

ISSUES OF MERIT

April 2005

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Office of Policy
and Evaluation

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Using Pay for Performance to Support Merit

Shifting the focus from tenure to performance can be a better way to pay.

As we have discussed in previous issues, maintaining effective pay and performance management systems requires both brains and brawn. Agency leaders must think about where they currently are, where they want to go, and what is required to get there—the brains. They must also be willing to invest the time, money, and effort to ensure that their good ideas become good practices—the brawn.

Agencies don't have to wait for perfect conditions to begin, but they do need a realistic understanding of the potential impact of shaking up something as significant to employees as their pay. Decades under the General Schedule with its virtually automatic increases based on time served and general, across-the-board pay increases have created a workforce that expects to receive regular pay increases, regardless of performance.

In fact, some employees believe that although the current system has its faults, at least it treats everyone the same. They fear that providing supervisors with the discretion to evaluate individual performance

and base pay increases will result in favoritism for the "in-group," while "cheating" the others out of pay increases that they would have otherwise received.

In practice, though, a properly-managed performance-based pay system may produce a fairer distribution of pay increases, leading to improved trust between supervisors and employees. Better alignment between the pay system and the merit system principles may also occur, as we discuss below.

Equal pay for work of equal value.
The merit system principles call for "equal pay" for "work of equal value." However, the value of work depends on more than the series, grade, and tenure of the employee performing that work. Instead, it may be fairer to recognize that value of work to the organization should drive pay. Performance-based pay can enable an agency to pay more to those who contribute more to the mission. In other words, those whose work is more closely aligned with the organizational goals may have an advantage because they contribute more towards the organization's success.

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Our Mission

The MSPB Office of Policy and Evaluation conducts studies to assess the health of Federal merit systems and to ensure they are free from prohibited personnel practices.

Issues of Merit

We offer insights and analyses on topics related to Federal human capital management, particularly findings and recommendations from our independent research.

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DIRECTOR'S PERSPECTIVE

OPM Enters a New Era

Kay Coles James resigns her post as OPM Director.

The Director of the Office of Personnel Management (OPM) plays a valuable leadership role in the Federal Civil Service. The incumbent is responsible for being responsive to the President and for aligning personnel systems with the strategic direction of the Administration. At the same time, the Director must ensure that those systems adhere to the merit system principles. This balancing act is often challenging. The Merit Systems Protection Board (MSPB) was chartered to help the Civil Service meet this challenge.

On January 31, Kay Coles James left her post as the Director of OPM. Director James served during a particularly critical juncture in the Civil Service, and the effects of her leadership role will be felt for years to come.

Under Director James's leadership, OPM made many changes to Federal personnel programs that were a long time in coming and consistent with recommendations MSPB has made for many years. For example, the President's Management Agenda emphasizes the importance of strategic management of human capital as a critical management function, and OPM has played a key role in working with agencies to identify how to improve their efforts in this area. The Board has often recommended that agency leaders treat human capital management as a key business function rather than something for which the human resources (HR) staff is responsible.

The Homeland Security Act of 2002 called for a number of needed

personnel reforms in response to the terrorist attacks of September 11th, and OPM worked with the Department of Homeland Security (DHS) to develop the regulations and policies necessary to bring these reforms to life. The Act required most agencies to appoint a Chief Human Capital Officer (CHCO) and establish the Governmentwide CHCO Council—designed to advise and coordinate human capital activities across Federal agencies—which Director James chaired. OPM also developed the regulations to implement direct hire and category rating Governmentwide. Category rating is one flexibility that has long been supported by the Board to supplement, and hopefully replace, the outdated "Rule of Three."

OPM has worked with agencies to retool Government recruitment and retention efforts. As recommended by the MSPB, OPM is expanding the Presidential Management Fellows program to enhance its ability to recruit, select, and develop outstanding Federal leaders. It established new benefits that agencies can use to attract and retain employees. It developed hiring flexibilities that assist targeted recruitment efforts, including the Federal Career Intern Program. It organized Governmentwide job fairs across the nation and online to attract new talent. Finally, it is redesigning USAJOBS and Federal vacancy announcements to expand their capabilities and user-friendliness, again in alignment with recommendations MSPB has made.

