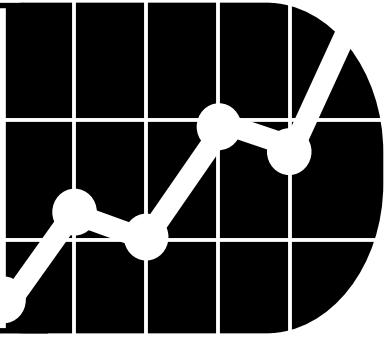


Performance Management Practitioner Series



Pass/Fail Assessment: An Overview



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C ONCEPT

Federal regulations on performance appraisal for employees not in the Senior Executive Service¹ allow employee performance to be appraised and rated as pass/fail if the agency's approved appraisal system permits. An agency's appraisal system is the framework of policies and parameters within which its appraisal program(s) will operate. A Federal organization wishing to appraise performance elements as pass/fail, to assign only pass/fail summary levels, or both, must have an appraisal program that has been established under an agency appraisal system that allows for appraising performance elements at as few as two levels and for assigning only two summary levels in ratings of record.² In addition, the program must comply with any agency system requirements for internal review and approval.

Pass/fail appraisal in the Federal sector places retention-level performance at the *Fully Successful* or equivalent level (pass). The *Fully Successful* (or equivalent) standard must be described in writing, or otherwise recorded, and must be made clear to the employee. If an employee does not meet or exceed the *Fully Successful* level, his or her performance is determined to be *Unacceptable* (fail), and the employee could face an adverse action and no longer retains certain entitlements (e.g., within-grade increases, non-competitive promotions). Pass/fail eliminates the *M marginally Successful* level (the level of performance below *Fully Successful* but above *Unacceptable*) and provides no further distinctions above *Fully Successful*.

Technically, the pass/fail approach can be applied at one or both of two assessment points in the overall appraisal process. First, performance elements are appraised. Second, this element appraisal is periodically summarized in a performance rating, which for the rating of record at the end of an appraisal period must include the assignment of a summary level under a particular pattern of summary levels. The idea of pass/fail appraisal is commonly associated with summary levels and the rating of

¹ Senior Executive Service Employees are subject to statutory and regulatory requirements that preclude the use of pass/fail assessments.

² A performance appraisal program that summarizes performance as pass/fail uses summary level pattern A, as specified at 5 CFR 430.208(d)(1), which includes Level 1 ("Unacceptable") and Level 3 ("Fully Successful" or equivalent).

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record, but its application to preliminary element appraisal, where it uses a defined retention standard to establish individual accountability, remains a distinct issue in appraisal program design.

The decision to use pass/fail at the element level and/or the summary level will depend on several factors, including the type of work to be appraised, the measures available, the feedback mechanisms used, the culture of the organization, and the impact of prior appraisal programs. A discussion of how work is planned, goals are set, performance is measured, and feedback is given should precede discussions about the number of levels used for appraising and rating performance.

EXPERIENCE WITH PASS/FAIL ASSESSMENT

Only limited information is available on the use of pass/fail performance assessment in the private sector. In its 1994 report, *The Impact of Performance Management on Organizational Success*, Hewitt Associates found that only 10 of the 437 companies surveyed (2.4%) used a pass/fail rating process. As with other private sector surveys, information on individual companies in the Hewitt survey is proprietary, so the specific companies are not identified and could not be contacted to find out more about their use of two-level performance assessments. One of the main reasons many companies continue to use multi-level ratings is that, at least for the white collar workforce, base-pay adjustments are still distributed under merit pay matrix methods that require the use of multi-level summary assessments of individual performance.

Interest in pass/fail appraisal grew, at least in part, during the era that saw an increased influence from the teachings of W. Edwards Deming, the total quality guru, who generally condemned any form of performance evaluation. A popular book about Deming from that period, *The Man Who Discovered Quality* by Andrea Gabor, featured a chapter about performance appraisal called “The Case for a Pass/Fail Approach to Evaluating Individual Performance.” That chapter presents case studies of corporations, such as General Motors and American Cyanamid, who shifted to pass/fail appraisal. It is worth noting that a close reading of the chapter reveals that, in each case presented, the organization maintained a third appraisal tier to identify and reward a few exceptional performers.

