

Fall 2012

Pay-for-Performance System in the Department of Defense: A Case Study of the National Security Personnel System

Kenneth P. Woods
Kennesaw State University

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**Pay-for-Performance System in the Department of Defense:
A Case Study of the National Security Personnel System**

Kenneth P. Woods

A Practicum Paper
Submitted in Partial Fulfillment of the Requirements for the

Master of Public Administration

Kennesaw State University
December 2012

Department of Political Science and International Affairs

Master of Public Administration Program

College of Humanities & Social Sciences

Kennesaw State University

Kennesaw, Georgia

Certificate of Approval

This is to certify that the Capstone Project of

Kenneth P. Woods

Has been approved by the Program Director

For the capstone requirement for the Master of Public Administration

Professional exercise in the Department of Political Science and International Affairs

At the December 2012 graduation

Capstone Director:

A handwritten signature in blue ink is written over a solid horizontal line. The signature is cursive and appears to read "A. Wood".

Pay-for-Performance System in the Department of Defense: A Case Study of the National Security Personnel System

Executive Summary

The National Security Personnel System was authorized at the request of Department of Defense (DOD), which complained of inflexibilities in the traditional federal General Schedule system, established under the classification Act of 1949. The department claimed that the traditional system was cumbersome even during normal peacetime operations; during wartime, when the system faced additional stresses, it was more problematic. Some of DOD's concerns with the General Schedule system were also shared by other government agencies and officials who perceived that the system was defining jobs too narrowly and prescribing too many procedures for filling those jobs, limiting the ability of the federal government to compete for and/or retain the best workers (Sunshine 2008, 1). The National Defense Authorization Act (NDAA) for Fiscal Year 2004 granted the Department of Defense the authority to develop the National Security Personnel System (NSPS), which was intended to strengthen the work performance of its government employees.

From its inception, NSPS was criticized and faced challenges from unions and employees regarding several issues, including inconsistent application of the system, pay inequities, and a lack of stakeholder involvement. In light of these concerns and challenges facing NSPS, the NDAA for FY 2010 contained provisions to terminate the system. The act also provided direction to DOD and the Office of Personnel Management (OPM) to establish regulations providing for, among other things (1) a "fair, credible, and transparent" performance appraisal system that links employees to bonuses and other performance-based actions to performance appraisals, (2) a process of ensuring ongoing feedback and dialogue, and (3) development of a

plan designed to give employees training, counseling, mentoring, and other assistance (U.S. Government Accountability Office 2011).

DOD's struggled to accurately address the employee performance rating process, which proved to be detrimental to the overall success of the National Security Personnel System. Fundamentally, DOD appears to have fallen short in applying critical thought and time needed to meet the complexity of developing a process that influences human behavior in such a way that fosters performance improvement in achieving organizational goals. DOD's short sided attempt failed to ensure that employees clearly understood the performance-rating process as well as promote employee trust and confidence in its personnel management system.

The purpose of this study is to explore the Department of Defense's pay-for-performance system and the lessons learned in attempting to increase civilian employee performance without implementing effective changes to its personnel management system. This case study makes use of numerous documents, archival information, and academic literature to provide a descriptive assessment of the perception and controversy involving performance-based pay in the Department of Defense. This study concludes that pay-for-performance is a complex issue that requires a system, which supports the effective communication between managers and employees in its processes and points out a topic of a wicked problem for future public administration research.

Pay-for-Performance System in the Department of Defense: A Case Study of the National Security Personnel System

Acknowledgements

This work is dedicated to the Glory of God, the author and finisher of our faith. I thank God for giving me the vision and my family for their encouragement to see this program through. I would like to express my sincere gratitude to the entire Master of Public Administration faculty and staff for their professionalism and dedication to higher learning. Dr. Ewoh you have been a remarkable example of commitment and determination. I greatly appreciate your relentless pursuit for excellence, which has been instrumental in my goal to further develop my analytical skills. God bless the United States of America and Kennesaw State University.

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Introduction

Throughout the American history, merit has been the administrative expression and foundation of democratic government (Mosher 1982). However, the commitment to performance cannot long survive, unless the government provides adequate pay, recognition for jobs done well, accessible training, and suitable work conditions for its civil service employees. It is not enough to exhort the work force to do better, government must provide tangible signals that performance matters; quality service and productivity must be recognized, rewarded and constantly reinforced (Fogel 1989).

The American people are getting fed up with what is going on in Washington. It is also clear that the number of Americans that are in favor of big government is decreasing. But it is actually more complicated than that. It appears that the American people want the government to get off their backs, but they also want the government to do more and to provide more services. The American people apparently want fewer laws but more protections, and seem to want lower taxes but also more government spending to stimulate the economy. In other words, the American people want to have their cake and eat it too (Current Community 2010).

Always under the microscope is the Department of Defense (DOD), which is the oldest and largest governmental department in the United States. The National Security Act of 1947 was passed by Congress and signed into law by the President of the United States, President Harry Truman. The Act brought the military agencies together under “one roof.” The National Security Act of 1947 combined the Department of War and Navy and was called the National

Military Establishment or NME; which later became the Department of Defense when the act was amended in 1949 (Borklund 1968).

