes, child abuse or neglect, and so on. Public agencies hire chemical dependency social workers and counselors to work with members of the public struggling with chemical addictions in order to advance that value proposition. How, in these circumstances is the public to know that their investment is making a difference? How is the CD worker or Social Worker going to move the needle on the prevalence of CD issues manifesting themselves in the society at large?

It could be expected that in an agency attempting to link pay to performance on such outcomes for the Social Worker to balk and point out that they cannot control whether or to what extent people choose to drink to excess. Conversely, however, if what the Social Worker is saying is that they cannot move the needle, then doesn't it beg the fundamental question as to why we are asking the public for their precious resources to try? Conventional historical wisdom leaves this tension unresolved. It suggests that we accept as an article of faith that the Social Workers efforts will make a difference, and that, since it cannot be proven, we should accept their best effort as good enough. Growing public distrust in its public institutions stems, at least in significant part, from the perpetuation of this sloppy bargain—one in which citizens continue to be asked for more and more of their hard-earned treasure to advance social experiments, the end

achievements of which are all-too-frequently never shown. Where the achievements are more easily verified and known, e.g. roads and bridges, while debate is still present, public support for these investments runs higher.

And, yet, in the CD world, what prevents us from measuring chemical dependency rates at the departmental level. To be sure, there are many contributing factors influencing those rates, but the most productive avenues to advance that public value proposition are contained entirely within the richness of that public dialogue. For the individual Social Worker, we do know the inputs that we are asking them to achieve, inputs that we ask them to achieve because we believe based on our knowledge, experience, and the latest research, that they are the best ways for us to achieve higher success rates than other potential actions. We can measure those inputs and hold the Social Worker accountable for the degree to which they achieved the inputs, both in terms of quality and quantity. We can measure the societal addiction rates and hold departmental leaders accountable to the degree to which they are applying efficacious strategies and adapting to changing realities.

It is in this crucible that we see that what is key to the advancement of the public value proposition is less about the mechanics of the compensation system or its tie to performance than it is to the quality, intensity, and credibility of the performance assessment process. Isn't it interesting to note that none of the best management practices identified in the previous section have to do with compensation system mechanics and all of them have to do with increasing the credibility of the performance assessment process? Setting aside for a moment the linkage of pay-for-performance, isn't it critically incumbent upon every public leader to be able to hold a

highly credible, high quality, thoughtful, interactive, and rich performance discussion with every employee that works for them to convey how well the employee is or is not advancing the value proposition they were hired to advance? Isn't this a proper demand by the public paying for the freight?

A common reason offered for the failure to advance this kind of highest-quality performance assessment process is that public leaders are overwhelmed and do not have the time or the resources to do it justice. It would seem that this argument has ruled the day—or, cynically, it seems as if it has ruled every day. But what could possibly be more important than for a supervisor to maximize the return on the public's human capital investment? What could possibly be more important? In the end, the failure to do so means that, arguably, the most important and, interestingly, the most difficult of the supervisory leadership tasks is left to languish to its own ends. It's hard not to speculate as to whether it is because it is so very difficult that it is so often avoided. To what purposes is a supervisor's, a manager's, a leader's day put that supervising, managing, and leading takes a back seat?

Moreover, in the absence of effective evaluative tools to measure the relative contributions of each employee, then the normal variations present in every human endeavor will be allowed to perpetuate leaving an uneven return on the human capital investment from one employee to the next. This variation means that some measure of the public's human capital investment is wasted. Worse, it is accepted as unavoidable. Efforts in the private sector to LEAN out processes or to apply Six Sigma strategies to reduce variations in customer experience are designed to minimize this very type of variation in processes replete with the human experience,

but efforts to do so in public agencies is negligible at best.

How can it not be argued that the failure to advance public administration practice to as effectively as possible evaluate the achievement of the various public value propositions and the maximizing of the single greatest investment made in it—the human capital investment—is the single greatest failure in a discipline that claims to make government both more effective and more efficient? Practitioners and academics have spent considerable energy debating the effectiveness of linking pay to performance and very little on advancing the evaluation of actual performance. If practitioners had a highly credible, high quality, interactive, and rich evaluation process, would anyone seriously argue that those employees who advance the bargain more shouldn't be compensated more? When this research was begun, it appeared the right question was whether employees' compensation ought to be linked to performance. What is now more apparent is that the compensation component is just the mechanics at the end of the performance assessment process and that the success of those compensation mechanics to drive improved performance will rise and fall on the quality of the performance assessment process.

Some will continue to argue that what counties do cannot be measured—then how would anyone know if counties are making any difference? In the absence of knowing that, why would citizens want to invest any more in counties and their work? What is clear is that if practitioners want to advance pay-for-performance in the public sector, then they need to spend a lot more time on the performance side of that statement than on the pay side of it. What is equally clear is that even if practitioners do not want to link pay to performance in the public sector, then they ought to spend a lot more time on the performance side of that statement anyway because maximizing the

return on the human capital investment is, arguably, the most important thing they do—in fact, the very thing they were hired to do. Advancing the public value proposition and maximizing the return on the single greatest public investment in that value proposition—human capital—demands no less. As for the public leader that can't find the time to do that, it begs the question of what they are spending their time on?

What this research reveals is that too many practitioners who are adopting performance pay systems are doing so because they believe that it is philosophically right. They are not applying the same rigor to testing whether this organizational objective is being actually achieved through empirical measurement versus that they simply believe it is the “right thing to do.” At the same time, what the research qualitatively also shows equally clearly is that there a very limited few practitioners who are taking this practice so seriously that they are applying rigorous best management practices to the application of this management technique. We can learn a great deal from those limited few about how we can advance organizational outcomes through a stronger performance management and assessment system regardless of whether we tie those strategies to the additional management strategy of linking pay to it as well. Those who are developing a rigorous performance assessment and management practice stood out in the research as those who could actually discuss what they were accomplishing at something deeper than a platitudinous level. What was fascinating to then note was that if you had rigor, discipline, and best practices in the performance assessment and management process, how much easier it was for those practitioners to link pay in with greater confidence that it would help the organization and not hurt it.

So, what can the research tell us about how to construct such a rigorous and robust performance assessment and management process? All of the BMPs earlier identified speak to this very question. In addition, one of the key findings of the research is that advancing organizational outcomes was one of the primary drivers for instituting a performance based compensation system; at the same time, there was remarkably little discussion about which specific organizational outcomes were attempting to be advanced by the institution of the system or which organizational outcomes were actually advanced by the institution of the system. There were almost no systems that were being empirically tested to see if the system was achieving the results it was intended to achieve. One of the key recommendations that this study advances, therefore, is the clear need to be much, much more purposeful in the purpose and design of the performance assessment process.

Seeing a comprehensive system in use may help to illuminate how such a system is both constructed and administered. To that end, one organization's system, designed and built using some of the findings of this research is offered as potentially instructional and is therefore presented here as a case study. It is still too early to tell if, on balance, this system does more harm than good, but it will help to advance the research question and it is, therefore, offered as such. The following recommendations come from that context and are presented here in that format.

Crow Wing County, MN: A case study

Much of the discussion about effective performance assessment programs focuses on either the forms used or the rating scale used. Interestingly, very little of either of these was mentioned by

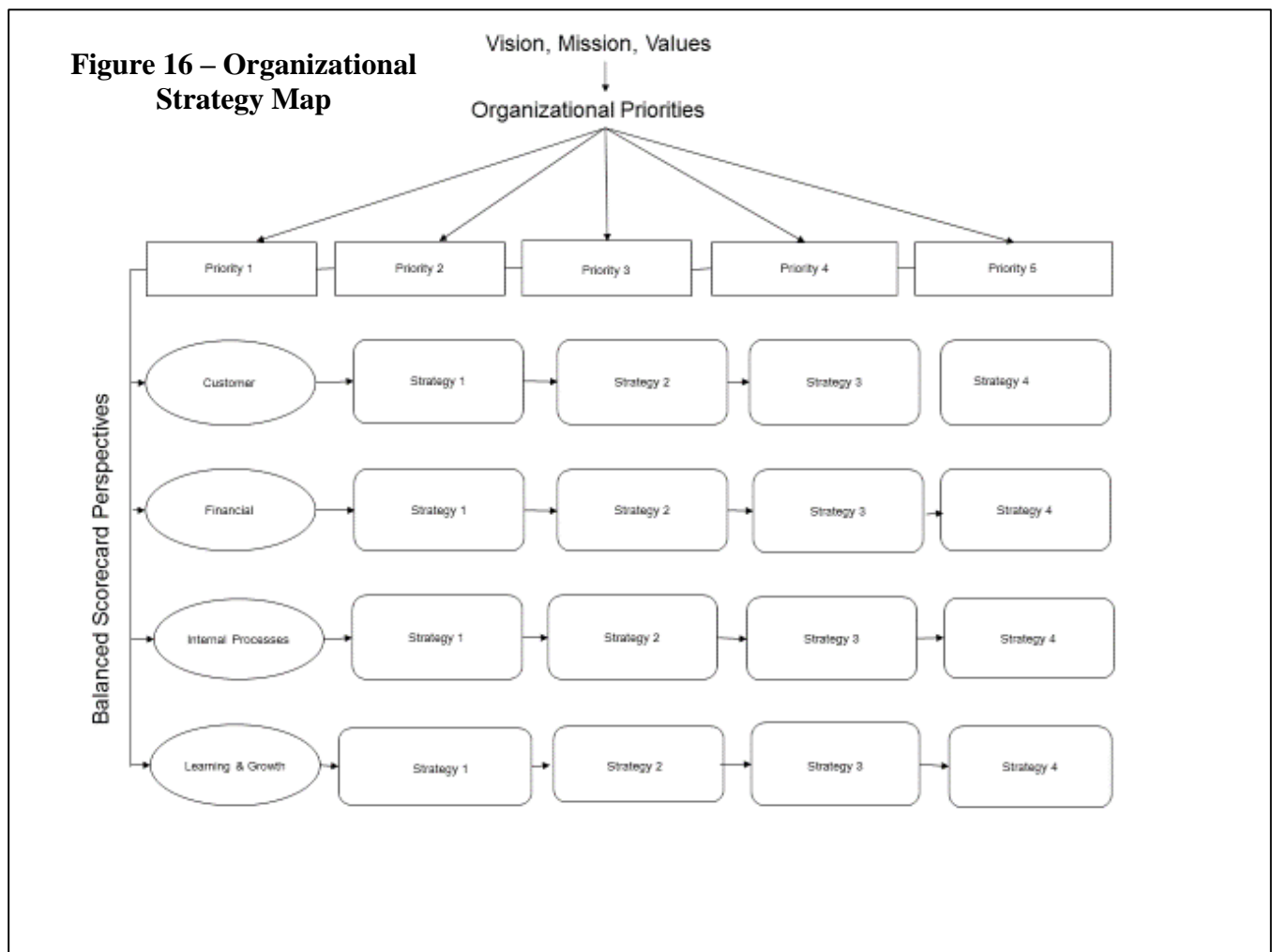
respondents to this research and, on reflection, that is likely with good reason. The most important thing to remember in the development of a highly effective performance assessment process is to create clear expectations for an employee about that which the organization wants them to contribute and that those actions are reasonably related to and expected to advance things that are linked to that which the organization is attempting to accomplish. Stated another way, there should be clear expectations for the employee and a clear line-of-sight alignment between what the employee is being asked to do and what the organization is trying to accomplish.

There is no one right way to accomplish this, but the following is offered as one county's experience in designing, constructing, and implementing a robust performance assessment and management process and linking that to compensation. Many of the practices and approaches, though not all, were informed by this research. The research is not definitive on the ultimate organizational value provided by linking pay to performance, but, for those practitioners who believe strongly in that approach, the research was clear that having high credibility in the performance assessment process was critical. In addition, the research identified clear connections between what those interviewed perceived as highly credible practices, or BMPs, and how they would operate in a system of practices to maximize the chances of success.

To that end, the experience of Crow Wing County is not offered here as the only path to pursue, but, rather, it is offered here because its path was informed by this research. The BMPs identified within this research were incorporated into their practice. The qualitative findings produced in the research were incorporated into its system design. There were other resources

drawn from, such as the Balanced Scorecard, that was not part of this research. The hope is that in seeing it woven together and, maybe more importantly, how it was woven together will be instructive to the reader about how they might go about creating a similar framework for their organization.

Most importantly, conveying organizational meaning and alignment is key. To do that, it should be easy to tell your organization’s “story.” Below is a framework for an organizational Strategy Map (Figure 16) as a simplified way to begin to spread and inculcate your organization’s story:



As such, the beginning is the end. One must first start with the end in mind. What kind of future are the leaders hoping to create through the work of your organization? They need not limit that question to just the contributions of the organization, but may also think of their organization as part of a larger community system and how their contributions will add to the work of others. This seems especially appropriate to a public organization. In doing so, organizational and political leaders contemplate the difference they hope to make through the efforts put forth through their organization. How far into the future they choose to look is subjective, but it should clearly reflect a future that is not yet here and will be a significant stretch for the organization to accomplish. When properly constructed, this is the vision for the organization.

At this point, it also seems appropriate to suggest keeping it simple. The most effective vision for an organization is one that is shared by everyone in the organization. While that is likely an impossibility that everyone will share it, that is the goal and so the simpler you can keep this, the further it will advance throughout the organization and the more impact and effectiveness it will carry. The ultimate goal is broad understanding of what the organization is trying to accomplish and subsequent alignment of the performance expectations with it.

The next question should reflect what the organization will do to achieve bringing about that vision of the future. This is fundamentally the “what” questions that should define, at a very, very high level, what your organization will do to achieve its future state. Finally, the organization should define the “how” question very broadly. How will the organization go about doing the things that it identified needed doing in order to bring about the future state it wants to create. Typically, these are expressed as values that are the most important to the organization to

hold dear as you travel the proverbial path.

Through this kind of exercise, a vision, mission, and values statement is created that should quickly convey the most important things to know about the organization. This becomes your organizational “brand.” There is a great deal of variation in the practice of setting the preceding for organizations’ and a diverse consulting network upon which organizations can draw. As such, there is no one right answer, there is only the answer right for your organization, but, again, keep the end in mind. In designing this to create clarity and alignment in a performance assessment system, keep it simple.

It is critical that this version of who the organization is should be spread far and wide and that it be as close to a guidepost for daily action as it can be. To that end, many organizations create attractive ways to convey it. Figure 17 is an example of how Crow Wing County’s mission, vision, and values are conveyed:

Figure 17 – Vision, Mission, Vales Statements



The vision, mission, and values of an organization should be thought as expansive. They answer the question of why anyone would want to get out of bed in the morning to go and work in your shop. They should inspire that the work you do is important and that it makes a real difference in the world at large—otherwise, why bother? High performance organizations, private or public,

are inhabited by highly motivated people who aspire to things greater than themselves.

According to Sinek (2011), “Great companies don’t hire skilled people and motivate them, they hire already motivated people and inspire them. Unless you give motivated people something to believe in, something bigger than their job to work toward, they will motivate themselves to find a new job and you’ll be stuck with whoever’s left.”

In the end, however, no one can be all things to all people. There is a limitless supply of good things to do and a limited supply of resources with which to do them, so you must choose.

Choosing what the organizational priorities are for an organization, the next step, can be seen as that first exercise in disciplining the organization to working on only those things that you have chosen to advance from among the infinite range of possible good things. And, so, the appropriate question is, what are the most important things for this organization to do within the scope of who we are that will do the most to advance us to our vision? (As an aside, you might also consider that your organizational structure contributes greatly to how these organizational priorities are driven and think about creating an organizational structure that is organized around your organizational priorities to drive performance within business units that is aligned to the organizational priority, but that is outside the scope of the design of this research).

From these organizational objectives, define strategies and subsequently tactics. This is the point that many organizations fall into the trap of thinking that financial objectives are the only thing that motivates the organization—a trap easier for private sector concerns to fall into than others. The reality, however, is that there will be no financial success for any organization, including a private concern, unless it identifies value that it will offer in exchange. Selling a poor product

will not deliver financial return. Delivering a product at the right pricepoint for the value that it delivers and having that pricepoint be profitable within the cost of producing it is what will deliver financial success.