The use of pass/fail performance assessment in the Federal Government has been very limited because prior to September 22, 1995, it was not allowed under Governmentwide regulations. However, a couple of Government corporations have been able to experiment with pass/fail

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appraisal since they are not covered by the performance appraisal requirements in title 5, United States Code, and their implementing Government-wide regulations. The Pension Benefit Guaranty Corporation (PBGC) used pass/fail performance appraisal in 1994 for 52 non-bargaining unit employees who volunteered to participate in a pilot. The purpose of the pilot was to simplify the appraisal process, to focus more attention on employee feedback and development, and to foster a sense of teamwork. One of their concerns was to make sure that supervisors did not abdicate their responsibility to provide feedback by just assigning a “Meets Expectations” rating without giving additional, meaningful feedback to their employees. This was especially important because responses to an internal survey indicated a strong employee interest in receiving feedback. To encourage this feedback, PBGC later developed an “Employee/Rater Communication Worksheet,” which documented the employee’s strengths as well as areas that needed improvement and recommendations for employee development. The form was used solely as a basis for discussions between supervisors and employees.

Reaction to the new appraisal system within the Agency was most favorable among participating supervisors who saw it as an easier way to provide constructive feedback. Non-supervisory employees, on the other hand, were less positive. They saw the system as benefitting mediocre performers who would be given the same “Meets Expectations” rating as high performing employees. They were also concerned about being disadvantaged in the event of a reduction-in-force as performance ratings are used to grant additional years of service for establishing retention standing. PBGC will not continue its pass/fail pilot because it is committed to a single program for the entire agency, but was unable in labor/management discussions to reach consensus about using pass/fail appraisal.

Another Government corporation using pass/fail performance assessment is the Overseas Private Investment Corporation (OPIC) where they began using it in late 1994. OPIC adopted pass/fail because the previous five-level program was considered to have inhibited communications between supervisors and employees. Employees were too preoccupied with their rating to listen to any feedback about their strengths and developmental needs. The Agency sees pass/fail ratings as a way to get employees to shift their focus away from the rating label. It feels that implementation of pass/fail requires a strong emphasis on supervisors’ responsibility to provide meaningful feedback. It also requires educating employees to look for feedback and to initiate requests for that feedback if they don’t receive it. The Agency stresses that a pass/fail appraisal program needs to find ways to “stroke” star performers once they no longer have the oppor-

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tunity to receive *Outstanding* ratings. Positive verbal feedback and awards are just two of the ways in which supervisors can let employees know they are recognized as being the best. So far, the pass/fail system at OPIC has been welcomed. Paperwork has been reduced and there have been no grievances concerning appraisals given under this new program.

PERCEIVED BENEFITS OF PASS/FAIL ASSESSMENT

- ◆ **Employees no longer complain about ratings.** An employee's performance plan identifies his or her critical elements and includes the job-related performance standard describing the *Fully Successful* or equivalent level of performance for each element. When critical elements are appraised pass/fail, it is relatively easy for employees to determine if they have met the *Fully Successful* level or not (as compared to making distinctions between *Fully Successful*, *Exceeds Fully Successful*, and *Outstanding*). If pass/fail summary levels are used, employees already know their final rating (based on whether they have met the *Fully Successful* standard for all their critical elements). Because the assessment choices are limited to determining whether or not the performance standard(s) was met, there is little room left for complaint.
- ◆ **Paperwork and administration are reduced.** With pass/fail elements, there is no need to write more than one performance standard for any critical element. With a pass/fail summary, there is no need to write any additional justifications to support a performance rating, except perhaps for the occasional *Unacceptable* rating of record, which will require review and approval by a higher-level management official.
- ◆ **Appraisal doesn't get in the way of performance improvement.** When performance is *Fully Successful* (i.e., pass), both supervisors and employees can concentrate on discussing actual performance and ways to improve it without worrying about which element or summary level will be assigned. Employees and their supervisors can focus better on talking about what needs to get done and how to go about doing it. Even when it has been determined that performance is unacceptable on a critical element, attention can be focused on the *Fully Successful* performance standard, including how the employee has failed to meet it and what he or she needs to do in order to meet it.