The act was amended because it took little time for people to realize that when the abbreviated designation of the new agency “NME” was spoken, the natural pronunciation was “enemy.” In just over two years, because of this error in reading, the agency was renamed the Department of Defense. The Department of Defense is the cabinet-level executive agency in the federal government of the United States that has authority over all functions relating to the military. With an annual budget approaching \$1 trillion, the Department of Defense maintains a civilian workforce of over 700,000 individuals. The number of men and women in the various branches of the armed forces of the United States hovers between 2.1 to 2.5 million uniformed employees (Trask 1997).

The President of the United States is the commander-in-chief of the armed forces and the "ultimate authority.” The Secretary of Defense works with the military departments, the Chairman of the Joint Chiefs of Staff and the other command leaders to carry out defense policy. The organizational flow, according to the Department of Defense, is as follows: The department train the forces, the Chairman of the Joint Chiefs of Staff plans the military operations, and the unified commands execute those plans (Trask 1997, 9-11).

This study explores the linkage between the pay-for-performance and personnel management systems. The case study begins with an overview of performance-based reform. This followed by a review of the literature focusing on the essential reasons why the Department of Defense elected NSPS and explores its significance and outcome. The paper then discusses the methodology and its findings, provides recommendations for future reform initiatives, and concludes with social discourse for future study.

Purpose of the Study

The purpose of this study is to explore the Department of Defense's controversial pay-for-performance system and the challenges confronted in trying to increase civilian performance without implementing significant changes to its personnel management system. Government agencies are often criticized for their lack of efficiency in meeting the many political and social needs of our country. DOD claims that their inefficiencies were due to its traditional personnel management system's inflexibilities. In spite of the challenging and complex nature of public service and meeting the needs of a diverse society, public servants are expected to delivery on time and on target. The American public is not aware of and some do not care about the numerous limitations with regard to hiring, assigning, and compensating employees placed on managers and supervisors. These constraints may be problematic when it comes to selecting the best person for the job and holding an employee accountable for satisfying the duties and responsibilities of the position offered. Public managers believe that the traditional personnel management system perpetuated a lack of responsiveness and deserve some degree credit for the "entitlement culture" public perception of federal employees.

It goes without saying, there are benefits to civil service, the Fifth and Fourteenth Amendments protect against the abuse of government authority in a legal process. An employment property interest exists when an employee has a reasonable expectation of continued employment provided his or her performance is satisfactory. When a property interest is established, constitutionally mandated procedures for termination must be followed because the Fifth and Fourteenth Amendments prohibit government from taking property without due process of law. In termination proceedings, this requirement means at a minimum that there must

be prior notice and an opportunity for employees to respond to charges before discharge occurs (Tejuoso 2010, 5).

This study will assist in the academic discourse surrounding the complexity inherent in developing a fair and effective public service pay-for-performance system. I hope that my research will provide an increased understanding of the Department of Defense's National Security Personnel System and the nature of its pay-for-performance system problem. More importantly, my efforts are intended to heighten awareness to aid in the coupling of the facts and intuitive decision-making for public administrators. As a member of the United States Marine Corps, I worked for the Department of Defense. As a part of my duties and responsibilities, I supervised and worked amid many Department of Defense civilians on a daily basis throughout the years. As a member of the managerial team responsible for overseeing the achievement of command objectives and unit tasks, I was required to rate federal employees' individual job performance for agency performance awards and grade advancements. It was apparent to me that this critical responsibility not only impacts public service employees, but stakeholders as well.

A hierarchical system has been successful to a degree in support of this bureaucratic environment. Organizations that subscribe to the hierarchy of authority use positions of influence and specialization to establish goals and objectives to facilitate an increase in productivity within each subunit or section. In developing a system to improve performance levels in achieving organizational goals and efficiency requires an acutely focused effort during planning by all participants. A systematic approach in process improvement is required to aid the manager in his/her ability to solve problems and to change the cultural behavior. Therefore, employee's individual performance and unity of effort are essential elements in the assessment conducted by those in the position of authority to influence a change in organizational behavior.

The Department of Defense and other government agencies are unlike the private sector which is viewed by the American public as competent in hiring highly qualified employees to support its innovative business practices. In an attempt to satisfy the public's demand to do more for less, DOD restructured its civil service system to better attract, recruit, retain, compensate, reward and manage employees. National Security Personnel System (NSPS) was designed to facilitate a greater focus on people, performance, and employment decisions that are cost-effective and exercises best business practices. Conversely, it is a bridge too far to expect and trust civil service managers to be responsible for personnel matters in support of a merit based system without a viable personnel management system, agency policies directives and additional training.

Need and Relevancy

During the Clinton Administration, in the words of a 1995 GAO report,

“the necessity to improve performance in the face of steady declining resources led some organizations... to make radical changes in the way they manage people... in place of centralized, rule-based systems that are creating decentralized, flatter, more flexible arrangements. And in place of highly detailed rules to manage their employees, they are relying increasingly on a well-defined mission, a clearly articulated vision, and coherent organizational culture to form the foundation for the key business systems and processes they use to ensure the successful outcome of their operations. Recognizing that people are central to any

organization's success, these organizations give their managers greater prerogatives to manage and their employees' greater opportunities to participate in the decisions that affect them and their work" (Kellough and Nigro 2007, 45).

