insights & analyses for Federal human capital management

ISSUES OF MERIT

January 2005

a publication of the U.S. Merit Systems Protection Board, Office of Policy and Evaluation

WHAT'S INSIDE

Improving Organizational Performance

Engaging employees takes more than pay, study finds.

As the Merit Systems Protection Board (MSPB) has previously noted, there has been a significant movement towards instituting pay for performance in the Federal Government. There are a variety of reasons advocates believe such systems will be beneficial. Some believe that pay for performance will help organizations recruit and retain a high quality workforce. Others believe it puts more emphasis on outcomes, thereby improving organizational performance. Still others believe that it is simply more appropriate to compensate employees based on contributions.

Research conducted by a private research group, the Corporate Leadership Council (CLC), supports the notion that pay for performance can help recruit and retain high performers.[1] However, the research does not indicate that this will necessarily translate to improved organizational performance, as many advocates suggest. Simply put, pay does not appear to motivate most employees to perform better. So, if pay for performance cannot be expected to improve organizational performance, is there anything that can?

According to CLC, one factor that most affects organizational performance is employee engagement. By this, they mean the extent to which employees have a positive connection to their employer. When employees are actively engaged, they are willing to go above and beyond the call of duty to help meet their organization's goals. Generally speaking, the higher the percentage of the workforce that is actively engaged, the more productive the organization is likely to be.

Unfortunately, CLC found that only about 11 percent of the employees in the organizations they studied are actively engaged. However, there were dramatic differences between companies—with the highest scoring company having almost a quarter of its workforce actively engaged and the lowest scoring only three percent.

Clearly there is room for improvement in many companies. Even a small increase in the percentage of actively engaged employees could result in improved organizational performance.

continued, page 4

[1] Corporate Leadership Council, *Driving Performance and Retention Through Employee Engagement.*

insights & analyses for Federal human capital management

ISSUES OF MERIT

U.S. Merit Systems Protection Board

CHAIRMAN
Neil A. G. McPhie

MEMBER
Susanne T. Marshall

MEMBER
Barbara J. Sapin

Office of Policy and Evaluation

DIRECTOR
Steve Nelson

DEPUTY DIRECTOR
John Crum

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.

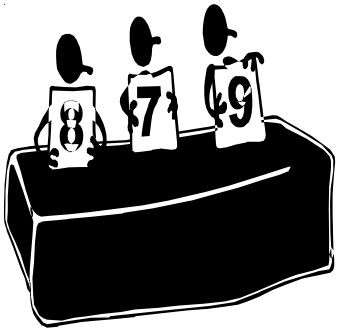
For More Information
Contact us at:
www.mspb.gov
(select STUDIES page)
STUDIES@mspb.gov
202-653-6772 x1350
1-800-209-8960
V/TDD: 202-653-8896
(TTY users may use the Federal Relay Service,800-877-8339)

U.S. Merit Systems Protection Board
Office of Policy and Evaluation
1615 M Street, NW
Washington, DC 20419

The Challenge of Category Rating

Why Aren't You Using It?

For many years, MSPB championed the demise of the "rule of three," where selecting officials were restricted to hiring only from the top three candidates. Managers and candidates alike were stymied by this rule and its application. Often, efforts to distinguish between the third and fourth candidate were futile. Candidate "scores" could be so close (97.5 versus 97) that saying one candidate was selectable and the other was not made little sense. On occasion, candidates had identical scores, and a random number was used to break the tie to determine which one would not be considered. That type of action certainly was not merit-based.



Additionally, some officials viewed extra points for veterans as an unfair advantage for lesser qualified candidates. Further, public policy application on veteran's preference came head to head with public policy efforts to expand diversity through targeted recruitment. There was insufficient flexibility for managers to meet both of these goals. For these and other reasons, we have long viewed the rule of three as inconsistent with the public's interest in a merit-based civil service.

We have welcomed the advent of category rating to replace this system. Several agencies, including notable demonstration projects within Agriculture, have been using it with great success for over 10 years. Success is defined in terms of managers perceiving higher quality selections, as well as higher numbers of veterans actually being selected and greater flexibility to hire people the Government just spent money to recruit. The Department of Homeland Security's enabling legislation offers this flexibility to all Federal agencies. Why aren't agencies using it yet?

