

**A STUDY ON  
PERSONNEL MANAGEMENT WITHIN  
THE COMMONWEALTH OF VIRGINIA**

**REPORTED TO  
THE GOVERNOR  
AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



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A STUDY ON PERSONNEL MANAGEMENT  
WITHIN  
THE COMMONWEALTH OF VIRGINIA

FINAL REPORT

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A STUDY ON PERSONNEL MANAGEMENT WITHIN THE  
COMMONWEALTH OF VIRGINIA

CHAPTER I

INTRODUCTION

Background

The Committee on A Study on Personnel Management Within the Commonwealth of Virginia completed its Interim Report and submitted it to the Governor, the President of the Senate, and the Speaker of the House of Delegates on December 15, 1976. It was subsequently published as House Document 12.

The Committee identified the basic functions of personnel management and examined each function in detail. Each function was examined and documented in terms of the current situation that existed in Virginia at the time the Study was conducted; certain observations were made and problems were identified; conclusions were reached; and specific recommendations were presented. Meaningful progress has been made in implementing many of the recommendations by the Department of Personnel and Training as well as State agencies.

Purpose

Due to the constraints of time several important issues were identified which required more detailed examination and analysis before conclusions and specific recommendations could be reached by the Committee. These key issues were:

1. An analysis on sick leave in Virginia.
2. An employee recognition program for Virginia.
3. A suggestion awards program for Virginia.
4. An analysis of longevity pay for State employees.
5. Appointments above the entrance level.
6. Additional merit increases for outstanding employees.

The Committee was divided into subcommittees and each subcommittee was assigned an issue to study in-depth. These issue analyses were then provided to the Director of the Department of Personnel and Training through the Secretary of Administration and Finance for review comment, and implementation as appropriate. With the submission of the last issue analysis paper the Committee on Personnel Management Within the Commonwealth of Virginia concluded its study as requested in HJR 64. Copies of each issue analysis are attached.

CHAPTER II

AN ANALYSIS ON SICK LEAVE  
IN  
VIRGINIA

#### Current Situation

Employees in the classified service are provided a sick leave benefit plan for use in illness, injury, medical and dental appointments, pregnancy, and death in the immediate family (limited to 3 days per incident). Employees earn 1 1/4 days of sick leave credit per month (15 days per year) regardless of length of service. There is no limit to the number of days that may be accumulated. The authority and responsibility to approve, disapprove, monitor and record employee sick leave is decentralized to State agencies and institutions.

#### Facts on the Issue

The Commission on State Governmental Management, in its Sixth Interim Report, indicated that the Commonwealth's present sick leave policies should be examined. It appeared to the Commission that there was some employee abuse of the system. This observation was based upon responses in an employee attitude survey. Thirty-nine percent of those employees responding to its survey indicated they felt "many people take sick leave when they are not sick."<sup>(1)</sup>

#### Discussion

The Commission stated that the present system offers no encouragements for saving sick leave, while at the same time allows generous accumulation. This, the Commission concluded, tends to invite sick leave abuse. The Commission's report recommended a reduction in the present 15 day per year earning rate to 12 or 13 days. It also recommended that a number of monetary incentives be considered to encourage employees to conserve sick leave, including: (2)

1. Converting a portion of unused sick leave to retirement credit
2. Converting a portion of unused sick leave to annual leave
3. Providing cash compensation for a portion of unused sick leave

The consulting firm of Executive Management Service, Inc., which the Commission employed to conduct its study of the personnel system, did not make a detailed study of employee sick leave use patterns. Accordingly, no empirical data was available with which to make cost/benefit analyses on their recommendations.

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(1) Commission on State Governmental Management "Six Interim Report: Recommendations on the States Personnel Processes," December 1975 I, p. 24.

(2) Ibid.



This Committee made a detailed study of the cost of implementing those alternative approaches which can be considered as measures to encourage reductions in sick leave abuse. Concurrently, a detailed study of sick leave usage patterns was made in a random examination of 1500 individual employee sick leave records in eleven State agencies. The findings of these studies are summarized below:

Table 1  
Cost of Sick Leave Conservation Incentive Measures

<u>Incentive</u>	<u>State Service Cost/Year</u>
1. Convert unused sick leave to retirement credit	\$ 2,700,000 (3)
2. Convert unused sick leave to cash payment at time of retirement:	
a. Full payment cost	11,880,000 (4)
b. Payment for 1/2 accrued sick leave	5,940,000
c. Payment for 1/3 accrued sick leave	3,960,000
3. Convert a portion of unused sick leave to annual leave: (each employee who uses less sick leave than the average for all State employees, be allowed to convert 2 days sick leave to annual leave each year.)	2,871,471 (5)

Eleven agencies and institutions participated in the examination of 1500 randomly selected State employee sick leave records. The survey revealed patterns and frequencies of sick leave usage in the sample, from which inferences can be made about sick leave patterns in the total classified State employee population. The study did not have a method to determine genuineness or abusiveness in the use of sick leave by individual employees. Rather, the distribution patterns of sick leave days in the total sample were plotted and analyzed. (6) The following inferences can be made concerning sick leave usage by State employees:

1. Employees each use an average of 7.2 days of sick leave per year
2. Each year, 12.5% of State employees use no sick leave
3. Sick leave usage is higher on Mondays, Fridays, and days preceding and following holidays, than on other work days during the week.

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(3) Taken from Actuary Computation provided by Director, Virginia Supplemental Retirement System. (attachment #1) (withdrawn)

(4) See Attachment #2 for computation details.

(5) See attachment #3 for details.

(6) Attachment #4, sick leave survey.

It is clear from the sample's experience that some abuse of sick leave exists. The increased frequency of sick leave usage on days adjacent to weekends and holidays appears as a regular pattern throughout the year. On an average, 3.0% of all employees use sick leave on a given Monday, Friday, or other day adjacent to holidays. On an average, 2.71% of all employees use sick leave on any other given work day. Thus, it can be deduced that a small percentage of employees, 0.29%, are making unjustified use of sick leave on those days. The annual payroll cost of this abuse has been computed to be \$895,898. (7) An assumption upon which this conclusion is based is that sickness, family death and medical problems occur randomly, thus genuine sick leave usage would also be expected to occur randomly with an even distribution throughout all days in the week. Regular patterns of variation are thus attributed to abuse.

A recent survey conducted by the Department of Personnel and Training revealed that, in a sample of 43 major employers throughout the State, over fifty percent of them provided their employees sick leave in amounts between twelve and fifteen days per year. (8) The State's sick leave accrual rate of 15 days per year thus compares reasonably well with that of other employers. Based on a principle of comparability in compensation and benefit offerings, there is little reason to lower the 15 day rate, as was suggested by the Commission on State Governmental Management.

#### Conclusion

There is some abuse in the use of sick leave which has been documented as a small percentage of the total sick leave used by State employees. The cost of this abuse is \$895,898 per year. The cost of each alternative sick leave conservation incentive measure shown on Table 1 is substantially higher. Thus, it is not economically advantageous for the State to adopt any of these measures for the purpose of reducing sick leave abuse.

Although it was not possible to identify all sick leave abuse, and such is probably higher than has been computed, the various alternative sick leave conservation incentive measures would, on the other hand, not be one hundred percent effective in eliminating sick leave abuse if adopted. These imprecisions tend to be counterbalancing. In view of the overwhelming cost differences which have been shown, the conclusion allows substantial tolerances for imprecision.

#### Recommendations

1. While there is a small percentage of sick leave abuse by some State employees, it is not economically sound to adopt general monetary incentives for the purpose of curbing this abuse. Thus, no change in the present sick leave system is recommended.

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(7) Sick leave abuse computation worksheet (attachment #5)

(8) Department of Personnel and Training, "Salary Survey Report to the Governor and General Assembly," published in House Document No. 13, November, 1976.

2. The management of sick leave is decentralized to State agencies and institutions. Increased agency attention to sick leave administration is the appropriate means to reduce abuse.
3. No change is needed in the present fifteen day per year sick leave earning rate.