The National Defense Authorization Act for Fiscal Year 2004 granted the Department of Defense the authority to develop the National Security Personnel System, which was intended to strengthen the work performance of its government employees. DOD and the Office of Personnel Management (OPM) were to establish a "fair, credible, and transparent" performance evaluation process linked to performance-based actions expected to (1) empower and engage managers at all levels of Human Resources Management (HRM), (2) establish a process for ensuring ongoing performance feedback between employees and supervisors to include the development of performance assistance plans, and (3) provide incentive payments based on individual or team performance, in addition to any existing rewards programs. Successfully implementing an effective and sustainable personnel management system for DOD's pay-for-performance system requires critical thinking and executive level of support to bridge the gap in agency efficiency.

The Department of Defense asserted that given a modern and flexible personnel management system to hire highly qualified personnel and to award high level performers within its agency, it will be able to increase efficiency. According to a review published by the Congressional Budget Office, implementing simplified rules would streamline the hiring process and allow greater latitude for setting employee's pay on the basis of their skill set and individual performance. Given a new system DOD may have a chance of changing the organizational culture.

I believe the metaphor that suggests public administration is like a swamp is based on the similarities of daily setting of uncertainties or policy changes, the lack of clarity in direction or mission accomplishment and the effort required to survive amongst dispirited and self-centered inhabitants within the workplace. Thus, working in a public service environment requires an adaptive and flexible mentality in order to meet the proliferating needs of many Americans and superiors (Cayer and Weschle 2003). Because of the constant comparison of government and the private sector, I would suggest exercising a bit of caution in expectations. The private and nonprofit sectors are viewed differently because of various reasons. However, their focus and efforts are centered on producing a specific product line or service effectively and efficiently to a targeted population of customers in order to achieve positive returns on investment. Therefore, designing a system capable of influencing positive change in employees' performance can be supported by policies and procedures enforced by the management of those involved in the process and are likely to benefit financially or personally in one form or another.

Literature Review

Pay-for-performance is a hallmark of civil service reform and an important reason for the popularity of merit pay has been the public's demand for more bureaucratic accountability and productivity (Kellough and Nigro 2007, 182). Undoubtedly, government operated programs required some level of reform in order to meet the work performance challenges and the fluidity that comes with public service. Many government agencies have reviewed possible personnel systems in an attempt to effectively influence positive organization-wide results. These systems were designed to empower executive managers, line directors and supervisors with the ability to encourage and to proficiently engage in human resources management issues at their level.

Reformers believe that productivity and responsiveness thrive when managers and supervisors take responsibility for influencing performance results and favor facts over intuition in decision making.

The State of Georgia's civil service law and public personnel management systems were transformed through two actions. The first undertaking was the implementation of a new performance management system called GeorgiaGain. The second important reform of Georgia's civil service system took place in 1996 with the enactment of the "at-will" employment reform law by the Georgia legislature. The decentralization thrust of the Georgia reforms required state agencies to (1) clearly define job classes and to set qualification and pay ranges for these classes, (2) allocate agency positions to job classes, (3) recruit and screen applicant for jobs, and (4) establish personnel policies needed to assure compliance with employment-related state and federal laws (Kellough and Nigro, 2007, 309).

Then Governor Zell Miller hoped that GeorgiaGain would increase employee morale, effort, and productivity by providing supervisors with the "state-of-the-art" performance management tools considered necessary to achieve high levels of effectiveness and efficiency. Kellough and Nigro suggest that the enactment of GeorgiaGain may have impacted Miller's narrow reelection in 1994 over his Republican rivals on this issue. Soon after, the systems were placed into operation through an executive action. Records for that time indicate that the reformers intended GeorgiaGain to be a comprehensive refurbishing and modernizing of selected human resources management policies and practices. The reform was built around a pay-for-performance system with variable pay increases used to differentially reward diverse levels of performance. In 2001, Performance Plus (formerly named GeorgiaGain) was established; this

reform authorizes the payment of one-time bonuses in addition to the annual increase and other measures to make the state's compensation plan more competitive (Kellough and Nigro 2007, 307).

With civil service reform as the center of gravity, the Department of Defense (DOD) approved the National Security Personnel System in fiscal year 2004. This was to allow the Department of Defense to establish a more flexible civilian personnel management system that is consistent with the human resources management strategy. The system allows the Department of Defense to be a more competitive and progressive employer at times when the country's national security demands a highly responsive system for civilian personnel management. National Security Personnel System must also enhance DOD's ability to execute its National Security mission.

There are many different thoughts within the Armed Services Committee and the Department of Defense as to the effectiveness and value of a National Security Personnel System but the two can agree that there is room for improvement. The general belief of the Department of Defense and the Armed Services Committee is that the fair and equal treatment of DOD civilian employees under the current Nation Security Personnel System design is at stake. For these reasons, the Armed Services conference committee, working on the fiscal year 2010 defense authorization bill, released a report of the final legislation that repeals the law authorizing the National Security Personnel System and mandates the return of all National Security Personnel System employees to their previous pay system, by January 1, 2012. Perhaps this ruling by the Armed Services conferees further suggests that an effectively ran government personnel management system is idealistic and preprogrammed for employee performance inefficiency.

Why a Pay-for-Performance System

The General Schedule System was projected to establish a culture of fairness and equality with federal agencies. Despite its effort the General Schedule System received constant criticism of being outdated and inefficient. Scholars and civil servants claim that its restrictive and rigid properties prevent government from acquiring and retaining the critical talent it needs to run well (Ewoh and Sonnenfeldt-Goddard 2011, 67-68). DOD's alternative to confront its cultural challenges was to implement a pay-for-performance system.