All of these are important achievements that attempt to provide agencies with the flexibilities, as well as the tools, to make merit-based decisions. But the achievement for which Director

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OPM's New Era

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James will most likely be remembered is the role she played in redesigning the personnel systems at DHS and the Department of Defense (DOD). It was in working with these agencies to design the new regulations that she most likely learned of the difficulty in designing personnel systems that attend to the often competing demands of flexibility and merit. Flexibility is needed to ensure that agencies can meet their constantly evolving and unique mission requirements. Merit ensures that the work-force is qualified and managed in the public's interest. Congress provided DHS and DOD the freedom to redesign their systems so they would have the management flexibility necessary to meet the national security demands they face on a daily basis. At the same time, they were also required to adhere to the ideals of merit expressed in the merit system principles.

At the end of Ms. James's term as OPM Director, DHS and DOD each published regulations jointly with OPM that were designed to meet these often competing demands. There has been much discussion and debate over the regulations. The unions have let their opinions be known, as have agency and congressional leaders. Only time will tell what the future will bring for these agencies and their employees. But we do know that the

new OPM Director will play an equally important role in overseeing the implementation of these new systems as Ms. James played in helping design them. The new personnel systems hold great implications for the future of the entire Federal Civil Service. They could very well set the direction for overall Civil Service reform.

In thinking about the future direction of the Civil Service, the next OPM Director will also have to think about problems yet to be resolved. The Government still has a hiring process that is long, complicated, and burdensome for applicants, and we continue to use inadequate assessment procedures. We need to develop more effective mechanisms for measuring employee performance as we increasingly tie those ratings to salary decisions. These decisions are critical to ensuring that we have a flexible personnel system that supports merit and are the challenges OPM faces under its next Director. We look forward to working with the new Director as these and other human capital management issues are addressed. ❖

Steve Nelson

Director, Policy and Evaluation

Pay for Performance and Merit

(continued from page 1)

Appropriate incentives and recognition for excellence in performance. Yet, even if two people hold similar jobs, one can still earn substantially more if their performance levels differ. Basing pay on performance, instead of role or tenure, may encourage higher performance and facilitate recruitment and retention of the best employees. Pay for performance provides agencies with the ability to monetarily recognize achievements—not just with token cash awards, but with pay increases that are limited only by the agency payroll budgets and statutory limits.

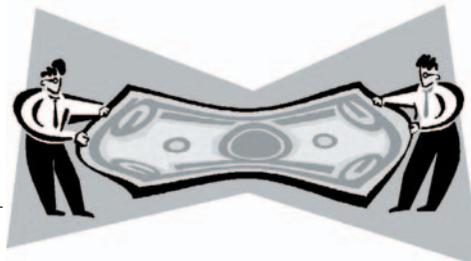
Consideration of private sector national and local pay rates. Finally, flexibilities often associated with pay for performance may allow agencies to vary starting salaries in order to compete with the private sector to attract high performers and obtain critical skills that

they're lacking. Ongoing attention to salaries offered by the competition may also enable agencies to retain current employees who have gained valuable experience and made significant contributions to the organization.

So, if you support the concept of paying more to those who contribute more to achieving organizational goals, then your remaining challenge is to make it work.

To assist agencies with successfully implementing pay for performance, we have drafted a

report titled *Using Pay for Performance to Effectively Recruit, Retain, and Motivate the Workforce*, which will be released in the next few months. Look for it to be posted on our website at www.mspb.gov under STUDIES or sign up for the LISTSERV to receive a notification when it's available. ❖



Myths About Career Executives and Political Appointees

A recent study finds that some long-held assumptions need to be reconsidered.

The IBM Center for the Business of Government recently released a report, *Getting to Know You: Rules of Engagement for Political Appointees and Career Executives*. This report looks at myths frequently held by political appointees about career executives and by career executives about political appointees. After discussion with numerous political and career executives, the authors identified the following myths that career executives believe political appointees hold about them, such as:

- Career executives are loyal to the previous administration.
- Career executives are not passionate about their work and they don't work hard.
- Career executives are mostly interested in job security.
- Career executives always resist new policy ideas.
- Career executives don't want their political bosses to succeed.