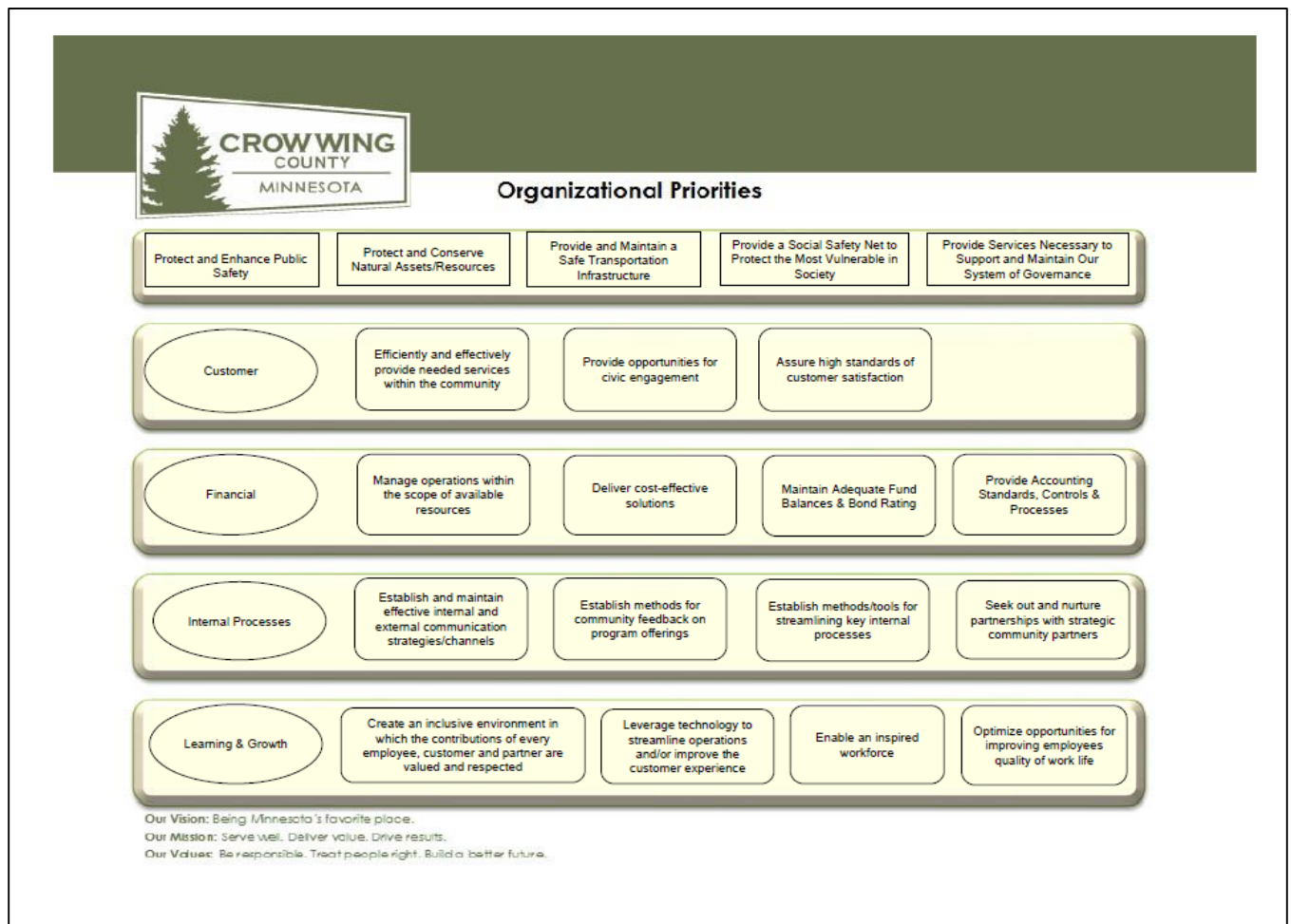
In the public sector, organizations can easily fall into that same trap: how do we have the lowest property taxes? Well, the obvious answer is to do nothing because then you will not have any property taxes. If you want to cut the cost of snowplowing in half, it's easy: take twice as long to plow the snow. Here, too, it is the intersection of competing priorities--finance being one of them-- that defines the service/value "sweet spot" that is right for every community and the pluralistic opinions contained within. It is because of these competing priorities that the Balanced Scorecard methodology has become so attractive for so many organizations to ensure that they have strategies to advance not just one priority at the expense of the others and to achieve "balance" in their strategic perspective.

The Balanced Scorecard methodology does this by using four perspectives: Financial, Customers, Internal Processes, and Learning & Growth. Returning, then, to the organizational priorities that the organization decided to put the organization's purposes to, within each of the perspectives of the Balanced Scorecard, what are the things the organization must do really, really well in order to accomplish your organizational priorities? The answer to that question becomes your strategies. In the end of the design of the performance assessment process, absolutely every employee performance measure should be tied back and "linked" to one of these strategies and that linkage ought to be reviewed and revisited with employees every year as part of their review. That said, it is equally important to know that the Balanced Scorecard

methodology is only appropriate in the senior echelons of the organization where a holistic set of objectives are actually expected. It does no good, for instance, for a custodian without budget authority to have a financial goal.

Crow Wing County’s strategy map quickly and comprehensively tells the story of this organization, who they are, what they do, how they want to be known while doing it, and what they need to do to in order to do it well:

Figure 18 – Organizational Priorities



A more updated version of this, designed to state these objectives in less jargon language, produced the following strategy map:

Figure 19: Crow Wing County Strategy Map



This process of beginning with the end in mind is essentially one of cascading from what it is that the organization is trying to achieve throughout the layers of the organization to what you expect from each individual contributor. Once you have an idea of what the organization's purpose, priorities, and strategies are, you can now begin the process of asking the question, how will we know when we're making progress or have arrived? This is the beginning of the process of defining key performance indicators for each of the organizational priorities.

The most well-known method for setting key performance objectives is the S.M.A.R.T. method. S.M.A.R.T refers to the acronym that describes the key characteristics of meaningful objectives, which are **S**pecific (concrete, detailed, well defined), **M**easurable (numbers, quantity, comparison), **A**chievable (feasible, actionable), **R**ealistic (considering resources) and **T**ime-Bound (a defined time line).

SMART objectives are the stepping stones to the achievement of individual, work group, departmental and organizational goals and are detailed below.

Specific

Specific means the objective is concrete, detailed, focused and well defined. Specific means it is results and action-orientated. Objectives must be straight forward and emphasize action and the required outcome.

To set specific objectives it helps to ask:

WHAT needs to be done?

WHY is it important?

WHO is going to do what and who else need to be involved?

WHEN will it be completed?

HOW will it be done?

Diagnostic Questions

- What exactly will be done, with or for whom?
- What strategies will be used?
- Is the objective well understood?

- Is the objective described with action verbs?
- Is it clear who is involved?
- Is it clear where this will happen?
- Is it clear what needs to happen?
- Is the outcome clear?
- Will this objective lead to the desired results?

Measurable

If the objective is measurable, it means that the measurement source is identified and actions can be tracked as progress towards the objective is made. Measurement is the standard used for comparison. For example, a measurable objective may state 50% of the files are to be scanned by a certain date. The measure is 50%. As it's so often said **if you can't measure it, you can't manage it!** It's important to have measures that will encourage and motivate along the way.

This may require interim measures.

Diagnostic Questions

- How will I know that the change has occurred?
- Can these measurements be obtained?

Achievable

Objectives, unlike aspirations and visions, need to be achievable, a stretch, but not so great that achievement is unrealistic.

Diagnostic Questions

- Can it be done in the proposed timeframe?
- Are the limitations and constraints understood?
- Can it be done with the resources we have?
- Has anyone else done this successfully?
- Is this possible?

Realistic

Realistic means that you have the resources to get it done. Resources, such as skills, time, people, finances, equipment, etc. may be necessary and must be considered to ensure the objective is realistic and achievable. While keeping objectives realistic, ensure they are a stretch and keep in mind they may require a change in priorities to make them happen.

Diagnostic Questions

- Are the resources available to achieve this objective?
- Do priorities need to be shifted to make this happen?
- Is it possible to achieve this objective?

Time-Bound

Time-bound means setting a deadline for the achievement of the objective. Deadlines need to be both achievable and realistic. Timeframes create the necessary urgency and prompts action.

Timeframes may be stated in many ways including a specific date such as December 1st or a quarter such as by the end of third quarter or annual such as by the end of the calendar year or the end of the current rating period.

Diagnostic Questions

- When will this objective be accomplished?
- Is there a stated deadline?

So, for instance, for county government, it is not hard to imagine that the organizational priority of providing a safe and effective transportation infrastructure is the responsibility of the county's transportation division, frequently referred to as a Highway Department (and interestingly so since highways are not the only mode of transportation, but that, too, is a topic for another day.)

So what are the things county leaders should pay attention to that will help us to evaluate the

degree to which a county highway department is creating a safe and effective transportation system for its constituents? Put another way, what measurable outcomes would illuminate how well they are advancing the value proposition that the public hired the county to achieve in creating and maintaining a safe and effective transportation system?

Setting SMART goals is a good approach to defining performance measures in ways that will convey meaning and understanding that is shared, realistic, and achievable. Using the SMART methodology to set goals, however, does nothing to ensure that the goals that are set are smart things for the organization to do. Put another way, a goal can be SMART, but not be wise. Care needs to be taken to ensure that the well-defined goal is a goal towards something that really matters to the organization. Will achieving the goal truly advance the organization closer to achieving its mission and vision?

As such, there are no one set of right answers. They are the right answers for your organization and you should consider them not in terms of a destination, but rather in terms of a journey. First attempts at these will be less than perfect—the whole system will be less than perfect, so ask whether what you are landing on is creating more good than more harm. Here's an example of Crow Wing County's list of KPIs for their highway department (Figure 20):

Highway	
Name	
Hwy - Customer Satisfaction Survey	Customer Satisfaction Surveys Received
Hwy - Snow Plowing Targets	
Hwy - Send out Press Release	
Hwy - Send out multi-media press release	
Hwy - Construction Projects Delivered on Time	
Hwy - Overall Ride Quality Index (RQI) Good/Very Good	
Hwy - Overall Ride Quality Index (RQI) Very Poor/Poor	
Hwy - Number of Fatal Crashes on County System	
Overall Bridge Sufficiency	
Highway - Expenditure Budget	
Highway - Revenue Budget	
Hwy - Delivery of Promised Construction Projects on Budget (Planning)	
Hwy - Delivery of Promised Construction Projects on Budget (Design)	
Hwy - Delivery of Promised Construction Projects on Budget (Construction)	
Hwy - Delivery of Promised Construction Projects on Budget (R/W)	
Manage Major Operating Funds (Levy Impacts)	
Highway - Revenue	
Highway - Expenditure	
Hwy - Zero Lost Time Accidents	
Hwy - LEAN Event	
Hwy - LEAN Event Executive Sponsor	
Hwy - Complete Performance Appraisals on time	
Hwy - Employee Development Plans in Place	
Hwy - Employee Engagement Survey Q12 Participation	
Hwy - Employee Satisfaction Survey Q12	
Hwy - Employee Engagement Survey Q12	

As noted earlier, human services KPIs are more difficult to construct. As such, here is an example of the KPIs constructed for Crow Wing County’s balanced scorecard for its human services field (Figure 21):

Figure 21 – Community Services Key Performance Indicators

Community Services	
Name	
CS - customer satisfaction survey	
CS - Foster care re-entry	
CS - 95% of seniors served by AC/EW waivers wishing to remain in the community will avoid a long term care nursing facility placement.	
CS - Less than 10% of those receiving Adult Mental Health Case Management will need	
CS - Percent of children who are not subjects of a repeat report within 6 months of an	
CS - Rate of entry into foster care. Children less than age 18 who enter out-of-home care for the 1st time in their lives as compared to per 1000 in the Minnesota child populations. Reduce per capita out of home placement rate by 20%	
CS - 50% of those that use detox once will not return within one year	
CS - Functioning as measured by CASII scores improve by 10% during calendar year.	
CS - Improve Crow Wing County health outcome ranking from 50 to 45 by 2015	
CS - Reduce recidivism at the Crow Wing County Jail	
CS - 25% of adults receiving Mental Health Case Management will be employed	
CS - Collect data monthly from PRISM for a quarterly number.	
CS - Increase the Veterans Award Amount 5% annually, adjusted for inflation, per Veteran served in Crow Wing County	
CS - Expenditure budget	
CS - Revenue budget	
Manage Major Operating Funds (Levy Impacts)	
Community Services - Revenue	
Community Services - Expenditure	
CS - Zero lost time accidents	
CS - Percent of public assistance applicants who receive benefits within mandated time	
CS - send press release (3/quarter)	
CS - send multi-media press release (1/quarter)	
CS - LEAN Event Participation (6 large & 6 small /year)	
CS - LEAN Event Executive Sponsor	
CS - Employee Engagement Survey Q12 Achieve 65% Participation	
CS - Employee Engagement Survey Q12 - Achieve 80% Satisfaction	
CS - Complete 100% of staff performance reviews by January 31st to allow for calibration in February. With final ratings communicated to staff by March 31st	

Cascading from these outcomes to contributory inputs at the contributing employee level is a matter, once again, of creating and discussing alignment about what actions will most likely contribute to what outcomes that the organization is seeking. By cascading, you are trying to establish and follow the cause-and-effect linkages that lead from the desired goals for the

organization to the actions that a contributing employee can reasonably take that will drive positive change in that outcome. So, for instance, if the goal is a safe and effective transportation system, what are the expectations of the public for when the roads should be plowed after a snowstorm? By when should there be different variations on dry wheel paths? Does the standard vary by traffic counts? Which snowplow route is assigned to which driver and how well did each do on hitting the performance targets after each snow event.

It is sometimes helpful when trying to think about the cause-and-effect linkages to think in terms of leading indicators versus lagging indicators. A leading indicator is something that would be an input into a process—something that would be done so that something downstream would happen. A lagging indicator would be something downstream in the process toward the end and would tend to be closer to the outcome that was the desired result of the process. It is common that the outcomes or lagging indicators are present the higher up the organizational ladder you progress and the leading indicators are those closer to the contributing employee level.

As an example, if an outcome that you are trying to achieve is low rates of communicable diseases in the population, then the lagging indicators would be things like rates of measles, or mumps, or influenza—whatever specific objectives you are targeting for low rates among the population. A mid-process indicator might be the number of vaccinations administered. A leading indicator might be the number of immunization clinics held or the number of home visits conducted. In other words, it is expected that the contributing employee will hold “X” number of immunization clinics or conduct “X” number of home visits in the belief that in doing so they will administer “Y” number of vaccinations and that, in so doing, the organization will impact

the community's rate of measles or mumps or influenza thereby reducing the rate of transmission of communicable diseases within the community.

Simple examples such as these, where the cause-and-effect linkages are more obvious, useful as teaching tools, but they do not adequately reflect the complexity of real life in county government and the difficulty of establishing clear and compelling cause-and-effect linkages in all cases. Doing so in areas such as child protection or chemical dependency are much less clear. What actions, taken by contributing employees, will contribute to reductions in chemical dependency rates in the community? What actions taken upstream of the need for a child protection intervention could reduce the rate of child protection interventions? Complicating matters considerably are the wide and deep array of other forces acting in society that also impact those very same things. And, yet, if the organization does not think it can impact the rates of chemical dependency or child protection interventions, then why would it invest limited and precious public resources in doing so?

There must, at some point, be a leap of faith that the actions you take at the service delivery level will impact those types of outcomes and there must be accompanying accountability to the efficacy of those actions in order to create appropriate pressures for the system to be flexible, adaptive, and creative in changing tactics that don't do so in favor of trying new ones that may. That accountability should be present throughout the system from top leaders to contributing employees. Regardless of whether the system is tied to compensation, this kind of assessment of the efficacy of effort to the stated objectives is necessary to avoid the creation of moribund systems that never adapt—a chief criticism of public systems. Tying it to compensation simply

ups the ante and reasonable people will likely disagree on the wisdom of doing so.

In terms of good performance assessment, the pursuit of perfection is the enemy of the achievement of the good. In complex and dynamic systems of human interaction, perfection is impossible. Creating a system with the best work you are capable of with the best knowledge available at the time influenced by experience up to that point is key. Staying open to adaptations that you believe will add credibility to the system is key. Recognizing that it can never be perfect is key. Thomas Jefferson once said, “On no question can a unanimity be achieved.” Remembering that improving the system towards its most perfect form while recognizing that it can never fully achieve that should not dissuade you from the valiant effort toward that lofty goal.

Toward that end, below is an example of Crow Wing County’s efforts to define organizational objectives in snow plowing to the key performance indicators that will demonstrate the achievement of public value for a highway department more specifically as it relate to their snow plowing targets and the drivers assigned to each road:

Figure 22 – Organizational Objectives for Key Performance Indicators

Crow Wing County Highway Department Snow and Ice Operations Methodology

The Crow Wing County Highway Department has jurisdiction over more than 600 miles of county roads and secondary roads. The removal of snow and ice from these roadways is one of the most important services the Highway Department provides during the winter months.

The public safety is the number one priority for the Highway Department at all times. The efficient use of public funding to support effective snow and ice removal operations is also a top priority. Finding the balance point between these two priorities is sometimes challenging; however at no time will public safety be willfully compromised. In extreme cases, an inefficient snow and ice fighting technique may be required to ensure public safety.