Pay-for-performance systems are rooted in expectancy theory and reinforcement theory. In concert, they provide a foundation and explanation for why performance-based systems work. Each framework provides an explanation for how incentives in the remuneration schemes compel employees to work harder and create better work. Expectancy theory ties effort to outcomes. If an employee believes that exerting more effort or performing better in a particular way within a job will attract more rewards, and the employee values those rewards, then she or he will work harder in order to obtain the rewards (Ewoh and Sonnenfeldt-Goddard 2011, 69).

In the words of Jay Schuster, recipient of the WorldatWork's 2006 Keystone Award, "The organizations that do indeed truly reward people consistently for performance outperform those that don't. My sense is, if you're not going to pay for performance, what are you going to pay for?" (U.S. Office of Personnel Management, April 2007). The advantages of a merit system are as follows: it protects employees from abuses by management and it rewards competence and efficiency of service, thereby providing the organization a means to compete for highly skilled and specialized workers in the private sector.

According to a report published by the University of Illinois Chicago, there is widespread agreement among those who have examined compensation practices in the federal government

that the approach embodied by the traditional General Schedule System is obsolete. Undoubtedly, many of the government's legacy personnel management programs required a large degree of reform to meet current performance challenges and the fluidity that is expected of public service programs. The Department of Defense was courageous in addressing the issue of civil service reform head on despite the highly criticized employee service performance opinion polls.

I believe it was the reputation of its military services that fueled the effort to undergo such an enormous task. In typical fashion, many prior and retired military members are hired by DOD because of their reputation of completing the job within the allocated budget and on time. In large part, they are experienced, familiar with the process, terminology, and the organizational culture. Management sought to instill a degree of competition within its employees in order to increase its efficiency across the board (with the exception of wage grade employees) and its attempt to attract highly qualified people from the private sector.

The enactment of the National Security Personnel System was expected to be a key element in accomplishing this mission. The implementation of National Security Personnel System was to provide a flexible civilian personnel management system that appropriately classifies the job position, recognizes skill sets and identifies the employee's contributions in achieving tasks and objectives established by DOD's mission and goals. National Security Personnel System was also expected to create an opportunity for open communication between employees and their supervisors. This new concept would create an atmosphere of unit cohesiveness and inclusion of employees in the rating process by allowing them to be proactive in writing their position objectives and performance goals (Schwelme 2005).

The Aim of the National Security Personnel System

The goals and responsibility of the Department of Defense and the Office of Personnel Management (OPM) is to equip managers with the tools necessary to encourage and incentivize government employees to act in a way that is considered conducive to sustained productivity. Under the National Security Personnel System, managers and their employees are to communicate tasks, responsibilities, and expected outcomes associated with the assigned position. An essential element of DOD's National Security Personnel System is the assignment of position grades relative to the acumen and effort required to satisfy outlined tasks and responsibilities. Managers are to ensure that emphasis is placed on "job" over "person" granting incentives in accordance with the system's classification of the job, which is designed to reward the employee in the position by measuring good performance comparative to appropriately classified jobs. Additionally, employee salary levels will be determined on the basis of the internal equity of the position, rather than its external equity, and the amount paid to similar private sector positions, which may cause excessive salary costs and less productivity.

The review of the National Security Personnel System by the Defense Business Board (deLeon et al. 2009) indicated that under the National Security Personnel System mission-focused and results-oriented job objectives are required in forming employee performance plans. Employee performance plans are considered to be the medium that factors the employees' performance rating according to their contributions to objectives and tasks accomplishments. Given that the performance of supervisors is evaluated under the National Security Personnel System, supervisors are faced with the additional time requirements in writing effective performance appraisal, which is a concern of many employees. Supervisors must learn to

balance additional management responsibilities with their normal day-to-day workload to efficiently complete their employees' performance appraisal.

Within the design of this personnel management system supervisors' ratings are submitted to pay pools (a board comprised of supervisors) for performance reviews and performance-based payout assignments. There is a degree of flexibility given to the pay pool for managers in making changes to direct supervisors' ratings which affects the payout distributions of many employees not in their purview. This process has created some tension and caused many concerns regarding the inconsistencies and fairness in payouts for the same performance ratings and for higher level employees. There is also a belief that a performance-based work environment lends itself to the drawback of the "good old boy" network. Without a fair performance rating tool, and if performance ratings and pay depend upon standing out visibly over your peers, employees say it will be a disincentive to collaborate and share information to help each other get the job done (Gage 2009). The success of a pay-for-performance system is ultimately contingent upon senior leaders' ability to be fair and the performance rating training provided to employees.

Implementation of the National Security Personnel System

Reform will always be met with a degree of resistance because people by nature are resistant to change. Given the size of the Department of Defense, it is likely that there will be obstacles to overcome. The challenge confronting DOD is how to provide a more flexible support structure that will help attract skilled and talented workers by placing more emphasis on a high performance culture. Through a pay structure that is much more responsive to market and national security conditions. Additionally, performance expectations will be communicated to

employees and will be linked to the organization's strategic goals and objectives. DOD subscribed to the National Security Personnel System believing that it would better tie individual pay to performance, using performance rather than time on the job to determine pay increases (*Federal Register* 2009).

