



ERM AND SUCCESSION PLANNING

Dorothy Gjerdrum | Senior Managing Director, Gallagher's Public Sector & K-12 Education



RPA

RISK PROGRAM ADMINISTRATORS



Introduction

For nearly 20 years I have been conducting risk workshops to help public sector and K-12 organizations identify key risks. In every one of those workshops – regardless of the type or size of operation – succession planning is always one of the top risks. The details vary a bit by sector, but the key elements always include finding, hiring, and training the right successors and ensuring the transfer of knowledge.

The documentation of policies and procedures, cultivating understanding among multi-generational workers, and changes in workplace culture are often raised as adjacent concerns, which illustrate the deeper issues that may be uncovered during the process of planning for new leadership.

The Association of Governmental Risk Pools (AGRiP) recently reported that there are more pool job openings today than at any other time in their 23-year history. We’ve all heard the statistic that 10,000 baby boomers are retiring every day; we can look around the country and see evidence of that playing out among pools, as well. It’s not only the retirements of baby boomers that create job openings, though. Many sectors are reporting early retirements and job re-configurations resulting from the pandemic. That broadens the scope of risk associated with succession planning as pools compete for skilled employees.

Succession planning is so much more than hiring a new boss. It may trigger changes to structure and strategy as well as leadership of the organization. The term “leadership” is used intentionally here because succession planning does not apply only to a pool’s CEO position; it also includes other key positions (such as CFO, COO, Risk Managers, and key risk control personnel) as well as Board leaders.

There is no question that succession planning is necessary for pools, and for many, it is a key risk. Every pool will experience the need for new leaders; without appropriate planning and the consideration of risk, it may put a pool’s future in jeopardy. The principles and processes of enterprise risk management (ERM) can be extremely helpful to pools facing these challenges.

Succession Planning and ERM — What’s the Connection?

If a pool has begun to implement ERM and succession planning arises as a key risk, it will be managed within the scope and framework of the ERM process. For pools that have not fully implemented ERM, or perhaps have not even considered ERM, this article will highlight ERM processes that can be utilized to consider those risks and better plan for the future.

This article’s point of reference for ERM is the international standard on risk management, called ISO 31000. It was created by risk management experts from around the world and was designed to be effective for a wide variety of organizations. It is, therefore, scalable and customizable to pool operations.

The Value of ERM — Linking to Mission and Strategy

The true value of ERM is to identify and evaluate risks in relation to the pool’s mission and purpose. Then the management of risk will enhance strategic priorities and decision-making, as well as increase the likelihood of avoiding negative outcomes.

These are a few examples of strategic priorities from public sector pools related to succession planning:

- Plan for and hire an executive team (CEO, CFO, COO) that understands pool operations, can effectively manage existing staff and will focus on growing pool membership.
- Hire a pool leader who will work well with the board, consolidate pool staffing functions, and develop stability for pool members.
- Hire professional pool leaders who can advance the pool’s reputation as a leader in the industry and sustain successful operations.

Each example reflects the pool’s strategy and purpose, and provides clues to the underlying culture. However, without a deeper dive into risks associated with strategy, purpose or even culture, the pool could experience a mismatch in the hiring process or accelerate an unmanaged risk. Understanding “what lies beneath” increases transparency and pool self-awareness, along with the opportunity to manage key risks and make a more successful plan for a leadership change.

To illustrate, consider the sample strategic priorities with a correlated list of questions that could uncover risks.

STRATEGIC PRIORITY	QUESTIONS THAT COULD IDENTIFY ASSOCIATED RISKS
Plan for and hire an executive team (CEO, CFO, COO) that understands pool operations, can effectively manage existing staff and will focus on growing pool membership	<ul style="list-style-type: none"> • Will the pool be able to find experienced executive-level leaders from within the pooling industry? • Does the reference to “effectively manage” indicate poor performance of prior leaders or a complex staff-management structure? • What are the risks associated with growing or not growing pool membership? (And if this is a key risk, does the pool have a strategy to manage this risk beyond a one-time hire?)
Hire a pool leader who will work well with the board, consolidate pool staffing functions, and develop stability for pool members	<ul style="list-style-type: none"> • Does this indicate acrimony between the outgoing leader and the board? Or, if this is a strong board-driven organization — what risks could be created through the hire of a strong/weak pool leader? • Is there a risk that pool staffing is inefficient? Should this risk be addressed another way? • How has the pool been unstable and what are the risks associated with stability/instability?
Hire professional pool leaders who can advance the pool’s reputation as a leader in the industry	<ul style="list-style-type: none"> • What are the risks associated with industry leadership — or losing status as a leading pool organization? • How would the pool describe its reputation and what could cause that to change? Are those risks manageable?