Each winter weather event is different and presents its own unique challenges. Decision makers must have the flexibility to determine the appropriate timing and methods used to combat the roadway conditions. Snow and ice operations can begin at any time of that day or night and may include only a portion or the entire crew as dictated by the roadway conditions. These important decisions are ultimately the responsibility of the County Highway Engineer. The Highway Maintenance Supervisor has delegated authority to deploy the resources and methods necessary to conduct effective snow and ice operations.

For typical snow events, plows usually will not be dispatched until after a snowfall has ceased. Ice fighting techniques may begin in advance of actual precipitation and continue throughout the event. Equipment operators may be called off the roads during extended periods of snowfall to ensure proper coverage during peak travel times. Under extremely hazardous circumstances plows may not be deployed or removed from service early to ensure operator safety.

The Highway Maintenance Supervisor continuously monitors the winter weather and its effect on the condition of the county road system. While on patrol, County Sheriff's deputies often provide firsthand accounts of roadway conditions via the county dispatch center. An active network including officials from local school districts and busing contractors has been established to assist with determining if road conditions may contribute to school closings or delays.

The Crow Wing County Highway Department utilizes 17 snow plow trucks as well as other heavy equipment to remove snow and ice. The County employs only enough workers to occupy one work shift during any snow or ice event. Each of the 17 drivers is assigned to a specific plow route representing an equitable portion of the more than 600 miles of roadway. A typical shift is limited to 12-14 hours. Plow truck operators must then be allowed to receive adequate rest before returning to work.

In contrast to other agencies with roadway jurisdiction in the area, Crow Wing County does not maintain a bare lane snow and ice policy. A bare lane policy requires plowing operations to continue, without stopping, until the roadway is completely clear of snow and ice. To deliver this level of service, an agency must sustain the proper amount of personnel and equipment necessary to conduct snow plowing operations 24 hours a day. This often includes two or more shifts of qualified plow truck drivers.

Crow Wing County utilizes straight salt and various concentrations of salt/sand mixtures to treat roadways during snow and ice events. Salt water brine is applied to all mixtures to aid in the proper distribution of salt/sand from the plow truck to the roadway.

The standard road salt used by the Highway Department is most effective above 15° F. The effectiveness of salt as an ice cutting method degrades quickly after that temperature and at 0° F is almost ineffective. Other snow and ice fighting chemicals, active at lower temperatures, are available; however these products and associated delivery systems are currently considered cost prohibitive.

Application of straight salt is mainly reserved for high volume routes and those that are located in urban areas where contamination of storm sewer systems is a concern. Mixtures of salt/sand are the most frequent treatment placed on the county road system to combat snow and ice. Concentrations of 10% salt are most common; however 50/50 concentrations are occasionally used to combat particularly stubborn conditions. These mixtures combine the benefits of increased traction with the ice cutting action of road salt.

The Crow Wing County Engineer has conducted an evaluation of the entire county highway system and has assigned a snow and ice priority ranking for each segment of roadway. This system ensures that roadways receive snow and ice services in a timeframe and level of service corresponding to its importance to the overall transportation system. The primary criteria used to determine a roadway's priority ranking is traffic volume. Roads with relatively low traffic volumes that serve as a logical collector system for the higher volume arterial roads may be eligible for a higher priority ranking. Please see Snow Plowing Priority & Level of Service Map.

The following summarizes each of the three priority rankings and the corresponding level of service that can be expected for each:

Priority 1: High traffic volume areas of high collection. Major connection routes of travel with more than 5000 cars a day.

Level of Service Target: Single pass with the plow in each lane with salted or sanded hills, curves, intersections and stop signs within 6 hours

Figure 22 – Continued

of the snowfall's termination. Intermittent bare single wheel paths in each lane within 18 hours.

Priority 2: Areas of rural collection, moderate to high volume with daily traffic counts between 5000 – 500 cars a day.

Level of Service Target: Single pass with the plow in each lane with salted or sanded hills, curves, intersections and stop signs within 12 hours of the snowfall's termination. Intermittent bare single wheel paths in each lane within 48 hours.

Priority 3: Low volume traffic counts, with less than 500 cars a day.

Level of Service Target: Single pass with the plow in each lane with salted or sanded hills, curves, intersections and stop signs within 18 hours of the snowfall's termination. Snow compaction on gravel roads shall be expected. Sanding may take place at the operator's discretion. The County Highway Department can not ensure intermittent bare pavement, but will salt or sanded hills, curves, intersections and stop signs on blacktop roads.

Figure 23 – Priority and Level of Service Planning

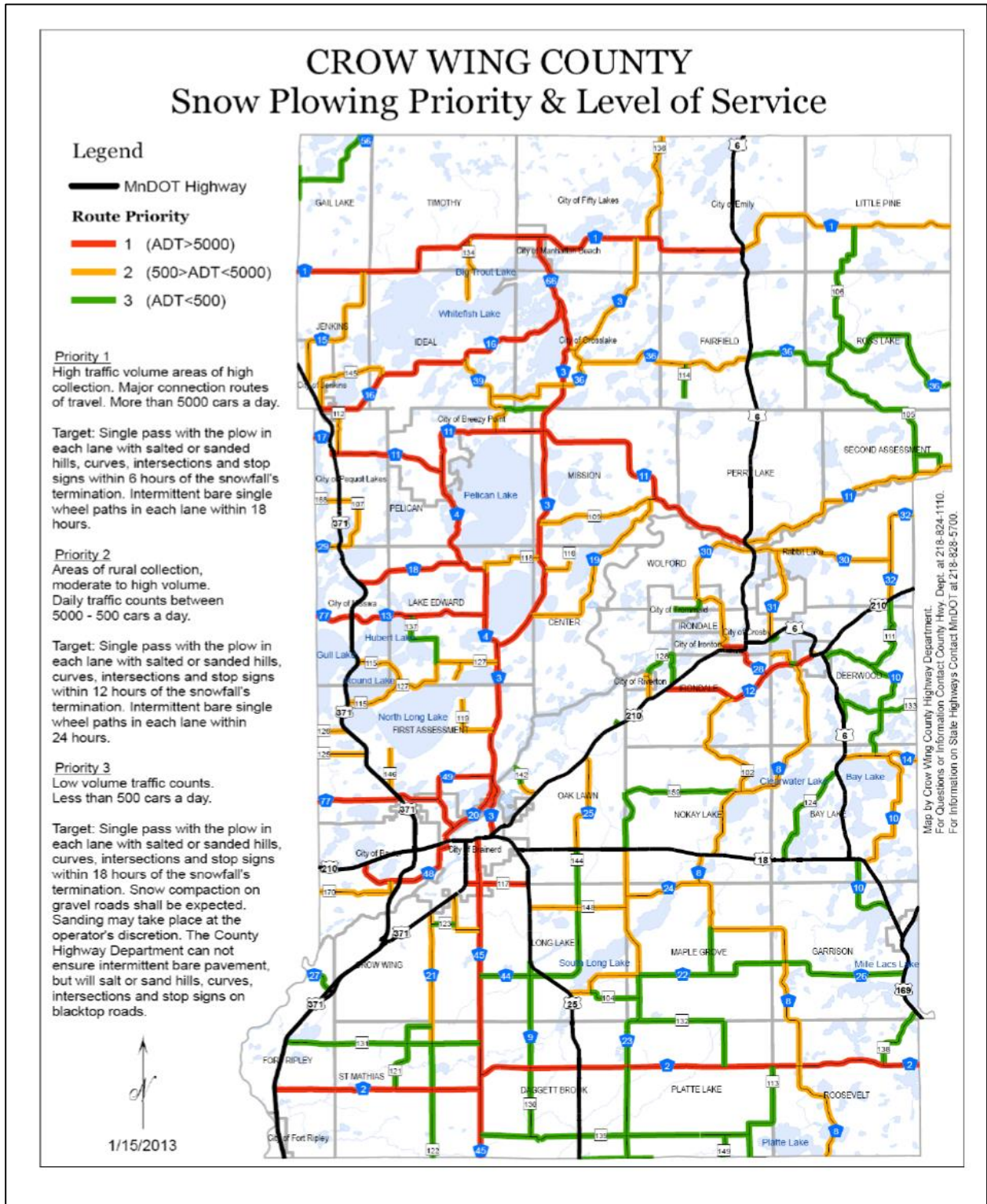
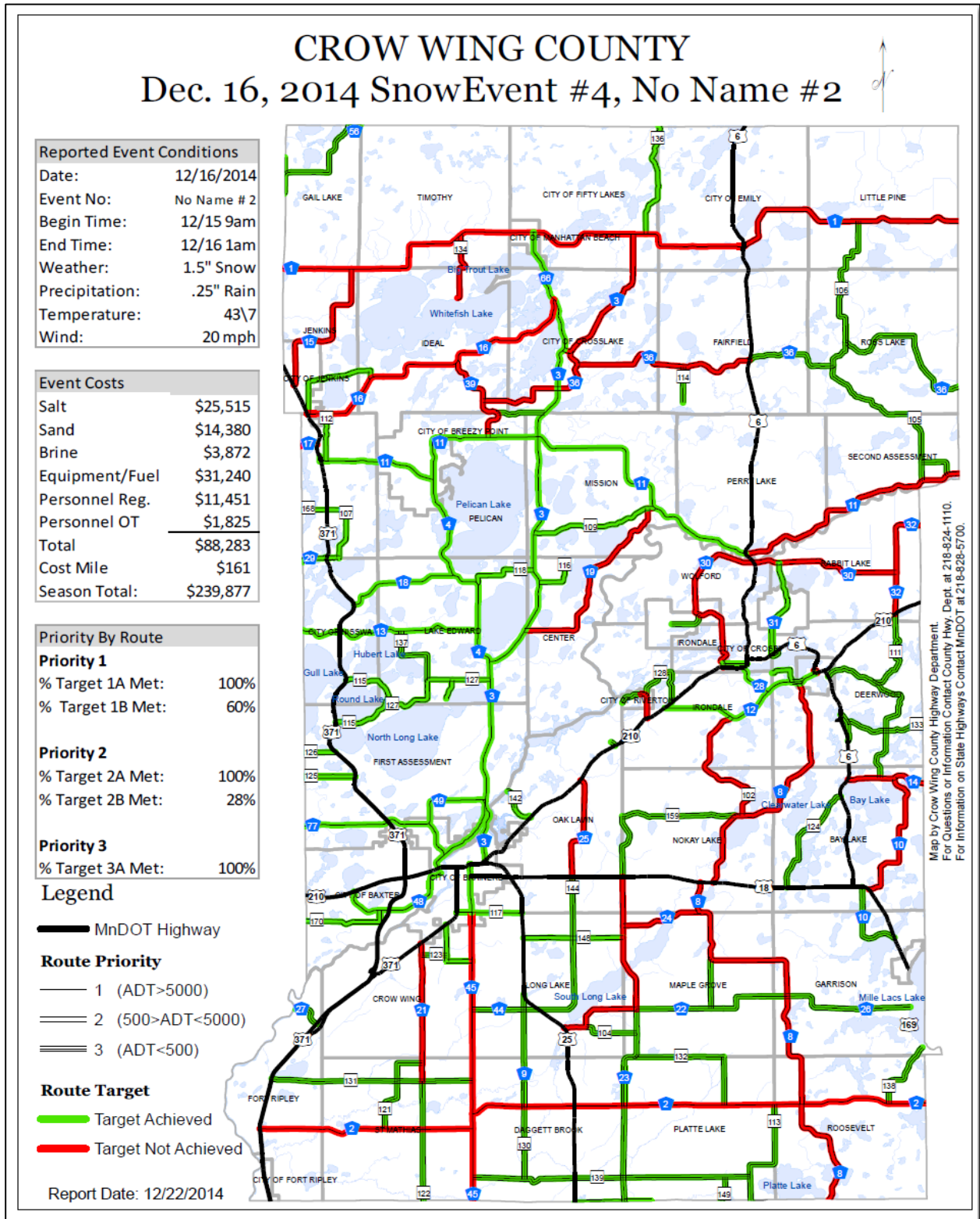


Figure 24 – Priority and Level of Service Outcomes



There are a variety of good reasons why throughout all of this process, organizations should seek high employee-involvement processes and open, transparent dialogues in order to define all of these things. First, and foremost, if credibility with employees is a critically key component in the eventual success of the performance assessment process, then what better way to hard-wire that in than to involve the people who are subject to it in its application? That applies just as much in system design as it does on an on-going basis in system modifications going forward. The Gallup organization (2015) estimates that as much as 70% of employee's engagement in their work—the degree to which they are willing to exert discretionary effort at the margin—is based on their relationship with their direct supervisor so this is as much about return on investment in employee productivity as it is in doing it because it's the right thing to do. Second, employees who perform work are always going to be most knowledgeable about what the work entails. They may not be able to add perspective to the question of what the organization is trying to achieve, but they do know best what they have been doing. The richness in the dialogue is the degree to which those two things are or are not in alignment.

In addition, working in the public sector has some distinct advantages when designing “new” systems as plagiarism is not only allowed, it's encouraged. In the vein that there really are no new ideas, practitioners in the public sector are regularly accustomed to other practitioners asking if they have any experience with such and such. An inquiry through professional associations will always return multiple results and those results, from multiple sources, can inform the judgment of a practitioner and their colleagues about what might best represent your organization's desires. To that end, an example of Crow Wing County's efforts to define key performance indicators for a highway maintenance technician would be as follows:

Figure 25 – Key Performance Indicator Matrix

Highway Maintenance Specialist	HWY - Highway Maintenance Specialist - Customer Service	Commitment that your work satisfies the expectations of the public	Exceptional	Exceeds	Achieves	Needs Improvement	Unsatisfactory
Highway Maintenance Specialist	Customer Service		Meets snow plowing performance targets 95% of the time and proactively helps others achieve their targets	Meets snow plowing performance targets 90% of the time	Meets snow plowing performance targets 80% of the time	Meets snow plowing performance targets less than 80% of the time.	Meets snow plowing performance targets less than 70% of the time.
Highway Maintenance Specialist	Customer Service		Exceptional ability to assess, document and increase level of service ratings for snow plowing operations. Drives elevated results by providing real-time feedback to co-workers	Proactively assesses and documents level of service ratings for snow plowing operations. Consistently provides real-time feedback to co-workers	Accurately assesses and documents level of service ratings for snow plowing operations on assigned route	Frequently documents level of service ratings for snow plowing operations inaccurately	Intentionally falsifies snow plowing level of service documentation on or more times
Highway Maintenance Specialist	Customer Service		Demonstrates an extreme sense of ownership for assigned route and takes appropriate action to address issues associated with assigned route	Takes ownership of assigned route and actively provides feedback to address issues associated with assigned route	Has an excellent knowledge of issues associated with assigned route	Some knowledge of assigned route. Relies on others to provide input on issues associated with assigned route	Is out of touch with the conditions and issues associated with assigned route
Highway Maintenance Specialist	Customer Service		Achieves 95% of yearly maintenance requirements on assigned route	Achieves 90% of yearly maintenance requirements on assigned route	Achieves 80% of yearly maintenance requirements on assigned route	Achieves less than 80% of yearly maintenance requirements on assigned route	Achieves less than 70% of yearly maintenance requirements on assigned route
Highway Maintenance Specialist	Customer Service		Receives no substantiated customer complaints regarding a maintenance deficiency on assigned route	Receives no more than one substantiated customer complaint regarding a maintenance deficiency on assigned route	Receives no more than three substantiated customer complaints regarding a maintenance deficiency on assigned route	Receives more than three substantiated customer complaints regarding a maintenance deficiency on assigned route	Receives no more than three substantiated customer complaints regarding a maintenance deficiency on assigned route
Highway Maintenance Specialist	Customer Service		Five separate projects generate written feedback from the public regarding your delivery of excellent customer service	Three separate projects generate written feedback from the public regarding your delivery of excellent customer service	<u>No more than three</u> substantiated complaints are received regarding inadequate or untimely service on assigned route	<u>More than three</u> substantiated complaints are received regarding inadequate or untimely service on assigned route	<u>More than five</u> substantiated complaints are received regarding inadequate or untimely service on assigned route

Likewise, an example of key performance indicators for Crow Wing County Child Protection Social

Worker are as follows:

SOCIAL WORKER

Assessment:

Description:

- Provide intake services as assigned.
- Conduct client assessments as assigned.
- Investigatory actions including interviews and site visits if needed.

Measure:

- Case Plans: Out of Home placement Plans will be completed within 30 days of placement and case plans will be completed within 60 day of case opening.

