

# ISSUES OF MERIT

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## WHAT'S INSIDE

Director's Perspective:  
Favoritism in the Federal  
Workplace  
Page 2

Comparing the Federal  
and Civilian Labor Forces  
Page 3

Planning for Training  
Needs  
Page 4

Secret Service Scores  
Near the Top  
Page 5

Watch Out for  
Probationary Period  
Regulations  
Page 5

Minority Hiring Trends  
Page 6

Agency Corner: Helping  
Veterans Serve  
Page 7

## Executive Pay for Performance Is a Work in Progress

*While Federal executives support the idea of pay for performance, they report in two recent surveys that there is room for improvement.*

In January 2004, the Federal Government instituted a pay for performance system for members of the Senior Executive Service (SES). The Office of Personnel Management (OPM) envisioned this initiative as a way to increase the accountability of key decision makers in agencies, and as a platform for extending performance-based pay across Government.

However, results from two surveys—the Merit Systems Protection Board's (MSPB) Merit Principles Survey 2005 and a joint survey by the Senior Executives Association (SEA) and Avue Technologies Corporation—demonstrate that the road to a successful pay for performance system includes some bumps along the way. The perspectives of the senior executives who responded to these surveys provide valuable insight into what is and is not perceived to be working well in the SES pay for performance system.

MSPB's report, *Designing an Effective Pay for Performance Compensation System*, outlines a number of conditions that are critical to the success of pay for performance. Establishing and maintaining these prerequisites remains challenging. For example, communication and transparency regarding ratings and

pay outcomes are essential, yet these elements appear to be lacking in many agency SES systems. Senior executive participants in the Merit Principles Survey 2005 (MPS 2005) split fairly evenly between those who reported they know how their ratings compare to others in the organization and those who do not.

Similarly, although the majority of SES participants saw a link between their performance and pay, a sizable minority did not. About 25 percent reported it would be unlikely for them to receive a cash award or pay increase if they performed well, while about 20 percent said it would be unlikely if their team performed well. Without evidence of a direct linkage between pay and performance, employees and executives are unlikely to have confidence in the pay for performance system.

In terms of outcomes, a considerable number of executives expressed concern on the MPS 2005 that the current pay for performance strategy may negatively impact teamwork (22 percent) and morale (20 percent) and make employees more vulnerable to political coercion (35 percent). Further, 22 percent expressed

*continued, page 7*

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## DIRECTOR'S PERSPECTIVE

# Is Favoritism a Problem in the Federal Workplace?

*Perceived or real, favoritism is an issue that needs leadership attention.*

My office recently spent time conducting nationwide focus groups about fair and equitable treatment in the Federal workplace. We heard from many employees who think favoritism is a serious problem. The results of the Merit Principles Survey 2005 also indicate that favoritism is an issue of concern to employees. The percentage of employees who reported that they have been treated unfairly in the past 2 years ranges from 19 percent to 39 percent in seven areas, including: career advancement (39 percent), awards (33 percent), training (27 percent), discipline (25 percent), pay (23 percent), job assignments (21 percent), and performance appraisals (19 percent). Also, when MSPB asked stakeholders for suggested research ideas, favoritism was a frequently requested topic. Is favoritism a problem, a perception, or both?

First, what is favoritism? Favoritism occurs when a supervisor or organization offers advantages, benefits, or special treatment to one or more employees but not to others due to biases or personal relationships. One example of favoritism might be a supervisor who routinely distributes the plum assignments to personal friends. Favoritism, as I've defined it here, would be one of the 12 Prohibited Personnel Practices because it gives "unauthorized preference or improper advantage" [5 U.S.C. Sec. 2302 (b)].

It is important to note, however, that identifying favoritism is not an easy thing to do because it is often a

judgment call. What might appear as favoritism to one employee may very well be fair, merit-based behavior in the given situation. For instance, differentiating among employees based on their performance is not favoritism.

Sometimes employees believe if everyone in the work group is not treated exactly the same, their supervisor is playing favorites. However, a good manager will not treat all employees identically. Each employee is in a different circumstance, depending on his or her competencies, previous work experience, and current assignments. One employee may have an especially challenging assignment and need more feedback and coaching than the others. Another employee may have a higher level of expertise than others and therefore be given more complex assignments. An employee with strong team leadership skills may be selected for promotion over others with equal technical skills. This is not favoritism but good management.