A facilitated discussion with board members and key staff could generate questions and risks associated with the pool's succession planning priorities. Brainstorming can be done quite simply and effectively if the right stakeholders are involved. (The term "stakeholder" derives from the ISO standard and refers to any person or group that has a direct or perceived interest in the outcome.) For example, during any such discussion, a pool board member who is also a county commissioner and cattle rancher will have knowledge and perspective that differ from a pool staff risk control consultant who focuses on law enforcement training. Each has valuable experience and knowledge to contribute, and including both will assure a more comprehensive approach. This doesn't mean that absolutely everyone who has an interest in the outcome must be involved in the risk identification process, but rather, that the process should include a cross-section of stakeholders who can contribute to understanding the risks.

It's also possible to consider the potential views of stakeholders without them being physically present. What's most important is to take a broad view. Determining – and engaging – the right stakeholders will assure that different points of view are considered and their insights incorporated in support of better outcomes.



Applying the Risk Management Process to Succession Planning

A more comprehensive approach to identifying risks would be to conduct a risk management workshop focused exclusively on the broader topic of succession planning. The risk management process from the ISO 31000 standard has defined steps that could be applied to succession planning in any pool operation. The steps in the process occur in a sequential order (more or less—steps can be repeated at any point), with three overarching activities that occur throughout: 1) communication and consultation, 2) recording and reporting, and 3) monitoring and review. Incorporating these three activities assures that appropriate communication occurs, decisions and action plans are recorded, and continual improvement will occur.

CASE STUDY FOR A POOL

To set the stage, let's imagine that a pool wishes to conduct an assessment of succession planning as a key risk. Pools leaders would decide: 1) who to invite to the workshop (board members, key leaders such as committee chairs and parent association representatives, and key staff); 2) who would facilitate and document the discussion (it's important to have skilled people leading and recording the session); 3) the desired outcomes or results (such as a prioritized list of key risks); and 4) to whom and how to communicate results (e.g., to the entire membership).

PREPARATION

◆ Step 1—Establish the Scope, Context and Set Evaluation Criteria

The first task is to understand the scope of this particular risk management process. One of these two examples are the most obvious:

- To identify, understand and prioritize the risks associated with the pool's succession plan—and then create action plans to manage those risks.
- To understand the risks associated with not having a succession plan, and use that information to make informed decisions about planning.

Context refers to the internal and external environment of the pool's operations. This is important to consider because risk management takes place in the context of the objectives and activities of the organization. Understanding context helps tailor the risk management process and may influence decision-making. The discussion of context may also illuminate risks. For example, a pool that is hosted by or connected to a statewide association would need to consider the views of that board or include association board members in the process. In contrast, a pool that operates in a competitive environment may want to limit participation and guard how it communicates the results of the process.

The evaluation criteria that will be used during the process should help specify the amount and type of risk that the pool is willing to take. Risk criteria should evaluate the significance of risks and support decision-making processes.

There is a wide spectrum of risk criteria options; the option chosen needs to be customized to the needs of the pool and the process at hand. An example of one of the simplest approaches is to brainstorm a list of risks and then give each participant three to five sticky dots (more if you generate a large list). Each person places their dots next to the risks they perceive as most critical. The risks with the highest numbers are then prioritized for further actions and treatments.

A more sophisticated approach would engage participants in ranking each risk based upon their perceptions of the risk's likelihood of occurring (using a scale of 1 to 5, for example) and the consequence of the risk, if it did occur (using a scale of 1 to 5). The lists would then be prioritized according to the risk score, calculated as likelihood multiplied by consequence. The output of a process like this is typically illustrated on a risk heat map.

The best practice is to use the simplest criteria possible that will support your desired outcomes. If you need to understand the differences between the likelihood and severity of a risk, a risk heat map will generate a more detailed discussion of a risk's component parts. If you prefer a simple prioritized list, use a method like the dots. What is most important is that you plan for the scope, consider context and determine the criteria before you begin the assessment process.



THE RISK ASSESSMENT PROCESS

◆ Step 2 — Identify Risks

The purpose of risk identification is to uncover the risks that might help or prevent the pool from successfully executing succession planning. These ideas may help generate discussion:

- Consider possible sources of risks (e.g., the aging workforce, a limited number of candidates with pooling experience, salary or benefits limitations, the desire of candidates to live in or work from a particular location, the ability to find the specific expertise needed by the pool).
- Identify the threats and opportunities associated with the specific scope or question at hand (What threats or opportunities are associated with not having a succession plan? What are the threats (or downside risks) of the existing plan? What opportunities (or risks worth taking) are associated with the plan?)
- Review indicators of emerging risks (e.g., employment trends, workforce development needs specific to your pool's location, economic indicators, environmental uncertainties).
- Can you address whether there are biases, assumptions or limitations of knowledge associated with the scope or stakeholders who are engaged in the process (e.g., an existing employee who wants to become the new executive director advocates that hiring someone from general industry would be a dangerous risk?)

These ideas are not requirements of the process, but they could help broaden and deepen the consideration of risks. During the identification process, it is helpful to adopt a “brainstorm” mentality, where you allow the free flow of ideas in order to generate a comprehensive list. That would then require an additional step of consolidating ideas into a list of risks before moving into further analysis.