Case Management:

Description:

- Appropriate interventions to address client service needs and protect client welfare.
- Formulate client service plans based on assessments.
- Ongoing assessment and plan revisions to effectively address client needs to maximize client functioning.
- Manage active case load, providing counseling, advocacy, service coordination and assessment, achieving service plan objectives and initiating modifications as necessary to achieve stated outcomes, address client needs, maximize client functioning and protect client welfare.
- Develop discharge plans including aftercare resources, ongoing support services and crisis planning to effectively address client needs.

Measure:

- TCM hits are 80% of eligible clients

Documentation:

Description:

- Clear concise documentation to be maintained within the SSIS case record.
- Ensure the accurate and timely recording, retention and retrieval of case files.
- Ensure that written documentation and reports are concise and professional.
- Comply with all regulations relating to client confidentiality, closely guarding the privacy of client records and information to assure full compliance with MN data Practices, HIPAA and all other regulations regarding client confidentiality.
- Ensure compliance with agency and program financial parameters, completing required documentation to account for service costs and maximize reimbursement in accordance with program requirements to maximize the recapture of revenue associated with programs and services provided.
- Accurately completes and enters all required information into job specific software programs.

Measure (Mandatory):

- SSIS Documentation (100% of time reporting will be completed by the 10th of the month).
- All cases to be closed within a timely basis of the service/care coordination end date.

In addition to specific and measurable performance outcomes, the system should also construct soft skill outcomes that the organization is going to value. Competencies for contributing employees to the

organization may be different than for senior leaders such as in the following competency model

example:

Figure 26 – Professional Development Competency Model



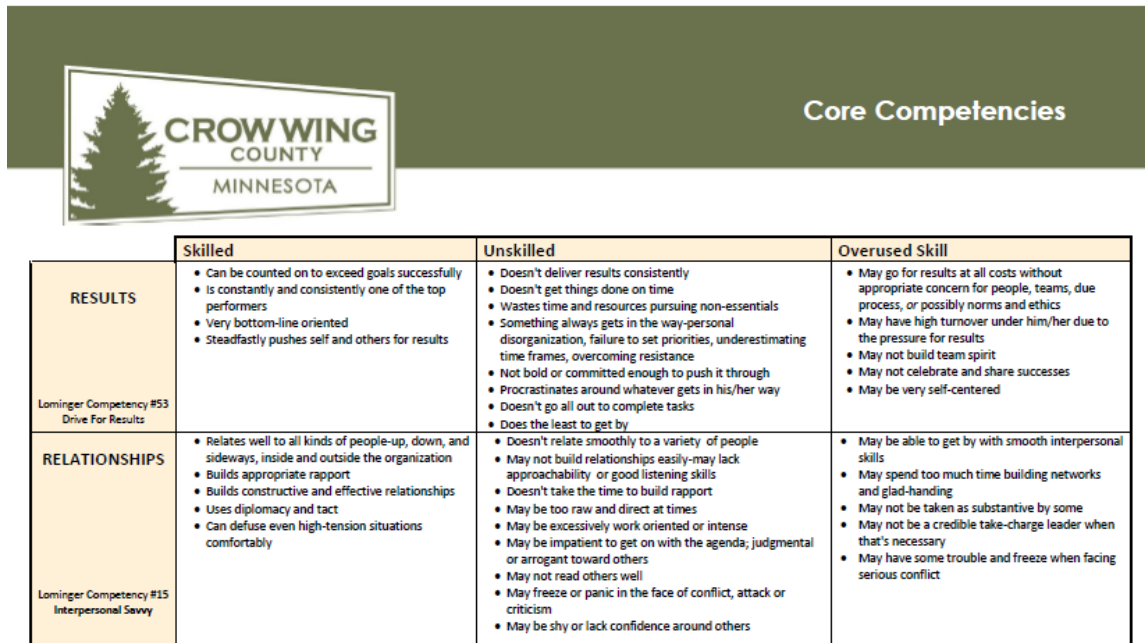
Professional Development Competency Model

	Senior Management	Leadership	Team Member
Thinking Competencies			
Judgment (17)	Demonstrate Superior Judgment	Exercise Insightful Judgment	Make Sound Decisions
Strategic Thinking (58)	Shape Strategy	Think Strategically	Support Strategy
Innovation (14,28)	Drive Innovation	Leverage Innovation	Engage in Innovation
Perspective (46)	Foster Broad Perspective	Demonstrate Broad Perspective	Demonstrate Awareness
Customer Focus (15)	Anticipate Customer Needs	Ensure Customer Focus	Meet Customer Needs
Business Acumen (5)	Shape Organizational Results	Employ Organizational Knowledge	Use Organizational Data
People Competencies			
Engagement (1,36)	Inspire Others to Excel	Engage and Inspire	Demonstrate Commitment
Change (2)	Drive Change	Manage Change	Support Change
Talent Development (19)	Attract, Develop and Retain Top Talent	Develop Talent Pools	Develop Individuals
Diversity (21)	Effectively Lead Diverse Organizations	Promote Diverse Organizations	Value Diverse Organizations
Relationship Building (31)	Build Networks and Relationships	Build Relationships	Relate Well to Others
Communication (49)	Communicate with Impact	Foster Open Communication	Maintain Communication
Personal Competencies			
Integrity (29)	Demand Ethical Behavior	Ensure Ethical Behavior	Demonstrate Ethical Behavior
Courage (34)	Lead Boldly	Act Boldly	Act Courageously
Adaptability (2)	Model Adaptability	Adapt Productively	Demonstrate Resilience
Self Development (54)	Optimize Self Development	Learn Continuously	Pursue Self Development
Results Competencies			
Planning (47)	Align the Organization	Establish Group Plans	Plan Own Work
Results Orientation (53)	Drive Execution	Execute for Results	Work Effectively and Efficiently
Quality Orientation (63)	Ensure Program/Service Quality	Promote Program/Service Quality	Contribute to Program/Service Quality
Performance Mgmt. (53)	Create a High Performance Culture	Foster a High Performance Culture	Support a High Performance Culture

Competencies can also be developed for the organization that reflect soft-skill competencies that the

organization will value for all employees. There are a variety of sources for those kinds of ways to “brand” what your organization will value as important. Here is an example from one county that grew out of this research using competencies from the Lominger Competency Series, 5th Edition:

Figure 27 – Core Competencies



	Skilled	Unskilled	Overused Skill
<p>WORK PROCESS</p> <p>Lominger Competency #63 Total Work Systems</p>	<ul style="list-style-type: none"> • Is dedicated to providing organization or enterprise-wide common systems for designing and measuring work processes • Seeks to reduce variances in organization processes • Delivers the highest-quality products and services which meet the needs and requirements of internal and external customers • Is committed to continuous improvement through empowerment and management by data • Leverages technology to positively impact quality • Is willing to re-engineer processes from scratch • Is open to suggestions and experimentation • Creates a learning environment leading to the most efficient and effective work processes 	<ul style="list-style-type: none"> • Doesn't think broadly regarding the impact of work processes • Doesn't comply or work to build commonalities in processes • Doesn't create effective and efficient work processes • Isn't customer focused in how he/she designs and manages the work • Isn't dedicated to continuous improvement of work processes • Doesn't leverage technology to improve work processes • Doesn't know the tools and techniques to improve work processes • Sticks to the old and familiar rather than stepping back and seeing the larger pattern • Isn't willing to scrap the past in favor of the new and improved • Doesn't listen to employees about improving work design • Doesn't empower others to design their own work processes • Doesn't create an environment where the whole unit learns together how better to serve the customer 	<ul style="list-style-type: none"> • May become a work process or quality improvement missionary to the exclusion of everything else • May make marginal incremental changes which are more disruptive than helpful • May not deliver results because of extreme focus on process or rules • May reject other approaches and non-believers
<p>CUSTOMER SERVICE</p> <p>Lominger Competency #15 Customer Focus</p>	<ul style="list-style-type: none"> • Is dedicated to meeting the expectations and requirements of internal and external customers • Gets first-hand customer information and uses it for improvements in products and services • Acts with customers in mind • Establishes and maintains effective relationships with customers and gains their trust and respect 	<ul style="list-style-type: none"> • Doesn't think of the customer first • May think he/she already knows what they need • May focus on internal operations and get blindsided by customer problems • May not make the first move-won't meet and get to know customers • Uncomfortable with new people contacts • May be unwilling to handle criticisms, complaints, and special requests • May not listen well to customers, may be defensive • May not make the time for customer contact 	<ul style="list-style-type: none"> • May be overly responsive to customer demands • May be too willing to change established processes and timetables to respond to unreasonable customer requests • May make too many exceptions and not form consistent policies, practices, and processes for others to learn and follow • Sticks so close to current customer needs that breakthroughs are missed

For Your Improvement, A Guide for Development and Coaching
Lominger 5th Edition



Once the key performance indicators are constructed for each of the job classes, they need to be assembled into a coherent system that applies to all employees. Forms need to be designed or software systems installed to capture and communicate the information. Expected supervisory practices such as how often there should be status meetings with employees need to be identified. Coaching managers on good performance coaching techniques needs to be provided. There are a myriad of tiny details to work out to ensure that the system is executed institution-wide in a fair, consistent, and equitable manner.

To that end, it is important to design in safeguards to protect employees from issues of rater or supervisor bias or favoritism. Two practices that are recommended for that purpose would be the calibration of the results of the ratings between and among supervisors and managers in the system and an appeal process for an employee to challenge the rating they have received with a neutral third-party. Both are important practices to ensuring that the employee feels like they have some outlet to protect themselves from a supervisor who they believe practices favoritism in their performance rankings. Below is an example of one county's performance assessment system framework containing these safeguards as well as tools and resources for both employees and managers to navigate the process with clear and shared expectations:

Figure 28 – Performance Management and Planning Process**Performance Management and
Planning Process**

(Article 39 of the Crow Wing County Personnel Manual)

Introduction**Purpose**

The purpose of this program guide is to provide a resource to help team members implement a performance plan for those they supervise; a performance plan that clearly articulates performance expectations and is aligned with the strategic priorities of the organization, department, workgroup and the individual role.

This program guide is also intended to be a resource for performance plan participants, promoting an understanding of the process, the role of the individual in performance planning and also guidance for completing the self evaluation portion of the performance plan.

The County's Expectations Regarding Performance Management

Aligning resources to accomplish organizational priorities is one of the most important functions of managers and supervisors. The supervisor is accountable for ensuring each team member has clearly defined performance plans including key performance measures, core competencies, department and/or role specific competencies, project assignments and developmental initiatives.

As you prepare to develop a performance plan, begin with a review of the county's mission, vision and values. They are the foundation on which we build; the mission speaks to what we do, the vision speaks to where we're heading and the values reinforce how we work. These foundational pieces, together with department specific mission, vision and values, help to align individual roles with organizational interests.

Our organization uses performance tools such as the Balanced Scorecard to identify and communicate key strategic priorities for the organization. We've selected the balanced scorecard approach because it ensures focus on four important perspectives; our customer, our financial performance, our work processes and our people. For information on Crow Wing County's guide to the Balanced Scorecard review the [Managing for Results Implementation Guide](#).

Figure 28 - Continued

Strategy maps are a component of the balanced scorecard. The strategy map identifies key strategic priorities and objectives for the organization. The county's strategic priorities and objectives are developed as part of a strategic planning process involving the county board of commissioners, elected officials and senior management. Understanding the organizations priorities is an important step in developing the strategic priorities and objectives that are unique and specific to your department.

The county strategy map provides direction by identifying the big-picture goals for the organization. This information is cascaded through the organization to create alignment, ensuring department priorities and objectives support the important strategies of the organization. Department strategy maps identify the strategic priorities and objectives for the department. The departmental priorities and objectives translate into individual roles and include key performance measures, competencies and assignments that are specific to the individual role and ensure the accomplishment of the departmental and organizational objectives.

Individual roles are defined in job descriptions. The supervisor is accountable for creating job descriptions for each individual role in their department. This includes determining what duties are important to include in a job, what qualifications are needed to fulfill those duties and what level of performance is needed to meet the strategic priorities and objectives of the department and organization. Contact the Human Resource department for information relating to writing effective job descriptions.

Performance management also involves filling the job with the best candidate, training new team members and providing continuous coaching to clarify expectations. Management of performance is important to being a good supervisor and introducing the performance plan early, when an employee joins the department, serves as an effective means for communicating expectations and helping staff understand how their role links to the strategic priorities of the organization and department. All supervisors are expected to participate in a performance management program with their staff.

Performance Management Definition

Performance management is an ongoing, continuous process of communicating and clarifying job responsibilities, priorities and performance expectations in order to ensure mutual understanding between supervisor and employee. It is a philosophy that values and encourages employee engagement and development through a style of management which provides frequent feedback and fosters teamwork. It emphasizes communication and focuses on adding value to the organization by promoting improved job performance and encouraging skill development. Performance management involves clarifying the job duties, defining performance standards, and documenting, evaluating and discussing performance with each employee.



Performance Management Objectives

- Promote understanding of the mission, vision, values, strategic priorities, key objectives and expectations for the department and organization.
- Cascade the strategic priorities and key objectives of the organization to departments and individual roles to ensure alignment with and achievement of important organizational and departmental priorities.
- Promote proactive performance planning and communication between supervisors and employees.
- Identify and resolve performance improvement needs through early intervention and coaching.
- Recognize quality performance
- Serve as a resource for administrative decisions such as promotions, succession planning, strategic planning, and performance based pay.

Performance Plan Development

- Performance management is considered a process, not an event. It follows good management practice in which *continual* coaching, feedback and communication are integral to success.
- The Performance Plan is primarily a communication tool to ensure mutual understanding of work responsibilities, priorities and performance expectations.
- The Performance Plan is job specific. The [major duties and responsibilities of the job](#) are defined and communicated as the first step in the process.
- The Performance Plan contains [performance measures](#) for each major duty/ responsibility. The performance measures are clearly defined and communicated.
- The performance planning process encourages employee involvement and participation.
- The developmental initiatives section is used to identify opportunities for professional growth within the assignment and for future career interests and succession planning.

Figure 28 - Continued

- [Documentation of performance](#) is an important component of performance management. Quarterly and midyear performance discussions are encouraged.
- The overall [performance rating](#) is intended to reflect the individual's actual performance in relation to the performance criteria established in the performance plan for the entire evaluation period.
- Supervisors are evaluated on successful administration of the plan and ongoing performance management responsibilities.
- Training for supervisors and employees is available through the county's human resource representatives.
- Content of the performance management plan must comply with all federal and state laws addressing non-discrimination.

Supervisor's Responsibilities

- Communicate and clarify [major job duties](#), priorities and expectations at the beginning of the year or when a new member joins the department.
- Establish and communicate [performance standards](#).
- Monitor ongoing performance through observation, discussion, etc.
- [Document](#) performance, identifying successes and opportunities.
- Provide continuous coaching and constructive feedback in a timely manner.
- Hold performance discussions throughout the year; quarterly and semi-annually is recommended.
- Correct unsatisfactory performance and reinforce effective performance.
- Help employees develop skills and abilities for improved performance.
- Provide necessary resources and information needed to ensure accomplishments of key results.

Available Resources

Human Resource staff are available to provide consultation with supervisors interested in developing a performance management plan. Individual and/or group training on all aspects of Performance Management is provided upon request.

Performance Planning Cycle

Common Review Date

The county's performance planning cycle aligns with the calendar year. All employees receive an annual performance appraisal that accounts for performance in the preceding calendar year. The year-end appraisal is completed in January. The calibration and rating approval process occurs in February. Rating communication occurs in March and performance based pay awards, for participants in the performance based pay program, are processed the first pay period in April and effective retroactively to January 1. The planning calendar is outlined below:

Figure 28 - Continued

June – December: Budget planning begins in June and concludes with adoption of the final budget during the last board meeting in December. Budget planning generally identifies resources available and resources needed, including organizational, departmental and role specific projects and initiatives.

Developing your individual employee performance plans in coordination with the budget planning process ensures the performance plans align with important goals and commitments identified for the coming year.

January: Performance results from the preceding year are summarized in January. Employees complete their self evaluation and supervisors finalize their evaluation. Performance plans for the coming year are finalized.

February: Performance rating recommendations are made by the supervisor and the approval and calibration process is completed. The calibration process requires supervisors to support rating recommendations with data that demonstrates a basis for an exceeds or exceptional rating. This also applies to an in-development or unsatisfactory rating. This process ensures rating equity across the organization. The calibration process is facilitated by the county administrator or his/her designee and may include elected officials, senior managers and leadership team members. All performance plan ratings require approval of senior manager in charge.

March: Rating communications occur; performance results from the preceding year are finalized and discussed with staff. Performance based pay awards are communicated.

April: Performance based pay awards, for participants in the performance based pay program, are processed the first pay period in April. First quarter progress reports are completed.

Quarterly Progress Reports

Quarterly progress reports are recommended. These are update meetings to check progress, readjust as needed and ensure performance is on track to meet critical goals. Quarterly progress reports generally occur in April, July and October; year-end results are finalized in January.