Attachment #2

Cost estimate for unused sick leave payment at time of retirement

Assumptions:

- a) Average employee would have one year of accumulated sick leave at time of retirement
- b) Approximately 1100 employees will retire each year
- c) Average annual salary is 10800

I. Full Payment Cost  
 $1100 \cdot 10800 = 11,880,000$

II. Half Payment Cost  
 $.50 (1100 \cdot 10800) = 5,940,000$

III. One Third Payment for  
 $.33 (1100 \cdot 10800) = 3,960,000$

Attachment #3

Cost Estimate for sick leave to annual leave conversion

Assumptions:

- a) 50% of all employees will use less than average amount of sick leave
- I. State Daily Payroll = 2,871,471  
2 day cost all employees = 5,742,942  
50% times above = 2,871,471

SICK LEAVE SURVEY

Agency \_\_\_\_\_ Length of Service \_\_\_\_\_  
 Employee \_\_\_\_\_ Sex \_\_\_\_\_  
 Age \_\_\_\_\_ Annual Salary \_\_\_\_\_

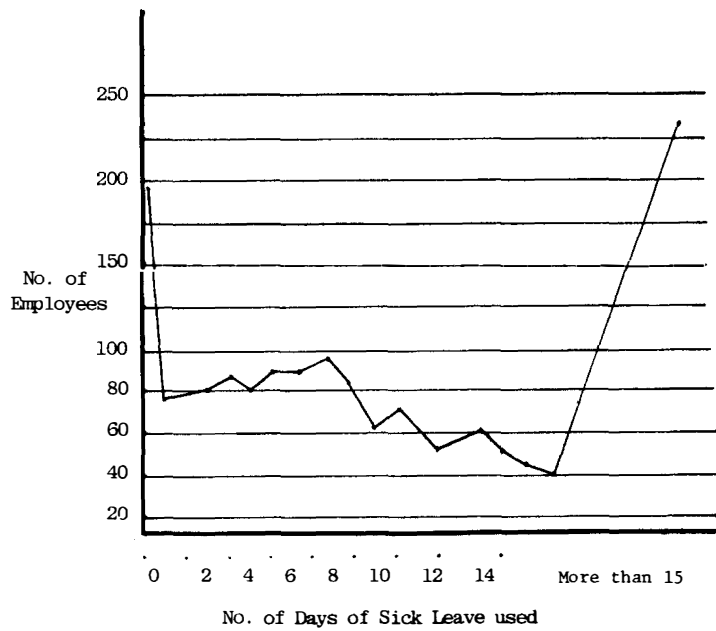
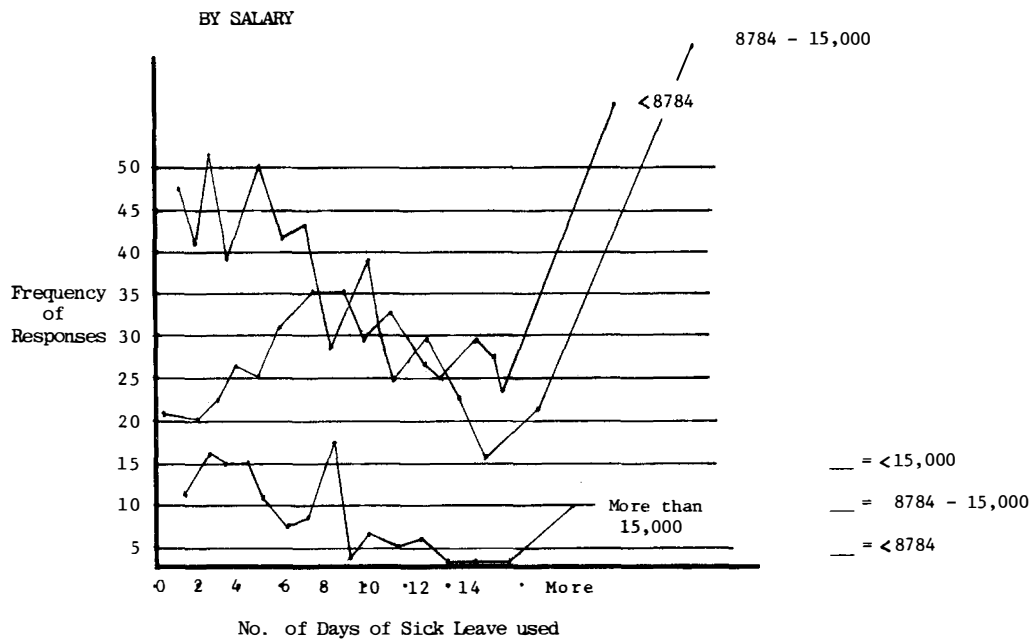
	<u>Hrs.</u>	<u>Days</u>
Total sick leave earned during year	_____	_____
Total sick leave used during year	_____	_____
Total sick leave accrued as of December 31, 1976	_____	_____

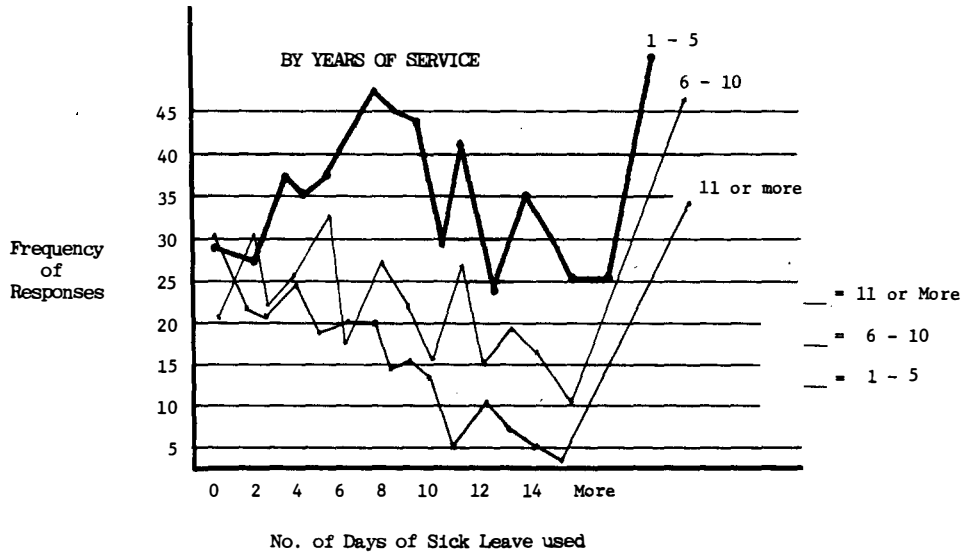
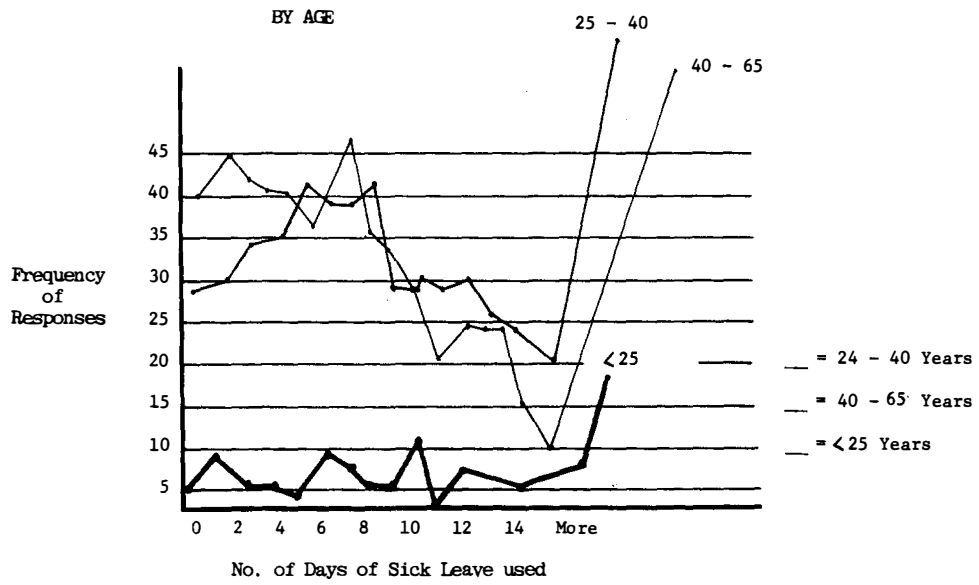
Instructions:

Data requested will be used in a statistical study of sick leave usage. Place an  in each appropriate block when a full day of sick leave was used. Place a  in each block when less than a full day of sick leave was used.