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- ◆ **Pass/fail may improve credibility.** Many of the questions and disputes raised in performance appraisal focus on the lack of credibility for how those finer distinctions have been made. Choosing pass/fail (element or summary) means that an agency has decided it does not want to make finer performance-based distinctions among its employees who are at least *Fully Successful* or equivalent. Because pass/fail assessment is based on what many employees and supervisors believe is a rather obvious distinction—whether an employee met the *Fully Successful* performance standard or not—they feel that a major source of discomfort, contention, and grievances is removed.
- ◆ **Rating inflation can be eliminated.** Agencies that have been struggling to curb rating inflation find some attraction in the fact that turning to pass/fail assessment will eliminate high ratings altogether. When a large proportion of employees are given the highest available summary level, which is ostensibly supposed to characterize a small number of truly exceptional performers, the effect is to “devalue the coinage.” The very concept of “exceptional” has been rendered non-credible when the exception to the rule is to be appraised merely *Fully Successful*. One of the biggest challenges in changing the assessment culture in this situation is to alter employees’ expectations about the rating they are likely to receive. A key part of that shift is that employees are keenly interested in **who else** will be receiving a lower-than-usual summary level. Pass/fail offers some support here because the good employees can be assured that no one, not even the undisputed superstar, will receive a better summary than Level 3.
- ◆ **Individual competition reduced.** Many proponents of pass/fail appraisal point out that removing the distinctions among employees who meet the retention standard can eliminate the tendency for those employees to compete among themselves for the formal rating labels that drive reward distribution. This competitiveness can be destructive and is counterproductive to establishing the cooperative behavior that teams and groups require to succeed as high performance organizations. Although among any set of employees some sense of individual self-interest will likely remain, shifting to pass/fail assessment removes a principle arena for unhealthy competition.



POTENTIAL LIMITATIONS OF PASS/FAIL ASSESSMENT

- ◆ **Connections to other personnel programs could become meaningless.** Ratings of record directly or indirectly affect employees' pay, promotion, retention, and selection in the Federal Government. A pass/fail summary does not provide enough information about the employee's performance to be useful in making a number of agency personnel decisions, such as granting awards, granting promotions, and selecting employees for greater responsibility or higher level positions. Also, it limits the impact an employee's performance can have in a reduction-in-force (RIF).
- ◆ **Programs that use pass/fail summary levels cannot use non-critical elements.** A non-critical element is defined as a dimension or aspect of individual, team or organizational performance, exclusive of a critical element, that is used in assigning a summary level. Non-critical elements cannot be used to lower summary levels to Level 1 (assuming performance on all critical elements meets the *Fully Successful* standard), but they can be used either to lower summary levels to Level 2 or to boost summary levels above Level 3. Since a program with a pass/fail summary level scheme uses **only** Levels 1 and 3, a non-critical element could have no effect on the summary level. This precludes its use as a non-critical element as it no longer meets the definition of the term.
- ◆ **Programs that use pass/fail summary levels cannot factor a team's performance into the determination of the summary level.** Performance measured at the group or team level can only be applied to assigning a summary level through non-critical elements. Yet non-critical elements cannot be used in a pass/fail summary level program. Consequently, only assessments of individual performance can be applied to assigning summary levels in ratings of record.
- ◆ **Administration of personnel programs overall could become more complex.** The law still requires that the results of performance appraisal be used as a basis for making certain personnel decisions. Agencies using only pass/fail assessment at both the element and summary levels would not have enough information from the element appraisals and ratings of record to make some of these decisions. The element appraisals would not show which employees had barely met the retention standards and which had excelled in their performance. For some personnel decisions, such as granting a within-grade

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increase, just knowing who met the standards and who did not could be enough. However, for those decisions where a choice must be made from among all the employees who met their standards, the agency is going to have to develop some credible way other than using the rating of record to make distinctions that will support those choices. The final result could be using different methods to make different personnel decisions and increasing the amount of time and other resources used to design and operate a different mix of personnel programs.

