EVALUATING EXECUTIVE PERFORMANCE IN THE PUBLIC SECTOR

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ABSTRACT

The ability of a government organization to evaluate and reward executive performance is of critical importance if performance management systems are realistically expected to promote successful execution of the organization's strategic goals and objectives. Government organizations must move away from evaluating performance based on equity, time in grade, personal attributes and effort (all inputs) and toward systems based on output, results, and outcome achievement. We provide a model that can be used to evaluate executive performance in government. The model allows executives to focus on what is important to their organization and customers, and ties their performance evaluations not only to the organization's objectives, but to the importance of each objective; thus it gives leaders an open and explicit linkage between performance of the individual and organizational objectives. We measure individual achievement by defining results or measures of performance and then aggregating them into higher-level objectives. We discuss how to use the model to rank performance among executives, how the model results might be used to reward performance and limitations of using the model for performance evaluation.

EVALUATING EXECUTIVE PERFORMANCE IN THE PUBLIC SECTOR

The ability of an organization to evaluate and reward executive performance in the public sector is of critical importance if performance management systems are realistically expected to promote successful execution of an organization's strategic goals and objectives. In this paper we provide a model that can be used to evaluate executive performance in government organizations. The model allows executives to focus on what is important to their organization and customers, and ties their performance evaluations not only to the organization's objectives, but to the importance of each objective; thus it gives leaders an open and explicit linkage between performances attributes of the individual and organizational objectives. We measure levels of individual achievement by defining attributes or measures of performance and then aggregating them into higher-level objectives. We then show how to use the model to rank performance among executives and we discuss what the rankings mean, how they might be used to reward performance and the limitations of using the model for performance evaluation.

In Section 1 we review existing literature on performance based management and pay for performance. We include a discussion of the history and current initiatives tying pay to performance in the US government, and how pay for performance is being used internationally and at other levels of governments. We review relevant academic and pro-

fessional literature on managing employees, and begin to weave together ideas from practice, academia, and consulting to form the basis of our model.

Section 2 builds on the literature and current initiatives to present a hierarchical model of objectives that may be used to evaluate public sector executive performance. We give examples of how the model may be used to determine an evaluation measure of performance to compare employees across organizations.

In Section 3 we examine in more detail what information the model provides to aid the evaluation process. We then return to the literatures on incentives and management, and discuss pitfalls that must be overcome in using this or any pay for performance system. We discuss the challenges of achieving consensus concerning performance metrics among multiple competing stakeholders.

In the final section of the paper we summarize our model and consider future applications of the model in performance evaluation.

SECTION 1: INTRODUCTION AND LITERATURE

Performance Management

All over the world, and at all levels of government, Performance Based Management Systems (PBMS) are growing both in terms of their usage and their importance. Terms like "performance management," "balanced scorecard," and "performance budgeting" spring up in all kinds of discussions on what it means to have an effective government.

At national levels, governments and private institutions have embraced a performance management approach. Beginning as early as the 1940s, the Hoover Commission (1947) in the US began efforts to improve the efficiency and effectiveness of government.[1] Today, the same ideas are at work all over the world. Kouzmin states that among nations that comprise the Organisation for Economic Cooperation and Development is "the development of measurement systems which enable comparison of similar activities across a number of areas," (1999: 122) and which "help to establish a performance-based culture in the public sector" (1999: 123). In Australia, performance management pervades the Australian Public Service and calls for "the use of interrelated strategies and activities to improve the performance of individuals, teams, and organizations" (2001). The Government Performance and Results Act (GPRA) of 1993, the Bush administration's Program Assessment Rating Tool (PART), and the President's Management Agenda, are just three of the current initiatives challenging US government managers to focus on and be accountable for results.[2]

At local levels, many states and municipalities are also pursuing PBMS. Poister and Streib (1999) surveyed municipalities in the US and found that "some 38 percent of the [695] respondents indicate that their cities use performance measures."[3] Murphey (1999) presents community-level data on performance in Vermont, Hatry (1999) reports comparative performance data among various government organizations and many others in agencies across the world also track and report their performance measurement systems. (For a New Zealand example, see Griffiths, 2003, and for more international

examples, see defense agency business and strategic plans in the UK, Canada, Australia, and New Zealand, such as http://www.mod.uk/linked_files/dpa/busplan02.pdf .)

What is performance management? One definition is the systematic process by which an agency involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of agency mission and goals (www.opm.gov, see also OPM, 2002). Performance management applies to organizations, departments, processes, programs, products or services to internal and external customers, teams, groups, and employees, and can be used in private businesses, non-profit organizations, and governments.

Rather than focusing on inputs and work being done, then, PBMS push managers to measure and examine results. Systems, processes and employees, including employee evaluations, should be directed in the right way to the right things to achieve desired outcomes. Melese, Blandin and O'Keefe (2004) aptly summarize the set of performance management challenges faced by any government manager: to improve effectiveness, focusing on how well desired outcomes are achieved; to improve efficiency, focusing on how well the costs of producing goods and services are managed and, to improve accountability, focusing on bringing together budgets and performance measures.

Given the overall climate for implementing PBMS, implementation of performance-based evaluation systems for senior civilian executives is moving forward in the US and other governments. In the section below, we review the history of evaluating civilians in the US and combine the academic literature and several employee management strategies from the private sector to provide the foundation for evaluating senior civilians. The intent of this paper is to model the methodology, taking some of the best of the private and public sector work on performance and having it result in a blueprint for senior civilian evaluation in the public sector.

