



**UNITED STATES DEPARTMENT OF COMMERCE**  
**Chief Financial Officer and**  
**Assistant Secretary for Administration**  
Washington, D.C. 20230

JUL 7 2004

MEMORANDUM FOR      Secretarial Officers  
                                 Heads of Operating Units  
                                 Human Resources Managers

FROM:                     *DAJ* Deborah A. Jefferson *Deborah A. Jefferson*  
                                 Director for Human Resources Management

SUBJECT:                 Senior Executive Service Performance  
                                 Management System

Effective July 1, 2004, the new SES performance management system was implemented. The five-level system is based on the guidance, issued jointly by OPM and OMB, which allows agencies to request certification for their SES performance management systems. Agencies with certified systems are authorized to increase the salary cap for executives from \$145,600 to \$158,100. Certification is granted to performance management systems that meet rigorous criteria and result in meaningful distinctions based on relative performance. Agencies working toward designing and implementing performance systems to meet the full certification criteria may request provisional certification.

In anticipation of DOC bureaus requesting certification from OPM as soon as interim regulations are published, an SES certification task group was convened, comprised of HR managers, bureau and departmental senior executives, and HR executive resources representatives. This group has worked to ensure that the new system is in line with OPM's guidance and will meet certification requirements. They also led and participated in development of new or revised plans which ensure the incorporation of strategic objectives, alignment, metrics, and results.

If required, plans were revised and signed by executives as of July 1, 2004. Close-out of previous system plans by July 30, 2004, will consist of: 1) a list, prepared by the senior executive, of the business results he/she achieved between October 1, 2003, and June 30, 2004; and 2) a brief qualitative narrative, prepared by the rating official, which focuses on how well the senior executive achieved results in alignment with the strategic goals. The close-out will not require that a senior executive be rated. Rating officials are responsible for preparing and collecting the signed narrative and providing a copy to the employee. Attachment 1 provides more detailed implementation guidance.

Additional materials are also attached to assist you. Please note that minor revisions have been made to the Standard for Senior Executive Excellence (Attachment 3). They are also accessible at <http://ohrm.doc.gov/ses/policies/finalStandardRequirements.pdf>  
Please ensure that this latest version is used.

- SES Performance Management System Implementation Guidance (Attachment 1)
- Comparison Matrix for Old and New Systems (Attachment 2)
- Standard for Senior Executive Excellence (Attachment 3)
- OPM/OMB Criteria for Certification (Attachment 4)

If you have any questions, please call Mary King, at (202) 482-3321 or your servicing Human Resources Manager.

Attachments

## **Senior Executive Service Performance Management System Implementation Guidance**

Implementation involves two phases: Close-out and Launch. Where applicable, the current system was closed out on June 30, 2004. (Note: NIST, EDA, and USPTO are not making any changes to their performance plans and do not need to do a close out narrative.)

A brief qualitative narrative on the business results achieved should be completed by July 30, 2004. Please note that an executive must be under performance requirements (standards) for a minimum of 90 days to be appraised at the end of the cycle. The Launch Phase began on July 1, 2004.

### **PHASE I: CLOSE-OUT**

1. **List of Results:** Each senior executive should provide to his/her supervisor a list of business results for the period from October 1, 2003, to June 30, 2004. This list should highlight *what* was accomplished during this time.
2. **Narratives:** The rating official provides a brief qualitative narrative on the business results achieved, focusing on *how well* the executive completed the accomplishment in alignment with strategic goals. The rating official and executive should have a discussion to review progress from October 1, 2003, to June 30, 2004. Also, the rating official must identify and include in the narrative a discussion of any element where the senior executive's performance is less than Fully Successful, as well as, what is required by the senior executive to bring his/her performance up to the Fully Successful level. The CD-516 cover and accompanying record or similar documentation should be used for the narrative and signature.
3. **Early Warning:** As we've mentioned in the past, if there are any concerns, problems or issues that need to be addressed, please do so at this time. Your human resources specialist is available to assist you. Please do not wait until the end of the fiscal year to address any performance issues.
4. **PRB:** There is no need to have your Performance Review Board (PRB) meet. However, we encourage you to seek input from your Appointing Authority and incorporate any input into the overall narrative for the close-out.

5. **Ratings:** The Close-out will not require a rating. The narratives will be taken into consideration when a final rating is determined at the end of the cycle on September 30, 2004.