Calendar Year 1976

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
January																															
February																															
March																															
April																															
May																															
June																															
July																															
August																															
September																															
October																															
November																															
December																															







ANALYSIS OF SICK LEAVE USED  
(1500 People-11 Agencies)

Sick Leave Used	Age			Years of Service			Annual Salary			Male	Female
	25	25-40	40-65	1-5	6-10	11 or more	Less Than \$8784	\$8784 - \$15,000	More Than \$15,000		
1	7	28	41	28	21	30	21	47	11	57	21
2	6	30	44	27	30	23	20	42	16	61	19
3	6	35	43	37	22	29	22	52	15	57	31
4	5	35	41	36	24	24	27	40	15	57	27
5	7	42	38	37	33	18	26	50	12	55	32
6	9	40	37	48	18	20	33	42	7	45	37
7	8	40	47	45	21	20	36	43	7	41	40
8	6	41	37	44	27	14	36	27	17	55	31
9	6	29	33	28	22	15	27	38	3	32	36
10	11	30	29	41	16	13	33	30	7	34	35
11	4	29	21	22	28	5	26	24	5	27	27
12	7	30	23	35	15	10	25	29	6	28	32
13	7	26	23	31	18	7	29	22	2	30	24
14	6	24	16	26	16	5	28	16	2	16	30
15	8	22	11	26	11	4	24	19	2	21	23
<b>MORE</b>	20	105	119	108	85	49	77	109	10	106	138

Attachment 5#

Cost Estimate of Sick Leave Abuse

Assumptions:

- a) that deviation between sick leave use on Monday and Friday versus use during the rest of the week is abuse

I. Cost Estimate

Average number of employees taking sick leave Monday and Friday out of sample = 45.02  
Average number of employees taking sick leave during the rest of the week = 40.67

Monday and Friday % = .030

Rest of week % = .0271

Difference = .0029 or .003

Salaried payroll = 2,871,471/day

Number of Mondays and Fridays/year = 104

Sick leave abuse = .003 (payroll . 104)  
= .003 (298,632,984)  
= 895,898

CHAPTER III  
AN EMPLOYEE RECOGNITION  
PROGRAM FOR  
VIRGINIA

## EMPLOYEE RECOGNITION PROGRAM

### 1. Current Situation

On February 14, 1975, the Division of Personnel published a memorandum which established a Statewide Service Award Program to recognize employees with five or more years of service. It does permit agencies with their own service award program to continue its use if the agency desires. The initial award is given after five years of service and additional service awards are given each five years thereafter. Various jewelry items are available for both men and women. The cost of the items vary from approximately \$4 to \$30 depending on the item. Standard awards dependent upon years of service have been established and can be ordered through a contract negotiated with John T. Council by the Department of Purchases and Supply. The cost of the awards must be born by the agency. This is the only Statewide Employee Recognition Award available to State agencies and institutions.

### 2. Facts Bearing on Issue

On February 18, 1977, a memorandum was sent from the Office of Administration and Finance to all State agencies and institutions requesting that they forward one copy of any established procedures, a list of the types of awards together with criteria for their issuance and any comments regarding the effectiveness of their employee recognition program they cared to submit.

Twenty-five State agencies/institutions indicated they had an established employee recognition program. Twenty-three were using the Statewide Service Award Program and eleven had implemented additional employee recognition awards such as Employee of the Year, Perfect Attendance Awards, Safe Driving Award, Savings Bond, Certificate of Retirement, etc.

Many of the State agencies/institutions who responded commented favorably on the positive effects of the Statewide Service Award Program and expressed interest in an expansion of the Employee Recognition Program.

Four states were contacted regarding their Employee Recognition Program. They were South Carolina, North Carolina, Florida, and Kentucky.

- (1) South Carolina has a State wide Service Award Program similar to Virginia's.

- (2) North Carolina's Statewide Service Award Program is similar to Virginia's; however, North Carolina provides a cash award for longevity at the end of 10, 15, and 20 years. It is based on a percentage of their annual salary and funded by the agency. They also issue a Retirement Certificate signed by the Governor. Some agencies frame the certificate prior to presenting it. North Carolina also has a Special Merit Increase used to recognize outstanding employees.
- (3) Florida has a State Awards Program which was implemented in 1968. It includes both monetary and non-monetary awards used to recognize outstanding achievements.
- (4) Kentucky uses an Outstanding Merit Increment Program in addition to the normal annual merit increase. An agency may give this Outstanding Merit Increment to 30% of its employees. The program is actively supported by the Governor. Kentucky also issues Retirement Awards at the end of 15 or more years of service.

The individuals contacted in each of the above states commented favorably on the positive effects of such programs.

- E. Two local industrial firms were also contacted - Philip Morris had a very extensive Service Award Program which included gifts such as television sets, microwave ovens, etc. to the more senior employees. Many of the programs they classified as Employee Recognition Programs were less direct in nature such as employee stores, employee recreational programs, subsidized employee cafeterias, employee newspapers, etc. Philip Morris did have an "Outstanding Performance Award Program" in which monetary awards were given to their outstanding employees. The local firms also commented favorably on the value of a uniform Employee Recognition Program.
- F. The Federal Government has an extensive, uniform Incentive Awards and Recognition Program. It includes both monetary and non-monetary awards and has published rather specific guidance and policy in their application. It limits the number of awards that can be given based on a percentage of the total work force. In addition, the Federal Government provides special awards for specific purposes such as the Federal Women's Award, Annual Equal Employment Opportunity Award, Federal Paperwork Management Award, etc. The Federal Government also awards service pins beginning with 10 years of satisfactory service and each five years thereafter.
- G. In 1976 the Virginia Department of Agriculture and Commerce attempted to obtain the approval for an Incentive Award Program within that agency which included the presentation of a \$100 savings bond, no more than four outstanding awards would be given each year and would recognize outstanding performance. The Department of Personnel and Training ruled that any recognition given an employee which is money for bonds is considered to be extra compensation. The Attorney General ruled that

this is illegal since every employee is on a scale. The Comptroller stated he would not pay extra compensation unless approved by the Governor personally.

- H. Section 219 of the Appropriations Act states "The provisions of this section, requiring prior written approval of the Governor relative to compensation, shall apply also to any system of incentive award payments".

### III. DISCUSSION

- A. The Commonwealth does have an excellent Statewide Service Award Program. It does provide recognition to individual employees based on years of service. Many agencies do participate and feel it has had a positive effect on employee morale and attitudes. It has been established as a voluntary program and, unfortunately, many agencies do not participate. This tends to have a negative effect in as much as the employees in agencies who do not utilize the program find it difficult to understand why employees in other agencies receive such recognition and they do not. Certainly the cost of this program is not an inhibitive factor since it is minimal.
- B. The goal of any Employee Recognition Program is to motivate the work force with enthusiasm, raise morale, improve efficiency, economy, and improve the working environment. Such a program can take on many forms. Some can be as simple and inexpensive as a letter of commendation or a certificate of achievement while others can represent a greater potential monetary cost such as cash awards and additional merit increases. If properly administered and controlled through the establishment of central policies administered by the individual agency it can have a positive effect on the total work force with minimal costs compared to potential results.
- C. Each level of management must be responsible for insuring a balanced and prudent use of awards together with strict adherence to the criteria for such awards. If monetary awards are included in an Employee Recognition Program, each agency must insure that budget projections provide for such cash awards. To be effective, the Department of Personnel and Training (DPT) must provide positive program leadership, guidance, and staff assistance in the formulation of uniform policies and their implementation. DPT must also provide appropriate publicity for the Employee Recognition Program as well as providing training to management officials and supervisors in the operation of the awards program. DPT must establish standard procedure, related documentation, limitations, and meaningful requirements for each type of award.
- D. The granting of honorary and monetary awards to State employees must be based on their special accomplishments and achievements. In order to insure such awards are meaningful and are not abused a maximum number that can be issued by any State agency should be established. It can be expressed as a percentage of the total number of employees within the agency and divided between monetary and honorary awards.