Reasons offered by agencies for not yet picking up this authority have ranged from waiting for the Office of Personnel Management (OPM) or the agency headquarters to issue implementing instructions to complaints that category rating still does not provide the ability to hire who you want without regard to veteran's preference. These explanations arise from a lack of knowledge and understanding of how category rating works, its benefits, and the underlying concept of job analysis. We provide implementation guidance in the Tools of the Trade article on page 6. But agencies need to look beyond the authority's mechanics as well.

Line managers are generally the drivers of change, and many have not yet seen a compelling business case presented by their human resource (HR) partners for category rating. The HR community is often too busy implementing automation and dealing with day-to-day needs to undertake what may be viewed as just another initiative. Automating an improved process like category rating is far preferable to paving the cow-path of

continued, page 3

Category Rating

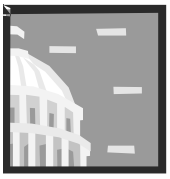
(continued from page 2)

the rule of three. Discussions need to occur with agency Chief Human Capital Officers, HR Directors, and all levels of management about how category rating can be used to improve your organization's selection procedures and the quality of selections.

Within the HR community, encouragement for the use of this authority is also needed. So too is the support for critical job analysis training and skills development to optimize this authority. Entities that provide HR technical training or staffing and automation services will be able to provide such training. An improvement through training in job analysis is needed not just for category rating, but as the keystone of any rigorous assessment process. Flexibilities in varied appointment authorities such as the Federal Career Intern Program, Veterans Recruitment Appointments, Student Career Experience Program, Presidential Management Fellows Program, and the like will benefit from improving the fundamental skill of job analysis to best identify the skills we need in that particular job. Using those identified skills or competencies to create categories of qualified candidates helps sift out the star candidates from the good candidates.

Category rating is a great tool that can help improve assessment, raise the caliber of new hires, improve hiring rates of qualified veterans, and provide some needed flexibilities to leverage the benefits of recruitment investments. Why hasn't your agency used it yet?

Steve Nelson
Director, Policy and Evaluation



Agency Corner:
Department of Health and Human Services Administering the Probationary Period

One of the most critical steps in the process of hiring a new Federal employee is orienting that employee to the organization and to the Federal service. The Department of Health and Human Services is an example of one agency that provides noteworthy guidance to supervisors to help them meet this goal.

As part of an ongoing study on the probationary period, the Centers for Medicare and Medicaid Services (CMS) shared with us their process for educating supervisors about their responsibilities to a new Federal employee. Upon hiring a probationary or trial period employee, the CMS human resources office sends the supervisor a letter by either paper or electronic means. The notice informs the supervisor if the new employee is in a trial or probationary period and the resulting length of the probationary/trial period. The notice also instructs the supervisor to:

- Provide the employee with an explanation of the mission and the employee's role in that mission;
- Provide the employee with both a copy of the position description and a detailed explanation of the duties;
- Provide the employee with a performance plan that includes critical performance standards and the measures against which performance is appraised;
- Explain the organization's work rules in detail;
- Observe the employee's conduct and work performance to determine if there are developing problems;
- Regularly communicate with the employee on how he or she is doing in relation to established expectations;
- Give assistance where needed; and
- Conduct regular employee counseling sessions.

This is excellent advice. Research has shown that employees will be more engaged and give greater effort if managers:

- Clearly explain why the job is important to the mission;
- Explain the organizational vision and strategy;
- Provide insight about the work unit;
- Clearly explain the performance objectives; and
- Clearly explain the job responsibilities.[2]

Look for more information about agency best practices pertaining to the probationary period and recommendations to effectively manage probationers in our upcoming report on the probationary period. ❖

[2] Corporate Leadership Council, *Driving Performance and Retention Through Employee Engagement.*

Organizational Performance

(continued from page 1)

But how do we go about increasing employee engagement?

CLC found that employee engagement has two main components. The first and most fundamental is what they term "rational commitment." Rational commitment is the extent to which an organization meets employees' professional, financial, and developmental needs. Meeting these needs will likely reduce turnover and perhaps improve the organization's ability to recruit new employees. But CLC's research suggests that increasing rational commitment will not do much to improve employees' discretionary efforts and overall organizational performance.