However, managers need to recognize that both perceived and actual favoritism can result in negative consequences for the organization, including resentment, mistrust, group tension, reduced motivation, and low morale. These consequences, in turn, can lead to low productivity, high error rates, low initiative and creativity, and high turnover. There are also legal ramifications which can embroil an agency in time-consuming and expensive appeals and complaints.

Perceived and real favoritism become even more important as the Government

*continued, page 3*

## Playing Favorites

(continued from page 2)

adopts pay for performance systems in which employee compensation is dependent on more objective supervisory appraisal. Therefore, agency leaders need to consider *why* many Federal employees believe they are not treated fairly. In some cases, supervisors may not consciously realize they are unfairly advantaging certain employees.

For instance, are the more outspoken employees getting more than their fair share of the supervisor's attention? Or supervisors may not know how to counteract the human tendency to more easily bond with employees with characteristics similar to their own. Perhaps some organizations are not sufficiently monitoring supervisors' decisions and actions. Or perhaps employees do not understand the basis for rewards, assignments, flexible work schedules, and other managerial decisions.

Any or all of these underlying factors may contribute to the perception and reality of favoritism. Agencies should start to identify signs of potential favoritism so that they can be addressed. ❖

*Steve Nelson*

Director, Policy and Evaluation

## Understanding the Federal Workforce: Compare with Care

We frequently hear questions such as “How does Federal pay compare with private sector pay?” and “How does the Federal workforce compare with the civilian labor force?” The Internet has made it easy to obtain quick answers to those questions. It is not so easy, however, to obtain useful answers to those questions. A comparison of the civilian Federal workforce and the civilian labor force (CLF)<sup>1</sup> provides an explanation.

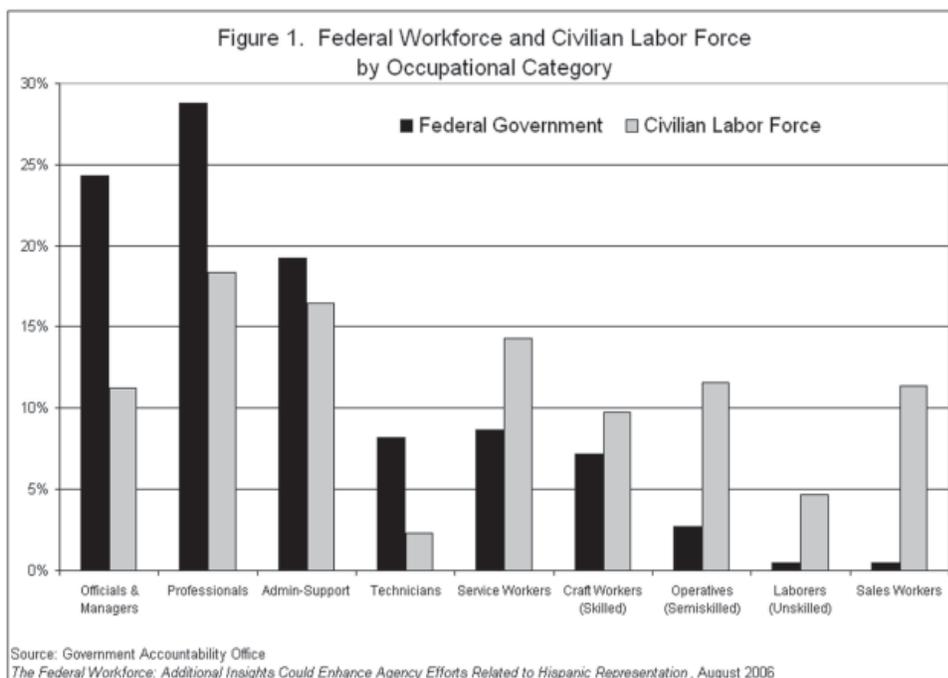
Figure 1 shows the distribution of Federal employees and the distribution of the CLF across the nine EEOC occupational categories. It is immediately clear that the distributions are very different. In the Federal Government, officials and managers (a broad category that covers occupations such as contract specialist, program analyst, and social insurance representative), professionals and technicians are much more common than in the CLF. In contrast, substantial proportions of the CLF are involved in occupations less common to the Federal workforce, including operatives, laborers and sales workers.