Unlike in the past, many managers and supervisors were operating without the aid and assistance of a formal system. DOD realized the need for a formal organization-wide system to enable performance management and to encourage work environments that fairly perpetuate individual progression without creating organizational stove pipes. Under the National Security Personnel System classification system, every General Schedule position within DOD had been assigned to a career group, pay schedule and pay band (see Appendix A). The National Security Personnel System classification architecture was designed to facilitate position modifications so that employees and supervisors would have access to more professionalized and career progression training. This flexible classification system design was created in part, to allow employees to develop or enhance skill sets that afford them the opportunity for advancement both within and outside of their assigned career groups.

There are three key points to underscore when trying to understand the probability of creating a successfully pay-for-performance system: (1) that there is no perfect system, most design choices involve trade-offs between different objectives; the "right" system for any organization is a function of its particular preferences, (2) system complexity, the pay band system design is construed to include a performance appraisal and a funding processes, both are integral to the pay-for-performance system that generally accompanies the pay band structure itself. This broader system has many interrelated parts, it is difficult to associate a particular

outcome with a particular element in the design because of this interrelatedness, and (3) a pay system design and implementation inevitably has a cultural dimension (Thompson 2007).

Employee Performance and Rating Efficiency

The aim of the National Security Personnel System is to establish a fair and equitable, more flexible, mission-based personnel management system that links employee performance to DOD's organizational goals and objectives. The Department of Defense and Theresa Murray, a member of the Department of Army Civilians expressed their opinions, with regards to the effectiveness and value of the National Security Personnel System reviews. Their general belief is that without the reconstruction of the personnel management system the fair and equal treatment of DOD civilian employees under the National Security Personnel System is at risk. For this reason, it is important for DOD to address its organization's cultural issues prior to designing a personnel management system. Organizational cultural lag is a significant dilemma associated with implementing innovative change and the failure to address this issue prior to the design phase results in a process initiative preprogrammed for failure (Parker 2009). Pay-for-performance systems reinforce the value of performance over property interest and complacency in rewarding employee work performance. The implicit emphasis is on efficiency and effectiveness rather than employee property interest. With pay banding, employees' pay increases are awarded according to an assessment of work performed and its organizational value.

There are many who believe that in the traditional general schedule, every employee receives the same pay increase. There is also the fallacy that within the General Schedule System a substantial portion of annual pay increases is provided to all employees regardless of

performance. While this may be the case, the truth is that the system is designed to automatically increase an employee's step raise on his or her anniversary date if the employee is considered satisfactory performer. However, a supervisor may submit a personnel action request to impede an employee's step increase on the grounds of substandard performance. This is only an option for those supervisors that are aware of his/her employees' anniversary date and have been accurately documenting their job performance.

An enormous challenge in designing a pay band construct is the ability to successfully leverage human behavior to promote a change from an entitlement culture to a performance culture. Yet, public comments regarding a pay-for-performance system believe that this system avoids the dysfunctional consequences of general schedule grade and step system. Their compelling argument in support of pay banding surrounds placing the emphasis on rewarding performance against rating the employee's ability to satisfy his or her job classification requirements (*Federal Register* 2009). Therefore, managers would require additional training in order to meet the challenge of efficiently rating employees' abilities against job classifications.

Supporters contend that a combination of pay banding and performance pay contributes to greater efficiency through improved quality and quantity of employee performance. This is achieved as a result of (1) the general motivational value of linking pay to performance; (2) greater monetary rewards for high performers, who are therefore more likely to stay; and (3) fewer rewards to poor performers, who are therefore more likely to provide less than adequate service or leave. Pay banding can facilitate the hiring of highly qualified recruits. In fact, this was the primary reason that pay banding was instituted in support of the Navy Demonstration Project (Thompson 2007). Pay banding is also projected to enhance organizational effectiveness by providing line managers more authority to influence compensation and classification matters.

By empowering managers in matters of hiring, promoting and awarding pay increases; managers are held accountable for the overall performance of his or her unit. This type of design could benefit the agency through the potential reduction in administrative costs due to management's execution of human resources management responsibilities. Perhaps an added benefit for the managers would be the power to terminate or reduce the grade or pay of a poor performer in his or her unit.

The consequences that a change in design may have on the overall outcome of a pay-for-performance model are unclear. Because of the interrelatedness of the performance appraisal and award process it is essential that employees understand how they are measured in order to associate their performance to a particular outcome (Thompson 2007). Employees are faced with an issue of understandability; the compensation theory suggests that the motivational value of a pay-for-performance system is compromised to the extent that employees are unsure of the correlation between their measure of performance and its financial benefit. The performance appraisal process can be abused when the decision-making fundamental process is inverted. Instead of serving as an aid in decisions regarding employee promotion, pay, dismissal, or development, the appraisals are abused in order to justify predetermined decisions (Coggburn, Hays and Kearney 2009, 118). There is also the possibility that there would be a lack of funding available for pay increases to accommodate supervisors for their increase in responsibilities. Any shortfall in financial resources can present a tradeoff between equity and efficiency that create ethical challenges in decision-making by managers. A manager's decision to promote the best qualified person becomes challenging when faced with limited promotion allocations for a position, and hiring considerations such as gender, race, ethnicity, or loyalty may be critically weighted given constraints. There is a greater probability for fairness when there is ethical

leadership at the management level, the lack of commitment and excellence in doing the right thing for the right reason will hamper a positive change in organizational behavior thus hindering an environment that cultivates productivity.