To optimize performance, an organization must first secure the rational commitment *and then* attempt to obtain employees' "emotional commitment." Emotional commitment is the extent to which employees identify with the missions, processes, and culture of an organization. CLC found that emotional commitment has the strongest effect on an employee's discretionary effort; so strong, in fact, that emotional commitment to the job, organization, team, and manager has greater impact than any form of rational commitment.

The most important factor in securing emotional commitment is the role played by managers. They enable employee commitment to the job, team, and organization by providing feedback, developing employees, finding solutions to work-related problems, and recognizing and rewarding achievement.

Therefore, organizations that want to improve their performance need to first make sure that the rational needs of the workforce are being met and then focus on leveraging managerial behaviors to increase emotional commitment. It appears that our best chance for improving overall workforce performance requires addressing both of these issues and not just counting on pay for performance systems alone to get us there. ❖

From Theory to Practice: Can Pay for Performance Work?

The critical success factors may be different than you think.

Calls to better manage "human capital" have led many agencies to take a hard look at their human resources practices. That look includes pay, and many agencies are examining the effectiveness of their pay practices in recruiting and retaining top performers and eyeing pay for performance as a means to influence employee behavior and focus activities on agency goals.

Is pay an effective tool? Of course pay matters—few people are willing to work for free. However, research has not consistently linked pay policies to desirable staffing and productivity outcomes, as discussed in our front page article. In some cases, pay for performance improved recruitment and retention of high performing employees; in other cases, it did not. Clearly, good theory and good intentions are not enough.

Is pay for performance worth the effort? Pay for performance is not a panacea for organizational ills. However, if done properly, it may help agencies better realize the merit system ideal of equal pay for work of equal value. The value of an employee's work is not determined solely by the nature of the job and time on the job. Through pay for performance, an organization can acknowledge that "value" includes quality of work, quantity of work, and results, and that value can be recognized through awards and pay increases.

What is needed to make pay for performance work? Quite a bit, as it turns out. Several factors are critical to the success of pay for performance. As shown below, those factors are not purely—or even primarily—financial. Although funding matters, agencies cannot expect to spend their way to success. Critical success factors include:

Organizational Culture

- Leadership commitment.
- Open communication.
- Employee trust of supervisors and leaders.

Effective Supervision

- Fair treatment of employees when assigning work, providing training opportunities, evaluating performance, and allocating awards and pay increases.
- Continuous monitoring and documentation of performance.
- Timely, accurate, and constructive performance feedback.

continued, page 5

New Flexibilities in Pay and Benefits

The fifth in our series on Federal human resources management flexibilities, this chart outlines the new pay and benefits flexibilities under the Federal Workforce Flexibility Act of 2004. The Act was passed to ensure that agencies have the tools they need to attract and retain the right talent to accomplish their mission.

Flexibility	Description
Streamlined critical pay authority (effective Oct. 30, 2004)	Agencies may now ask OPM—rather than the Office of Management and Budget—to adjust basic pay for their critical positions at a rate higher than what is normally payable, up to level 1 of the Executive Schedule (EX) ($175,700 in 2004). "Critical positions" are positions that: 1) require a very high level of expertise in a scientific, technical, professional, or administrative field and 2) are crucial to the accomplishment of the agency's mission.
Compensatory time off for travel (effective Jan. 28, 2005)	Compensatory time off for travel time will be granted to employees who must travel outside their normal working hours.
Enhanced recruitment, relocation, and retention bonuses (effective May 1, 2005)	The new law allows agencies to: • Pay recruitment bonuses to current Federal employees. • Pay retention bonuses to employees who are likely to leave for other Federal positions. • Pay recruitment and relocation bonuses up to 100% of the employee's annual basic pay. • Ask OPM to allow them to pay retention bonuses up to 50% of salary based on critical needs. • Pay recruitment, relocation, and retention bonuses in installments or lump sum at the end of an agreed-upon service period. Service periods may not exceed 4 years.
Enhanced annual leave accrual for senior executives (SES) and senior level employees (SL and ST) (effective Oct. 30, 2004)	Employees in the SES, SL/ST, and equivalent pay systems will now accrue 8 hours of annual leave per biweekly pay period. Newly hired executives or senior level employees, whether hired from the private sector or internally, will also receive 8 hours of annual leave.
Enhanced annual leave accrual for newly hired employees (effective Apr. 28, 2005)	Newly hired employees' work experience directly related to the position can be credited when determining the amount of annual leave they will accrue every pay period.