- ◆ **Performance feedback to employees could suffer.** Pass/fail assessment substantially limits the appraisal process itself as a possible source of performance feedback for employees because it only tells them whether they met their retention standards. Appraising elements as pass/fail does not tell employees how well they are performing on the specific element. Pass/fail summary does not tell employees how well they are performing overall. Unless an agency uses other ways to provide feedback to the employees, the employees will not know where they could improve or what the organization values. When deciding to use pass/fail assessments, an agency needs to make sure that everyone understands how important it is to communicate and provide performance feedback.
- ◆ **Employees might not accept pass/fail.** For many different reasons employees may not like using pass/fail assessment for appraising elements or as summary levels. One reason is the perception (probably mostly among outstanding employees) that performance will no longer be considered important in making personnel decisions that affect employee careers. Another reason is the belief that employees will not really know how well they are performing. Finally, employees may not want *any* change if they think it is being forced on them and they do not have a chance to participate in its design and implementation.
- ◆ **Stakeholders might think employees will not have to perform or be held accountable.** Many stakeholders (particularly Congress and the public) are likely to think pass/fail (element or summary) performance appraisal is like a "pass/fail" college course. Irrespective of data to the contrary, it is commonly believed that in pass/fail courses students do the very least they can get away with just to receive a passing grade. The image of bureaucrats "working to rule" has well-known negative connotations that are difficult to combat, yet that image is fundamentally consistent with pass/fail assessment. No matter what else an agency does to encourage excellence and manage performance, the

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decision to use pass/fail assessment may make it difficult to convince the agency's stakeholders that it values high levels of performance.

- ◆ **Individual equity must still be addressed.** Many of the applications of the multi-level performance rating were designed to introduce principles of individual equity into various reward distribution systems. Failure to address equity can lead to undesirable turnover and limit the ability to attract and retain an effective workforce. All organizations, even the Federal Government, must consider equity at three levels. First, external equity concerns whether the employees inside the organization are treated fairly in comparison with employees outside the organization. In the Federal Government, external equity is largely managed through the overall pay comparability mechanisms that operate Governmentwide and through the due process protections that are available. Second, internal equity concerns whether classes of employees are treated fairly in comparison to each other within the organization. The Government's position classification system has been the principal instrument of maintaining internal equity. Finally, individual equity relates to the perception of each employee that the rewards and recognition received are fair and commensurate with his or her efforts and contributions, especially in comparison with the rewards received by others, given their inputs. Contributing to and sharing in the rewards for team achievements is also coming to have its own power in many organizations. Fundamentally, however, an organization must still address its ways and means of establishing individual equity. This is particularly true in work settings where individual discretion over the level of effort and input can have a substantial effect on the quality of the output or outcome. Much of the Government's labor-intensive, information-centered, customer service-oriented work fits that description. In the past, a great deal of weight was placed on summary performance ratings as the measure of individual contribution that should drive individual reward distribution. Abandoning the multi-level summary performance rating may be desirable and even advisable in some situations, but an organization that does so must take care to know and acknowledge the contributions of its individual employees.



Q UESTIONS & A NSWERS

This section presents some common questions and answers about pass/fail assessment.

Q Why don't the regulations use the labels "Pass" and "Fail" more explicitly?

A Because the term "unacceptable performance" is defined in statute and has specific statutory authorities associated with it (e.g., to take performance-based adverse actions), agencies must use *Unacceptable* rather than *Fail*:

1. to describe performance that fails to meet the established performance standard for a critical element, and
2. To describe a Level 1 summary.

Technically, there is no reason why the term *Pass* cannot be used to describe performance that is not unacceptable.

Q Does an agency have to use the same number of levels to appraise elements and to assign summary levels?

A No, not at all. In fact, the Office of Personnel Management anticipates that this may be an area where agencies may show considerable innovation and creativity in using the flexibility for designing their appraisal programs.