## CONCLUSIONS

- A. The Commonwealth does have an excellent Statewide Service Award Program. At the present time, participation on the part of each agency is on a voluntary basis. Twenty-three State agencies/institutions stated they have implemented such a program. The costs of the program are fairly minimal, especially when compared to the benefits to the Commonwealth in the area of increased morale, improved efficiency and productivity as seen by the participating agencies. It is believed that all State agencies/institutions should be required to participate in this program. Any exceptions should be based on a written request submitted by the State agency/institution to DPT which clearly demonstrates they have an active program of similar scope and quality such as exists in the Department of Highways and Transportation.
- B. There is a need to expand Virginia's Employee Recognition Program and standardize both the honorary and monetary awards. Although several State agencies/institutions have their own programs and related awards, they lack the visibility, recognition, and uniformity that a Statewide, standard program would offer. Such an expanded Employee Recognition Program would not only serve as a motivating influence for the employee but serve as another meaningful factor in selecting the best qualified individuals for promotion both with the agency and between agencies.
- C. It should be the responsibility of DPT to define the policies and detailed procedures related to an expanded uniform Statewide Employee Recognition Program. Such policy should: (1) identify types of awards (both honorary and monetary); (2) establish procedures for awarding an employee with each award to include related documentation and approval authority; (3) define requirements relating to the award to include minimum standards; and (4) define any limitations related to the award. DPT should be responsible for publicizing the program and it on a recurring basis to assure the policies and procedures are being complied with and to determine the effectiveness of the program. As meaningful experience is gained the program can be expanded or curtailed. DPT should establish clear cut guidance in terms of the maximum number of employees who can receive honorary and monetary awards within each State agency/institution.
- D. Each State agency/institution should publicize the program internally and establish procedures to assure it is administered in a fair and impartial manner in compliance with DPT's established policies. Maximum approval authority should be vested in each agency/institution head as opposed to a centralized approval process. Each agency could budget for the required funding based on guidance provided by DPT or absorb it in the existing budget. Honorary and monetary awards should be given to each recipient at an appropriate award's ceremony in the agency that would enhance the prestige and desirability of receiving the award.
- E. The Appropriations Act does appear to permit the Governor to approve in writing a system of incentive award payments. Such approval should be based on a clearly defined Statewide Employee Recognition Program that

provides for centralized policy guidance and decentralized implementation. Several states do have such a monetary Employee Recognition Program and found it to be meaningful and effective. We do not have a Statewide program which permits management to recognize outstanding employees. Monetary recognition is an essential component of such a program. The use of a \$50 savings bond does provide for such recognition and should prove a meaningful incentive to State employees and not cost prohibitive from the Commonwealth's standpoint. The maximum costs of such an approach can be controlled by limiting the number of employees within each State agency/institution who can receive such a monetary award on an annual basis.

V. RECOMMENDATIONS

- A. The current Statewide Service Award Program should be established as a mandatory program for all State agencies/institutions effective September 1, 1978. Any deviations must be approved in writing by DPT based on a program of similar scope and quality.
- B. The Employee Recognition Program in Virginia should be expanded to include the following awards as a minimum:
  - (1) A Retirement Certificate - It should be a standard, statewide Retirement Certificate signed by the Governor and issued to all State employees retiring with fifteen or more years of service. It should be awarded by the agency/institution head at an appropriate ceremony during the month of retirement.
  - (2) Certificate of Achievement - It should be a standard certificate signed by the appropriate agency/institution head and presented by an individual designated by the agency/institution head at an appropriate ceremony. It should be based on the performance of assigned responsibilities in a commendable manner or the result of specific acts. It should be awarded based on the recommendation of the individual's immediate supervisor and the approval of his agency/institution head. DPT should clearly define the criteria to be employed in awarding it and the number of such awards should be limited to no more than five percent of the employees in each State agency/institution.
  - (3) Sustained Superior Performance Award - It should be a standard certificate signed by the appropriate agency/institution head and presented by him at an appropriate ceremony to the maximum extent possible. A \$50 savings bond should accompany the award. A committee should be designated within each State agency/institution to review nominations submitted by the individual's supervisor on a recurring basis. The committee's recommendations should be subject to the approval of the agency/institution head. The number of such awards should be limited to no more than five percent of the employees in the agency/institution. The cost of



the program should be absorbed within the agency/institution's operating budget as long as it is limited to a \$50 savings bond. It should be based on outstanding performance for a minimum of 12 months in the same job at the same grade level. Only one such award should be granted to the same individual in any 36 month period of service. DPT should clearly define the criteria to be employed in awarding it and it is the highest award that can be granted to an employee for outstanding performance in the service of the Commonwealth.

- C. DPT should develop the policy guidance that will govern the implementation of the recommended Statewide Employee Recognition Program. No later than October 1, 1977 DPT should submit such policy to the Governor, through the Secretary of Administration and Finance, for his written approval which should include an incentive award payment of a \$50 savings bond based on guidelines outline above.
- D. The awards recommended in paragraph 5 B above should be effective as of January 1, 1978. DPT should review the implementation, operation and effectiveness of this expanded Employee Recognition Program. In December 1978 the program should be evaluated to determine its value and effectiveness in comparison to its costs. As a result of such an evaluation by DPT the program should be either; (1) eliminated, (2) retained as is, (3) expanded to include additional awards of a monetary nature such as a larger lump sum payment.



CHAPTER IV  
A SUGGESTION AWARDS  
PROGRAM FOR  
VIRGINIA

## SUGGESTION SYSTEM

### The Process

The first known suggestion system was adopted by a private industrial firm, in 1880 to encourage employees to improve work methods and increase productivity. Since then, leaders in both government and industry have recognized that benefits can be derived from the ideas of employees. There can be no disputing the fact that employee suggestions can directly contribute to the economy and efficiency of any operation, but too often, employee suggestions are not brought to the attention of those in a position to effect change. The familiar axiom that two heads are better than one illustrates the potential benefits of a formal suggestion system, and if this principle is multiplied by the number of people in a work force, the potential value of a program can be realized. The suggestion system offers employees a clear avenue to reach top management with their ideas for improvement. The system also gives management an opportunity to take advantage of the ideas of employees whom they may not see on a daily basis. A suggestion system has two obvious benefits. First, suggestions frequently contain cost reducing methods that save money, and second, a program creates employee interest by directly involving workers in the improvement of operations. A suggestion program should be administered in such a way that employee suggestions can be received, reviewed, and processed in a reasonable amount of time. Employees who take

the time to submit ideas should not be kept waiting indefinitely for information on the outcome of their suggestions. A good suggestion system will, in all likelihood, contain the following features:

1. Top management support.
2. Emphasis on quality rather than quantity of suggestions.
3. Efficient administration, since employees will judge management by the way their suggestions are handled.
4. Monetary rewards for savings that result from the adoption of ideas.

Almost all suggestion systems contain significant weaknesses in administration. Managements in industry and government are unanimous in their belief that suggestion systems are based on a sound theory- that people engaged in the work involved can have worthwhile ideas about how the work should be done. But in practice, the day to day administration of suggestion programs leaves much to be desired, and those experienced in the administration of suggestion systems indicate one of the major pitfalls is underestimation of the time and other resources involved. Insufficient allotment of resources as a basic commitment or dilution of resources, even for temporary periods of time, would guarantee failure of any suggestion system. The tardy ineffectual handling of employee suggestions can do more harm than good, and if

management considers it an affront to have employees suggest more efficient or cheaper ways to do things, then it would be better not to have a program. A suggestion program will be successful when:

1. Members of the work force are convinced that management is genuinely interested in their ideas.
2. Suggestions are promptly and courteously acknowledged, analyzed, and individually considered.
3. Suggestions are carefully and objectively evaluated. The casual dismissal of ideas which employees have taken the trouble to offer, is particularly damaging.
4. Decision notices provide logical reasons for rejections in inoffensive language.

### The Current Situation in Virginia

Several suggestion systems exist within the State Service, some of which make cash or other monetary awards to employees for suggestions adopted. The University of Virginia Hospital, the College of William and Mary, and the Division of Motor Vehicles currently have on-going suggestion systems. Discussions with suggestion system administrators from these institutions report varying degrees of success and all agree the full potential of their systems have not been reached for a variety of reasons. The University of Virginia Hospital makes cash awards and the College of William and Mary makes awards of U. S. Savings Bonds. The Division of Motor Vehicles does not make cash or other monetary awards.

It should be mentioned that the Department of Alcoholic Beverage Control gave serious consideration to the adoption of a Suggestion System in 1973 which included cash awards. An opinion from the Attorney General's Office indicated the cash awards might properly be charged as an operating expense since no money was included in the Department's budget for the proposed cash awards. The program has never been implemented primarily because of concerns by the Department of Personnel and Training that such a program should not be implemented unless it could be done so on a state wide basis. The ABC Department indicated it has not totally abandoned its plans for a Departmental Suggestion System, but at the present, has not decided on a definite course of action in this regard.