## **PHASE II: LAUNCH**

1. **Deadline:** The new Performance Plans must be completed and signed by July 1, 2004. The Close-out narratives from the plans covering October 1, 2003, to June 30, 2004, will be taken into account as ratings are determined at the end of the cycle on September 30, 2004. Rating officials are responsible for preparing and collecting the narrative Close-out statement, completed by July 30, 2004, with the employee performance plan.
2. **Critical Elements:** There are two Departmental core standard elements that must be reflected in each plan--Leadership/Management and Customer/Client Service Responsiveness. Each bureau may establish up to three bureau specific critical elements to align with their mission. The Departmental standard element for CFO positions is also required for those executives.
3. **Balanced Measures:** Rating officials will take into consideration such factors as the perceptions of employees, customers/stakeholders and business measures. Balanced measures enable the rater to take into account the full scope of the executive's full performance, rather than placing too much emphasis on any one aspect of the job. For example, costs for providing service may have increased in an organization; however, customer satisfaction and employee morale may have also increased. Balanced measures enable the rater to take all of this into consideration.
4. **Annual Summary Ratings:** At the end of the fiscal year, each executive and rating official will discuss performance and the annual summary ratings. The Close-out narratives will also be taken into consideration when deciding the annual summary rating.
5. **Additional Assistance:** Mary King at 202 482-3321, or your servicing Human Resources Manager, are available to assist you with any questions on implementing the new performance management system.

## SES PERFORMANCE MANAGEMENT SYSTEM

Component	Old System (Close-Out 6/30/04)	New System (Launch 7/01/04)
Purpose	<p>Performance Management System: To drive organizational excellence and results (including efficiency)</p>	<p>Performance Management System: System must make meaningful distinctions based on relative performance in order to receive appraisal system certification. Certification criteria (attached) frames the broad principles designed to serve as guidelines to bureaus to use their performance appraisal system strategically to support the development of a strong performance culture and the attainment of the agency's mission, goals, and objectives. Criteria includes:</p> <ul style="list-style-type: none"> <li>● Alignment</li> <li>● Consultation</li> <li>● Results</li> <li>● Balance</li> <li>● Oversight by Senior Performance Official (SPO)</li> <li>● Formal Assessment</li> <li>● Performance assessment &amp; evaluation guidelines</li> <li>● Accountability</li> <li>● Performance Differentiation</li> <li>● Pay Differentiation</li> </ul>

Component	Old System (Close-Out 6/30/04)	New System (Launch 7/01/04)
Cycle	October 1 to September 30	First cycle will be from July 1, 2004, through September 30, 2004. Thereafter, it will revert from October 1 to September 30. It should be noted that, as with the previous system, the rating official is permitted to end the cycle anytime after the 90-day minimum appraisal period if there is an adequate basis on which to appraise and rate the senior executive's performance.
Minimum Appraisal Time	90-day minimum appraisal period	No change
Rating Levels	<p>Five-Level Rating System*</p> <ul style="list-style-type: none"> <li>● Outstanding</li> <li>● Commendable</li> <li>● Fully Successful</li> <li>● Minimally Acceptable</li> <li>● Unsatisfactory</li> </ul> <p>*ESA Pilot: Three-Level Rating System</p> <ul style="list-style-type: none"> <li>● Fully Successful</li> <li>● Minimally Acceptable</li> <li>● Unsatisfactory</li> </ul>	<p>Five-Level Rating System</p> <ul style="list-style-type: none"> <li>● Outstanding</li> <li>● Commendable</li> <li>● Fully Successful</li> <li>● Minimally Acceptable</li> <li>● Unsatisfactory</li> </ul>

Component	Old System (Close-Out 6/30/04)	New System (Launch 7/01/04)
Department Generic Critical Performance Elements	Two Critical Core Elements and CFO Element <ul style="list-style-type: none"> <li>● Leadership/Management - 30% (minimum) (Includes Employee Safety and Security, Diversity, and President's Management Agenda)</li> <li>● Customer/Client Service Responsiveness - 20% (minimum)</li> <li>● CFO Element - (25%)</li> </ul>	No Change
Bureau Critical Elements	Up to Three Bureau Specific Critical Element(s): combined total of 50% <ul style="list-style-type: none"> <li>● Balanced measures</li> <li>● Cascading from Strategic Plan &amp; operating plan, results driven</li> <li>● All are critical</li> </ul>	No Change
Rating Methodology	Five Level: Points	No Change
Terminology	Initial Summary Rating Annual Summary Rating Requirements	Initial Summary Rating Annual Summary Rating Requirements Senior Performance Official (SPO)
Balanced Scorecard Methodology	Bureau Defined: Using criteria established by the Department, bureaus will have the flexibility to define measures deriving from the most common factors (organizational results, customer feedback and employee perspectives) and methodology that fits bureau's operational needs and is aligned with the strategic and performance planning initiatives.	No Change

<b>Component</b>	<b>Old System (Close-Out 6/30/04)</b>	<b>New System (Launch 7/01/04)</b>
Monitoring Performance	Continual communication is emphasized and mid-year progress review is required.	The Senior Performance Official provides rigorous oversight of the appraisal process and conducts an annual assessment of the agency's performance, issues guidelines for performance evaluation, certifies that the results of the appraisal process make meaningful distinctions, and assures that pay adjustments and levels of pay accurately reflect and recognize performance.