These differences are not accidental. Governmental functions such as national defense, law enforcement, regulation, and policy analysis require different kinds of skills than those performed in the civilian labor force, particularly those in the private sector. The American public consciously seeks to establish a clear division of labor between the Federal Government and the private

sector, which makes up a large part of the CLF. This results in a sharpened contrast in the composition of the two workforces.

Casual comparisons between Federal employees and the CLF, particularly in regard to pay, are easy to make. Valid comparisons, however, are more challenging, including representation rates that use a relevant CLF. ❖

<sup>1</sup>The civilian labor force is all people aged 16 or more who are able to work and are neither in the military nor institutionalized.



# Planning the Training Menu—What’s for Lunch?

*It takes a well-balanced training strategy to support organizational and employee goals.*

Have you ever stood at a salad bar, paralyzed with indecision? It’s easy to be overwhelmed by options. We cannot eat everything and sometimes need help making good choices—without putting too much on our plates. Federal employees face similar choices when asked to select training from an enormous menu of workshops, courses and seminars. MSPB’s Merit Principles Survey (MPS) 2005 shows that most Federal employees are smart eaters—63 percent are getting the training they need to do their jobs. But many employees—just under half (48 percent)—are also hungry for more training to help fine-tune their performance. How should they choose their next training experiences? We offer three suggestions.

***Avoid sweets.*** Like a plate full of dessert, training that is merely “fun” leaves participants entertained, but malnourished. It does not help them better contribute to their agency’s mission—or advance in their careers. Often, training courses are described superficially, based only on how much participants enjoyed them. Supervisors and their employees should weigh the value of the training by what it brings to the individual and organization rather than by previous participants’ taste for the training process. In turn, training vendors can support healthy training choices by emphasizing training content and objectives—and any data showing an impact on job performance.

***Load up on essential vitamins.*** Whether it comes from a needs analysis survey, supervisor feedback, or personal reflection, information about an employee’s “skills gap” is valuable. Any time an employee lacks critical skills, some of the employee’s training should include “loading up” on training that addresses weaknesses. When asked about their strategy for selecting training, two-thirds (67 percent) of MPS 2005 survey participants said they plan to close a gap in their current skills set. This targeted use of training is likely to help both these employees and their agencies increase employee performance.

But even a good strategy should not be over-indulged. Not every skill gap can be usefully addressed through training because the same training is not equally digestible by every employee. Some aspects of job performance are closely tied to the aptitude an employee brings to the job. When the employee lacks necessary underlying ability, training will produce little improvement. Even when a skill is trainable, there also must be priorities. When an employee has demonstrated gaps in many trainable areas, not all should be targeted at once by training.

***Select for long-term nutritional value.*** While gap-driven training can reduce weaknesses, employees need to save room on their plate for building strengths. Not only may this be more motivating to employees, but

it has greater potential for long-term contribution to agency performance. While the outcome of gap-filling is an *adequate* employee, the outcome of strength-building is a *superior* employee. At the team level, a gap-filling strategy produces a set of interchangeable employees with similar skills and skill levels. A strength-building strategy, on the other hand,

can create an interdependent team with greater skill diversity and greater synergy. Fortunately, almost three-quarters (72 percent) of MPS 2005 participants include strength-building in their strategy for future training opportunities.