Pay for Performance

(continued from page 4)

Fairness

- A system of checks and balances.
- Pay and awards distributed according to performance.

Training

- Education on how the pay system works.
- Education on the values underlying the pay system.

Funding

- An organizational commitment to paying for performance.
- Sufficient funding to provide rewards commensurate with employee contributions and organizational results.

Effective Measurement

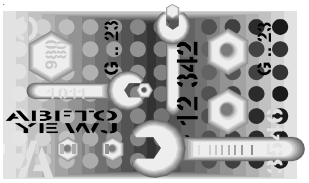
- Performance measures that capture the most important critical behaviors and outcomes.
- Evaluation of performance at the appropriate level(s), e.g., individual, team, and organizational.
- Reliably distinguish among levels of performance.

Evaluation and Improvement

- Systematic assessment of the effects of the pay for performance system, including effects on recruitment and retention, employee attitudes and behaviors, the distribution of pay and awards, and organizational finances and performance.

Pay for performance has many organizational benefits, and attending to these critical success factors will help agencies achieve those benefits. ❖

TOOLS OF THE TRADE



How-to on Category Rating

Are you one of the many people in the Federal Government who wanted to use category rating, but didn't because you're not sure how? Here's a quick reference, based on guidance from OPM.

First, your agency must have an established policy on the use of category rating. Further, the use of category rating must be predetermined and spelled out in vacancy announcements; otherwise, it is presumed that the rule of three will be used.

Second, define at least two quality categories to differentiate between candidates' relative ability. The quality categories are where qualified job applicants with similar levels of job-related competencies will be grouped. When defining the categories, consider the increasing levels of difficulty or complexity of the job, the breadth and scope of the required KSAs or competencies, and the requirements for successful job performance.

Third, assess candidates and place them in the appropriate quality category based on your assessment of their KSAs or competencies directly related to the job. Once all the candidates have been placed in their appropriate categories, apply veteran's preference by placing preference eligibles ahead of non-preference eligibles within the quality category. Note that for positions other than professional and scientific at the GS-9 and above, compensably disabled preference eligibles (those veterans with at least 10 percent service-connected disability) are placed within the highest quality category, meaning that they "float to the top" as they do in the rule of three.

Fourth, select from among the candidates in the highest quality category. Be aware that veterans who have preference and are on the top of the category must be selected before any non-preference eligibles in that category, unless the requirements of 5 U.S.C. 3317(b) or 3318(b), as applicable, are satisfied. For example, the following table shows how the candidates were rated in a 2-quality category grouping.

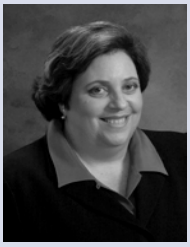
Candidate Ratings (unordered)		Order of Referral	
Claudia	Q (CP)	Claudia	Q (CP)
John	Q	Nancy	HQ (TP)
Vivian	HQ	Vivian	HQ
Nancy	HQ (TP)	Henry	HQ
Henry	HQ	Stuart	HQ
Stuart	HQ		
Bill	Q (TP)		

Note: Q = Qualified, HQ = Highly Qualified, TP = preference eligible, CP = veteran with 10% service connected disability

These steps are a brief view of category rating procedures. For more information on this new flexibility, contact your personnel office. ❖

. . . ANNOUNCING . . .

MSPB CONFIRMATIONS



On November 21, 2004, **Neil Anthony Gordon McPhie** was confirmed as Chairman of the Merit Systems Protection Board for the term of seven years expiring March 1, 2009. Mr. McPhie had served as Acting Chairman since December 10, 2003. Previously, he worked in Virginia's Attorney General's Office and served as Director of the Virginia Department of Employment Dispute Resolution. He earned his bachelor's degree from Howard University and his J.D. from Georgetown University.

On November 21, 2004, **Barbara J. Sapin** was confirmed as Member of the Merit Systems Protection Board for the term of seven years expiring March 1, 2007. Ms. Sapin previously served as Vice Chairman of the Board from December 2000–December 2001. Before joining the Merit Systems Protection Board, Ms. Sapin served in a number of labor and employment law related positions, including General Counsel and Labor Counsel to the American Nurses Association from 1990 to 2001. She earned her bachelor's degree from Boston University and her J.D. from Catholic University of America.