New Hires

Staff joining the organization during the first three quarters of a calendar year will receive a performance evaluation at the conclusion of that calendar year, consistent with the [performance planning cycle](#). Staff joining the organization during fourth quarter, will be eligible to a full performance evaluation at the conclusion of the following year, consistent with the [performance planning cycle](#).

Transfers, Promotions and Job Changes

Staff changing jobs and/or departments during the year will receive a performance evaluation from their current supervisor. The evaluation will incorporate feedback from the prior supervisor and the rating will reflect the combined performance.

Figure 28 - Continued

In determining performance standards, consider the following:

- What does a good job look like?
- How many or how much is needed?
- How long should it take?
- When are the results needed?
- How accurate or how good is acceptable?
- Are there budget considerations?
- Are there safety considerations?
- Are there legislative or regulatory requirements?
- What results would be considered satisfactory?
- What condition will exist when the duty is well performed?
- What is the difference between satisfactory and unsatisfactory performance?

Common Standards Applicable to all Crow Wing County Roles

The county has identified four [core competencies](#) that are common to all jobs. The core competencies identify standards and behaviors that are expected from everyone. For example, all team members are expected to demonstrate customer service excellence. This is only one of the four core competencies that are common to all county jobs and contained into each employee's performance plan.

Common Standards Applicable to Everyone in a Particular Group

There may be one or more competencies identifying common standards and behaviors that are expected from everyone in a particular workgroup or role. For example, compassion is a core competency for all community service jobs and referenced in each member's performance plans. Technical learning is a competency assigned to all technology positions and referenced in each member's performance plan.

To assess competencies and determine which are important to your workgroup or a given role, review the competency listing found in the Lominger resources including the FYI Book or the competency sort cards. These resource materials are available in most departments and also the human resource office.

Putting It All Together**Introduce the Performance Plan**

The performance plan is introduced at the beginning of the calendar year and when a new employee joins the department. The performance plan provides focus and direction, helping to ensure team members have a clear understanding of key priorities, performance measures and outcomes expected for the coming year. The performance plan can be updated as the year progresses to accommodate changes in project assignments, key priorities and/or performance measures.

Figure 28 - Continued**Document Job Performance**

It is important to document performance over the entire year. Good documentation procedures help to reduce the possibility of rating errors, as referenced in the next section. Be sure to make notes of performance successes and items to recognize as well as opportunities and performance that did not achieve expectations. Good documentation is important in justifying evaluations and resultant administrative decisions. Effective documentation is:

- Accurate
- Specific
- Consistent
- A record of a discussion – never done in isolation
- Factual, not inferential

Performance documentation may focus on:

- Actions* of the employee:

"Joe's month end documentation was incomplete, missing important data and leaving the department unable to prepare accurate utilization reports. This matter has been discussed with Joe on two prior occasions. Immediate and sustained improvement is necessary.

- Results* of job performance:

"A mentoring program pilot for at risk families was initiated during the current rating period; a program that would not be possible without Mary's expert work in securing \$250,000 in grant funding."

Documentation should be in written form and shared with the employee.

Evaluate Job Performance

In evaluating performance, always compare actual performance to the performance standards as determined at the beginning of the evaluation period. Review the performance measures, competencies, project assignments and developmental objectives contained in the performance plan. Compare the stated objectives to the actual results achieved, using your notes, the employees notes and other sources of feedback to obtain an accurate accounting of performance.

Sources of Feedback

The most common source of performance feedback is the supervisor and the [employee's self-assessment](#). Performance feedback can also include reviews from peers and customers or anyone in contact with the employee.

Figure 28 - Continued**Factors Impacting Performance**

Before discussing performance assess factors that may have had an unanticipated negative or positive impact on performance. Consider:

- Unanticipated events that redirected work activities
- Staffing issues
- Lack of proper equipment
- Excessive work load fluctuations
- Working conditions
- Delays from internal or external sources
- Unclear objectives or performance standards
- Policy changes

Assigning the Performance Rating

The county uses a five point rating scale. A five point scale is the most commonly used rating format. The overall performance rating should be reflective of the performance in its entirety for the rating period. For information relating to the county's performance rating click on the following link: [Performance Rating](#).

Approval Process

Prior to communicating the performance rating to the review participant the performance plan and recommended rating is subject to review and approval. This process is designed to minimize the potential for rating errors. For additional information regarding the approval process click on the following link: [Calibration](#).

Common Rating Errors

- Leniency: Giving everyone high ratings regardless of actual performance
- Central Tendency: Clustering all employees in the middle performance categories.
- Recency: Focusing on a recent performance rather than the entire rating period.
- Halo Effect: Letting one favored trait or work factor influence all other areas of performance.
- Horns Effect: Allowing one negative incident to unduly influence more positive performance elements.
- Contrast: Evaluating an employee in relation to another rather than actual performance in relation to job duties, goals and stated performance standards.
- Past Performance: Rating on past performance rather than current year performance.
- Biased Rating: Allowing personal feelings toward employee to influence rating.
- High Potential: Confusing potential with performance.
- Guilt by Association: Evaluation influenced by employee's associations rather than performance.

Figure 28 - Continued**Hold Performance Discussions**

The performance review discussion is one of the most important processes a supervisor completes. This is a time to have a more formalized discussion about performance and it should reflect the day to day coaching that has transpired throughout the year. It should be undertaken with great care and preparation, as the way you handle it can have significant impact on the morale and future performance of your staff members. Formal performance discussions should be held at least once a year. Coaching should occur on a frequent basis. Informal performance update discussions are also valuable and recommended quarterly, at a minimum semi annually.

Prepare for the discussion

Establish date, time and suitable private location. Notify the participant well in advance; providing the date, time, location and what to prepare. Consider providing an outline of discussion items:

- What questions do you have about your job such as priorities, the purpose of particular activities, goals for the future?
- What barriers affect the performance of your job?
- How do you spend the majority of your time?
- What are you doing that you think doesn't seem to add value?
- What do you think you should be doing that you are not?
- What ideas do you have about processes that could be changed to provide better customer service, eliminate waste or make work easier?
- How can I help you succeed?
- Review responsibilities and expectations. Compare actual performance to the performance standards. Consider the following:
 - What has performance been over the entire evaluation period?
 - What performance expectations were met or exceeded; list specific examples.
 - What performance standards were not met; list specific examples. What can be done to improve performance?
 - Were expectations reasonable and attainable?
 - What factors may have affected performance or been beyond the employee's control?
 - What has informed my opinions about the employee's performance? Have I been fair and objective?

Conduct the Discussion

- Schedule the performance review meeting in advance to allow both parties sufficient time to prepare for the meeting.
- Conduct the performance discussion in a private area with no interruptions.
- Provide a relaxed setting. Clearly explain the purpose and format of the discussion.
- Start on a positive note; this is an opportunity for recognition and coaching, identifying successes and improvement opportunities.
- Discuss each component of the performance plan. Use documentation to discuss specific instances of performance.
- Give credit for achievement and work done well. Give specific examples and mention resulting benefit to the organization.
- Focus on important performance measures and goals. Minor infractions of little significance can be discussed when they occur and dropped unless you see a trend developing.
- Apply effective communication skills. Encourage engagement by asking open-ended questions gaining insight to the employee's assessment, comments and suggestions.
- Focus on performance, not personality. Describe behaviors, not personality traits or attitudes.
- Constructive feedback focuses on the specific behavior or action not the individual. Discuss positive as well as unsatisfactory performance. Provide specific examples and explain why these behaviors are problematic or how they benefit the organization.
- Avoid comparisons between employees.
- Seek to understand the presence of any barriers or constraints impacting performance.
- Work for understanding, rather than complete agreement. Be supportive and seek to understand what you can do to be of greater help.
- Avoid surprises; performance problems need to be addressed at the time of occurrence. If performance has not improved, discuss it again and develop an action plan. The performance review discussion is not the place to mention it for the first time. If poor performance is significant, a performance improvement plan should be considered.
- Avoid [common rating errors](#) in forming your opinion of performance. Receive feedback in a constructive manner. Listen carefully and seek to understand what is being said. Don't interrupt. Ask questions – get more information.
- Review the major job duties and performance standards to determine if changes need to be made for next year.
- End the Performance Review Discussion on a positive note.

Appeal Process

The county offers an appeal process as a method for addressing and reconciling differences relating to the performance rating. Click on [Appeal Process](#) for additional information.

Figure 28 - Continued**Crow Wing County Performance Plan Document**

The following instructions relate to completing the performance plan document. The participant's self-assessment process is explained in greater detail at the end of this section.

Position Objective

This section helps create focus, using a few key sentences to highlight the primary purpose of the position, the reason it exists. This information is generally contained in the job description in the position objective section. You'll likely find a few sentences that serve to define the primary purpose of the position. These can be used to complete this section of the performance plan document.

Strategic Goal Alignment

Aligning people and resources to meet the strategic priorities of the organization, the department and the work team are critically important. Use this section to reflect critical goals and priorities that are relevant to the position. Review the [county strategy map](#), the department strategy map and related mission, vision and values statements to identify important priorities that help guide the focus of the position and ensure strategic priorities and critical goals are achieved.

Key Performance Measures

Using performance tools such as the balanced scorecard has increased the county's focus on results that matter. These are performance measures that help to ensure that critical goals and priorities for the organization and department are achieved. The job description describes the work that is performed; the accountabilities assigned to the role. Most often these responsibilities are described as tasks such as process mail, perform reception duties, operate equipment, or prepare reports. The performance measures speak more specifically to the outcomes expected. These generally contain a clearly articulated benchmark or performance target that provides clarity as to what is expected, how much, and by when. Look to the department scorecards and key performance measures for identification of the important priorities. Translate those into actions required from each of the roles you supervise, for example, "answer all calls by the third ring" or "return messages within one business day" or "accurately process all applications within three business days".

Core Competencies

The four [core competencies](#) speak to the culture at Crow Wing County. They shape how work gets done, what's valued and important. For us it is about results, relationships, work processes and service to our customers. Every performance plan contains these four core competencies. Our organization uses the Lominger Competency Set. Resources such as the *Lominger Leadership Architect Competency Sort Cards* and *For Your Improvement, a developmental guidebook*, provide clear definitions on skilled versus unskilled behaviors for these four core competencies as well as developmental coaching tips.

Figure 28 - Continued**Department or Role Specific Competencies**

This section identifies additional competencies the department has identified as being important to the operation or individual role. Often these identify skills or abilities the department would like to develop or holds as critically important for the success of their operation. As a general rule, there should be no more than 1- 4 department or role specific competencies. Competencies such as functional/technical skills, decision quality and priority setting are examples of department or role specific competencies. Resources such as the *Lominger Leadership Architect Competency Sort Cards* and *For Your Improvement, a developmental guidebook*, are tools for identifying department and role specific competencies.

Project Assignments

This section is used to identify important projects that require completion or have milestones that will be due during the performance plan cycle. Project assignments may include individual projects, team projects, department and potentially county-wide initiatives. Projects are generally closely related to the work assignment and involve something that is in addition to the day to day accountabilities.

When completing the project assignment section it is important to identify what is expected to occur and by when. The acronym SMART is used to provide guidance for clearly communicating project assignments. Click SMART to link to more information on writing [SMART](#) goals.

Project assignments are often initiated by the individual staff member. These would be job related initiatives the staff member would like to commit to during the coming rating period. The project should be something of value that benefits the organization and supports the departments and/or organization's strategic priorities and/or objectives.

Developmental Initiatives

This section is used to identify training, experience and skill development opportunities for both the current role and future career interests. Consider succession planning including the development of internal candidates for future staffing needs. Developmental initiatives may include traditional educational tracks including post secondary education, seminars and workshops. Development also includes processes such as cross training, mentoring assignments and project assignments that build skills and increase knowledge. When communicating developmental initiatives use the SMART process as a guide for clearly stating the expected action and outcome.

Review of Job Description

Keeping job descriptions current and relevant to the work assignment is an important component of performance communications. At the beginning of the performance planning cycle a review of the job description will help promote common understanding of the position purpose and accountabilities. Changes should be noted as they occur to ensure the description remains relevant and a clear representation of the role. At the conclusion of the performance planning cycle it is again important to review the job description and alert human resources of any changes needed. In situations where there are significant and material changes in the job duties refer to the [Compensation Administration Guide](#) to assess whether a reevaluation of the position is appropriate.

Figure 28 - Continued**Performance Rating**

The county uses a five point rating scale. A five point scale is the most commonly used rating format. The overall performance rating should be reflective of the performance in its entirety for the rating period. The “achieves” rating is reflective of “A” level performance. It is used to describe performance that has achieved expectations, where key goals and performance outcomes have been achieved after considering any environmental factors that may have had a positive or negative impact on performance.

The performance rating is applied at the end of the performance planning cycle, covering the period of January 1 to December 31. The rating period would be less for individuals who start their employment during the year, representing year to date performance for those whose employment started prior to fourth quarter. Individuals who start their employment in fourth quarter will not receive a performance rating for the current year; their performance planning cycle will incorporate the fourth quarter of the current year and a full year for the upcoming performance planning cycle.

The rating definitions are contained on the performance planning document. For reference, the “Achieves” rating is representative of effective performance; think of it as being the equivalent of receiving a letter grade “A” rating.

The ratings of “Exceeds” and “Exceptional” are reserved for those situations where performance has surpassed expectations. Often this involves work products or activities that have gone beyond the scope of the assignment and have had a positive impact on the work unit or organization.

The “In Development or Needs Improvement” applies to situations where performance is not achieving expectations; one or more critical goals are not met. Previous discussion regarding the performance improvement needs should have occurred prior to the rating assignment. A follow-up review is required in six months.

An “Unacceptable” performance rating identifies situations where performance is not meeting expectation and has not adequately progressed following coaching. A follow-up review is required in three months and again in six months.

Calibration

Performance ratings require the approval of the supervisor and senior management member who oversees the department. This oversight is intended to ensure consistency among raters. Supervisors are required to present objective data for ratings that are above or below the “achieves” level.

Appeal Process

An appeal process is available to staff members who disagree with the performance rating. For represented staff the appeal process involves the business agent, a county representative and third party neutral from the bureau of mediation services. The three person panel will receive up to ½ hour of presentation from the employee and ½ hour from the rater. The panel will issue a bench decision

Figure 28 - Continued

which will serve as the final and binding rating. The non contract staff will have access to a similar appeal process; the panel will include the county administrator, an elected official and personnel committee representative.

Completing the Self-Assessment

The self assessment is an important component of the performance management process. It serves as your reflection on the contributions of the past year as well as your thoughts on the future. This is an opportunity to inventory your accomplishments, include feedback and recognition that has been received throughout the year as well as areas for improvement and opportunities for further development. The self assessment helps keep us focused on the mission critical priorities and the key objectives associated with our role, the department and the organization.

Self-Assessment Paper Work

As the year begins use your copy of the current year's performance plan to log self assessment data, recording accomplishments, milestones, notes and recognition received as well as opportunities and developmental activity as they occur. Capturing performance accomplishments and opportunities in real time makes the year end completion much smoother. We highly recommend adding comments to your copy of the performance plan throughout the year.

You will be notified when your self-assessment is due. When preparing your self-assessment allow for a couple of hours of quiet uninterrupted time. Review the performance plan document, any notes you made throughout the year, and documents or records that you have to reflect on. Consider projects or assignments that you would like to commit to in the coming year, also consider developmental or training opportunities to build needed skills and prepare for future assignments or career opportunities.

Using an electronic copy of your performance plan, enter your self assessment comments under the employee comment section for each area of the performance plan. Refer to the instructions for [The Crow Wing County Performance Plan](#) for further information.

Forward the completed self-assessment to your supervisor. The supervisor will add their assessment comments and arrange for a time to meet and discuss the evaluation content. At the review discussion it is important to clarify the points of difference and ensure understanding of performance expectations for the future.

Performance Based Pay Administration For Performance Based Pay Participants

Wage Adjustment Matrix

For performance based pay participants, (consult labor contract for eligibility), the wage adjustment matrix is developed annually. It represents the annual wage adjustment opportunity. The adjustment amounts are designed to be market competitive, considering local market data, regional and national data. Sources such as the economic cost indicator, local and regional surveys of private and public agencies and local economic conditions are considered in the development of the annual wage adjustment matrix. The wage adjustment matrix is subject to collective bargaining for represented

positions. In the case of multi-year labor agreements, a wage adjustment matrix is established for each year of the agreement.

Effective Date

Performance based pay adjustment awards are processed the first pay period in April and effective retroactively to January 1.