Agency performance appraisal programs must specify the number of appraisal levels for critical and, as appropriate, non-critical elements, and they must describe the method for deriving a rating of record with its assigned summary level. Many people assume that a pass/fail appraisal program both appraises the elements and assigns the summary level with the same number of levels of performance. However, pass/fail appraisal programs can be designed using any of the following approaches:

- ◆ elements appraised at two levels, and two summary levels;
- ◆ elements appraised at two levels, and three to five summary levels;
- ◆ elements appraised at three or more levels, and two summary levels; or

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- ◆ some elements appraised as pass/fail and other elements appraised at three or more levels, with either a pass/fail summary approach or a summary level pattern also allowing Levels 2, 4, and/or 5.

Agencies and their subcomponents should design an approach that best supports their own situations and needs.

Q

Must the Office of Personnel Management approve a performance appraisal system if an agency wants to require or permit pass/fail performance assessments?

A

Yes. None of the approved performance appraisal systems that were in place at the time the regulations that permit pass/fail became effective allowed for pass/fail. Any time an agency proposes to change its performance appraisal system to modify a component of its system that is subject to a regulatory requirement, the agency must submit the changes to OPM for review and approval prior to implementation. Consequently, agencies must submit appraisal systems that use the new flexibilities for OPM approval before any agency or agency subcomponent may implement pass/fail assessment in an appraisal program.

Q

What does an agency *have* to do if it *only* wants to switch to using pass/fail performance assessment?

A

At a minimum, agencies must obtain approval from the Office of Personnel Management for the new or amended appraisal system prior to implementing any pass/fail programs under that system. Also, if the agency wishes to continue using quality step increases (QSI's) and its system will permit as few as two summary levels, or any other pattern of summary levels that does not include Level 5, appraisal programs must establish QSI eligibility criteria as specified in 5 CFR 531.504.

Q

Does an agency have to complete the current appraisal period (or rating cycle) before switching to pass/fail performance assessments?

A

Technically, no. However, agencies need to consider carefully the effect that switching to a new assessment approach may have on established employee expectations regarding performance appraisal results and their related consequences.

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Q If an agency is in the middle of the appraisal period and decides to go to pass/fail appraisal, is it required to end the current period and give employees a rating of record?

A No. Changing the levels of element appraisal does not require the agency to end its current appraisal period. Neither does changing summary levels. Regulations permit only a single rating of record in a given appraisal period. Agencies may grant either a rating of record, a performance rating, or do nothing when changing the number of summary levels in the middle of an appraisal period. If an agency provides for neither a rating of record nor a performance rating, it must ensure that an employee's performance prior to conversion is considered when deriving a rating of record at the end of the appraisal period. Agencies that choose not to grant a rating of record should be aware of the possible demoralizing effects of not using performance levels agreed to at the beginning of the period to assess performance up to the time of conversion.

Other problems could occur if the retention level is changed. For example, if an agency chooses to change from using a five-level summary pattern to a two-level summary pattern, retention standards may have changed, depending on whether elements were appraised at three or five levels. If the retention level has changed, it may be wiser for agencies to close out the old program before beginning the new program, especially since any performance-based adverse actions initiated during that appraisal period may be undermined.

Q Does an agency have to negotiate implementation of a pass/fail program with its union?

A The Federal Labor Relations Authority has ruled that choice of the number of element appraisal levels and summary levels exercises management's rights to direct employees and assign work. If the proposed program covers bargaining unit employees, at the very least the agency is obligated to bargain over implementation and impact of the appraisal program. The Office of Personnel Management encourages agencies to approach any program design in a spirit of partnership. We also recommend involving non-bargaining unit employees the program may cover.

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Q

Can one agency subcomponent use pass/fail element appraisal and/or only two summary levels, while other agency subcomponents use other summary level patterns with or without pass/fail element appraisal?

A

Yes. So long as the applicable agency performance appraisal system provides for it, subcomponent programs may use any number of element appraisal levels and/or any number or pattern of summary levels permitted by regulation. The Office of Personnel Management cautions agencies and their subcomponents to ensure that their applicable performance appraisal programs explicitly state the element appraisal levels and summary levels used, including their corresponding level designators, numeric rating designators, and equivalent terms. Also, agencies should be aware of the potential for inequity that the use of different numbers or patterns of summary levels could create with respect to how performance is credited in a reduction in force (RIF).