When the authors explored these beliefs, they found they seldom had much basis in fact. Contrary to the first myth, the authors concluded that most career employees check their personal politics at the door because they view their role in Government as technical rather than partisan. Similarly, they found that most career executives work extremely hard under tight deadlines and often stressful conditions. Rather than being motivated by job security, the study showed that most career executives are motivated by a strong sense of public service, mission dedication, participation in the policy process, and intellectual challenge.

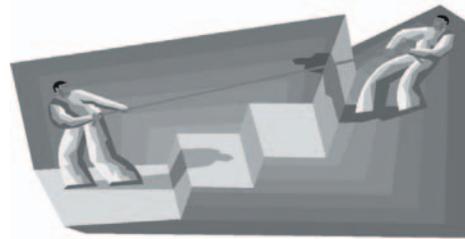
The authors also found that most career executives are not against new policy ideas, but they are sensitive to the various implementation challenges. Frequently the career executives have had many years of experience dealing with changes in organizational direction and, as a result, they tend to see change in very pragmatic terms.

Perhaps most importantly the study concluded that most career executives want their political executives to succeed because they believe in the system and because they want their agencies to succeed. The typical career executive wants to add value to the process. If the political boss does not succeed then this diminishes the career executive's perception that he or she is contributing.

For their part, many political appointees also believe that career employees mischaracterize them in a number of ways. The myths they think career employees hold about them include:

- Political appointees care only about ideology and not about organizational stewardship.
- Political appointees are not really competent for their jobs.
- Political appointees do not want to hear information that contradicts their ideological agendas.

Once again the authors of the report found that these beliefs frequently do not reflect the facts. Instead of being rigidly ideological, the study showed that most political appointees care about leaving the agency a better place than they found it. In a similar vein, rather than being incompetent, political appointees are often highly educated, have prior Government experience, and have expertise in policy.



Accordingly, most political appointees also want to make sound decisions based on evidence. In fact, the authors conclude that most political appointees are more interested in “getting it right” than in adhering to a rigid political agenda. According to the authors, whether a person is effective as a political appointee has little to do with political party; managerial and interpersonal factors are far more important.

The report concludes that the reality is far more positive and affirming than the mythology would imply. The authors discuss “constructive rules of engagement” and provide recommendations on how political and career executives can form productive partnerships to achieve policy objectives. In this time of post-election appointment changes, these are important lessons to review. See the report at www.businessofgovernment.org/pdfs/FerraraRossReport.pdf for more information. ❖

Replace Warm Bodies With Working Bodies

It pays to invest in good recruitment and assessment practices.

It's a quandary many supervisors face. They advertise a vacancy and find that the candidates don't meet their expectations for the position. At the same time, the work is piling up, the office is short-staffed, and the cost and time it will take to re-advertise the position will set the work back even further. They wonder if a warm body—someone who can at least do some of the work—is better than no body.

Public service is a public trust. Each employee has a responsibility to the United States Government and to its citizens. For supervisors, this responsibility includes ensuring that all employees are fully contributing members of the workforce. Yet, hiring a warm body is tempting. One supervisor told us, in response to a recent survey question, "Government organizations want you to overlook a lot for the sake of filling a position. The philosophy is 'any body' to fill the position regardless of whether they are qualified or suited for the job."

But what price do we pay for these employees who do not perform up to expectations? Bodies that are warm, but not particularly effective, can be expensive. Over the course of a career, a marginal performer can harm the productivity and morale of the office, the effectiveness of co-workers, the reputation of the work unit or agency, and the ability of the organization to accomplish its goals. This is aside from the financial cost of years of salary and benefits paid to an underperforming individual.

Ignoring the problem is not a solution. Once employees complete the first year of probation, they are actually quite likely to remain in the Civil Service for many more years. And the more time employees invest in the Government, the greater the likelihood that they will choose to remain for the rest of their career.

The likelihood of being removed is also diminished with time. Once the probationary or trial period is completed, agencies tend not to take action to remove an employee, even if performance is marginal or poor. Even in probationary and trial periods, removals of these employees are rare. This needs to change. If you have an employee with conduct or performance problems, or an employee who just isn't as effective in the job as he or she should be, the facts are clear: the problem will not just go away.