Prorated Performance Based Pay Awards

Staff, in a performance based pay eligible position, who join the organization during the first three quarters of the year, are eligible for a prorated performance based pay award based on the number of full months worked during the year. For example an individual who started their employment in mid march would have 9 full months of employment. The prorated formula applied to the wage adjustment would be as follows: $9/12 = 75\%$.

Staff receiving an “in development or needs improvement” rating during their annual review may be eligible for a prorated wage adjustment after 6 months. If the mid-year evaluation reflects improvement to an “Achieves” performance rating or above, the individual is eligible to receive a prorated portion of the corresponding wage adjustment reflected on the current year wage adjustment matrix. The mid-year prorated formula is 50% representing a wage adjustment earned for $\frac{1}{2}$ of the current rating period.

Staff receiving an “Unacceptable” rating during their annual review may be eligible for a prorated wage adjustment after 6 months. Eligibility for a wage adjustment requires two consecutive quarters of an “Achieves” rating or above. The proration formula is either 50% or 25% of the annual performance based pay award, depending on the quarter in which two consecutive “Achieves” awards are attained.

Resources

Contact the human resource department for additional information and resources relating to the performance management and planning process.

In addition, because the calibration process is so important to the overall credibility of the rating system for the organization, there should be additional guidance provided on the calibration process. Crow Wing County's is as follows:

Figure 29 – Calibrating Performance

Calibrating Performance

Calibration Purpose: Calibration is a process that brings various team leaders together to jointly review rater assessments to ensure ratings across the organization are consistent, appropriate and properly distributed. Calibration is not to be confused with *forced ranking* where managers are required to force ratings to achieve specific rating percentages. While the county has a predicted rating model to help forecast salary budgets, there is no forced ranking requirement at Crow Wing County.

Calibration sessions typically include supervisors who are responsible for conducting performance evaluations, reviewers which are the next level of management responsible for reviewing the content and closely examining the employee evaluations, the department head or senior leader accountable for the workgroup and a calibration leader to facilitate the session.

The calibration process provides a forum for the discussion of employees' performance with the goal of ensuring supervisors apply similar standards for all employees and eliminate biases to the greatest extent possible. Calibration relies on an honest and confidential dialogue among supervisors, reviewers and the responsible department head.

Calibration Timing: Calibration occurs after a supervisor has: (1) received the employee self-appraisal; (2) completed the supervisor appraisal comments and ratings; (3) routed it for approval; and (4) addressed any revisions requested by the reviewer. The calibration occurs **BEFORE** the reviewer approves and returns the evaluation to the supervisor. **In all cases, calibration occurs before the scored performance evaluation has been shared with the employee.**

Pre Calibration Process: December 1 – January 31



Figure 29 – Continued

Step 1. The performance appraisal is opened for scoring on December 1st. Departments assign specific due dates for employees to complete their self-appraisal.

Step 2. The supervisor completes their portion of the appraisal including the performance ratings and routes the appraisal to their reviewer for approval. Departments are accountable for managing this process by assigning specific completion dates.

Step 3. The reviewer reads the appraisal, looking for constructive supervisory comments and ensuring evaluations are thorough and logical and contain specific examples of performance, results achieved and behaviors. If the reviewer decides a supervisor should alter a particular evaluation, the reviewer sends the evaluation back and waits for revision.

Step 4. The reviewer prepares for calibration by viewing Trakstar Reports for their reporting area examining the ratings distribution, performance history and rater bias reports to highlight any trends that warrant follow-up. The reviewer, or supervisor as assigned, prepares the documentation needed to report on his/her employee performance ratings at the calibration session.

January 31st is the target date for completion of this initial process. When completed, the reviewer contacts human resources to schedule a calibration meeting. A calibration meeting is scheduled between the designated reviewer, the department head or senior leader accountable for the workgroup and a calibration leader to facilitate the session.

Supervisor's attendance at the calibration session may or may not be required based on the department structure and perspective of the reviewer and/or department head. In all cases it is essential that calibration participants have an in-depth understanding of the performance ratings for their employee appraisals.

Calibration Process: February 1 – March 1



Step 1. At the calibration meeting participants look at ratings distribution for all participating departments as an early indicator of rating trends. This helps ensure use of the ratings are being consistently and fairly applied to all employees irrespective of reporting relationships and/or departmental assignments.

Step 2. The reviewer presents the individual employee ratings. The discussion content includes performance relating to key performance measures and rating; core competencies – those with the highest and lowest ratings; progress on key projects and goals, the overall rating and closing comments.

Figure 29 – Continued

Step 3. Calibration meeting participants may ask questions about specific ratings or interpretation of ratings and may suggest adjustments based on the discussion of performance, results and behaviors considered and documented when determining the rating or their own experiences with the employee.

Step 4. Re-review ratings distribution report against the predicted ratings model. If distributions trend higher or lower than the predicted model, revisit employee ratings that were on the cusp between ratings to determine if they are rated appropriately.

Predicted Ratings Distribution

In Development or Unacceptable	Achieves	Exceeds	Exceptional
5 - 10%	60-70%	15-20%	5%

Step 5. Following the discussion, reviewers send any appraisals requiring revision, back to the supervisor. After the supervisor makes the revisions, the appraisal is sent again to the reviewer for approval.

Step 6. The reviewer approves the evaluation and forwards it to the supervisor who meets with the employee to review the content and ratings. If changes are needed, the supervisor reengages the approval process with the reviewer prior to completing the appraisal. When the process is complete, the appraisal is approved by the supervisor and employee.

Calibration Tips

- **Communicate County/Department Goals.** Goals for each area should be communicated in advance and as thoroughly as possible so employees understand how their daily work contributes to the success of the county/department, and so that employees understand the measures on which they will be evaluated.
- **Educate supervisors.** Ensure supervisors understand what calibration is, why it is necessary, how it works, and what their roles are.
- **Understand the ratings.** Understand the performance ratings and their intended application.
- **Support the process.** Be open about the process, but maintain confidentiality outside of the calibration meeting.
- **Do your best.** The calibration process is new to us; there will be a learning curve. It is our commitment to helping each other in building a performance management and rating process that has a high level of integrity and reliability across the entire organization.
- **Get the right people involved.** Make sure that the calibration participants can adequately represent the employee appraisals being discussed by articulating what the employee has accomplished and can respond appropriately to questions or challenges from the group. If questions arise, make sure the supervisor is available to clarify them.
- **Set appropriate ground rules for meetings.** Participants must feel open to challenge and debate. They must also feel comfortable asking their peers for advice if they need help in determining or communicating a rating.
- **Leverage the information gathered during the process.** The power of calibration goes beyond performance ratings. These discussions yield important insight into the county's talent and overall development needs.

Figure 29 – Continued

Calibration**Benefits**

- Calibration ensures supervisors are well versed in the definitions and the application of the rating scale.
- Calibration ensures supervisors have objective and measurable examples of performance, results and behaviors that support the basis for the particular rating assigned to an employee.
- Calibration prepares supervisors for improved performance discussions with their employees.
- Calibration exposes talent to a larger group of managers, promoting internal development and succession planning.
- Calibration supports our performance based pay process by ensuring consistency in our differentiation of performance levels.

Rating Definitions

(E): Exceptional An Exceptional performance rating identifies situations in which performance significantly surpasses expectations and where the work product and results achieved represent exceptional and unique contributions, those having or very likely to have a significant and positive impact on work unit, department or organization. The Exceptional rating is generally reserved to recognize unique and extraordinary performance, most often associated with a specific accomplishment of great significance.

Think of the Exceptional rating as one that distinguishes an exceptional performance accomplishment – the top 5% county wide. Using the golf analogy it's like scoring an eagle. It is a career highlight, performance accomplishments that are highly unique and impactful. Expect a fair amount of churn in those receiving the Exceptional rating. It is reserved for the individual who is leading innovative practices that have a significant impact on county and/or department performance. It implies that all of the criteria under the Exceeds rating were met plus the frequency, size and/or scope of the accomplishments more than exceeded expectations; they demonstrate extraordinary initiative, extraordinary innovation and extraordinary pro-active leadership for the role. The rater should easily be able to identify the accomplishments that caused this individual to stand out from the rest – what it was that placed them in the top 5% of all employees.

(EE): Exceeds Expectations An Exceeds Expectations performance rating identifies situations in which performance meets and frequently surpasses expectations and where the work product and results achieved represent contributions to the work unit, department or organization that are significant and beyond the traditional expectations of the role. The Exceeds Expectations rating is used to recognize performance that extends beyond achieving the performance requirements and general expectations associated with successful performance in the role. It will often involve project work or other contributions that extend beyond the critical goals and performance measures established for the role.

Figure 29 – Continued

Think of the Exceeds Expectations rating as one that applies to a unique and impactful accomplishment. Using the golf analogy it's like scoring a birdie. It implies that all of the criteria under the Achieves rating were met plus there were accomplishments that demonstrated significant initiative, innovation and pro- active leadership for the role. The rater should easily be able to identify the accomplishments that caused this individual to stand out from the rest – what placed them in the top 20% of all employees.

(A): Achieves An Achieves performance rating identifies situations in which performance consistently achieves expectations and where the work product and results achieved are reflective of successful performance. The Achieves rating is awarded to recognize highly effective performance where the most critical goals and performance measures have been successfully met.

Think of the Achieves rating as being the equivalent of a letter grade A or a par score in golf. This is representative of really good work, a strong contributor to the organization, one whose performance is aligned with department and county vision; whose project assignments were effectively completed and whose performance was aligned with the core competencies. The Achieves rating is a mark of highly effective performance.

(I): In Development or Needs Improvement An In Development or Needs Improvement performance rating identifies situations in which performance did not consistently achieve expectations in one or more areas, and/or one or more of the most critical goals were not met. A development plan to improve performance must be outlined, including timelines, and monitored to measure progress. A six-month review to evaluate progress is required.

(U): Unsatisfactory An Unsatisfactory performance rating identifies situations in which performance was consistently below expectations in most areas of responsibility, and/or reasonable progress toward critical goals was not made. Significant improvement is needed in one or more important areas. A plan to correct performance must be outlined, including timelines, and progress reports completed monthly to measure progress. A three-month review to evaluate progress is required.

Employees New to the Role When rating performance it should be relative to expectations given, time in the job and experience on entry. For example, a new employee whose learning curve is progressing as expected in all areas might receive an overall performance rating of Achieves in year one even though there are ongoing training and development needs relating to job mastery. On the other hand, a well-experienced new hire who is not progressing as expected may receive an In Development or Unsatisfactory performance rating. It will be important to set performance expectations at hire with clear milestones for first year performance.

Figure 29 – Continued**Calibration Meeting Agenda****1. Desired Outcomes of Meeting****2. Confidentiality**

a. *It should go without saying that the information discussed and the resulting outcomes should be kept confidential by all managers involved. Nonetheless, participants should be reminded of the expectation regarding confidentiality at the start of the meeting.*

3. Clarify Standards

a. *Review of the rating scale/s and scale definitions used in the performance evaluation process.*

4. Performance Trends of Group

a. *Examination of the performance distribution of the business unit, including how the distribution compares to the previous performance period and/or desired distribution.*

5. Alignment with Business Unit Results

a. *Discussion of the linkage between initial performance ratings with the results produced by the business unit.*

6. Individual Presentation

a. *Review of each employee's performance rating/s and the supporting rationale behind the rating/s.*

7. Rating Adjustments

a. *Modification of ratings, as necessary, to accurately reflect performance over the performance period.*

8. Next Steps in the Performance Management Process

All of what has preceded in this section of one county's choice for recommended components of an effective performance assessment program—something that can compellingly be argued should be done by every organization that mobilizes human talent toward some kind of shared idea of what you want to accomplish. What remains are the components of an effective compensation framework that is based on the outcomes of that performance assessment process. After the voluminous parts of the performance assessment process, it is shockingly simple how easy it is to tie compensation to the outcome of the performance assessment process. Here are the relevant provisions from Crow Wing County's

compensation policy that support their performance based pay program:

Figure 30**ARTICLE 2.0: SALARY ADMINISTRATION*****2.0 Pay Matrix***

The pay matrix is a compensation schedule establishing pay grades and rates of pay for each grade level. The pay matrix may be adjusted by the County Board to reflect:

- The prevailing pay rates in both public and private sector competitive labor markets.
- The financial condition and fiscal policies of the County.
- Other pertinent economic considerations.

The human resource director will annually review the grade structure, applicable salary ranges, market data and other relevant data to assure market competitiveness. Recommended changes to the compensation schedule due to organizational modifications, external market factors, programmatic or administrative considerations or other relevant issues will be proposed to the County Board for approval.

2.02 Wage Adjustments

For performance based pay participants, (consult labor contract for eligibility), the wage adjustment matrix is developed annually. It represents the annual wage adjustment opportunity. The adjustment amounts are designed to be market competitive, considering local market data, regional and national data. Sources such as the economic cost indicator, local and regional surveys of private and public agencies and local economic conditions are considered in the development of the annual wage adjustment matrix. The wage adjustment matrix is subject to collective bargaining for represented positions. In the case of multi-year labor agreements, a wage adjustment matrix is established for each year of the agreement.

Performance based pay adjustment awards are processed the first pay period in April and effective retroactively to January 1. Performance based pay adjustment awards are processed the first pay period in April and effective retroactively to January 1. Staff in a performance based pay eligible position, who join the organization during the first three quarters of the year, are eligible for a prorated performance based pay award based on the number of full months worked during the year. For example an individual who started their employment in mid-March would have 9 full months of employment. The prorated formula applied to the wage adjustment would be as follows: $9/12 = 75\%$. Annual wage adjustments for bargaining unit staff shall be implemented in accordance with the applicable labor agreement.

That salary matrix that supports this compensation system is also pretty simple and straightforward.

Crow Wing County's example supplied below will show a traditional step-and-grade system on the top portion and a performance-based system on the bottom:

Figure 31 – Current Salary Ranges

CROW WING COUNTY CURRENT SALARY RANGES						
GRADE	MIN 0.80	1/4 0.90	MID 1.00	3/4 1.10	MAX 1.20	GRADE
30	\$88,081	\$99,091	\$110,101	\$121,111	\$132,121	30
29	\$83,095	\$93,482	\$103,869	\$114,256	\$124,643	29
28	\$78,392	\$88,191	\$97,990	\$107,789	\$117,588	28
27	\$73,954	\$83,199	\$92,443	\$101,687	\$110,932	27
26	\$69,768	\$78,489	\$87,210	\$95,931	\$104,652	26
25	\$65,819	\$74,047	\$82,274	\$90,501	\$98,729	25
24	\$62,094	\$69,855	\$77,617	\$85,379	\$93,140	24
23	\$58,579	\$65,902	\$73,224	\$80,546	\$87,869	23
22	\$55,263	\$62,171	\$69,079	\$75,987	\$82,895	22
21	\$52,135	\$58,652	\$65,169	\$71,686	\$78,203	21
20	\$49,184	\$55,332	\$61,480	\$67,628	\$73,776	20
19	\$46,400	\$52,200	\$58,000	\$63,800	\$69,600	19
18	\$43,774	\$49,245	\$54,717	\$60,189	\$65,660	18
17	\$41,296	\$46,458	\$51,620	\$56,782	\$61,944	17
16	\$38,958	\$43,828	\$48,698	\$53,568	\$58,438	16
15	\$36,754	\$41,348	\$45,942	\$50,536	\$55,130	15
14	\$34,674	\$39,008	\$43,342	\$47,676	\$52,010	14
13	\$32,711	\$36,800	\$40,889	\$44,978	\$49,067	13
12	\$30,860	\$34,718	\$38,575	\$42,433	\$46,290	12
11	\$29,114	\$32,753	\$36,392	\$40,031	\$43,670	11
10	\$27,466	\$30,899	\$34,332	\$37,765	\$41,198	10
9	\$25,911	\$29,150	\$32,389	\$35,628	\$38,867	9
8	\$24,445	\$27,500	\$30,556	\$33,612	\$36,667	8
7	\$23,061	\$25,943	\$28,826	\$31,709	\$34,591	7
6	\$21,755	\$24,475	\$27,194	\$29,913	\$32,633	6
5	\$20,524	\$23,090	\$25,655	\$28,221	\$30,786	5
4	\$19,362	\$21,783	\$24,203	\$26,623	\$29,044	4
3	\$18,266	\$20,550	\$22,833	\$25,116	\$27,400	3
2	\$17,233	\$19,387	\$21,541	\$23,695	\$25,849	2
1	\$16,258	\$18,290	\$20,322	\$22,354	\$24,386	1

Performance Based Pay Matrix				
PERFORMANCE	MIN-1/4	1/4-MID	MID-3/4	3/4-MAX
Exceptional	6.50%	6.00%	5.50%	5.00%
Exceeds Expectations	5.00%	4.50%	4.00%	3.50%
Achieves	3.50%	3.00%	2.50%	2.00%
In Development or Needs Improvement	0.00%	0.00%	0.00%	0.00%
Unsatisfactory	0.00%	0.00%	0.00%	0.00%

Significance of Findings

Performance based compensation in counties across the nation is concentrated in a few key states and, overall, is still quite rare. As frustrations with issues associated with the traditional step-and-grade compensation system and the attendant wage inflation it produces grows, there seems to be a very slow incline in the number of counties gravitating toward performance based compensation systems.