Management of Employee Performance

The execution of performance-based evaluation of employees lags far behind performance-based evaluations for organizations in the government and private sectors, and in pay-for-performance schemes in the private sector. The Partnership for Public Service (www.ourpublicservice.org) reports that 90 percent of Fortune 1000 companies and 75 percent of all US companies connect at least part of an employee's pay to measures of performance, typically through bonuses and salary increases tied to individual performance. According to the US Office of Personnel Management (OPM), however, more than three-quarters of all pay increases for US federal employees are unrelated to annual performance evaluations and most agencies' performance management systems fail to provide meaningful assessments of worker performance (www.opm.gov).

With the current trend in business, nonprofit, and government to examine human capital strategy and provide a basis for performance evaluation in line with overall organizational strategy, many government agencies are turning to literature such as Nalbantian et al's Play to Your Strengths, which advises management practices to secure, manage, and motivate the workforce to optimize business performance. The Center for Effective Organization's Human Resources Metrics and Analytics Network is one of many organizations beginning to provide more concrete ways to combine performance management and evaluation systems of executives that tie organizational effectiveness to

human resources (http://www.marshall.usc.edu/web/CEO.cfm?doc_id=5537). Our model provides a framework with which to combine performance evaluation and organizational effectiveness.

US Historical and Current Initiatives

In the US, starting with the Pendleton Act, or Civil Service Act of 1883 and continuing through today, the subject of employee performance management has received considerable attention in federal government resources management. The 1912 First Law on Appraisal established a uniform efficiency rating system for all government agencies, and for fifty years, various acts provided for employee training, salary reform, and Office of Personnel Management (OPM) oversight of appraisal systems.[4]

Evaluation of senior executives in government was not considered separate from other evaluations until the late 1970s. The 1978 Civil Service Reform Act established a separate performance appraisal system for Senior Executive Service (SES) employees and provided for performance awards for career executives. In 1985 the Performance Management and Recognition System implemented legal provisions for general, merit, and performance based pay increases, but was terminated in 1993. Today, in response to government managers' concerns that current pay structures discourage results-oriented performance management, the US federal government is attempting to initiate pay-for-performance systems such as MaxHR in the Department of Homeland Security (DHS) and the National Security Personnel System (NSPS) in the Department of Defense (DOD). Current administration guidelines and regulations give federal agencies more flexibility to revise SES performance management systems and ensure a long overdue focus on results over process.

Academic and Private Sector Literatures

Behn (2003) and others suggest that public sector managers measure performance because it helps them tackle a set of specific managerial challenges, among them to evaluate and improve. Looking at new initiatives in government that tie pay to performance, one sees an interesting "meld" of ideas from academic literature and private sector management. The academic and professional literatures examine characteristics, attributes, and other desired behavior of executives. Some researchers and practitioners discuss how attributes and characteristics might be tied to performance measures and reward systems, and some systems discuss the management of employees and tying decisions and behaviors to organizational objectives and outcomes. No study addresses how to effectively measure senior employees, including both attributes and results, while holding them accountable for organizational outcomes.

Canice Prendergast's (1999) seminal work on incentives and compensation, for example, considers how pay-for-performance schemes affect employee behavior, and whether organizational outcomes improve with such schemes. While not specifically addressing government executives, many of her findings have implications in implementing pay-for-performance systems in the US government. She asks: do individuals respond to contracts that reward performance? And, are individual responses in the firm's interest?

Prendergast reports that pay for performance does provide a strong output response. However, when the ability to measure output or send clear signals on how work effort affects output, pay for performance has not been shown to improve (or not improve) organizational effectiveness. Her thorough review of the literature concludes that the nature of the job carried out by employees, the extent to which they have discretion in their jobs, and the extent to which the measures used to pay employees truly reflect the inputs of effort, all affect the outcomes. In addition, she finds that multitasking in complex jobs may cause executives to direct their activities towards those that are directly compensated. This may cause misalignment between the individual's and the organization's goals.[5] While Prendergast thoroughly ties management of employees to organizational objectives and outcomes, and discusses how some types of characters and attributes can be measured (or cannot, for complex jobs), she does not suggest a methodology for evaluating senior executives or government employees. We will return to some of the findings of her study in section three, where we discuss implementation of our model.

From the management literature, management by objectives (MBO) first outlined by Peter Drucker in his 1954 book, The Practice of Management, includes the concept that all managers of a firm should participate in the strategic planning process to improve implementation or execution of the plan. In addition, MBO requires management to use a range of performance management systems to help the organization focus on its goals and objectives.

Using MBO principles provides much of the basis used in this paper to create a performance management system for evaluating senior civilian government employees. MBO principles include cascading organizational goals and objectives, defining specific objectives for each member, including managers in decision making, using an explicit time period for performance and review, and providing evaluation and feedback on performance. All of these principles are included in our model and implementation suggestions.

Our model also works well in the environment of a balanced scorecard management system. Balanced scorecard, originated by Kaplan and Norton (1996:2), promotes "a comprehensive framework that translates an organization's vision and strategy into a reasoned set of performance measures".[6] Cokins (2004:70) suggests that balanced scorecards, as part of the performance management set of tools, fosters cooperative and collaborative culture "where strategy implementation is managed not by senior executives but by the middle-level managers and employee teams that actually perform the work". Our model allows various participants to communicate about strategic objectives and performance issues. They can coordinate their actions in striving toward improved performance and subsequent alignment of work efforts with strategy.[7] As top management rolls out its balanced scorecard, our model can be used as a means to communicate shared objectives; promote individual and organizational alignment by helping individuals and departments align their goals with organizational objectives; build understanding and acceptance of higher-level goals and objectives; engage managers to adapt the measures to fit their areas of responsibility; and track performance.