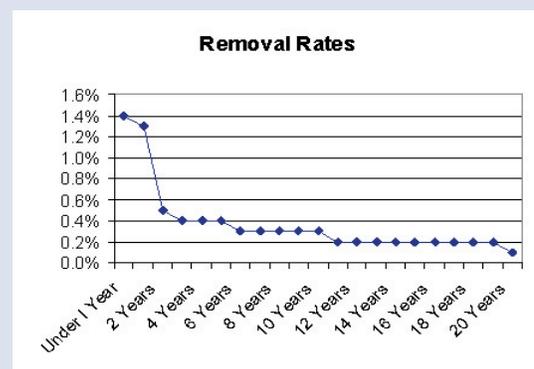
Removing an employee and recruiting a replacement costs time and money. However, if you look at the length

of a typical Federal employee's career, keeping a marginal performer costs the Government much more.

Therefore, agencies must do a better job recruiting, assessing, and selecting candidates. This means investing the resources up front to make sure that recruitment strategies target necessary skills and that quality assessments are used to evaluate which candidates will be the best fit. In addition, managers need to use the final phase of the assessment process—the probationary period—to its full advantage. The probationary period provides the easiest avenue for separating employees who cannot perform well on the job. Using the probationary period appropriately also means a culture change for some who have long believed that a warm body is better than no body. In the end, the warm body just can't compare to the value of an effective employee. ❖

Fast Facts on Resignation/Removal Rates

The numbers support the fact that the more time Federal employees invest in Government service, the more likely they are to stay in Government service.



Source: OPM, Central Personnel Data File

Background Investigations: A Barrier to Timely Hiring

Most would agree that the Federal hiring process takes too long. There are many reasons for this. One component of the process that has received little attention until recently is the background investigation.

MSPB reported in a 2000 study that background checks are a substantial barrier to timely job offers. This problem has worsened since September 11, 2001 with the subsequent increase in agency clearance requests. Currently, there is a backlog of up to 500,000 cases, and it takes upwards of one year to complete many investigations. However, relief may be on the way. Four recent initiatives may help to streamline the clearance process and speed agencies' ability to appoint candidates to sensitive positions.



Automation. In May 2004, OPM launched e-QIP. This automated system allows candidates to fill out clearance forms online—reducing the burden on applicants, cutting processing time, reducing duplication, and improving

tracking of clearance information.

Consolidation. OPM is in the process of acquiring over 1,800 security personnel from DOD's Defense Security Service, which handles background checks for Defense employees and contractors. After the merger, OPM will be responsible for up to 95 percent of all Government background investigations. Partly, the merger is intended to reduce duplication, increase economies of scale, and expand clearance reciprocity among agencies.

Expanding Capacity. The Government Accountability Office indicated in a recent study that OPM and DOD need almost twice the current number of field investigators to reduce the backlog. In response, OPM approved a plan to establish Blanket Purchase Agreements for Federal background investigation services, helping to alleviate the backlog and expanding the nation's investigative capacity.

Legislation. The Intelligence Reform and Terrorism Prevention Act of 2004 puts forth a rigorous plan to trim the time it takes to complete investigations. The legislation sets out an agency structure to better oversee and conduct background investigations; requires that by 2009, 90 percent of all investigations be completed

within 60 days; and requires agencies to recognize each other's clearances—a goal long sought by some to reduce duplication, burden, and expense.

Background investigations are necessary to ensure that our Federal employees are not only qualified, but also suitable to hold positions of public trust. Applicant interest, recruitment costs, productivity, mission accomplishment, and national security may be negatively impacted the longer it takes to check backgrounds and bring people on board. Therefore, it is important for agencies, OPM, and Congress to address the problem of time-consuming clearance processes. ❖

Staying In Touch

In the spirit of continual improvement and customer service, MSPB's Office of Policy and Evaluation (OPE) periodically conducts surveys of our customers to improve how we share information. During the summer of 2004, we conducted a short web-based survey about our *Issues of Merit* newsletter, our most recent study reports, and our website. About 300 individuals responded.