Conceptually, the idea of basing compensation on performance is intuitively quite appealing to practitioners, but the reality of doing it well is a significant barrier to its more widespread adoption. Moreover, the idea of basing compensation on performance is widely appealing but the reality of designing a high degree of credibility and acceptance into the performance assessment process is not frequently even on the radar of those who aspire to such a system. The research demonstrates quite clearly that the idea or philosophy is more frequently embraced much as one might embrace motherhood and apple pie as good in the abstract.

The research makes equally clear that the reality of a performance based compensation system is much, much more dynamic, complex, and enormously difficult. Moreover, few organizations seem willing to invest the significant time and the rigor necessary to design, implement, and operate a performance assessment and management system that will truly advance organizational outcomes. The research revealed that those few who are and who do stand out as beacons for good practice in the dark. Not unlike the difficulty that Social Workers face in trying to stabilize families that have mental health and chemical dependency problems which manifest themselves in child abuse or neglect. Not unlike local government planning professionals trying to protect environmental assets that are being bombarded with impacts, both natural and unnatural, from an environmental system that is far too complex for us to begin to understand. Not unlike local government public health professionals who are trying to impact population-based health behaviors like getting people to exercise more, stop smoking, or eating better.

Not unlike local government transportation planners trying to design highway systems that meet the needs both of those who want fast and effective transportation systems with those whose backyards such systems are being proposed to run through.

The reality of local government is that they regularly hire trained professionals and expect them to make positive impacts in environments that are enormously dynamic, complex, and difficult. These people are regularly hired and then asked to make a tangible difference on social outcomes that are difficult to measure and that are simultaneously being impacted by countless other influencers. Despite that, local government professionals do it anyway. It is done so in the belief that well-trained, competent professionals can positively impact the outcomes in all of those public policy arenas despite the seemingly insurmountable obstacles. They do it anyway. Those embracing well-constructed and well-executed performance assessment systems seem to be doing the same. Those tying such well-constructed and well-executed performance assessment systems to the employee compensation system seem to be saying that if we believe that an individual Social Worker can make a difference, then we should expect the same of the person charged with supervising them, though to slightly modified ends. Those creating and overseeing such systems seem to be saying that unequal work for equal pay in the traditional step-and-grade system is the equivalent of giving up on supervisors trying to make a difference.

The mechanics of the performance assessment system are quite difficult, but the mechanics of the compensation portion of a performance-based compensation system are relatively easy. The driving force for the connection between them has much more to do with philosophy and, when done well, drive than it does with the pursuit of the perfect system. After all, no system can be perfect; each will have pros and cons, strengths and drawbacks. Only time can tell, ultimately, if the drive and the philosophy produce more good than harm in comparison to other alternatives, such as the step-and-grade system. In terms of future opportunity for study, it would seem that testing the efficacy of the various compensation systems

and trying to isolate their relative contributions to the advancement of specifically-identified organizational objectives would help to determine whether or to what extent the competing philosophies do or do not make a bigger difference at what the organization is pursuing.

Conclusion

Adopting a performance pay system is not something to be entertained lightly. It requires more work, more discipline, more

managerial courage, more training, more support, and will cause more heated internal conversations about performance ratings and

compensation than more traditional

“It is a huge culture change and it takes time. Some employees really appreciate that it does allow for recognition of their extra efforts. Having leaders in a role where compensation makes a difference requires a lot of training. Constantly trying to tweak the system is necessary. It probably takes three to five years for people to understand what it is and what it isn’t and to train leaders to differentiate well.”

alternatives. You must be able to live with more tension. It is equally clear that the traditional systems create more rewards for those doing the least effort and for those doing the least to advance an organization’s mission than a performance pay system—they will also create more harmony. The traditional system relies almost exclusively on the intrinsic motivation of employees who seek employ in the public service. A well-crafted and executed performance management system that incorporates best management practices designed to thoroughly and constantly review the system’s efficacy and fairness, coupled with a market-driven performance pay system, coupled with a robust set of additional strategies to create a high quality of employee worklife (recognition programs, tenure recognition and other similar environmental programs) does seem to have the potential to create a higher-performing, more mission-driven focus linking employee performance to organizational results. But, if an organization cannot or will not make

the necessary investments for all of that to be true, or cannot live with an environment in which creative tension is not only allowed but encouraged, it is equally clear that a poorly administered system has the potential to do more harm than good.

Maybe even more importantly than that, as pointed out by Risher (2015), what government leaders have failed to appreciate is that management systems do not deliver effective management. Government agencies need a talented, committed team of executives to deliver the promise of mission statements. Risher suggests that the most important ingredient is not the management framework, but rather it is the leaders within the system and the culture they nourish routinely within it. He suggests that the softer skills, those most difficult to define, such as being able to deftly manage large groups of people and organizations with varying and competing interests are the kinds of skills necessary to succeed in this endeavor. It may seem that cobbling together such a team of talented executives is impossible in the public sector; but, one wonders if, like running the 4-minute-mile was once thought of as unthinkable, whether someday this could become the norm. If society ever hopes to develop high-performing public organizations that can become more than just subject to the latest management fad du jour, we best hope that it does.

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Appendix A: Proposed Cover Letter to State Associations:

Date

724 1st St. SE

Little Falls, MN 56345

Laurie Klupacs

Acting Executive Director

Association of Minnesota Counties

125 Charles Avenue

St. Paul, MN 55103-2108

Dear Mr. Mulder:

My name is Timothy Houle and I am a doctoral candidate in Public Administration at Hamline University in St. Paul, MN and also the County Administrator for Crow Wing County in north-central Minnesota. I am in the process of conducting my doctoral dissertation on the prevalence and efficacy of performance-based or merit pay in county government jurisdictions. I am requesting your assistance in identifying any organizations within your association that may fit that criteria. I am writing to let you know in advance I will be calling within the next week to ask for your assistance with identifying counties within your state that might fit that criteria in the hopes that the advance notice might make it easier to find that information.

Specifically, I am interested in identifying any county that has a performance-based or merit based pay program in place and contact information for the person that might best be able to answer questions as to the basis for its adoption and its subsequent effectiveness in the achievement of organizational outcomes.

The content of this research is limited to the states of Minnesota, Wisconsin, Florida, Virginia, Maryland, Texas, California, and New York so your assistance is very important to advancing my research. This is an important study in advancing the dialogue within public sector organizations using empirical data to support or dispute advancing performance-based or merit pay in the public sector. In return for your participation, I would be happy to supply you with a copy of the research report with findings. I know your time is limited and valuable so I am all the more grateful. As such, I want to thank you in advance for your assistance. I may be reached with any questions at thoule01@gmail.com. Please expect my phone call within the next week.

Sincerely,

Timothy J. Houle

Appendix B: Letter to Selected Jurisdictions:

Date
724 1st St. SE
Little Falls, MN 56345

Will Volk
Employee Relations Director
Dakota County
1590 Highway 55
Hastings, MN 55033-2372

Dear Mr. Volk:

My name is Timothy Houle and I am a doctoral candidate in Public Administration at Hamline University in St. Paul, MN and also the County Administrator of Crow Wing County in north central Minnesota. I am in the process of conducting my doctoral dissertation on the prevalence of and efficacy of performance-based or merit pay in county governments. Your organization has been identified as one of those that fit my research criteria. I am writing to ask your assistance in supplying information about your organization's practices relative to my research topic.

Specifically, I am writing to request your participation in a brief telephone interview that, along with similar interviews from other similarly situated counties, will be compiled and analyzed as part of my research project. I will be calling within the next week or so to try to schedule the interview at a time that works for you and am writing to give you advance notice regarding the nature of my call.

The questions that I propose to ask will have to do with the circumstances that led you to adoption of the system and how it is working in actual practice. I expect the survey to take approximately 60 minutes or less to complete. Most of the information for the responses to the interview questions will be readily at your disposal as I will be asking about your experience. There is a possibility that a small amount of data may need to be compiled by you or others within your organization, depending on the answers to the questions and the ready-availability of that data. Most of the research information will be garnered from your answers to the questions in the interview.

This is an important study in advancing the dialogue within public sector organizations using empirical data to support or dispute advancing performance-based or merit pay in the public sector. In return for your participation, I would be happy to supply you with a copy of the research report with findings. Thank you in advance for your assistance. I know your time is limited and valuable so I am all the more grateful.

Sincerely,

Timothy J. Houle

Appendix C: Survey Instrument Performance-Based Pay Survey

Notice to the Participants: I would like to tape record this interview so that I might refer back to it as source material beyond that which I can write during the interview. It would also allow me to more fully participate in the interview if I do not have to write your responses while we are having our conversation. The recording will be used exclusively for the purposes of my research. I would not share the recording with anyone else for any other purpose and, at the conclusion of publication of my dissertation, I will destroy it. I will not be identifying any interview subject by name without their expressed permission by an e-mail sent to me authorizing the same. If you would prefer I did not record the interview, I will respect those wishes and we can conduct the interview without it being recorded. May I have your permission to record the interview?

Yes or No

Organization Name: _____ State: _____

Name of Person Completing Survey: _____

Title: _____ Date: _____

Population of Jurisdiction (2010 Census): _____

Annual Budget: _____

Number of FTE Employees: _____

Definitions of Terms:

Organizational Outcomes: clearly defined measures of the organization's primary objectives of performance through measurable results regularly reported.

Performance-Based Pay Program: any compensation policy that links annual wage and salary increases to employee performance on some predetermined period-over-period comparison.

Employees: the number of full-time equivalent (FTE) public employees per capita employed by the political subdivision being examined.

Employee Engagement: The rate at which employees feel valued, supported, and connected to their organization as measured through the use of a survey at least once per year.

Employee Retention: the rate at which employees exit the organization measured as a annual percentage of the total workforce.

Employee Satisfaction: the degree to which employees are satisfied with their work environment as measured by a survey with standardized questions at least once per year.

Performance Distinction: a noted difference in the performance of two or more employees in the achievement of key organizational objectives that the organization wishes to either reward or punish.

Recruitment: the ability to attract new employees to come to work for the organization as measured by some objective measure, such as time to recruit, number of applicants, and so on.

Stakeholder (Citizen) Satisfaction: the degree to which stakeholders or citizens are satisfied with the quality of the public services they receive as measured by a survey with standardized questions administered either annually in a randomized sample or to recipients of services immediately following their receipt of the service.

Senior Executives: those managers, supervisors, or department heads who are paid in the top ten percent of the organization's compensation system.

Wage Inflation: the amount of increase in the total wages paid to employees, not counting new or eliminated positions, expressed as a percentage increase over the previous year's base costs.

Does your organization have a performance-based pay program (Y or N): _____. If yes, go to question 2 and, if no, are you considering one (Y or N) _____.

If no again, thank them for their time.

Is this program available only to Senior Executives (Y or N): _____

Is this system applied to any collective bargaining units (Y or N): _____

Approximately what percentage of employee classifications is this system available to: _____

How long ago did you adopt your first version of this system?

- | | | |
|---|------------------------------------|--|
| <input type="checkbox"/> Less than one year | <input type="checkbox"/> 1-2 years | <input type="checkbox"/> 3-4 years |
| <input type="checkbox"/> 4-5 years | <input type="checkbox"/> 6-7 years | <input type="checkbox"/> 8 or more years |

Open-Ended Question: What would you identify as the motivating factors that led to the adoption of your organizations performance-based pay program?

Check any of the list of motivating factors listed below that are independently volunteered:

- Employee Satisfaction Employee Retention Organizational Outcomes
- Stakeholder Satisfaction Limit Wage Inflation Performance Distinction
- Employee Recruitment Attracting Millenials Employee Engagement
- Other: _____

_____ Would you identify any of the following as having been one of your motivating factors? If so, please explain:

- Employee Satisfaction Employee Retention Organizational Outcomes
- Stakeholder Satisfaction Limit Wage Inflation Performance Distinction
- Employee Recruitment Attracting Millenials Employee Engagement
- Other: _____

In your opinion, is the program achieving its intended outcomes? How do you know? Please explain: _____

Have you put into place any specific measures of key organizational performance that you would suggest would support your conclusions? If so, please explain. Can I get a copy of any summary data from the most recent completed annual period? What do those results show?

Can you send me a copy of any policy or source material that would outline your jurisdiction's performance-based program, if applicable, including eligibility criteria and/or to what sub-sets of the organization to which it would apply? **Yes or No**

Are there any questions you have of me?

Do you wish me to send you a copy of the research when it is completed? If so, I will need an e-mail address to send it to:

E-mail address: _____

I want to thank you sincerely for taking the time to allow me to interview you for my research. Your participation in this survey is critically important to the validity of the research results. If, upon reflection, you have anything else you wish to let me know about or follow-up on, please direct any questions you may me at thoule01@gmail.com or 218.330.5032. Thank you so much for taking a moment out of your busy day to help me!

Appendix D: List of Counties Interviewed

The Efficacy of Performance-Based Pay in Selected County Governments: What Motivates Adoption and Is it Achieving What was Expected?

List of Counties Interviewed

<u>State</u>	<u>County</u>	<u>Contact</u>	<u>Title</u>	<u>Complete</u>
Wisconsin	St. Croix	Tammy Funk	Human Resources Director	1/27/2014
Wisconsin	Waukesha	James Richter	Human Resources Director	1/23/2014
Wisconsin	Washington	Joshua Schoemann	Administrative Coordinator	1/16/2014
Wisconsin	Iowa	Curt Kephart	County Administrator	1/16/2014
Wisconsin	Marathon	Brad Karger	County Administrator	2/17/2014
Wisconsin	Manitowoc	Bob Ziegelbauer	County Executive	1/16/2014
Wisconsin	Chippewa	Frank R. Pascarella	County Administrator	1/16/2014
Virginia	Albemarle	Lorna Gerome	Director of Human Resources	1/17/2014
Virginia	Arlington	Jeanne Wardlaw	Compensation Division Chief	1/17/2014
Virginia	Augusta	Faith Souder	Human Resources Director	1/22/2014
Virginia	Botetourt	Mary Blackburn	Human Resources Director	2/7/2014
Virginia	Campbell	Shameka Davenport	Deputy Director HR	1/22/2014
Virginia	Carroll	Michelle Dalton	Human Resources Director	1/27/2014
Virginia	Chesterfield	Scott Zaremba	Human Resource Programs	1/27/2014
Virginia	Culpeper	Stacey Bertsch	Human Resources Director	3/5/2014
Virginia	Fairfax	Leslie Amiri	Human Capital Devel. Director	1/22/2014
Virginia	Frederick	Paula Nofsinger	Human Resources Director	1/22/2014
Virginia	Greensville	Alice Whitby	County Administrator	1/27/2014
Virginia	Hanover	Janet Lawson	Human Resources Director	3/20/2014
Virginia	Isle of Wight	Brandy White	Human Resources Director	3/13/2014
Virginia	James City	Rona Vrooman	Human Resources Coordinator	1/17/2014
Virginia	Loudoun	Jeanette Green	Human Resources Officer	2/21/2014
Virginia	Montgomery	Karen Edmonds	Director of Human Resources	1/17/2014
Virginia	Pittsylvania	Kim Van Der Hyde	Finance Director	3/13/2014
Virginia	Roanoke	Joe Sgroi	Director of Human Resources	1/22/2014
Virginia	Rockingham	Steve Riddlebarger	Director of Human Resources	1/22/2014
Virginia	Stafford	Shannon Wagner	Human Resources Manager	1/21/2014
Virginia	York	David Gorwitz	Human Resources Director	1/17/2014
Maryland	Montgomery	Kay Beckley	Business Operations Manager	3/13/2014
California	Sonoma	Lynn Durrell	Human Resources Analyst	1/24/2014
California	Santa Barbera	Jeri Muth	Human Resources Director	3/17/2014
California	Marin	Larry David	Director of Human Resources	1/22/2014
California	Napa	Suzanne Mason	Director of Human Resources	1/22/2014