Some critics of the balanced scorecard approach suggest that Kaplan and Norton intended the balanced scorecard to be a tool for communicating strategy, and that it was not intended to be used as a personnel evaluation and compensation tool.[8] Meyer (2002)

argues that forward-looking non-financial measures, essential for both strategic measurements and appraising and compensating performance, cannot be combined into a single system used to compensate managers. Meyer seems to believe that continuous rebalancing of measures would indicate a moving target for a performance evaluation system. The school of thought, to whom he apparently subscribes, is that scorecards and pay systems do not mix. Another is that financial rewards are the most effective way to focus employee energies (Cokins:74). We agree with this latter thought, because without an attempt to communicate and set measures (and the appropriate system to adjust them, when necessary), employee performance will not be directly linked to the achievement of strategic goals and objectives. We revisit the need for a flexible, adjustable system in the section on model implementation.

Another approach, results-based leadership, also provides a somewhat parallel approach to our model. Results-based leadership focuses on attributes and results. Ulrich and Smallwood (2003) suggest that leaders must strive for excellence not only in terms of results against objectives, but by demonstrating attributes of success. Ulrich offers four criteria for judging whether managers are focused on achieving results: whether executives balance concerns of employees, the organization, customers and investors; whether results link strongly to the firm's strategy and its competitive position; whether results meet both short- and long-term goals; and whether results support the whole enterprise and transcend the manager's personal gain.

This approach, like MBO and balanced scorecard, moves management away from thinking about inputs of leaders to the outcomes of their leadership. It provides a framework for measuring effectiveness of the leader. In their 1999 book, Results-Based Leadership, Ulrich, Zenger, and Smallwood provide a formula for measuring effective leadership. The formula is: Effective Leadership = Attributes x Results

If a leader is measured on, for example, 10 attributes and 10 results, and is scored as a 9/10 on attributes and 2/10 on results, then Ulrich et al suggest the leader's effectiveness rating is 18 out of 100 rather than 11 out of 20. We suggest that our model provides a better way to measure effectiveness using results and attributes, if desired.

Finally, a part of values-based leadership is useful in thinking about evaluation systems for executives. Values-based leadership is a multi-criteria analysis that includes the concepts of creating value, managing for value, and measuring value. Achieving value, in this case, generally means something like maximizing shareholder value. Where this set of ideas applies to evaluating government executives is in its approach to balance. Proponents of values-based leadership say that three measures must be used to measure leader effectiveness: achievement of objectives (effectiveness), the desirability of any goal over the long term (time), and how change affects concerned parties (morality). We have included the first measure above, and in the model section discuss the applicability of goals that do not have spillover effects on others, and the desirability of looking at long-term performance goals. We also allow an executive's evaluator (which we assume to be a top leader or senior executive as well) to weight goals and objectives, where long-term results and other attributes can be rated.

Finally, a specific literature on the application of performance management systems and tools for public organizations provides some insight into how an executive evaluation system might be implemented. Poister (2003:159) notes that strategic management is

responsible for the development of strategic plans, the implementation of strategic initiatives, and the ongoing evaluation of their effectiveness.

Of particular interest for this paper is Poister's assertion that strategic management "requires assigning implementation responsibilities for particular strategic initiatives to specific individuals and organization units and holding them accountable for the results (2003: 160). Monahan (2001) suggests that strong performance management can be achieved if leaders expect excellence, establish accountability, and take timely action. And Jones (2002:206), in his work on responsibility budgeting, notes that "all governance arrangements and administrative processes are primarily mechanisms for motivating and inspiring people, [. . .], to serve the policies and purposes of the organizations to which they belong". Our model incorporates each of these ideas, suggesting a tool that can be used to communicate, motivate, and reward executive performance.

Literature Using Hierarchical Models of Employee Evaluation

At least one study has contemplated using an analytic hierarchy process to improve human performance (Albayrak and Erensal, 2004). This research examines conditional (physical workplace and organization of work), individual (capabilities and attitudes), and managerial (leadership, company culture, and participation) attributes to try to evaluate alternative management styles and their effectiveness in improving employee performance. This study is not specific to government organizations or executives, nor does it address the larger issue of tying performance to organizational objectives.

In the next section we integrate the management of organization and executive performance by cascading goals and objectives from organization level to the executive's areas of responsibility. Because individual decision making and accountability plays into the success of the organization, we explicitly model the decisions and actions of the executive, and how the results of an executive's actions can be measured with regard to their value to the overall organization. We discuss implementation of the model, including difficulties with measuring outcomes, problems with subjectivity in analysis, and getting people "on board," in section three.

SECTION 2: A MODEL FOR EVALUATING SENIOR GOVERNMENT EXECUTIVES

To help government executives find ways to reward performance with pay, this section develops a model to link performance to organizational outcomes. We begin by discussing organizational work that needs to be in place before a pay-for-performance system is implemented: a strategic plan that considers customers' and stakeholders' perspectives and strategic outcomes desired, and how the strategy will be executed. We then present our model, which illustrates a way to think about strategy execution with respect to measuring executive performance. Note that we use the term "executive" to mean the person, who is being evaluated, and "leader" or "evaluator" as the senior executive or leader responsible for undertaking the evaluation and overseeing the evaluation process of that executive.