As in previous surveys, OPE products are well regarded. Almost 9 out of 10 respondents agreed that report topics are timely, relevant, well written, and well analyzed. About 8 out of 10 of our respondents agreed that newsletter articles are timely, relevant, and that information is presented clearly. A key component in the distribution of OPE products is our webpage, found at www.mspb.gov under STUDIES. The majority of our survey respondents found the website appealing and found it easy to locate copies of our publications.

While we have achieved positive results, we realize that more can be done. Suggestions and comments are always welcome, so stay in touch by emailing us at STUDIES@mspb.gov. For more information on this survey, please visit our STUDIES webpage. ❖

Website Quick Fact

An MSPB SEARCH engine allows ready access to recent OPE reports or newsletters pertaining to a selected topic area. Also, adding one's e-mail address to the LISTSERV will result in automatic notifications of any new releases.

Checking References Means Working Together

It takes the cooperation and support of many to make reference checking work.



Right after eager job searchers read a vacancy announcement, they will check their resumes to compare their skills with the ones in the announcement. If they apply for the job, hiring officials will

then check applicants' resumes. A smart hiring official will go one step further and check their references too. Why? Because an over-eager applicant can easily create a fictitious job history to match the vacancy. Fortunately, hiring officials can unravel these fabrications by spending a few minutes asking the applicant's former supervisors about his or her job performance.

Results of an MSPB survey reveal that most agency supervisors (76%) who hired a new employee conducted reference checks. Supervisors check references to verify applicant claims about education, training, and experience. Whether these claims are made on resumes, job applications, or as answers to rating schedule questions, they should be supported by someone other than the applicant. MSPB recently conducted a best practices review to determine how reference checking can best be used in hiring decisions. Our findings show that different members of the employment community must each play their roles to make reference checking successful.

Hiring officials should check references. They can improve the quality of reference checking by insisting that job applicants provide at least three references who have observed their performance on the job. Friends, family members and other "character references" cannot answer the specific, job-related questions that yield the most useful information about job performance.

Former supervisors should discuss the performance of their former employees with prospective employers. Some former supervisors will only provide "name, rank and serial number" facts about employment history because they are concerned with protecting the privacy of former employees. Their concern is understandable but need not interfere with reference checking. So long as reference checking discussions focus on job-related issues such as performance, reference giving is appropriate

and legally defensible. Former supervisors who support reference checking inquiries can reward good employees for their past contributions and avoid "passing on" a problem employee to another agency.

Agencies can support reference checking by including it in their hiring model, as OPM has recommended. Agency human resources personnel can work to remove barriers to effective reference checking. For example, applicants should be required to complete Declaration of Federal Employment (OF-306) forms early in the application process. This form explicitly grants permission to check references. And this sets applicants' expectations appropriately—their performance in previous employment will be investigated.

In a previous report, MSPB demonstrated that employment interviews are more effective hiring tools when structured according to interviewing best practices. Reference checking can also be improved through appropriate structuring. MSPB's forthcoming report, *Reference Checking: Best Practices for Federal Agencies*, makes additional recommendations to hiring officials, reference providers, and agencies that will help the Government make good hiring decisions. Look for this report on MSPB's STUDIES website in the near future. ❖

... ANNOUNCING ... MSPB Departure



On March 1, 2005, **Susanne T. Marshall's** appointment as Member of the Merit Systems Protection Board expired. During her tenure with the Board, Ms. Marshall served at various times as Member, Vice Chairman, and Acting Chairman.

She has played a pivotal role in rendering precedential opinions in personnel cases affecting the Federal workforce. With Ms. Marshall's departure, the Board will once again operate with only two Board members until the appointment of a new third member. The employees of the Board wish Ms. Marshall well in her new endeavors.



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Warm Bodies are Just Not Good Enough. *Look at why it pays to invest in good recruitment and assessment strategies. (Page 5)*

Your Views Matter. *See what you and your peers had to say about our studies, newsletter, and website and why we think it's important. (Page 6)*



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Cooperation is Needed to Make Reference Checking Work. *Reference checks are an important part of the assessment process. Take a look at how hiring officials, former supervisors, and agencies can work together to make the most of reference checking. (Page 7)*



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