The MPS 2005 results indicate that about half (55 percent) of Federal employees are pursuing both gap-filling and strength-building strategies as they consume the training they need to increase performance in their current jobs—a balanced training meal. This balance of short-term and long-term perspectives, of the immediate requirements of the job and the long-term development of the employee who performs the job, is appropriate. We encourage all employees to consider the benefits of both strategies as they work with their supervisors to fill their—and their agency’s—training needs. ❖

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*Federal employees are pursuing both gap-filling and strength-building strategies as they consume the training they need to increase performance in their current jobs—a balanced training meal.*

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# U.S. Secret Service: The Key to Its Success Is No Secret

*Survey data indicates that this Homeland Security agency is among the top in terms of perceived mission support and success.*

In the years since its formation, the Department of Homeland Security (DHS) has been widely studied, and in many cases, widely criticized. Sometimes, in all that clamor, the success stories are overlooked. In the Merit Principles Survey (MPS) 2005, MSPB analyzed data from DHS as a whole, but also from the individual agencies that comprise the Department. At least one agency stands out—not just in DHS, but in the whole Federal Government. That agency is the U.S. Secret Service.

What makes the Secret Service so noteworthy is not simply the degree to which the agency exceeded the rest of Government on questions regarding issues such as working conditions, job satisfaction, and the quality of coworkers and supervisors. For some of the issues discussed in this article, the Government as a whole scored so well that there was little room left for Secret Service to exceed its peers. What is remarkable is the pattern of the agency's responses to survey questions: the Secret Service consistently scored better than most of Government, particularly in terms of commitment to and accomplishment of the agency's mission.

Understanding the purpose of the agency is critical to achieving that purpose, and 98 percent of the Secret

Service participants told us they understand their mission. The Government as a whole averaged 95 percent agreement.

The Secret Service participants also agreed that their agency's mission is important to them—98 percent agreement, while the Government again averaged 95 percent. In addition, 97 percent agreed that they understand how they contribute to their mission, compared to a Government average of 92 percent. When asked if the workforce has the necessary knowledge and skills to accomplish organizational goals, the Secret Service was once again at the top with 85 percent agreement, while the Government averaged 75 percent.

Finally, we asked if they believe their agency is successful at its mission. Given the responses to the previous questions, it is not surprising that the Secret Service was once again on the top, with 93 percent agreeing that their agency is successful. The next closest agency had only 89 percent agreement. Even in a Government where 76 percent believe their agency is successful, the Secret Service stands out—at the top. ❖



## ***Van Wersch* and *McCormick*: Knowing When to NOT Follow the Regulations**

Generally, the purpose of a Federal regulation is to implement a Federal statute. Regulations provide instruction on how the agency can achieve a particular goal in compliance with the law. However, when an appeals court determines that a regulation does not comply with the law, the agency must follow the court's interpretation, not the regulation. This is particularly important to remember when working with Federal probationary and trial periods because existing regulations are not accurate under all circumstances.

Two Federal Circuit court decisions, *Van Wersch v. Health and Human Services* (1999) and *McCormick v. Air Force* (2002), have invalidated portions of the regulations that establish probationary and trial periods for newly hired Federal employees. OPM, however, has not yet amended

the regulations to comply with the courts' decisions. Consequently, agencies may mistakenly identify some employees as "probationers" under 5 C.F.R. § 752.401 when, in fact, they have full appeal rights.

While we urge OPM to review and clarify these regulations, we more importantly caution agencies to act with care when considering taking actions against a probationer or trial period employee. We advise agencies to become familiar with these two cases and how their rulings might apply to employment decisions. MSPB's upcoming report, *Navigating the Probationary Period After Van Wersch and McCormick*, will discuss this issue in greater depth and provide recommendations to agencies on how to use these two important Federal Circuit decisions.