Before implementing a model to evaluate government executives' performance, an organization must assess where it is and where it wants to be; it must have a strategic plan. The strategic plan presents the desired outcomes or results of the organization. Presumably, leaders at the very top of the organization have thought about the organization's stakeholders and their performance expectations. They have identified organizational goals and objectives by answering questions such as: Who are the customers? What do they expect/need? Who are the suppliers and partners in providing services? How do beliefs and expectations of the workforce enter into success or failure of the organization? And, are there shareholders (policy makers, authorities, etc.) to whom the organization answers and whose issues affect the organizations' ability to "work better and cost less?"

With a strategic plan in place, leaders may then turn to execution. One strategic issue is "how to get there" in terms of the human resources plan (Bryson and Alston (2004).Our model provides an execution "tool" to help leaders tie executive behavior to organizational outcomes.

Executives are responsible for insuring that the organization succeeds; thus, their performance must be measured relative to organizational outcomes – that is, vertical alignment of outcomes is necessary. Rather than focusing on competencies required, such as Homeland Security's list of: "technical competence, critical thinking, cooperation and teamwork, communication, customer service, managing resources, representing the agency, achieving results, leadership, and assigning, evaluating and monitoring work," Executives need to be evaluated on the attributes that contributed to or results they achieved in light of organizational goals. In addition to vertically-aligned goals, horizontal alignment matters as well (Casey and Peck (2004)). Cross-organizational awareness can avoid situations where people with clear goals and the motivation to achieve them plow ahead, creating unintended negative consequences for others.

How can horizontally and vertically aligned goals be created? Working together, senior leaders can associate organizational goals with results in terms of individual performance (quality, quantity, cost, timeliness, etc.). They must go through an exercise, perhaps iteratively, thinking about defining big results in terms of the aggregation of a series of smaller results.

A performance-based evaluation system, then, should provide alignment from individual to top-level goals and objectives, and should consider spillover effects on others. It should help an executive focus on and understand how success on critical processes contributes to the success of the organization. We now present the iterative model, useful for creating aligned goals and objectives for executives to meet desired organizational outcomes.

## THE MODEL: TYING THE STRATEGY TO PERFORMANCE EVALUATION

The key to the development of a useful objectives hierarchy for an individual's performance evaluation is to tie specific elements of that executive's performance (dependent elements) to higher level goals and objectives of the organization. These elements, which may be characteristics, tasks, or outcomes at a higher level, must cascade down the hierarchy to measurable results or outcomes of effort or action. By tying organizational measures of performance to executive objectives, down to the level of measura-

bility on specific key factors, executives can see what is needed to "roll up" to success, both in terms of the executive's evaluation and reward, but also in terms of achieving the organization's higher-level goals and objectives.

Let us suppose that success for a service organization is defined through the achievement of the following goals:

- provide responsive, best value services consistently to customers

- structure internal processes to deliver customer outcomes effectively and efficiently

- make sure the workforce is empowered and enabled to deliver services both now and into the future, and

- manage resources for best customer (or taxpayer) value

- The top level of the hierarchy, then, is stated here in terms of goals.

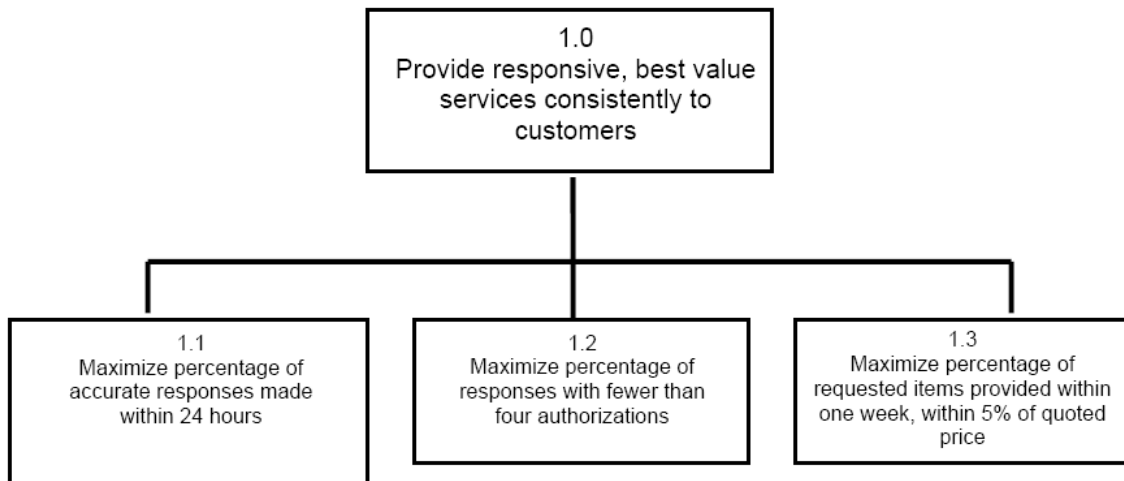Figure 1: Top-level goals for success of the organization
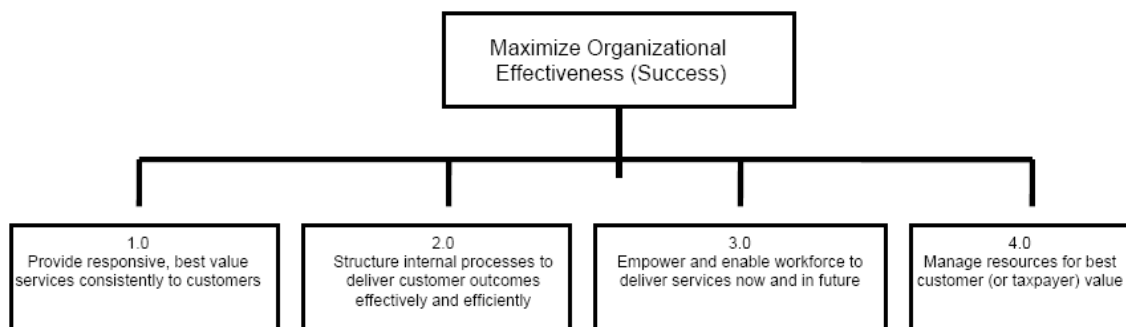
As in our example, the top level of most evaluation models is likely to be quite general. The organization employs the senior executive to help maximize the organization's effectiveness, achieving the desired outcomes with regard to the organization's mission, vision, values, and top-level goals and objectives. From the strategic planning process down through execution, the hierarchical model developed by the leaders and executive shows the path or flow of results that must happen in order for the individual and the organization to be successful.