Employees under the National Security Personnel System remain divided about the policies and procedures surrounding a performance-based system. With growing regulations and scrutiny of public employees, investigations of public employees constitute a significant concern for performance management as well as employee survival. Because there were legal disputes between DOD and employees unions concerning the labor relations and adverse actions elements of NSPS, DOD began implementing only the job classification, performance management, and staffing elements of the system for its nonunion employees (Sunshine 2008, 33). As evidenced in the Michael McGuinness' 2008 study, the current court does not envision the United States Constitution as a meaningful tool to combat governmental retaliation, corruption and malfeasance in public sector workplaces. The result of the erosion of constitutional rights of public employees will serve to promote more bureaucratic corruption and an inefficient government throughout America because employees do not have adequate remedies to protect themselves from abuse (McGuinness 2008).

Methodology

This research draws from a qualitative, exploratory case study method to provide a detailed analysis of the pay-for-performance system implemented by the Department of Defense. This case study was conducted using a descriptive research model and the assessment of numerous documents, archival information, and academic literature, including government reports and publications, scholarly journals, direct observation, books, magazine, newspaper

articles, and relevant legislation. I have also obtained, reviewed, and analyzed the guidelines and flexibilities in the General Schedule System with that of the National Security Personnel System for recognizing and rewarding employee performance. This analysis is carried out based on literary analysis, research studies of scholars in the field, and government agency reports on National Security Personnel System matters. I believe that the evidence obtained through this reading provides a reasonable basis for my findings, recommendations and conclusions based on an exploratory case study.

Findings

DOD sought to develop a capability that would attract highly qualified and specialized personnel and speed up the hiring process to attain those selected. In creating the National Security Personnel System, DOD felt that it could increase employee productivity by rewarding individual performance through a process that allows employees and supervisors to communicate freely regarding position duties and responsibilities. Although the aim of individual compensation may be a good intention, in many cases the motivational value of a performance-based system had been compromised due to the uncertainty in how performance level ratings are factored into monetary values by supervisors. The equity of a performance management system is determined by employees' perception of transparency and fair treatment in the workplace. It is not equitable, when supervisors' performance evaluations are seen by employees to be biased and inaccurate. The Congressional Budget Office's review of DOD's National Security Personnel System reports show that many DOD employees felt that the system was implemented with performance rating and pay setting process discrepancies, which adversely affected the program's evaluation process (Sunshine 2008).

The Department of Defense's implementation of a pay-for-performance system failed in addressing the complexity of developing a fair and flexible personnel management system. An effective system involves the ability to capture and support the efficient measurement of employee performance relative to the goals and objectives of his/her organization. There were many management performance requirements overlooked during the planning of the National Security Personnel System personnel management process. Performance management involves a four step process: (1) identifying and setting clear and measurable performance goals, (2) taking performance measurements to monitor goal progress, (3) providing feedback and coaching on performance results, and (4) using performance assessment for human resource management decisions such as pay, promotions, transfers, terminations, training, and career development. It is essential that the employees understand what is expected of them and the manner in which their performance will be evaluated and rated (Schermerhorn et al. 2010, 135).

The intent of the management performance assessments are to provide process clarity and verify adherence to established guidelines for documenting an employee's performance plan. The study reveals that in order for a performance rating process to be effective the model must correlate with the positional duties and responsibilities being rated. A numeric performance rating is used to inform a financial award decision matrix to determine the payout distribution. This process is designed to reduce the degree of subjectivity by a supervisor in determining the employee's overall financial value to the organization. The goal of the agency is to determine the employee's financial award by job performance and its value to his/her organization, not predicated on loyalty to the supervisor.

In contrast, this process is time consuming, it requires the commitment of the employee and supervisor to regularly evaluate and document his/her performance progress in achieving

goals and objectives relative to the position requirements. Without a professional commitment to adhere to the system's execution guidelines, management's struggle with the National Security Personnel System performance rating format will continue to preempt any possible success involving performance-rating process. In order for the system to be equitable, the employees must understand how job complexity is factored and work performed is measured to determine an employee's overall organizational value. Managers that lead with fairness and sound judgment in executing the process as intended, create an environment whereby employees trust and support the system. Ensuring that there is fairness in the system may cause a need to review jobs for reclassifications and financial promotion for supervisors comparable to their increase in responsibilities.

DOD's laissez-faire attempt to establish an administrative checks and balances structure to validate the accuracy of employee performance ratings proved detrimental to the efficiency of National Security Personnel System. It is apparent that DOD underestimated the amount of effort necessary to review and identify all actions related to implementing a reward power process. The lack of understanding made it difficult or perhaps impossible for DOD to change the culture within its organization. Historically, pay increases in the General Schedule System did not keep up with the private sector, making it difficult for federal agencies to compete for the best workers. With performance-based systems, pay increases are contingent upon employee's individual value to the organization, there is very little room for error, a below average or inaccurate performance rating could have a negative impact on an employee's pay, resulting in the agency possibly losing a valuable resource or skill set. Due to lack of confidence in the pay-for-performance process, this strengthens many employees' belief that "National Security Personnel System was implemented for one reason only to save the government money" (Parker

2009). Since any inaccurate performance appraisal rating conducted by the supervisor could further deteriorate the employee's perception of the system, supervisor training and monitoring is imperative to the system's bid for success.