Minnesota	Ramsey	Gail Blackstone	Human Resources Director	1/27/2014
Minnesota	Scott	Jack Kemme	Employee Relations Director	1/17/2014
Minnesota	Carver	Kerie Anderka	Employee Relations Director	1/17/2014
Minnesota	Anoka Yellow	Melanie Ault	Human Resources Director	1/15/2014
Minnesota	Medicine	Ashley Sornie	Personnel Coordinator	1/15/2014
Minnesota	Dakota	Nancy Hohbach	Employee Relations Director	1/15/2014
Minnesota	Aitkin	Bobbie Danielson	Human Resources Manager	1/16/2014
Minnesota	Nicollet	Jamie Haefner	Human Resources	1/15/2014
Minnesota	Olmsted	Dale Ignatius Roxanne	Human Resources Director	1/15/2014
Minnesota	Sherburne	Chmielewski	Human Resources Director	1/15/2014
Minnesota	Lyon	Carolyn McDonald	Human Resources Director	1/22/2014
Florida	Monroe	Kevin Madok	Director of Strategic Planning	3/3/2014
Florida	Citrus	Brad Thorpe	County Administrator	3/13/2014
Florida	Manatee	Karen Windon	Deputy County Administrator	3/3/2014
Florida	Marion	Dr. Lee Niblock	County Administrator	3/6/2014
Florida	Leon	Vincent Long	County Administrator	3/18/2014
Florida	Sarasota	Joanie Whitley	Human Resources Director	3/7/2014
Florida	Lake	Robert Anderson	Director of Human Resources	3/4/2014
Florida	Hillsborough	Helene Marks	Chief Financial Officer	3/18/2014
Florida	Pasco	Dr. Marc Bellas	Human Resources Director	3/4/2014
Florida	Pinellas	Robert LaSala	County Administrator	3/6/2014
New York	Madison	Ryan Aylward	Director of Labor Relations	3/21/2014
New York	Yates	Sarah Purdy	County Administrator	3/21/2014
New York	Cattaraugus	Jack Searles	County Administrator	3/27/2014
New York	Wayne	Jim Marquette	County Administrator	3/24/2014
New York	Livingston	Ian Coyle	County Administrator	3/13/2014
South Carolina	Aiken	Dorothy Simmons	Human Resources Director	1/16/2014
South Carolina	Anderson	Phyllis McAlister	Human Resources Director	1/16/2014
South Carolina	Greenville	Debra Ham	Human Resources Director	1/16/2014
South Carolina	Greenwood	Rhonda McAlister	Human Resources Director	1/16/2014
South Carolina	Lexington	Joseph Mergo, III	County Administrator	1/16/2014
South Carolina	Orangeburg	Venyke Harley	Personnel Director	1/24/2014
South Carolina	York	Lisa Davidson	Human Resources Director	1/16/2014

Iowa	Black Hawk	Jerald Clyde	Human Resources Director	1/22/2014
Iowa	Bremer	Shelly Wolf	County Auditor	2/7/2014
Iowa	Buchanan	Cindy Gosse	Auditor	1/22/2014
Iowa	Butler	Liz Williams	Auditor	1/22/2014
Iowa	Johnson	Lora Shramek	Human Resources Director	1/22/2014
Iowa	Polk	Tony Bisignano	Human Resources Director	2/7/2014
Iowa	Linn	Lisa Powell	Human Resources Director	1/24/2013
Iowa	Scott	Mary Thee	Human Resources Director	2/10/2014
Illinois	McLean	Bill Wasson	County Administrator	2/7/2014
Illinois	Peoria	Lori Curtis Luther	County Administrator	2/24/2014
Illinois	Kendall	Jeff Wilkins	County Administrator	3/13/2014
Illinois	Lake	Barry Burton	County Administrator	3/6/2014
Illinois	Champagne	Deb Busey	County Administrator	3/5/2014
Illinois	McHenry	Peter Austin	County Administrator	1/27/2014
Georgia	Gwinnet	Elizabeth Bailey	Human Resources Manager	1/24/2014
Georgia	Fulton	Valerie Handley	Interim Personnel Director	2/27/2014
Georgia	Cobb	Tony Hagler	Human Resources Director	1/22/2014
Washington	Lincoln	Shelly Johnston	Auditor	1/22/2014
Washington	Island	Melanie Bacon	Human Resources Director	2/10/2014
Washington	Whatcom	Karen Sterling Goens	Human Resources Manager	2/11/2014
Pennsylvania	Bradford	Mark Agutter	Human Resources Director	2/21/2014
Pennsylvania	Lycoming	Ann Gehret	Director of Administration	3/4/2014
Pennsylvania	Monroe	Bonnie Ace-Sattur	Human Resources Director	3/13/2014
Pennsylvania	Dauphin	Faye Fisher	Human Resources Director	2/26/2014
Kentucky	Boone	Jeffrey Earlywine	County Administrator	3/5/2014
North Carolina	Scotland	Susan Butler	Human Resources Manager	3/17/2014
North Carolina	Union	Mark Watson	Executive Director of HR	3/17/2014
North Carolina	Craven	Amber Parker	Human Resources Director	3/13/2014
North Carolina	Transylvania	Sheila Cozart	Human Resources Director	3/10/2014
North Carolina	Franklin	Kelly Faulkner	Human Resources Manager	3/7/2014
North Carolina	Yadkin	Lisa Hughes	Deputy County Mgr-Finance	3/14/2013
North Carolina	Catawba	Cynthia Eades	Human Resources Director	3/13/2014
North Carolina	Durham	Troy Joyner	Sr Human Resources Analyst	3/21/2014
North Carolina	Forsyth	Karen White	Asst Human Resources Director	3/17/2014

North Carolina	Granville	Michael Felts	County Manager	3/7/2014
North Carolina	Guilford	John Dean	Human Resources Director	3/10/2014
North Carolina	Halifax	Tony Gupton	Human Resources Mgmt Dir	3/27/2014
North Carolina	Mecklenburg	Julissa Fernandez	Class and Comp Director	3/14/2014
North Carolina	New Hanover	Mark Francolini	Human Resources Director	3/13/2014
North Carolina	Surry	Sandra Snow	Human Resources Officer	3/7/2014
North Carolina	Cumberland	Fred Starling	Human Resources Consultant	3/11/2014
North Carolina	Wake	Dennis Schoch	Human Resources Manager	3/21/2014
Kansas	Cowley	Jeremy Willmoth	County Administrator	3/10/2014
Kansas	Finney	Randy Parkington	County Administrator	3/13/2014
Kansas	Harper	Al Roder	County Administrator	3/10/2014
Kansas	Douglas	Craig Weinaug	County Administrator	3/13/2014
Idaho	Kootenai	Skye Reynolds	Human Resources Director	3/21/2014
Arizona	Yuma	Felicia Frausto	Human Resources Director	3/18/2014
Arizona	Pinal	Cathy Bohland	Human Resources Director	3/18/2014
Arizona	Coconino	Erica Philpot	Asst Human Resrouces Director	3/18/2014
Arizona	Yavapai	Wendy Ross	Director of Human Resources	3/18/2014
Michigan	Kent	Holly Hartley	HR Mgr for Benefits & Comp	3/18/2014
Michigan	Washtenaw	Verna McDaniel	County Administrator	3/27/2014
Alabama	Baldwin	David Brewer	County Administrator	3/27/2014

Appendix E: IRB Proposal Acceptance

6/24/13

Crow Wing County Mail - Fwd: IRB Proposal



Tim Houle <tim.houle@crowwing.us>

Fwd: IRB Proposal

1 message

Tim Houle <thoule01@gmail.com>
 To: Tim Houle <tim.houle@crowwing.us>

Thu, Jun 20, 2013 at 10:12 PM

Sent from my iPad

Begin forwarded message:

From: "Olson, Matthew H." <mholson@hamline.edu>
Date: June 20, 2013, 7:25:37 PM CDT
To: thoule01@gmail.com
Subject: Re: IRB Proposal

Thank you for registering with the IRB. Your project requires no further review.
 Good Luck with your study.

Matt Olson
 Chair, Hamline IRB

On Thu, Jun 20, 2013 at 3:15 PM, <thoule01@gmail.com> wrote:

Data from form "IRB Proposal: All Researchers except HSE" was received on 6/20/2013 3:15:57 PM.

For all researchers except for HSE

Field	Value
Title of Proposal	The Efficacy of Performance-Based Pay in Selected County Governments
Investigator	Timothy J. Houle
Telephone	218-330-5032
Investigator email	thoule01@gmail.com
Department chair	Kris Norman-Major
Department chair telephone	651-523-2814
Department chair email	kmajor@hamline.edu
Purpose of Study	To examine the degree to which there are clear organizational objectives prior to adoption of a performance-based pay system within counties in certain states, to identify whether there were measures put in place to determine to what extent those organizational objectives were met, and, if so, to what degree.
Eligible for expedited review	true
Other institutions	None
Participants	Voluntary participants from among HR professionals and County Administrators recruited by contacting State Associations of county governments.
At-risk participants	N/A
Research procedures	I will survey County Administrators or HR Directors who volunteer to be surveyed about the degree to which they had identified key organizational objectives that they wanted to achieve in pursuit of a performance-based pay system, whether they had installed measures to determine to what extent those organizational objectives were achieved and, if so, to what extent.

6/24/13

Crow Wing County Mail - Fwd: IRB Proposal

Negative effects resources	Results will be aggregate only or, if there are specific cases highlighted, then permission to do so will be received.
Feedback	I will offer to send them the results of the research.

Email "IRB Proposal" originally sent to mholsen@hamline.edu from thoule01@gmail.com on 6/20/2013 3:15:57 PM. The following were also sent a copy: thoule01@gmail.com,

Appendix F: Dissertation Proposal Defense Certification




June 19, 2013

Tim Houle has successfully defended his dissertation proposal, *The Efficacy of Performance-Based Pay in Selected County Governments* and should be recommended to the Dean of the Hamline School of Business to proceed to candidacy.



Kristen Norman-Major, Committee Chair



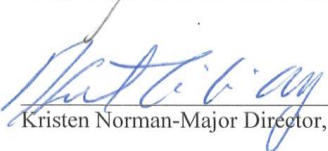
Bill Champa, Outside Evaluator



Lou Kaluza, Committee Member



Craig Waldron, Committee Member



Kristen Norman-Major Director, Public Administration Programs

Hamline School of Business

MS-A1740, 1536 Hewitt Avenue, Saint Paul, MN 55104-1284 p: 651-523-2284 f: 651-523-3098 hsb@hamline.edu www.hamline.edu/hsb

Appendix G: Curriculum Vitae

Timothy J. Houle

EDUCATION: *Little Falls Community High School, Little Falls, MN, 1981*
Hamline University, St. Paul, MN
Bachelor of Arts in Political Science, 1985
Master of Arts in Public Administration, 2004
Doctoral Candidate in Public Administration, Expected Graduation 2014
Special emphasis on English Writing, Political Science, Public Speaking, Philosophy and Ethics.

EXPERIENCE: *Crow Wing County, Brainerd, MN*

2008 – Present: County Administrator. Chief Administrative Officer for the County. Provide dynamic, vibrant, strategic vision for the future of Crow Wing County government. Statutory clerk to the County Board. Primary advisor on administrative issues affecting all facets of county government. Responsible for strategic planning, budgeting, public relations, organizational results produced and accountability management. My position requires the ability to confidently switch from one professional situation to another with ease. I frequently analyze overall organizational trends, synthesize these into concepts and language the public understands, and respond accordingly.

Key Accomplishments with Crow Wing County:

Average annual levy increases for budgets during my tenure 2009-2013 is .356% increase. Levy change for budget years 2011-2013 reflect a reduced levy of 4%.

In response to economic crisis and resultant State of Minnesota budget crisis, reduced 2010 operating expenses by over \$4.0 million (from a \$70 million budget base) and eliminated 49.8 FTEs (from a 451 FTE base). Positioning the County for further budget cuts of approximately \$3.5 million for 2011 budget.

Reorganized structure and form of entire county government. Created department structures centered on the customers' served: Land Services, Community Services, Public Safety, and Transportation. Proposing creation of Administrative Services restructuring at present. Instituted Senior Management Team and Leadership Team to replace traditional Dept Head model.

Led renewed focus within organization on customer service excellence as a component of overall strategy toward organizational excellence. Customer service satisfaction survey results typically reflect 90% of customers satisfied with the quality of services received, both internally and externally.

Launched initiative to manage for results with performance standards, measures, and accountabilities for the organization, divisions, managers, and employees. Key outcomes-based performance measures have been identified for every employee county-wide and been integrated into their annual performance reviews. This has positioned the organization for discussions with bargaining units about instituting pay-for-performance, which has been a County Board priority, to replace the existing step-and-grade compensation system. It also positions the organization for movement from a traditional rule-bound workplace to a more result-oriented workplace facilitating a transition to a ROWE workplace with more flexibility in staffing, hours, and methods.

Instituted LEAN six-sigma process improvement methodology within business units leading to substantially improved customer results while lowering costs. Initiating such processes has become a key performance indicators for senior managers.

Created priority setting process to rank county “books of business” to inform the judgment of policymakers as they made budget reduction decisions.

Morrison County, Little Falls, MN

1994 to 2008: County Administrator. Chief Administrative Officer for the County. Provide dynamic, vibrant, strategic vision for the future of Morrison County government. Statutory clerk to the County Board. Primary advisor on administrative issues affecting all facets of county government. Responsible for budgeting, human resources, labor relations, public relations, pursuing legislative goals, purchasing, and building maintenance.

Key Accomplishments with Morrison County:

Led national award-winning citizen-based public/private partnership to reduce methamphetamine use in Morrison County resulting in reduced drug arrests and reduced meth arrests even with stepped up interdiction efforts. Project was selected by the National Association of Counties as one of 12 national winners of a Sustainable Communities Award, also selected as among top four.

Successfully secured public support for and County Board approval of a recreational trails master plan for the county. Sought and received numerous grants to support trail

projects.

Worked successfully with state and federal legislators to secure funding and authorization for a channelization project on the Mississippi River upstream of the Little Falls dam.

Led the county through its first strategic planning process in ten years.

Successfully implemented many new technologies to Morrison County, including fully integrated GIS/parcel data systems, digital telephone system, county-wide local area network, data imaging system, voice mail, and so on.

Successfully led transition out of the direct provision of home care services.

Successfully negotiated repeated contracts with four different collective bargaining units.

Successfully led transition of county employees from a traditional vacation/sick leave program to a combined flex leave program.

Successfully reorganized to create and staff a separate Information Systems (IS) Department.

STAR TRIBUNE, Newspaper of the Twin Cities, Minneapolis, MN

1986 to 1994: Primary Market Area Resource Manager/Field Team Leader. Responsible for resource allocation, budgeting and financial tracking, human resource administration, and department leadership for an organization with annual total budget of \$30 million. My position required creativity and consistency to fairly manage and administer complex policies and procedures such as hiring, progressive discipline, termination, and so on for both union and independent employees. Participated in long range strategic planning including the collection and analysis of pertinent information.

Key Accomplishments with the Star Tribune:

Led transformational change of the division from a very traditional, hierarchical organizational structure to self-managed work teams. Measures of cost went down significantly. Measures of service improved dramatically. Employees' quality of work life was measurably improved.

Center for Rural Policy and Development, St. Peter, MN

2007 to Present: Board of Directors. Appointed by Governor Tim Pawlenty and reappointed by Governor Mark Dayton to serve as a county representative. Organization works to provide high-quality, non-partisan research on issues of importance to Greater Minnesota, such as broad-band access, challenges associated with increasing diversity, best practices for rural school districts in the face of declining revenues, and so on. Chaired the Executive Search Committee to replace a vacancy in the Executive Director's position. Currently Chair the Research Committee.

Minnesota City/County Managers Association, St. Paul, MN

2005 to Present: Second Vice-President; Past Co-Chair, Conference Planning Committee. Served multiple years on Executive Board helping to plan and lead professional association to provide for networking and professional development needs of city and county administrators throughout the State of Minnesota and currently in line to become President in 2014. Past Chair of 2007 conference planning committee to plan and organize annual MCMA Spring Conference.

Minnesota Association of County Administrators, St. Paul, MN

1997 to Present: Past President(2000). Executive Committee. Served with the Board of Directors (1997-2001) to plan, implement, evaluate, and participate in training and professional development opportunities to enhance the professional standards and performance of the administration of county government statewide.

Key Accomplishments with MACA:

Led strategic planning process for the statewide organization to ensure maximum benefit to county administrators and their member counties in training, professional networking, idea exchanges, and so on, and to operationalize this planning to ensure its application into the future.

Standardized the organizational structure under an organizing model using an Executive Committee and standing committees focusing on Professional Development, Technology Applications, and Legislative Involvement.

VOLUNTEER

ACTIVITIES: Crow Wing County United Way, Current Board of Directors President

Morrison County United Way, Board of Directors, Past President

Brainerd Lakes Area Economic Development Corp, Ex-Officio, Board

Brainerd, MN Rotary Club

Crow Wing County FEMA, Board Chair

Catholic Charities of the Diocese of St. Cloud, Board of Directors, Past President

Morrison County Healthy Communities Collaborative, Board of Directors

Community Technology, Inc., Board of Directors

Past Church Trustee