Other States

A survey of other State Governments known to have state wide suggestion systems indicates considerable savings are realized from their programs. The states of Minnesota, Florida, and North Carolina responded to a questionnaire sent by the subcommittee and reported the following savings for the time periods indicated:

	72-73	73-74	74-75	75-76
Minnesota	\$236,479	145,552	577,265	296,881
Florida	267,903	386,768	313,686	408,494
North Carolina	_____	_____		125,275*

Minnesota reports an annual cost of \$48,772, to administer its program while Florida reports \$25,000 as the annual cost of administration. North Carolina is unable to identify its administrative cost since it is included in the total Personnel Department budget and the Administrator also has other duties not related to the administration of the Suggestion System. All 3 states report high levels of activity if the number of suggestions received is used as the measure. Minnesota reports an average of 1,034 suggestions for each of the past 4 years, Florida has averaged 1,733 per year over the same period and North Carolina reports it received approximately 2,300 suggestions during its first year of operation. It is significant to note, however, that approximately 30% of the suggestions received by the North Carolina system in the first year of operation were determined to be complaints, a point worth remembering for those considering adoption of suggestion systems for the first time.

\*program established 1-1-76



It should be noted that the sub-committee assigned to study the feasibility of adopting a Suggestion System has in its possession copies of several plans from other organizations which could be utilized in formulating a plan for the Virginia State Service.

### Observations and Problems

The financial situation of State Government presents a favorable climate for consideration of ideas likely to reduce expenditures. Employees with whom the matter has been discussed express enthusiasm for the idea provided cash awards are included. The notion that a certificate of appreciation or a letter of thanks will sufficiently motivate employees to originate, develop, and present ideas of high quality is unrealistic. The benefits to be gained from a suggestion system must be weighed against the costs, both direct and indirect, of administering such a system. As pointed out earlier, a suggestion system will be effective only if it has the commitment of top management.

### Conclusions

Considerable cost savings and improved employee morale through increased participation in matters affecting the operation are benefits to be realized from commitment to and adoption of a formalized suggestion system. A system which includes provisions for cash awards appears to offer the most promise for success based on reports of those experienced in the field and employees with whom the matter has been discussed.

Recommendations

The Committee recommends the following:

1. A suggestion system be implemented in one or more agencies which could serve as a "pilot" for a possible state wide system. It seems reasonable to approach the ABC Department to determine if they would agree to serve as the pilot agency since they have already formulated a plan and would, in all liklihood, be in a position to implement the cash awards provisions with less difficulty than most agencies.
2. The Director of Personnel and Training evaluate the "pilot" project prior to January 1, 1979.
3. Based on his evaluation of the "pilot" program, the Director of Personnel and Training make a recommendation to the Secretary for Administration and Finance regarding the establishment of a suggestion system for the entire state service. In the event the recommendation is for the adoption of a suggestion system, it should be accompanied by a plan for implementation.

June 7, 1977

CHAPTER V

AN ANALYSIS OF LONGEVITY

PAY FOR

STATE EMPLOYEES

## LONGEVITY PAY

### 1. Current Situation

All State positions subject to the State Personnel and Training Act have a maximum salary rate, above which no employee occupying such a position may be paid. Most positions are assigned salary ranges which contain 6 to 8 steps, including the minimum and maximum steps. In most cases the step differentials are 4.5% (some lower and some higher). Employees are normally employed at the entrance rate (first step) and progress through the salary range based upon satisfactory job performance until the maximum step of the scale is reached. Once the maximum step is attained no further increases are available to the employee in that position or another position with a similar scale. If scales are increased the employee at the maximum is usually eligible to move to the new maximum step.

Some State Administrators have the view that a longevity plan of some type should be considered. The more frequent reasons advanced for such a plan are that turnover of employees at the maximum step could be reduced, pressure to reallocate positions mainly to increase pay could be relieved, and that productivity might be improved if employees at the top can expect further increases. These and other aspects will be discussed in this paper.

### 2. Facts Bearing on Issue

The latest count of permanent full-time employees supplied by the Department of Personnel and Training (DPT) is 62,500. This does not include faculty positions in the State colleges, which number between 9 to 10 thousand. Of 65,200 classified employees, 26,550 are at the maximum rate for the position they occupy. This means that some 41% of the employees are currently at the maximum rate.

It has not been practicable to obtain information to reflect turnover rates for the group at the maximum. However, there is considerable doubt that turnover exceeds that for other employees. In fact, it is likely that the turnover rate is less.

Since employees at the maximum normally receive increases when scales are adjusted, a review was made of State salary adjustments for a 17 year period (1960-1976 inclusive). Seventeen different classes from various fields (clerical, accounting, transportation, taxation, conservation, and health) were reviewed. This information shows that on the average, the classes have increased nearly one step each year. Increases were not given in every consecutive year, but in several instances salary scales were adjusted by two or more steps. In a few cases, adjustments did not average one step each year for the period covered. However, the data strongly suggests that the vast majority of

classes in the State's compensation plan have averaged about one step each year.

A survey of other major employers was conducted, to determine other policies and practices regarding longevity pay. Responses were received from eleven major companies, in such fields as manufacturing, banking, public service, utilities and rails. Two of the respondents report having longevity plans, one of which has strong reservations about its effectiveness. One other firm reports a plan for management personnel only, based on performance ratings, but does not regard these payments above the normal rate as longevity. The remaining companies report that pay does not exceed established maximum rates.

### 3. Discussion

The idea of longevity pay has some appeal. A large number of employees (41%) are at the top of their scale, and many others soon will be, or expect sometime to reach the maximum rate. Therefore, a great many employees have a direct interest in this subject. Under present economic conditions, there is a degree of hardship involved, as living costs continue to increase, if wages remain unchanged for individuals at the maximum rate. This is a situation that if allowed to persist over an extended period could be expected to result in fundamental problems of morale and turnover in State service.

For the vast majority of positions, it appears that the State already administers a type of longevity plan. Most scales cover 6 to 8 steps, and workers progress through these scales provided satisfactory service is rendered. Thus, if a plan were developed to add steps, the scales would simply be extended. This presents somewhat serious problems in a compensation plan which is already severely compressed. Also, it would tend to raise the "value" of work artificially regardless of the reasons the scales were increased.

One alternative suggested would provide for a "bonus" type payment, rather than to add steps to the scale. It is questionable that a bonus plan would be effective. If such payments had any relative frequency they would be costly and difficult to manage. In the event payments were small and/or too infrequent, the plan would border on tokenism and would probably be of little value.

### 4. Conclusion

A relatively high proportion of State workers are at the maximum rate for the positions they occupy. This in itself would appear to warrant consideration of their peculiar situation, if any exists. There is no evidence to indicate that this group experiences higher turnover than employees within the scales (in fact it is believed to be less), lower productivity, or that an inordinate number of attempts are made to reclassify positions higher simply because employees have reached maximum pay. A survey of other large employers indicates that longevity payments for long time workers are not prevalent, and not believed to be a highly productive incentive for employees.

While the above hardly leads to the conclusion that a longevity plan would yield significant benefits, any pay question affecting 41% of our employees cannot prudently be ignored. So long as economic conditions which include ever increasing living costs and higher wages persist, we must consider the status of our workers at the maximum step of the scale. It would appear that if State salary scales are continually reviewed (at least annually), and actions are taken to maintain competitive pay, the employees at the top of their scale can be afforded some protection. In the opinion of this committee, there is no real substitute for maintaining pay scales for State employees which are competitive with other employers, and which attract and retain qualified employees. Provided this is the policy of the Commonwealth, and that policy is acted upon, the grounds for longevity pay are materially weakened.

As a secondary, but related issue, there is not substantial disagreement with previous signals from the General Assembly, that when funds are insufficient to provide general increases for all workers, preference should be given to those at the maximum rates.

In summary, there is little evidence at this time to suggest a significant need for longevity pay based on tenure. Even a modest program could be expected to cost several million dollars annually, with little result. It is strongly believed that if State scales are kept current with inflation and the compensation plan is on parity with comparable jobs outside State service, that any pressures or need to provide a longevity plan will be diminished.

#### 5. Recommendations

- A. Appropriate steps be taken to assure that salary range for State employees are maintained at a competitive level and abreast of the cost of living.
- B. That no plan for longevity pay be proposed based on the review contained in this paper.
- C. That the Department of Personnel and Training be asked to review the findings and conclusions contained in this issue paper, and provide an appropriate comment as to agreement or disagreement.



CHAPTER VI  
APPOINTMENTS ABOVE  
THE  
ENTRANCE LEVEL

APPOINTMENTS ABOVE ENTRANCE LEVEL

1. Current Situation

Rule 8.3(a) of the "Rules for the Administration of the Virginia Personnel Act," effective July 1, 1977, states:

"(a) Except as provided below in this subsection, the entrance rate payable to any person on first appointment to a position of any class shall be the lowest, or minimum, rate in the scale for the class.