An executive might then break each of these down further by suggesting how the goals might be achieved. This is the point where stating objectives (performance measures) becomes more detailed and complex. Rather than stating qualities of the executive, such as leadership, the hierarchical process must drive executives to define performance measures that really matter – that is, measures that are measurable and realistic. The executive being evaluated should define how to do the work, and, with top leadership, together define what to do,[9] and how to do it. [10] The executive, at this stage, might say something like, "I believe that we can provide responsive, best value services consistently to customers if we can:

- Provide an answer to their initial queries within 24 hours, and

- Reduce levels of authorization to no more than three, and

- Provide requested items within one week, within 5% of quoted price."[11]

The second level may be obtained by formulating specific individual objectives. In our example, the three objectives that have to be met are framed as end states. Rather than holding an executive to 100% achievement of these, the objectives can be measured in terms of degrees of success. One measure or metric, for example, might be the percentage of initial queries answered within 24 hours. Figure 2 shows how this next level of the hierarchy may look.

Figure 2: Second level of the performance evaluation hierarchy

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                  ┌─────────────────────┐
                  │        1.0          │
                  │ Provide responsive, │
                  │  best value         │
                  │ services            │
                  │ consistently to     │
                  │ customers           │
                  └─────────────────────┘
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1.1 Maximize percentage of accurate responses made within 24 hours	1.2 Maximize percentage of responses with fewer than four authorizations	1.3 Maximize percentage of requested items provided within one week, within 5% of quoted price

This may be the final level of evaluation for the executive on these tasks, where measures of success are defined by the percentages achieved. Or perhaps the executive and leaders continue down the hierarchy, where various tasks, responsibilities, and outcomes that can be better evaluated are used and help determine what actions or strategies "roll up" to meet organization and individual objectives.

Pursuing detail in the sub-objectives at each level results in a relevant set of objectives for the executive. For each supporting objective, the executive and his evaluators continue to build the hierarchy by developing more detailed definitions of each objective. To evaluate effectively, the hierarchical process stops only when a way of measuring things becomes clear (even if it is subjective).

Two examples illustrate how performance measures are used in the model. In the simplest case, suppose one of an executive's objectives was to reply to customer requests within 24 hours. If she met that objective 89% of the time, a score of 0.89 is applied. In a more difficult example, suppose an executives' evaluator wants to measure effective communications.[12] To determine if the customer or the executive's boss thinks the executive communicates effectively, it may be necessary to collect information on typical measures of "success" in communication. These may be frequency of communication, accessibility of the information, content of the information, and the method used to communicate. (Because much of what a senior executive does is subjective, it is likely that some measures of performance will come from employee surveys or interviews, or subjective assessment of an executive's skill or talent in executing the responsibility and achieving a desired result.) If the executive receives a subjective measure from the evaluator or through surveys with the customer of say, 75%, then a score of 0.75 can be applied to this "result." In this way, attributes used in many areas (multitasking) can be accounted for and rewarded in some manner.

This example shows that at each level of the model, each characteristic, task, or responsibility desired fits under the purpose it serves. An effective executive is one who contributes substantially towards achievement of the four top-level goals. The model shows a method for drilling down to measurable objectives, where some of the objectives can be subjective and measured in a way to quantify performance.

To construct an overall measure of effectiveness (MOE) of an executive, the evaluator must have set priorities, or weights, at each level of the hierarchy. For example, if each of the four top-level objectives contributes equally to the organization's success, each of them receives a weight of 0.25. Then, using the analytical hierarchy process, each attribute or score is multiplied by the weighted objective to result in an MOE. For an extended discussion of the analytical hierarchy process, see the MOE literature; for example, Miser and Quade, 1985, Keeney, 1992, or Keeney and Gregory, 2005.

Again using a simple example, suppose an executive is held accountable for contributing to two higher-level objectives, X and Y. The executive and his evaluator have agreed they are equally important, so they each receive a weight of 50%. The executive is measured on his contribution to the success of each higher-level objective with one performance measure. The executive received scores of 90% and 70%, respectively, on the performance measures for achieving X and Y. The model for this executive would be as shown in Figure 3.