Please join the employees of the Board in congratulating and welcoming Mr. McPhie and Ms. Sapin.

Get Ready to be Heard

The Merit Principles Survey is coming.

Are you unhappy with some of the changes you see occurring in the Federal Government? Or maybe you're thrilled with the direction we are heading. Soon, MSPB will ask many of you to voice your opinion in our Merit Principles Survey (MPS) 2005. The MPS measures and tracks the "health" of Federal merit systems over time. MSPB has been conducting this survey for over 20 years, and the results are widely disseminated among Federal policy and decision-makers.

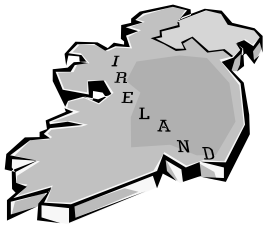
The MPS is particularly important right now considering the workforce challenges facing the Federal Government. We recently saw the largest reorganization in 50 years with the establishment of the Department of Homeland Security. Agencies are requesting legislative relief from many regulations originally designed to protect merit. Large numbers of Federal employees are reaching retirement eligibility, potentially leading to gaps in mission accomplishment. These changes may likely change the way some employees view their agencies, their jobs, and their future.

Using the survey results, MSPB will be able to report to the President, Congress, and other Federal decision-makers on the state of merit and fairness in the Federal Government. This is an opportunity for Federal employees to inform policy by voicing their opinions and concerns about workforce issues.

For the first time, MSPB will deliver the survey electronically. Technology will enable us to reach out to a wider audience and obtain and report survey results faster than ever before. All major departments and agencies will participate to ensure that MSPB can accurately assess the overall health of Federal merit systems.

The MPS should not be confused with OPM's Federal Human Capital Survey (FHCS). The FHCS is primarily designed to measure employees' perceptions of whether and to what extent conditions that characterize successful organizations, as defined by the President's Management Agenda, are present in their agencies. The MPS is designed to track specific merit system indicators over time and also to evaluate how changes in human resource policies and regulations affect merit and fairness. Our questions are driven by the Board's mission to protect merit and to study and report on the state of merit in Federal personnel systems. ❖

In Ireland, the Times Are Changing



MSPB's contacts with the international personnel community confirm that change is prevalent worldwide. The Irish Civil Service is reforming itself to take on the challenges of the new century, and MSPB was invited to see the changes taking place. Under the Public Service Management (Recruitment and Appointments) Act 2004, the Irish Civil Service has decentralized its recruitment and staffing process.

The legislation establishes two new civil service entities. The Commission for Public Service Appointments is responsible for regulating recruitment and ensuring that hiring is based on merit. The Public Appointments Service (PAS) functions as the centralized recruitment, assessment, and selection body for government departments. Further, individual agencies may be licensed to recruit staff directly instead of through the Civil Service Commission for the first time in 50 years.

This decentralized approach helps the Irish government in two respects; it provides departments and public service bodies the flexibility they need to meet individual recruitment challenges and preserves the key public value of integrity long instilled in the Irish Civil Service. These goals are not at all foreign to those of us in the U.S. Civil Service.

To kick off its new mission focus and its modernized approach to recruitment, the PAS joined with the Institute of Public Administration, a professional organization, to hold an international conference on the challenges facing the public sector in sourcing and managing talent. MSPB presented findings from recent research and shared views of where personnel is today and where it needs to go in the future.

We were also honored to exchange information with a number of senior officials from both the Irish Civil Service and the Northern Ireland Civil Service. The meetings gave us a chance to discuss challenges we all face, such as how to recruit the best and the brightest, how to motivate the workforce, and how to provide the workforce with the tools necessary to serve the public good. To see more on PAS's new recruitment and marketing strategy, go to www.publicjobs.ie. ❖

U. S. Merit Systems Protection Board
1615 M Street, NW
Washington, DC 20419

FIRST-CLASS MAIL
POSTAGE & FEES PAID
MSPB 20419
PERMIT NO. G-113

ISSUES OF MERIT

January 2005 Volume 10 Issue 1

IN THIS ISSUE * IN THIS ISSUE * IN THIS ISSUE