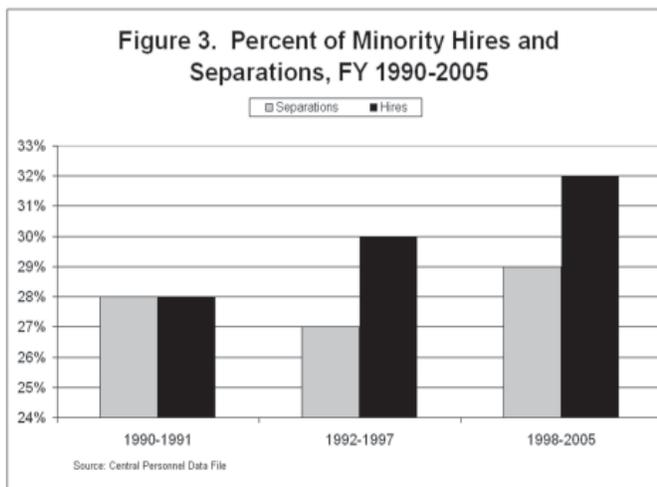
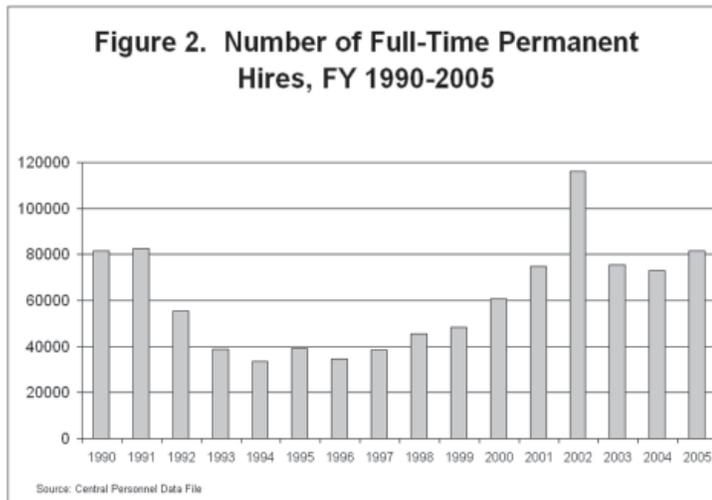
# Surviving the Roller Coaster: Agencies Stay Committed to Minority Hiring

*Through 16 years of downturns and upturns, overall minority representation has fared well.*

The Federal Government has undergone tremendous structural change in the past decade and a half. In the 1990s, the Government downsized its workforce to meet the requirements of the Base Closure and Realignment Act of 1990 and the Administration's push at that time to change the way Government does business. The bulk of that downsizing occurred between fiscal years (FY) 1992 and 1997 and was reflected in a sharp reduction in hiring. As figure 2 shows, the number of new hires dropped in 1992 and stayed flat until about 1997 when it began to edge up. In turn, the impact of the Federal response to the September 11, 2001 terrorist attacks can be seen in the upsurge of hires that followed in FY 2002.

With this roller coaster of hiring, it is interesting to explore how minorities fared overall through these changes. Did they lose ground during the downturns? If so, did they recover in the upturn?

Based on the number of minorities agencies have hired and separated in the last 16 years, it appears that agencies have done a good job and stayed committed to the merit system principle of recruiting "from appropriate sources in an endeavor to achieve a workforce from all segments of society..." Overall, as figure 3 shows, the percentage of minorities hired during and after the downsizing did not merely replace the positions that were lost, but rather, agencies steadily increased the percentage of minorities they hired. Information from the Central Personnel Data File, however, shows that the gains varied by minority group. The percentage of Hispanics hired increased the

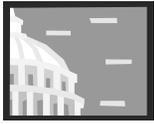


most, from 5 percent in FY 1990 to 8.1 percent in FY 2005. Asian hires increased from 4 percent in 1990 to 5.8 percent in 2005, while the hiring of Native Americans and Blacks remained fairly steady. ❖

## The Data Is Coming!



Did you notice that a number of the articles in this edition of *Issues of Merit* cite data from the Merit Principles Survey 2005? Are you itching to get a closer look at the Governmentwide survey data? The wait is almost over! Coming soon is the MPS 2005 survey report. Sign up for our LISTSERV now to receive notification when the report is published. Click on MSPB Studies at [www.mspb.gov](http://www.mspb.gov) and follow the directions under "MPS 2005 ListServ."



## Agency Corner: Serving Veterans by Helping Veterans Serve

Research shows that observing someone perform on the job is one of the best assessment procedures available to managers. So, wouldn't it be great to "try out" an employee through a non-paid work experience? The Department of Veterans Affairs (VA) has created a veteran employment program that allows you to do just that.

VA's "Coming Home to Work Initiative" offers eligible veterans unpaid work experience with Federal, state, or local government agencies while awaiting medical separation from active duty at a major military treatment facility. The program is available to veterans with both a service-connected disability and employment handicap and emphasizes veterans of Operation Enduring Freedom (the military response to the September 11 terrorist attacks) and Operation Iraqi Freedom.