Figure 3: Performance Evaluation Model for an Executive with Two Objectives
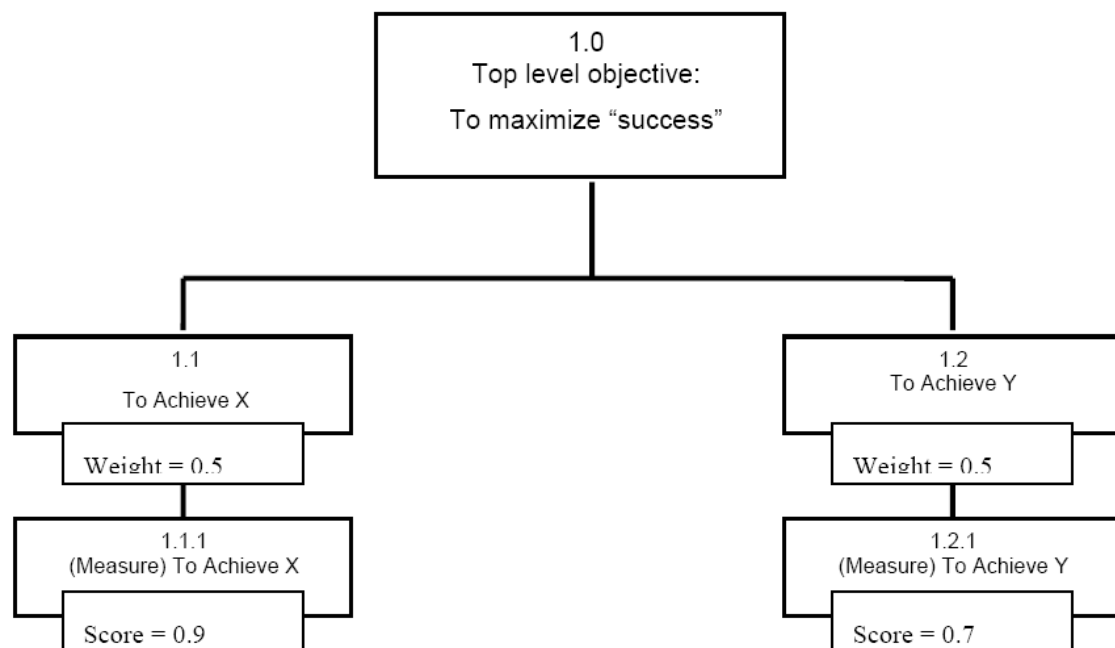
The measure of effectiveness of this executive would be calculated as:

MOE = 0.5(0.9) + 0.5(0.7) = 0.8

Other executives could be measured by rolling up their performance measures in the same manner. An executive being evaluated on performance relative to three top-level

objectives, with three levels in the evaluation system might have the model depicted in Figure 4.

Figure 4: Performance Evaluation Model for an Executive with Three Objectives
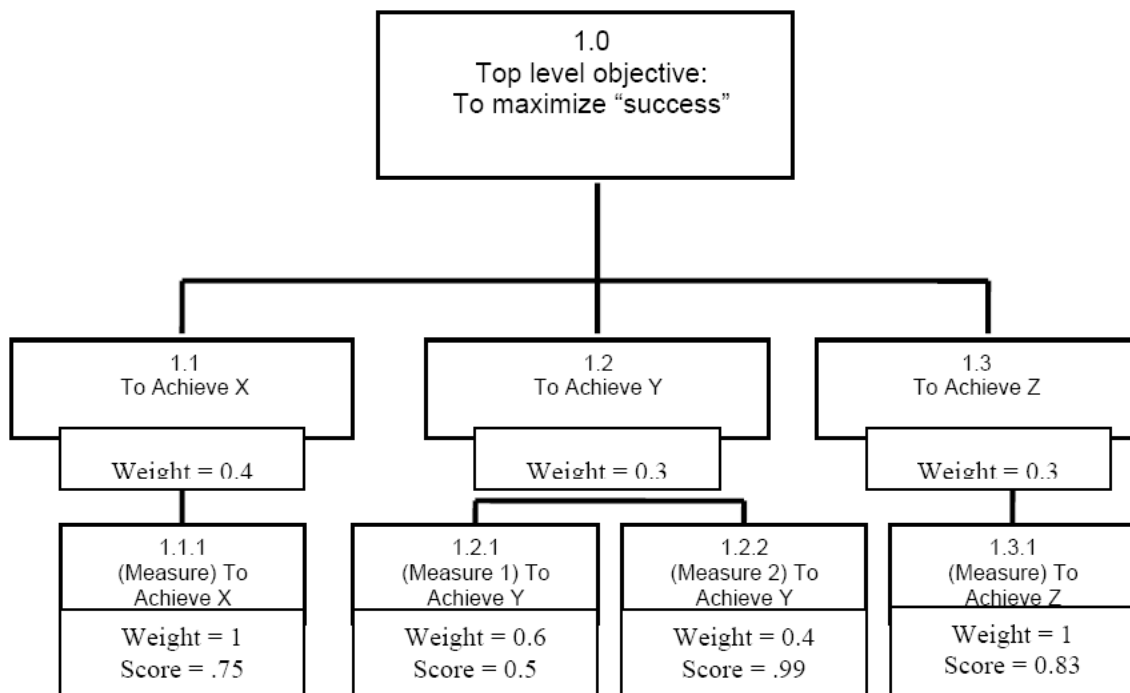
Again, at each level of the hierarchy, the evaluator and executive must agree on the weights or priorities. In this example, "to achieve" X, Y, and Z have priorities of 0.4, 0.3, and 0.3, respectively. At the lower level, the performance measures for achieving X and Z have weights of one since they are the only measures. Since there are two measures for achievement on Y, the evaluator and executive had to set weights or priorities for those activities. Measure 1 was given a weight of 0.6 and Measure 2 a weight of 0.4. The measure of effectiveness of this executive would be calculated as:

$$MOE = 0.4(1)\ (0.75) + 0.3[(0.6)\ (0.5) + (0.4)\ (0.99)] + 0.3(1)\ (0.83) = 0.76$$

One of the strong points of this model is that a non-measurable, top-level goal (the "responsive, best value services provided consistently to customers" in this example) is translated to measurable objectives and outcomes with smaller results. At each level, results inform the others, and the clarity with which they are stated helps align actions.

Another feature of this model is that it is robust: the organization and individual have worked together to either set or interpret organizational goals, and to make them workable for the executive ultimately responsible for their execution. And evaluation of executives can be easily understood not only by the evaluator and executive, but by other stakeholders. This approach allows top leadership to review the contribution of each executive in a more impartial manner, to compare similar executives, and to constantly evaluate whether their priorities are driving executives to make decisions in the interest of the organization. It also allows executives to constantly revisit their "priority list" for accomplishing results and to communicate with their superiors on whether there are

issues that affect the executive's (and organization's) likelihood of making significant progress towards organizational goals.

SECTION 3: IMPLEMENTING THE MODEL

To begin to implement the evaluation model, leadership must have defined the organization's strategic goals and objectives. Top leaders and the executive being evaluated must then focus on results, moving away from evaluating inputs, attributes, effort, and characteristics. Desired results must cascade from upper level goals to measurable outcomes achievable by the executive being evaluated. Executives participate with leadership to define and execute their own objectives in line with organizational goals and objectives. In advance of implementation of the evaluation system, leaders must also set up explicit time periods for reviewing progress and providing feedback. The system must also be flexible enough to allow leaders and executives to revisit their priorities and change the outcomes desired (or their weighting) as time goes on, in order to meet organizational objectives and evaluate the executive fairly. (For more on implementation of performance-oriented pay systems, see GAO-05-832SP.) The model can thus be adjusted over time, and can be used not only to evaluate, but to provide guidance, motivate, promote, celebrate, and help executives learn and improve.

This process will require substantial investment on the part of the organization. Top leadership must devote the time and energy necessary to transform strategy to goals and objectives for the organization to areas of responsibility for executives including specific goals and objectives. Any exercise setting up assessable measures of performance will likely be quite difficult, particularly in organizations where outputs, let alone outcomes, are difficult to measure. In addition, even when all participants agree that measuring outcomes makes sense, they may be less likely to believe that an evaluation system could be derived that fairly measures results. Leaders must be ready for such criticisms and be very clear about how their evaluations will be derived and used. As Williams (in Jones, 2002) pointed out, "performance measurement [. . .] is not a value neutral technique. When performance ratings are revealed, it is the ratings that get attention, but it is the criteria that are important; that is where values are found." Whether leadership quantifies results or not, the modeling process provides decision makers with value on structuring goals and objectives for the organization and executive to better achieve successful organizational outcomes.

One of the steps of building the model that will require extensive leadership is providing not only vertical, but horizontal alignment of goals. If executives need to work together to achieve results across their organizations, but their objectives are not aligned, adverse outcomes may result because members of each team could view efforts as competitive. Kelman (2005) worries about such negative effects that individual pay-for-performance schemes could have, and says that success might not motivate the "winners" as much as it would average performers, who "might lose their motivation if they fail to get performance bonuses." And Prendergast's review of studies suggests that average performers tend to think their performance is above-average. The evaluation system must be well-communicated to stakeholders and be transparent to help mitigate these incentive problems.

Prendergast's concerns about misalignment between the individual's and the organization's goals must also be addressed. For many complex jobs like those in senior executive service, Prendergast suggests it is impossible to specify all relevant aspects of executive behavior in a performance contract. Even if specific objectives are established and the evaluation system is understood and transparent, an executive might be motivated to "game" the system – that is, put more effort into the accomplishment of a higher-weighted objective – if doing so results in a higher evaluation score. This incentive problem has become known as multitasking, where compensation on any subset of tasks results in a reallocation of activities toward those that are directly compensated and away from the uncompensated activities (Holmstrom and Milgrom, 1990, Baker, 1992.)

A common way to provide incentives when it is difficult to specify all aspects of employees' jobs is to "use subjective performance evaluation, perhaps in addition to some objective assessments. [. . .] Such subjective assessments have the benefit that they can be a more fully rounded measure of performance; for instance, a baseball player could be rewarded for hitting a home run only if attempting to do so was warranted at the time." (Prendergast, p. 9) However, there is considerable evidence that subjective assessments also give rise to biases. Employees may be more likely to waste valuable resources (work time, for example) currying favor with their bosses. Other problems may be "leniency bias," where supervisors are reluctant to give bad ratings, and "centrality bias," where supervisors compress ratings around some norm (Prendergast, p. 9).