"An entrance rate below the minimum may be paid with the concurrence of the Director during a training period when the appointee is not fully qualified and when no qualified applicant is available either from the agency or the central employment list, or if such action is provided for in the class specifications.

"An entrance rate above the minimum may be paid only when the Director finds exceptional circumstances..."

Exceptional circumstances, as defined by examples in the "Rules," appear to apply chiefly to persons already employed by the State, rather than to new employees brought in from the outside. For example, the exceptional circumstances section allows in Rule 8.3(a[5]) for employees who are promoted to be given an increase in salary even though that requires starting them above the first step in the current salary scale for the class of positions to which they are promoted.

New employees from outside State service must as a rule start at the first step of the salary scale unless there are no other qualified applicants. This policy has been incorporated into the July 1, 1977, revision of the "Rules" as follows, as Section 8.3 (a[6]):

"When a vacant position has been appropriately advertised and no qualified applicant is available who will accept the position at the entrance rate, a rate above the entrance rate may be authorized by the Director on the basis of the circumstances involved. Prior written or oral approval of the Director should be obtained before a salary commitment is made to the employee. In the case of such an exception, the employee affected will not be eligible to receive the benefit of any regrading for his class which becomes effective within the six months following the exceptional action unless as a result of the regrading his salary falls below the revised minimum, in which case he will be eligible for increase to the minimum."

Less than one-tenth of one percent (0.001) of all personnel transactions approved by the Department of Personnel and Training (DPT) fall into the category of exceptional actions.

As a matter of State policy, applicants for clerical and related positions are not started above the entrance rate. In other classes of positions, applicants may be started above the entrance step in exceptional circumstances.

DPT continuously monitors exceptional circumstance appointments. If there appear to be very many in a given class of positions, DPT tries to find the reason. If the cause is a non-competitive salary scale, the salary scale may be changed to make it competitive. Exceptional circumstance appointments serve as a trend indicator, pointing to a possible need to revise the salary range or change the qualifications standards for a class of positions.

In an exceptional circumstance appointment, the employee may be started at any step in the salary range. The rate may not exceed

the top step of the scale.

Agency appointing authorities cannot grant beginning salaries above the entrance rates. That authority rests with the Director of Personnel and Training.

2. Facts Bearing on Issue

A survey of practices in other states, in nearby localities, and in the Federal government, showed that almost all have some provision for appointing employees above the entrance step of a salary scale. Reasons for appointments above the entrance level include: (1) labor market or recruiting conditions; (2) applicant qualifications (special skills, training, and/or experience); and (3) previous salary.

When labor market or recruiting conditions make it difficult to attract applicants for a given class, the tendency is to establish and publicize a new "hiring rate" one or more steps above the entrance step in the salary scale. All new appointments are made at the new "hiring rate," and all incumbents at lower salary levels are automatically raised to the new hiring level.

When a higher appointment level can be given because of qualifications, guidelines often require at least six months or one year of relevant training and/or experience beyond minimum requirements, for each salary step above the entrance level.

Entrance salaries above the minimum may also be allowed for positions

requiring special skills over and above those normally required for the classification.

Previous salary was a consideration in every instance of appointments involving the promotion of current employees, but was mentioned in only a few instances in connection with applicants from the outside. The U. S. government and the District of Columbia, which operates under Federal personnel regulations, take previous salary into consideration in making appointments.

3. Discussion

Appointments above minimum may be handled on either a class basis or an individual basis. They may be a matter of individual negotiation or general policies. They may or may not be publicly announced, and may or may not affect equally all current employees and applicants. In the current climate of public concern for non-discrimination and "affirmative action," the tendency is to have published policies that apply equally to all.

Appointments above minimum may be made to gain special qualifications, to upgrade the labor force, or to solve recruiting problems. When done to solve recruiting problems, the trend is to establish a new "hiring rate"; to hire all new employees at the new hiring rate; and to raise automatically to the new hiring level, salaries of any incumbents below that.

Establishing a new hiring rate shortens a pay scale, by eliminating the

first steps. It enables the state to compete in a tight labor market, and may be used as an interim device to test labor market conditions prior to changing a pay scale. But the shortened scale may create problems later, and should not be used to compensate for non-competitive pay scales or for inadequacies in the classification process.

Appointments above the entrance step may be made to gain special qualifications needed for a particular job (e. g., a foreign language skill). Since hiring above the minimum does restrict the salary range, it is questionable whether it should be used for this purpose, or whether positions requiring special qualifications should not be regraded.

Allowing appointments above the minimum step of the salary scale allows a state to employ applicants with the best qualifications, rather than the best applicant available at the entrance step. It can be used to upgrade the work force, and is particularly important in selecting candidates for professional and managerial positions, where long range directions are set, and impacts made on the effectiveness and productivity of other people.

Basing starting salaries on qualifications not only facilitates the appointment of exceptionally qualified people, but also contributes to equitability in appointments. It puts applicants from outside State service on a more equal footing with applicants currently in State service. Allowing suitably qualified appointees to start above the minimum provides for recognizing experience gained outside State service. Experience gained in State service is currently recognized

in Virginia through the allowance of an increase of at least one step for current employees who are promoted. For current employees, each step above minimum in effect represents one year of experience in Virginia State service.

Some states appear to make special efforts to recruit superior candidates. Kentucky, for example, can hire above the first step employees who graduated from college with a grade point average of 3.25 or above on a 4-point scale.

Except for promotions of current employees, Virginia appoints above the entrance level only on an "exceptional circumstances" basis. "Exceptional circumstances" appointments are monitored and used as an indicator of a need to change the salary level or qualifications requirements of a position or classification. The "exceptional circumstances" clause gives flexibility to the Virginia system. Unfortunately, it does not appear to be well understood and used; only a limited number of agencies are making much use of it.

Clerical positions are the only ones exempted from "exceptional circumstances" appointments in Virginia. The clerical series in Virginia does have progressions (e.g., Clerk A, Clerk B, Clerk C, and Clerk D) which permits hiring applicants with higher qualifications in positions at higher levels in the series. The higher levels in the series are currently being used to some extent to compensate for non-competitive salary scales, which undermines their usefulness for obtaining and compensating persons with higher qualifications.

It is common for agency heads in other states to have authority to

approve appointments through the third step. Above that, appointments may have to be approved by the state director of personnel or by a committee or commission on salaries.

Agency heads in Virginia do not have authority to make appointments above the minimum salary step. Managers have commented on the desirability of being able to come to some direct understanding with an applicant, without an extended delay or complicated procedures that may cause the loss of a desirable applicant.

There is a real need to have available to managers the criteria for granting appointments above the entrance level. Such criteria are needed as part of organized, codified, and indexed personnel procedures that are easy to access and understand.

#### 4. Conclusion

Some provision for hiring above the entrance level of a salary scale is obviously needed. Virginia's present system of "exceptions" provides needed flexibility, but unfortunately is too little understood by agencies to be fully effective.

Both the system and the criteria for exceptional appointments need to be made known to managers, and they need to be given sufficient authority so they can negotiate with applicants with some confidence. The criteria for hiring above the entrance step need to reflect a balance between applicant qualifications and labor market conditions. The language in which the criteria are stated should give guidance while



still retaining flexibility.

A distinction probably needs to be made between occupations requiring specialized training and judgment, and those occupations not requiring such a high degree of judgment and training. For the former, more latitude is needed to hire above the entrance rates, to get the best possible applicant. The latter occupations are more controlled by labor market conditions; if recruiting for them at the entrance step is difficult, one of two alternatives should be considered. For temporary conditions, a new "hiring rate" can be established in the scale, to apply to all new appointees, and to any incumbents with salaries below that rate. If the salary scale has ceased to be competitive, the scale should be changed.

Under no circumstances should exceptional actions and dis-use of the lower levels of a classification series be allowed to substitute for appropriate action in regard to the salary scales themselves, since they result in system imbalance and problems elsewhere.

5. Recommendations

In order to improve the quality and performance of the State work force; provide greater flexibility to hire professional and managerial employees with experience acquired elsewhere; enable the State to attract employees with exceptional qualifications; provide flexibility in meeting varying labor market and occupational conditions; and eliminate factors contributing to inequities and discrimination, the following recommendations are made.

It is believed that any regulations established with regard to appointments above the entrance level of a salary scale should make a distinction between professional/managerial employees and other employees. Professional/managerial employees are considered to be those exempt from claiming compensatory leave.

