Agency leaders discussed the role of a pay for performance system and improving employee engagement as methods to increase agency performance. The participants conferred with each other about which method could have the greatest impact on improving agency performance at an Institute for the Study of Public Policy Implementation Leadership Forum meeting on February 8, 2005.

“The Corporate Leadership Council, in a recently released study based on a survey of over 50,000 employees in 59 organizations, found that a pay for performance system can help recruitment and retention in an organization, but there is no evidence that a pay for performance system will generate improved organizational performance,” said ISPPI Director Robert M. Tobias.

Steve Nelson, Director, Office of Policy and Evaluation, United States Merit Systems Protection Board, gave a presentation discussing the advantages of a pay for performance system and various supervisory behaviors that can be implemented by managers in order to maximize the discretionary efforts of employees.
Introduction and Discussion by ISPPI Director Robert M. Tobias

“As the head of an agency, if my goal is to increase agency performance, should I spend my next marginal dollar on a pay for performance system or increasing employee engagement?”

Introduction:
Institute for the Study of Public Policy Implement (ISPPI) Director Robert M. Tobias opened the meeting with a brief overview of the mission and goals of ISPPI, followed by a discussion by agency leaders on different methods that can be used to improve agency performance.

Leadership Forum participants discussed the advantages and disadvantages of implementing a pay for performance system, and the affect it would have on the “middle performers,” that is, the 80 percent of employees that fall in the middle of the performance curve:
- It can help middle performers if it is implemented fairly
- Employees can understand their own performance level in relation to others
- It can be a de-motivating factor for the “middle performers” if only the top performers are receive performance bonuses
- It must be an objective system in order to work
- It can emphasize the alignment of individual and agency performance so employees understand their contribution to the whole
- Expectations must be clearly stated for employees to know what is expected of them
- It needs to be able to signal to middle performers where they are and how they can get to where their managers want them to be
- It will be time consuming for supervisors to manage performance

“The Corporate Leadership Council, in a recently released study based on a survey of over 50,000 employees in 59 organizations, found that a pay for performance system can help recruitment and retention in an organization, but there is no evidence that a pay for performance system will generate improved organizational performance,” said ISPPI Director Robert M. Tobias.

Will an agency obtain the largest return from investing in a pay for performance system or increasing leadership capacity?
According to Mr. Nelson, pay for performance is a better way to pay employees because it: meets the merit principle of equal pay for work of equal value and rewards excellence; may be fairer than the GS because it recognizes contributions, not tenure; and helps recruitment and retention of high potential employees. However, it needs to be done in combination with improving employee engagement, as there is little evidence of it moving organizational performance by itself.

According to a MSPB Merit Principles Study from 2000, the top three reasons for leaving the government are: the increased opportunity for advancement, desire to earn more money, and better use of skills and abilities. The top three reasons to stay in the government are: current job duties/responsibilities, job security, and the federal benefit program. The top three motivators for employees are: monetary awards, desire to make a contribution, and personal pride or satisfaction in an employee’s work.

According to Corporate Leadership Council research, pay for performance helps recruitment and retention of high performers, but it does not necessarily improve organizational performance. Employee engagement is the key to improving organizational performance. Employee engagement is the extent to which employees commit to something or someone in their organization and how hard they work and how long they stay as a result of that commitment.

There are two components of commitment: rational commitment—which includes the employee’s financial, developmental, and professional needs—and emotional commitment—which encompasses whether the employee values, enjoys, and believes in his job, manager, team, or organization. Rational engagement is related to employee attraction and retention, and emotional engagement is related to employee discretionary efforts.

The pay for performance system and employee engagement used together can allow pay setting flexibility to attract and retain high performers and emphasize new supervisory behaviors facilitating emotional commitment. Supervisory behaviors also affect employee engagement.

Key supervisory behaviors that managers can take to maximize their employee discretionary effort are to:

- Clearly articulate organizational goals
- Set realistic performance expectations
- Adapt to changing circumstances
- Help find solutions to problems
- Demonstrate honesty and integrity
- Possess job skills
- Place the right people in the right roles at the right time
- Commit to diversity

Mr. Nelson’s presentation can be found on the ISPPI web site, [www.american.edu/spa/isppi](http://www.american.edu/spa/isppi), at the Leadership Forum, February 8, 2005 prior meetings tab.