## Standard for Senior Executive Excellence

Each element contributes to the executive's overall performance and is designated as a critical element. The first element, Leadership/Management is the primary tool for assessing the results of the executive's efforts. The second element, Customer/Client Service Responsiveness highlights accomplishments in collaborating with external and internal customers. In addition, each bureau has been given the flexibility to determine up to three specific critical elements in alignment with the bureau mission.

In the new OPM regulations, performance standards are now referred to as performance requirements. The following performance requirement definitions are designed to provide a uniform reference point for the assessment of executive performance across an organization. The applicability of each element itself will vary from one executive to another, based on the actual scope of the executive's position. Raters should take this variability into account at the end of the rating period. Similarly, the elements are predicated on the development of bureau work plans and performance agreements for each executive in alignment with the Department's Strategic Plan.

### **Performance requirement definitions for the levels are:**

**Outstanding:** This level exemplifies rare, high performance in fostering an organizational climate that sustains excellence and results. It should be thought of as the exception. The Senior Executive's performance has made a positive and significant impact on organizational results in alignment with the mission of Commerce. All critical element activities are not only achieved, but completed in an exemplary manner. The Senior Executive has exerted a major positive influence on the organization through innovative and effective management practices, procedures and program implementation, building partnerships and coalitions, being responsive to internal and external customers, and leveraging scarce resources, which has contributed substantially to mission accomplishment.

**Commendable:** The Senior Executive demonstrates consistently high performance. Performance has exceeded expectations at the Fully Successful level in accomplishing critical element activities and sustained results that support the mission.

**Fully Successful:** The Senior Executive's performance meets expectations. The Senior Executive demonstrates sound performance. All critical element activities have at least been satisfactorily completed. The Senior Executive has contributed positively to organizational goals and achieved meaningful results.

**Minimally Acceptable:** The Senior Executive does not consistently meet performance expectations. This level of performance, while demonstrating some positive contributions to the organization, shows notable deficiencies. It is below the level expected for the position and requires corrective action. The quality, quantity, or timeliness of the Senior Executive's work is less than Fully Successful, jeopardizing attainment of the element's objective.

**Unsatisfactory:** The Senior Executive does not meet performance expectations on a critical element. Job performance produces unacceptable work products. Minimum requirements of the critical element are not met. Performance deficiencies detract from mission goals and objectives.

**OPM/OMB Certification Criteria**

1. **Alignment** - Performance expectations linked to or derived from the agency's mission, strategic goals, program/policy objectives and/or annual performance plan.
2. **Consultation** - Performance expectations based on senior employee involvement and input that are communicated at the beginning of the appraisal period and appropriate times thereafter, consistent with 5 CFR part 430, subparts B and C.
3. **Results** - Performance expectations for senior employees that apply to their receptive areas of responsibility; reflect expected agency or organizational performance; clearly describe performance that is measurable, demonstrable, or observable; and focus on tangible outputs, outcomes, milestones or other deliverables.
4. **Balance** - Performance expectations for senior employees that include appropriate measures or indicators of results, customer/stakeholder feedback; quality, quantity, timeliness, and cost effectiveness, as applicable; and competencies or behaviors that contribute to and are necessary to distinguish outstanding performance.
5. **Oversight by a Senior Performance Official** - Rigorous oversight of the appraisal process by a Senior Performance Official, who conducts an annual assessment of the agency's performance, issues guidelines for performance evaluation, certifies that the results of the appraisal process make meaningful distinctions, and assures that pay adjustments and levels of pay accurately reflect and recognize performance.
6. **A formal assessment** - An annual assessment by the Senior Performance Official, who evaluates the performance of the agency overall, as well as each of its major program and functional areas, and compares it with the agency's Government Performance and Results Act (GPRA) goals and other measures and indicators as a basis for senior employee performance evaluations.
7. **Performance assessment and evaluation guidelines** - Annual performance evaluation guidelines issued to executive rating and reviewing officials and Performance Review Board members by the Senior Performance Official at the end of the appraisal cycle, but before ratings are recommended, that communicate the results of the agency's organizational assessment; such guidelines may not be in the form of quantitative limitations on the number of ratings at any given rating level and must conform with 5 CFR part 430, subparts B or C, as appropriate.
8. **Accountability** - Senior employee ratings (as well as subordinate ratings for those with supervisory responsibilities) that appropriately reflect the employee's performance expectations as well as the Senior Performance Official's assessment of the agency's performance and any other relevant factors determined appropriate.

**9. Performance Differentiation** - (1) An appraisal process that results in meaningful distinctions in performance based on senior employees' actual performance against rigorous performance expectations and their relative contribution to agency performance, and (2) appraisal systems that include a rating level that reflects outstanding performance.

**10. Pay Differentiation** - Individual pay rates and pay adjustments, as well as their overall distribution, that reflect meaningful distinctions among executives based on their relative contribution to agency performance; an agency's highest performing senior employees must receive the largest pay adjustments and highest pay levels (including both basic and performance awards), particularly above the rate for level III of the Executive Schedule.