The Defense Business Board was appointed to review the National Security Personnel System, pay-for-performance process, to examine whether or not the system was operating in a fair, transparent, and effective manner. DOD realized that in order to increase efficiency and build trust across the agency, it must use all available resources and acknowledge existing constraints in creating a perceived fair and equitable work environment. This review finds that it is vitally important for DOD to revise its policies and procedures related to transparency and modify its civilian personnel management system to influence employee behavior. Substantial changes are required, but not limited to the following:

1. The employee evaluation process must accurately measure employee accomplishments against organizational objectives.
2. A standardized performance rating scale must be created to support unbiased ranking of employees by pay band.
3. Weight performance outputs and determine values to inform financial award selections.
4. Implement an assessment and quality control program, conducted by a disinterested third party to review manager's employee evaluations for accuracy and adherence to policy guidelines.
5. Streamline the hiring process to reduce the length of time a position is vacant and reform the organization's marketing effort to recruit highly qualified people committed to public service.

Undeniably, human resources management systems are not executed without flaws. However, leadership and oversight are important; supervisors must be trained and equipped with the necessary tools to accurately assess and modify inadequate employee performance to mitigate unnecessary shortfalls in service. Supervisors require standard operational procedures, without relevant guidelines it is impossible for managers to measure their employees' organizational value relative to their performance with fairness and objectivity.

An effective pay-for-performance system involves the unbiased evaluation of clearly defined performance objectives prepared by both the employee and his/her supervisor. The system design must provide guidance and training in evaluating and rating various levels of complexities required for specific mission objectives. As the level of complexity and experience in completing the task increase, the performance appraisal and performance rating should appropriately reflect this requirement. Designing an effective pay-for-performance system is an ongoing challenge that involves critical thinking and operational experience to affect change in the organizational culture.

The decision-making flaw of the Department of Defense's in implementing the National Security Personnel System was its failure to conduct job diagnostic surveys early in the planning process. The results of this survey would have been used to redesign the personnel management system in support of a performance-based system. DOD's pay-for-performance structure was obviously a shortsighted attempt to satisfy the public's cry for a more efficient and responsive government, it was a viable reform option.

Recommendations

The Department of Defense used the authority that it was granted by the National Defense Authorization Act for Fiscal Year 2004 to design the National Security Personnel System. This system was designed to address DOD's complaints of inflexibilities in the traditional federal personnel management system and there is ample evidence to support its claim. This research study suggests that effective reform requires a partnership between management and employees. It is most important for management to be involved in the hiring and compensation process of employees, to reach out to the employees of their organizations prior to, during, and after the implementation of system changes. Moreover, administrators must not discount the value of establishing a training program in support of its organizational and performance management goals.

Inclusion and transparency have a profound way of shaping desired outcomes into probable conditions, a more effective workforce that manifests the fair, just, and equitable distribution of public services and implementation of public policy. In order to create an organizational climate that is capable of having positive long-term public service effects regardless of political party, there must be a viable personnel management system in place to support it. Therefore, any performance-based system implemented by DOD must be binary; it must accurately track work performed and its value to the organization. The system design should support the fair assessment of an employee's individual work performance by supporting and advocating the following:

1. Employees must know and understand their job classification and performance requirements. As a part of the agency's new hire orientation, employees ought to receive an introductory performance-based and benefits training session. Most importantly,

supervisors must possess the skills and ability to accurately assess employee performance in accordance with the established criteria and performance ratings guidelines. Everyone involved in any pay-for-performance system process must first undergo the appropriate training prior to conducting and or receiving any individual performance ratings (Schermerhorn et al. 2010, 135).

2. Measured performance should provide a defensible basis for differentiating between high and low performance in the future. A "fair, credible, and transparent system is required to link bonuses and other performance-based actions to employee performance appraisals;" and a system to provide employees with "performance assistance plans" that would give them access to on-the-job training and mentoring (National Defense Authorization Act For fiscal Year 2010).

3. In order to motivate effective performance, the established performance-based management system should tie all pay raises to appraisals of employee's work. The National Security Personnel System requires managers to link individual performance standards to missions or objectives of their organization. The pay banding construct has a board salary range to give managers greater room to compensate higher-performing employees.

An efficient pay-for-performance system should include human resources and consider the organizational cultural during system planning. DOD and its stakeholders are expected to build high-content jobs capable of achieving organizational goals and full of motivating factors such as responsibility, achievement, recognition, and personal growth. DOD's managers must embody the agency's organizational values and leadership expectations in meeting the needs of its stakeholders. An economical view of a pay-for-performance system depicts a belief among

employees that the way to achieve higher pay is to perform at high levels. In order to mitigate the risk of management biases and/or favoritism having an adverse effect on the validity of employee performance appraisals, there should be a third party review included in the process. The success of a performance-based management system is centered on the employees trust and confidence in the fairness and transparency of its agency's system policies.

Conclusion

Congress dealt a lethal blow to the Department of Defense's controversial pay-for-performance system by directing DOD to work with the Office of Personnel Management (OPM) to better address employee concerns with pay-for-performance when devising a new framework. Congress realized that it was unlikely that the Department of Defense would achieve efficacy and efficiency given its current system. I would add that any pay-for-performance system that does not implement significant changes to its personnel management system will fail at meeting federal agency expectations. Inasmuch as the organization fails to identify and reward the "correct" behaviors, its pay-for-performance scheme will be less than effective (Cogburn, Hays and Kearney 2009, 119).