Q

Why will OPM not allow an agency to use Level 4 or Level 5 as the "pass" rating in a pass/fail program?

A

The "pass" summary level in a program that uses the pass/fail pattern establishes only that an employee has at least met the *Fully Successful* performance standard established for each critical element. It does not, **by itself**, indicate above average or superior performance.

Q

Why will The Office of Personnel Management not allow an agency to use Level 2 as the "pass" level in a pass/fail summary program?

A

A Level 2 rating of record in the current Governmentwide system was never contemplated to signify anything but marginal performance. In past policy discussions about how a pass/fail program would operate, there has always been a presumption that a "pass" would merit the employees their within-grade increases and full retention rights in a reduction in force. Regulations require a Level 3 ("Fully Successful" or equivalent) rating of record to reach the acceptable level of competence determination needed for a within-grade increase and to receive all retention rights in a reduction in force. There have been no compelling arguments for lowering the

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threshold for those personnel actions and rights to marginal, rather than “Fully Successful,” performance.

Q Under a pass/fail program, can an agency establish some criteria other than, or in addition to, the Level 3 (*Fully Successful* or equivalent) or higher rating of record for achieving an acceptable level of competence?

A No. Regulations at 5 CFR 531.404(a) continue to require a rating of record of at least Level 3 (*Fully Successful* or equivalent) as the basis for the acceptable level of competence determination.

Q Will a written justification be required to grant a quality step increase (QSI) to an employee covered by an appraisal program that doesn't use a Level 5 summary level?

A No, but the Office of Personnel Management strongly encourages agencies to require some form of recorded justification. Compliance with agency-established criteria for QSI eligibility would be difficult without recorded justifications. The agency should be able to show that the proposed recipient has performed at a truly exceptional level to justify a permanent increase in his or her rate of basic pay.

Q Under a pass/fail program, is any employee who receives the Level 3 (Pass) rating of record eligible for a cash performance award?

A Technically, yes. The law at 5 U.S.C. 4505a states that "an employee whose most recent performance rating was at the *Fully Successful* level or higher (or the equivalent thereof) may be paid a cash award." Eliminating the higher summary levels also eliminates the further performance distinctions that many agencies had applied in using their authority to grant cash awards based on performance ratings. Although not required, it was not uncommon for agencies to restrict the use of rating-based awards to employees with ratings of record above Level 3. Under a pass/fail program, agencies may need to develop additional criteria (e.g., retain three or more levels of appraisal for elements, using other performance factors) for selecting employees who should receive cash performance awards. Technically, agencies will be free to continue to use just a Level 3 summary level as the legal criterion for granting

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a cash award. However, if agencies make selections from among their employees who received a Level 3 rating of record to receive cash awards, they are advised to make some record of the additional performance distinctions they make to select the award recipients and thereby prevent perceptions of awards being arbitrary or capricious.

Also, the Office of Personnel Management cautions agencies to take note of the criticisms that performance awards have been subjected to recently in situations where agencies granted rating-based performance awards to large percentages of their employees. Care should be taken to prevent an "eligibility" from becoming a perceived "entitlement."

Q

How can an agency that chooses to adopt pass/fail assessments combat the perception that it is no longer interested in achieving high levels of performance?

A

The key here is to make sure that the agency's *performance management* approach is described and operated as extending well beyond the particular mechanics of its pass/fail individual accountability and appraisal scheme. Managing for high performance would include planning and monitoring mission-oriented results and outcomes, and rewarding achievement of those results. The agency should develop meaningful, credible performance measures that it can use with its stakeholders to communicate an interest in and commitment to improving performance.

Q

What happens to crediting performance in a reduction in force (RIF) when an agency uses a pass/fail program?

A

Changes made to the reduction in force regulations in 1997 provide for alternative crediting when agencies find they have employees within the same competitive area who have been rated using different summary level patterns. Under these circumstances, agencies can look at what their specific situations are and decide how to assign additional service credit (between 12 and 20 years) to the various rating levels within their respective patterns prior to the RIF. When all the ratings being considered for the RIF were given under the same rating pattern, the traditional service credit of 12-16-20 years is used.