Because of the multi-tasking nature of many complex jobs, Prendergast predicts that in positions where there are significant opportunities for reallocation of activities, there will be an absence of pay-for-performance. In order for our model to work, leaders must pay particular attention to how outcomes are defined, what restrictions they place on the outcomes, and how they communicate what must and must not happen for the outcome to be achieved. (For more on conditions for success of pay for performance in the public sector, see Bohnet and Eaton, 2003, and Risher, 2004.)

All of these concerns must be addressed. We believe, however, that our model provides a first step in thinking about how to link executive performance evaluations to organizational goals and objectives. In summary, as organizations begin to link evaluations to organizational accomplishments, their leaders must begin with strategic goal setting. For most government organizations, strategic goal setting must be responsive to multiple stakeholders if the organization is to remain viable in the long run. We should recognize that these stakeholders often create conflicting pressures on the organization and its leadership thus forcing value tradeoffs to be made in order to balance these competing interests. Balancing these interests is a highly subjective process to be sure and the success of any government organization rests on leadership's ability to generate "performance" value for each stakeholder over time.

Especially at the strategic level of the organization, our model can help leadership to structure and think about this problem by making explicit the range of stakeholders, what their interests are, how important those interests are relative to the interests of other stakeholders and how those interests relate to organizational performance goals. Once this goal structure is made explicit and the relative importance of the goals is understood, organizations can more rationally direct resources toward goal accomplishment and evaluate executive performance. To be sure, for a large complex government organization this will be a substantial and complicated undertaking but one that we be-

lieve must be attempted if performance management is ever to become a reality in the public sector.

SECTION 4: SUMMARY

The ability to link executive performance to strategic goals and objectives will be central to the successful implementation of performance based management systems in government organizations around the world. Government organizations must move away from performance systems based on equity (equal across the board rewards), longevity (time in grade), individual behaviors, personal characteristics and effort (all inputs) and move toward systems that are based on output, accomplishment and outcome achievement if performance based management systems are to reach their full potential.

The model introduced in this paper provides both a conceptual framework to achieve this linkage and the information necessary to construct an executive performance evaluation and reward system that is driven by results. The model recognizes that executives must focus not only on the hierarchy of goals and objectives for their organization and stakeholders, but how important each objective is relative to the other objectives. Within this framework, as leaders and executives work together to set goals and objectives and agree on what needs to be done to accomplish those goals and objectives, all parties should develop a better understanding of performance expectations and the metrics that will be used to evaluate performance. In the long run, individual commitment and motivation should be enhanced as performance expectations and work roles are clarified.

One of the most difficult tasks for leaders of government organizations is how organization success is defined and measured. Increasingly, as the competition for scarce resources becomes more intense, legislatures and taxpayers will demand increasing accountability for organizational performance. Budgets will be linked to performance and organizational leaders will have to be able to demonstrate a high degree of transparency between funding (resources) and outcomes. The model described in this paper represents an attempt to make explicit these relationships and how executive performance can be evaluated in this context.

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NOTES

[1] http://www.trumanlibrary.org/hoover/hoover.htm.

[2] http://www.whitehouse.gov/omb/mgmt-gpra/

[3] "a significantly lower percentage than reported by some of the earlier surveys."

[4] For more on the history of employee evaluation, see http://www.opm.gov/strategiccomp/html/history1.asp.

[5] See, for example, Kerr, 1975.

[6] Our model supports the ability to meet targets for many high-level goals and objectives by specifically helping to develop organizational capabilities in the quadrant that Norton and Kaplan call "learning and growth." By providing better measures of employee satisfaction and productivity, learning and growth goals and objectives can be better achieved.

[7] Cokins (2004:74) also notes that there seem to be two schools of thought about whether scorecarding results in effectively managing a variable compensation incentive program. One school holds that performance management systems should not mix scorecards and pay because the formal linkage of scorecards and salary adjustments (up or down) is the "fastest way to ruin the sustained use of a scorecard system. The other school concludes that financial rewards are the most effective way to focus employee energies. Perhaps adding financial rewards will create the "fine gear wheels to assure essential organizational traction for the scorecard system, aligning people's work and accomplishments with the strategic objectives, vision, and mission."

[8] Barr, S. June 30, 2005. "Homeland Security, Defense Asks Employees About Gauging Performance." Washington Post.

[9] An even bigger problem with this list is "achieving results" is put on par with things like "critical thinking." (Even the best leader can be a wonderful critical thinker, but not achieve desired results!)

[10] Casey and Peck also note that this is human nature and not necessarily a reflection of individual shortcomings. They propose a way to formulate measures of performance that are horizontally and vertically aligned goals, where a measurable, results-focused objective is combined with a small number of corresponding restrictions. This very powerful tool allows managers to combine what to achieve with what not to achieve and provides a robust tool to formulate behavior. For more, contact Casey and Peck through Linda.thaut@elg.net.

[11] Note: It is no coincidence that some of the wording in this section appears to take the approach of the Balanced Scorecard or other management "tool" with which to evaluate

organizational effectiveness. The "four-pronged" approach of the balanced scorecard can allow managers to think about the aspects of their organizations that must be addressed to achieve desired results.

[12] An important point about evaluating senior executives, however, is that many feel they do not need, or it is "impossible," to structure goals on how to achieve a desired outcome. While micro-management of how to achieve the result is not desirable, everyone can benefit from agreeing on what the organization is trying to do, and what the executive must do to make that happen.

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