This study further revealed the complexity of creating an effective and efficient process for increasing employee productivity. This study underscores the potential for further research to examine whether the implementation of pay-for-performance within federal agencies is a wicked problem. Public administrators may find it prudent to examine whether or not agencies, managers, and employees may agree on what the word "fair" means, for example, when rating an employee's performance against its organizational value and determining performance rewards. Would it be fair for the same employee in the same position to receive the highest financial

award in his/her section year-after-year (although deserved) or should managers feel obligated to share the wealth to avoid diminishing returns for the section as a whole?

This exploratory case study suggests that pay-for-performance is a complex issue that must consider the human dimension and effective communication in its development and design of an effective personnel management system. Public administrators must apply critical thinking and all available resources such as policies, rules, regulations, and training in meeting this federal agency challenge. This exploratory research on DOD's pay-for-performance system concludes that its success hinges upon a suitable personnel management system that has (1) guidelines developed by managers and employees, (2) clearly defined position duties and responsibility, (3) justification of performance rating according to organizational values, (4) training, and (5) effective and open communication between managers and employees.

Public administrators must constantly uphold the banner that people are central to an organization's effectiveness. A work environment that reflects the organization's operational values and considers the individual values of its employees fosters dedication to excellence. Management maintains the duties and responsibilities of unifying organizational and individual values to achieve synergy in meeting the needs of the general public. Therefore, it is important that DOD develop a system structure that expands employee knowledge, skills, and abilities, as well as identifies performance inefficiencies. The system created would also provide the necessary flexibility within the organization to access progress and to adjust the course, if and when required to achieve mission objectives.

It is crucial for the Department of Defense, above all other federal agencies, to implement an effective and efficient pay for performance system that will increase employee efficiency because its organizational culture is one that better supports a change in environment. However,

it will take time, money, training, and a combined effort on the part of the DOD and OPM to facilitate this challenging change in behavior.⁰ Perhaps, the government should pursue alternatives in creating a productive workforce to serve the public and reward the same through the use of equitable means, such as advancement training, leadership programs, employee recognition and others (e.g., compensation time or flex time for noted performance) to satisfy the American taxpayers' longing for a responsive government. Essentially, federal agencies must meet the demands of its citizen with resolve and efficiency. The reconstruction of DOD's personnel management system is vital to the improvement in employee productivity and the organization's ability to provide public goods and services. In building a new personnel management system, DOD must not lessen the importance of analyzing existing performance issues and process shortfalls, creating a performance measurement process, employee performance plans, feedback and quality control, retraining, and transparency.

Since 1944, federal law has required that the veterans be given certain preferences when the federal agencies hire. I believe the implementation of the aforementioned changes and the enhancement of opportunities for our service members will increase productivity and public service responsiveness. Our military service veterans understand what service to country and dedication to a grateful nation truly means. In many cases, this attitude and teamwork resident in Department of Defense will have a positive effect on the performance of non-veterans employees.

President Obama's signed Executive Order 13518, designed to increase the number of veterans in the federal workforce. In the President's words, "This initiative is about more than repaying our debt for their courageous service and selfless sacrifice. It's also about continuing to fill the ranks of federal employees with men and women who possess the skills, dedication, and

sense of duty that Americans deserve from their public servants. And few embody those qualities like our nation's veterans" (Department of Defense Civil Personnel Management Service 2009).

Nonetheless, additional career development activities and leadership training should be required and enforced for newly promoted supervisors as well as those transferred from other departments or agencies. Managers will be required to complete employee performance plan training prior to conducting any performance appraisals. Lastly, managers at all levels must be able to adapt and effectively communicate goals, objectives and operational responsibilities for everyone within the organization, in the ever changing environment of public service. In order to achieve optimum productivity, managers must create employee confidence in an organizational culture built on moral and ethical leadership, and fair and equal treatment for all employees.

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Appendix A

National Security Personnel System Classification Architecture Design

The National Security Personnel System classification architecture is designed so that management officials can readily make classification decisions and easily understood by every employee. The National Security Personnel System classification architecture is uniquely different from that of the General Schedule (U.S. Marine Corps, Basic National Security Personnel System Information, 2008).

General Schedule	National Security Personnel System
Occupational Family	Career Group
Pay Plan	Pay Schedule
Title	Title
Grade	Pay Band
Occupational Series (#)	Occupational Code (#)
Over 400 OPM General Schedule Classification Standards	15 Standards

The four Career Groups are:

1. Standard Career Group
2. Engineering and Scientific Career Group
3. Medical Career Group

4. Investigative and Protective Services Career Group

The concept of the four career groups is uniquely different from the traditional general schedule grade and step scale. Under National Security Personnel System there are five ways employees can receive a pay increase: (CPMS, web site, 2009).

1. Local Market Supplement (LMS) – Under National Security Personnel System, the LMS replaces locality pay and special salary rates. Employees are eligible for an LMS adjustment if they have a rating of record of Level 2 (Fair) or higher.
2. Rate Range Adjustment – A change in the minimum or maximum range of a pay band based on market drivers. Employees are eligible to receive an increase in their base salary if they have a rating of record of Level 2 (Fair) or higher.
3. Performance-based Payout – An increase in base salary and/or a one-time bonus.
4. Promotion – Movement to a higher pay band on a temporary or permanent basis.
5. Reassignment or other placement actions – Movement within the same or similar pay band.