Many of these veterans face uncertain futures. The Bureau of Labor Statistics reports that 14.8 percent of veterans discharged between 2002 and 2005 who had a service-connected disability were unemployed, versus a 9.8 percent unemployment rate for veterans with no disability. Coming Home to Work provides these veterans with the opportunity to build useful civilian job

skills through training and practical experience, better manage their career transition, and establish a civilian employment history.

The program provides benefits for the employing organization, as well. The agency has access to additional resources to meet mission requirements, incurs no cost or obligation to hire the veteran, and can assess the veteran's potential to determine if it would like to offer the veteran a temporary or permanent position. The program can be used to fill professional, administrative, clerical, technical or wage grade work needs. The agency works with VA's Vocational Rehabilitation and Employment program to select veterans for the non-paid work experience, establish training objectives, conduct training and provide monthly evaluation reports.

Coming Home to Work provides agencies a valuable opportunity to use one of the best assessment methods available—direct observation. More importantly, agencies are provided the opportunity to help veterans reintegrate into the labor force after having honorably served the Nation. For more information on this program, visit [www.vetsuccess.gov/cominghome](http://www.vetsuccess.gov/cominghome). ❖

## Senior Executive Service

*(continued from page 1)*

doubts regarding the fairness of pay increases and awards, while a similar percentage stated that their organization does not ensure that employees are "appropriately paid and rewarded." This may be partly explained by the fact that 28 percent reported a lack of organizational funds to "appropriately reward high performance."

The SEA/Avue survey revealed similar concerns about the effects of the new system. Over 80 percent of survey participants reported that the system has had no impact on their performance or that of their peers. More than 50 percent reported it has had no influence on motivation, while about a third reported a negative change in motivation. Further, while 40 percent reported no impact on morale, about half of the participants suggested that morale had decreased. This perception may be related to the fact that one-third disagreed that ratings of executives in their agency are "fair and accurate."

Nevertheless, executives responding to both surveys overwhelmingly expressed support for rewarding

performance. Ninety-six percent of SEA/Avue participants said they should be "held accountable for measurable accomplishments." Echoing the same sentiment, over 99 percent of senior-level MPS 2005 participants agreed that performance should be an important consideration, while traditional factors were regarded as less important. For instance, only 12 percent of participants considered tenure an important consideration.

These findings suggest that pay for performance, as a concept, has support in the upper ranks. Yet, the operational details need to be refined to ensure that performance is clearly tied to pay increases—in both reality and perceptions. ❖

Sources: Merit Systems Protection Board, *Merit Principles Survey 2005* and SEA/Avue, *Survey of the Senior Executive Service Pay and Performance Management System: Lost in Translation*.



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# ISSUES OF MERIT

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## IN THIS ISSUE \* IN THIS ISSUE \* IN THIS ISSUE

### **Executives Share Their Thoughts.**

*Two recent surveys indicate that senior executives see room for improvement in the executive pay for performance program. (Page 1)*

### **Favoritism in the Workplace.**

*Employees often believe that supervisors play favorites. Our Director discusses why agencies should pay attention to this perception. (Page 2)*

### **Federal vs. Civilian Labor Forces.**

*It is not easy to make valid comparisons between the two. We demonstrate why. (Page 3)*

### **Don't Waste Training Opportunities on Empty Calories.**

*There are various ways to plan employee training. Here's some advice on how to make the most of these opportunities. (Page 4)*



**The Secret's Out.** *Take a look at one of the DHS agencies that is leading the Government in terms of perceived mission support and success. (Page 5)*

### **Watch Out for Probationary Period Regulations.**

*When taking actions against probationers, first make sure they are in fact probationers. The current regulations may mislead you. (Page 5)*

### **Agencies Stay Committed to Minority Hiring.**

*Find out how minorities have fared during the past 15 years of downsizing and right-sizing. (Page 6)*

**Agency Corner.** *The Department of Veterans Affairs provides agencies the opportunity to serve veterans by helping them continue to serve. (Page 7)*