It is recommended that:--

A. Professional/Managerial Employees.

- (1) Appointments above the entrance step in the salary scale should be permitted (a) for new professional and managerial employees with special qualifications above those required for the classification; and (b) when labor market or occupational conditions warrant.
- (2) Agency heads should be given authority to hire at levels beyond the first step of the applicable salary scale, within established guidelines, based upon specific criteria established by the Department of Personnel and Training. The guidelines should be such that agencies are not encouraged or allowed to compete against each other for employees already in State service.
- (3) Rules and regulations supplementing the "Rules for the Administration of the Virginia Personnel Act" should be organized, codified, and indexed for easy access, so that agency heads can be fully aware of their options and limitations in hiring above the entrance level.

B. Other Employees.

- (1) Continuous review should be made of hiring rates in non-professional/managerial occupations, on a regional basis, through attention at DPT as well as through a system of input by which agencies can express difficulties being encountered in filling jobs in these occupations at the entrance step of the scale.
- (2) As an alternative to reallocating or regrading non-professional/managerial positions to meet temporary labor market conditions, a program should be established of adjusting the effective hiring rate of employees in affected classes. Under program guidelines, in response to signals from systems established as proposed in Recommendation B(1) above, DPT would authorize appointments above the entrance rate at a step consistent with the market place.
- (3) All new hiring rates approved during any budget period shall be taken into consideration when subsequent general adjustments are made in the scales of the classification.



CHAPTER VII  
ADDITIONAL MERIT INCREASES  
FOR  
OUTSTANDING EMPLOYEES

ADDITIONAL MERIT INCREASES FOR OUTSTANDING EMPLOYEES

1. Current Situation

The Virginia Personnel system provides for periodic one-step salary increases for satisfactory service, but currently has no provision for merit increases, incentives, or other monetary awards for outstanding employee performance. Additional one-step increases may be given in "exceptional circumstances"; for example, they can be given to retain an employee who has received an offer from another employer.

Rule 8.3(b) of the "Rules for the Administration of the Virginia Personnel Act" states:

"(b) Administrative increases shall be made by successive steps, but not to more than the maximum rate of the scale for the class. Administrative decreases likewise shall be made by steps, but not to less than the minimum rate of the scale for the class; decreases in pay below the minimum rate shall be dealt with as demotions."

2. Facts Bearing on Issue

Of eighteen states surveyed, twelve reported having provisions for salary increases for outstanding performance. One state without such provision commented: "We feel that it is a major weakness of our present system, as it has the effect of standardizing employee performance." Two other states reported that performance awards were allowed, but were given infrequently. Two others reported having programs which were currently suspended for budgetary reasons.

Among nearby political units surveyed, the U. S. Government, the District of Columbia, and Arlington, Chesterfield, and Fairfax Counties have provision for giving extra one-step merit increases once a year in recognition of outstanding performance. In all but Chesterfield County, the extra step increase can come

at any time during the year. In Chesterfield County, the increase is tied to the regular merit increase: outstanding employees receive a two-step increase instead of the usual one-step increase. One-step increases are approved by supervisors; two-step increases must be recommended by the Chesterfield County Personnel and Salary Advisory Committee and authorized by the Board of Supervisors.

The survey showed considerable variation in performance award systems. Sometimes the outstanding performance award system supplemented a system of merit increases for satisfactory service and sometimes incorporated that system.

An extra step in the salary scale appeared to be the most common award for outstanding performance, however sometimes a percentage salary increase or a lump sum award was given. A lump sum award for outstanding work was sometimes provided for employees already in the top step of their scale. In general, there was no provision for performance awards that would raise salaries above the top of the scale.

In some cases the award could amount to a partial step increase or to a percentage increase. The percentage increase was sometimes in fixed progressions (e.g., 0%, 4%, 6%, 8%) and sometimes was left open to the manager's discretion (e.g., any increase from 0% to 10%).

The award in some cases was geared directly to the performance rating system. For example, salary increases of 0%, 5%, 7½% or 10% were given in Florida and 0%, 4%, 6%, and 8% in South Carolina for unsatisfactory, satisfactory, above satisfactory, and outstanding service, respectively.

Three large private corporations in Virginia give cost of living increases and performance pay increases at the same time on the anniversary date. Employees do not know how much is for cost of living and how much for performance. They only

know they have received a "raise." Employees are discouraged from discussing salaries with other employees. The private firms appeared to make the salary increases a highly individualized matter, and to give managers considerable latitude to award increases within general guidelines. Unsatisfactory employees receive no increase, either for length of service or cost of living.

Some states impose limits as to the percent of employees who can receive outstanding performance awards. The private corporations seemed not to impose limits, but had sophisticated statistical controls for calling attention to exceptional situations.

Missouri reported having no limits on the percent of employees who could receive outstanding performance salary increases, but reported that the recommendations for such awards fall within statistically predictable limits and present no problem in budgeting.



### Discussion

The purpose of an outstanding performance award system should be to stimulate and reward outstanding service. Salary increases for outstanding employees should serve to make salaries more competitive and therefore help in retention of better employees.

Virginia currently has no procedure for financially compensating State employees for outstanding performance. Recognition can be given only through letters of commendation from supervisors or through promotion to a higher level. For many agencies and many types of classifications, promotion is not possible.

If an outstanding performance award system is to fulfill its purpose, performance requirements must be defined for each position so that employees know what is expected of them, and so that outstanding performance can be objectively determined. There must be uniformity throughout classifications and agencies. There must be safeguards to prevent favoritism and "halo effects," to ensure equality of opportunity to receive outstanding performance awards, and to ensure that the more visible agencies and areas of agencies do not overshadow other units. Funds must be appropriated and so distributed as to ensure equality of opportunity for employees in all agencies to receive awards.

Without an adequate performance appraisal system, an outstanding performance awards system is likely to (1) fail to fulfill its purpose and lead to morale problems, grievances, internal dissension, and self-centered competitiveness which may disrupt needed cooperation and working relationships; and/or (2) degenerate into a system of taking turns for increases, regardless of performance, or of dividing available performance award money among all satisfactory employees.

Competence in establishing realistic performance standards and in appraising employee performance is one of the criteria that should be included in perfor-

mance ratings of supervisors.

Money for outstanding performance awards could come from an increase in budget, or from redistribution of current budget. That is, money could come from changing the present system of merit increases so that "satisfactory" employees receive a lesser annual increase than at present, and outstanding employees a greater increase. Alternatively, a new step could be created in the present performance appraisal system: "marginal"--an employee not so poor that a case is being made for dismissal, but not good enough to warrant a salary increase.

If cost-of-living increases were given on the anniversary date, rather than all at one time, this would give every employee some salary increase on the anniversary date, and might ease a change-over to a system of differential salary increases based on performance. (It would also save paper work, and possibly money.)

It is debatable whether for budgetary purposes limits need to be placed on managers as to the percent of employees who can be given outstanding performance awards, and/or the amount of money that can be spent for this purpose. The budget itself creates a limit, and may be the only one managers need, other than having adequate guidelines, monitoring systems, and an effective performance appraisal system. One state which has no limits states that it experiences no problems as a result; that needs can be predicted and budgeted for; and that the lack of limits provides a flexibility which may be an advantage. The system is monitored by a committee which may request justification and supporting evidence from units that deviate too far from the average.

Limits will affect the nature of competition engendered by the system, as well as the results and problems that can be expected from the system.

Performance awards may be a full salary step, a partial step, a percentage salary increase, or a lump sum amount. Either salary increases or lump sum awards may be in fixed increments or may vary within a range. Lump sums, for example, might vary from \$100 to \$600 or might equal a step increase.

Lump sum awards cost less over the long run, because they do not commit the state to continuing payments at a higher salary level. However, salary increases are more likely to affect retention and create salaries competitive with offers that outstanding employees are likely to get from outside employers. The salary increases are therefore more helpful in building a quality work force.

An outstanding performance awards system may be independent of or combined with a satisfactory service award system. The two may comprise a single system using a scale ranging from "unsatisfactory" to "outstanding," with differing awards for each level of performance. One state allows managers to grant increases ranging from zero percent (0%) for unsatisfactory service to ten percent (10%) for outstanding performance. This practice corresponds with what some private firms in Virginia do.

Performance rating scales vary. Virginia uses a 5-point, 6-factor scale in service ratings, but for salary increases uses a dichotomous scale: "Satisfactory" employees receive a one-step merit increase; "unsatisfactory" employees receive no merit increase. Some states add a third point--"outstanding"--and give outstanding employees a two-step salary increase, instead of one step.

A four-point scale is sometimes used, in which case increments tend to be on a percentage rather than a step basis. Points on a four-point scale tend to be: unsatisfactory, satisfactory, above average, and outstanding. One alternative is a five-point scale: unsatisfactory, marginal, satisfactory, good (exceeds expectations), and outstanding. The latter rating might be given for superior

quantity and quality of daily work output, or might be given for some specific outstanding contribution coupled with good daily performance.

Group awards are possible instead of individual awards. Awards on the basis of individual performance create competition among individuals, out of which may stem many of the problems mentioned earlier as possible outgrowths of poorly-managed performance award systems. Awards for group performance create competition among groups instead of among individuals, and bring peer pressure into play. A group award might consist of salary increases or lump sum awards to each member of an outstanding group.

In any event, criteria of outstanding performance should include a criterion related to cooperation versus competition at the expense of other employees and working relationships.

The most important dimension of a performance award system is probably the one relating to the object of competition: whether competition is against other employees, or against performance objectives and standards. A limit on the number of awards that can be given tends to create competition against other employees. When competition is against performance standards and objectives, all employees who exceed expected performance can be rewarded. The guidelines and the budgeting system will influence the kind of competition that a system promotes. Missouri's experience suggests that an absence of limits does not create budgeting problems. In theory, competition against expected performance should result in increased productivity by all employees, and result in savings that more than offset program costs. One state reported using "achievement of performance objectives" as the basis for granting salary increases ranging from 3% to 12% to upper echelon employees.

Unless a performance award system can be set up to reward improved performance all along the performance scale, it is likely to affect only the segment of the employee population which expects to have some chance to earn awards. A system based on competition among employees is almost certain to have a depressing effect at the lower end of the scale.

To be effective, an outstanding performance awards system needs guidelines at both the state and agency level, and training for managers in how to operate the system to achieve the desired aims. Provision also needs to be made to monitor the system on at least an exception basis, as private industry does. (By "exception basis" is meant that a system exists to call attention to deviations too far from norms, so that a determination can be made as to whether the deviation accurately reflects performance, or whether corrective action is needed.)

Without adequate guidelines, monitoring, training, and performance appraisal, an outstanding performance award system is likely to do little more than create additional funds for raising salaries. Perhaps discretionary funds for managers to use for this purpose would in itself be worthwhile, particularly to provide increases for employees at the top of their grade in classifications from which promotion opportunities are not available; however, to use the outstanding performance award system solely for this purpose would be a perversion of intent.

It should be noted that in surveying other states as to practices in regard to outstanding performance award programs, considerable differences were sometimes found between theory and practice, with the differences not evident until elicited by in-depth interviews and observation of practice. If Virginia is to profit from the experience of other states, it will be necessary to study their experience in greater depth than is possible solely from a study of published documents.

The study of the experience of other states should be accomplished in two phases. Phase I would provide background for developing models and guidelines. In Phase II the developed models and guidelines would be tested against the experience of other states.

Extreme care is important in developing an outstanding performance award system because changes are hard to make once such systems have been started. It will be cheaper and less painful in the long run if Virginia can learn from the experiences of other states, so as not to embroil itself too speedily in a system that may cause problems.

#### 4. Conclusions

A properly-managed performance award system has the potential for encouraging employee performance beyond normal job requirements. It could also aid in retention of outstanding employees who might otherwise look for other employment elsewhere.

There are opportunities for a performance award system to have an adverse effect on productivity. Should the percentage of employees receiving outstanding performance awards be small, it is possible that the masses not receiving consideration would withdraw and take the stand that those receiving such compensation and recognition should carry the workload. It is also possible that competition among peers could lead to employees pursuing personal objectives rather than the objectives of the group, at the expense of co-workers.

A system based on competition against performance objectives and standards, rather than competition against peers, seems to offer the best hope of improving performance and avoiding undesirable side effects.

Any system of outstanding performance awards needs to be carefully planned,

modeled, and tested prior to implementation, to ensure that it will achieve the desired results and not create additional problems that might negate benefits from the awards system.

A great deal more work needs to be done on finding out and analyzing the experience of other states, localities and private industry in operating such systems, than was possible for this report.

The present system of performance appraisal in Virginia does not support objective performance appraisal in terms of the performance requirements of specific jobs, nor does it support the drawing of clear and defensible distinctions between levels of performance. This will be the case as long as the system entails report-card-like annual reviews ranking employees according to such vague and general considerations as "personality," "judgment," and "quantity of work," when no measurable standards are provided to guide either the employee or the evaluator.

It will exist as long as the consequence of an honest low rating must be firing or retirement. It will exist unless a manager perceives himself as being really free to pick and choose among a variety of rewards, punishments, and remedies to follow up his performance rating.

The consequence of the present system is, of course, declining productivity and homogeneous salary treatment. The present rate of inflation causes such dramatic increases each year in the cost of living, that even with cost-of-living increases, supervisors are reluctant not to award annual merit increases to all employees as well.

In short, a much more realistic and aggressive pay strategy, in terms of both

merit and cost of living, is imperative.

Appropriate distinctions among the performance levels of employees cannot be drawn until standards of performance are set cooperatively between management and the employees. Only at this point would supervisors be in a position to sit down each year with employees to see what they can do to find out what it takes for the employee to progress. If an employee is not performing, the supervisor is in a position to determine whether the reason is "something management has failed to do," or whether it is the employee's own doing. Unless the criteria by which the employee's work will be judged are known to the employee, performance evaluation and improvement cannot effectively occur. Hence, the committee emphasizes the desirability of special merit consideration for outstanding performers, as well as the withholding of increases to marginal employees.

The Director of Personnel and Training, Mr. John W. Garber, has agreed with the conclusions stated in House Document Number 12 that the development and implementation of standards of performance are appropriate and desirable. He has acknowledged the need for extensive training in this area, and generally seems to be supportive of the evolution of a performance appraisal system keyed to standards of performance. It is concluded that the development of this program should have as one of its objectives the collateral development of a model for a variable merit increase plan, and that the following elements should be taken into consideration in developing the model: (a) The model should not place arbitrary limits on the number of outstanding merit increases which can be approved. Such limits are considered basically counter-productive. One can expect a well-planned and administered performance appraisal and outstanding performance award system to exhibit within itself inherent



elements of a self-controlling system. (b) The model should provide for approving outstanding merit increases only in the presence of specific justification of the awards by the division head in charge of the employee's work unit, and approval should be a matter of personal discretion of the agency head. (c) The model should provide for outstanding performance awards for employees at the maximum of their scales (e.g., a bonus in the form of a lump sum payment). (d) Consideration should be given to gaining flexibility by permitting partial-step increases, percentage increases, and/or lump sum payments. (e) The model should provide for distinguishing and appropriately rewarding gradations of work performance: unsatisfactory, marginal, satisfactory, good, and outstanding. (f) The model should provide for comparability among agencies in evaluating performance and in giving performance awards; for a means of ensuring the effective operation of the outstanding performance award system and the achievement of its objectives; for equitability and non-discrimination in giving outstanding performance awards; and for proper delineation of centralized and decentralized responsibilities and authority.

##### 5. Recommendations

Although the committee feels that there is potential for certain benefits to be derived from providing additional compensation for outstanding performance, it is not convinced that such a proposal should go beyond the planning-modeling-testing stage until it can be demonstrated that agencies of the Commonwealth are appropriately equipped to conduct performance appraisals that will ensure an objective evaluation of performance.

The following recommendations are therefore made:--

1. Development of standards of performance, and a performance appraisal system keyed to standards, should proceed with all due speed.

2. The development of a performance appraisal system keyed to standards should have as one of its objectives the collateral development of a model for a variable merit increase plan, which model would take into consideration the elements discussed under "Conclusions" in the preceding section of this report. The model shall not place arbitrary limits on the number of additional merit increases for outstanding employees that can be given in any year. However, experience in using the model can be expected to set up limits so that the model becomes a self-controlling system.
3. As background for the Virginia model, an in-depth study should be made of the performance appraisal and award systems of other states, localities, and organizations, to determine the best features and the experience others have had in using the various features in actual practice.
4. The finished model should be tested against the experience of other states and organizations, prior to implementation.
5. During the time standards of performance are being developed, models should be developed to indicate what the norms are regarding outstanding performance, among agencies.
6. A time schedule should be established by DPT for developing and testing the recommended model. The time schedule should be realistic and should probably allow two years for developing and testing the model and seeking agency suggestions for the model and agency reactions to various aspects of the model.

The Committee supports implementation of an outstanding performance award system if the conditions outlined in the recommendations are met.