◆ Step 3 — Analyze the Risks

After a list of potential risks has been developed, it is important to understand as much as possible about those risks. Risk analysis involves a detailed consideration of aspects such as uncertainties, risk sources, consequences, likelihood, events, and scenarios. This step also helps prioritize the risks and prepare for the treatment process.

This step may be as simple as prioritizing a list using sticky dots or as complex as a multi-step analysis and review process. During this step, it is helpful to remember that any information gathered about the nature of the risk or descriptions of potential consequences, sources, complexity or interconnectedness will be useful during prioritization and treatment.

◆ Step 4 — Risk Evaluation

The purpose of this step is to support decision-making. The question to ask and answer is whether enough has been done to support either taking or mitigating each risk. If additional action is required, this may lead to consider additional treatments, undertake further analysis, or maintain and monitor existing controls. This is a step where the input and perceptions of stakeholders should again be considered, and recording and reporting is important.

Example of the Assessment of Key Risks

SAMPLE Risks Associated with **Not** Having a Succession Plan for Key Staff

IDENTIFY RISKS	ANALYSIS	ANALYSIS	ANALYSIS	ANALYSIS	EVALUATION
Description of Risk	Cause/Source	Likelihood (1-5)	Consequence (1-5)	Risk Score	Treatments Exist or Needed?
Risk of service gaps if the pool unexpectedly loses key staff – CEO, CFO, or lead claims adjusters	<ul style="list-style-type: none"> • Age/health of key staff • Death • Changes in family circumstances • Competing employment offer(s) 	3	5	15	<ul style="list-style-type: none"> • Temp agency for adjusters available • Need a plan for interim execs • Need to update position descriptions • Need to increase cross training
Inability to hire skilled replacements on short notice	<ul style="list-style-type: none"> • Very competitive labor market • Lack of qualified candidates with pooling experience • Lack of qualified in-house candidates • Budget constraints/ non-competitive salaries 	4	5	20	<ul style="list-style-type: none"> • No current treatments in place • Need to update position descriptions • Need to increase cross training • Salary and benefits review needed
Potential loss of pool members	<ul style="list-style-type: none"> • Pool competitors • If the pool is perceived as unstable • If members lose confidence or seek alternatives 	1	4	4	<ul style="list-style-type: none"> • Good engagement with members • Pool provides exceptional service and fair rates • High satisfaction in recent membership survey • Need to develop a communication plan and be prepared for change
Criticism of or lack of confidence in the board due to lack of planning	<ul style="list-style-type: none"> • Perception of weak board/governance • Loss of confidence in the board or the pool 	2	5	10	<ul style="list-style-type: none"> • Regular communication with members regarding board activities • Need to plan for the future
Risk of serious consequences if deadlines are missed	<ul style="list-style-type: none"> • Financial oversight by the state • Claims filing deadlines • If temp adjusters don't follow the pool's claims guidelines 	3	5	15	<ul style="list-style-type: none"> • Financial and audit deadlines are known and have always been met – extensions are possible • Need a plan for backup claims services/attorney involvement • Pool claims guidelines may need an update

The composite risk scores will help prioritize action plans. Treatments for key risks should focus on addressing causes and sources. Additional information about the risks could also help develop appropriate treatments – such as descriptions of possible outcomes or areas of emerging concern.



MOVING INTO ACTION

◆ Step 5 — Risk Treatment

Treating risks requires accountability and planning. In this process, for a pool considering succession planning risks, it is likely that managing the prioritized risks would be assigned to top management or the board. Developing action plans, identifying desired outcomes and setting expectations about timing and execution would all be included in this step.

Examples of treatment plans for succession risks:

- Update existing pool management procedures and require that unwritten procedures be documented
- Develop an “ideal” timeframe for the overlap of outgoing/incoming executives and revise contracts to assure that adequate notice is given; develop the budget to support the overlap
- Revise job descriptions and hiring criteria to consider hires outside of the industry
- Consider other options for pool staffing or executive leadership (such as external pool administrators)

Summary

Nothing about the future is guaranteed, except that we will continue to face both expected and unexpected change. ERM builds our capacity to manage change and make better, more informed decisions along the way. Even if an entire risk assessment process is not feasible for your pool, hopefully, some of these ideas will stimulate deeper discussion and improve your planning process. Every pool that incorporates the consideration of risks in its plans for leadership changes will experience fewer surprises and increase the likelihood of a successful future.

- Increase cross training on key pool business functions
- Conduct a salary and benefits review, adjust pool staff compensation packages if needed
- Create a professional development or mentor program to support up-and-coming employees
- Survey existing pool staff for suggestions about improving workplace culture and inter-generation communication and develop action plans to address the results
- Although developing risk treatments is the last step in the series, in fact, this process is iterative and should be considered more circular than linear. Often, as risks are treated, new risks are created; this takes you back to step 1. Or one risk treatment might apply to multiple risks (that can be seen in the example above), that requires good communication, monitoring and review. The pool’s context of operations may change or environmental factors (such as the employment market) may shift. At any point, a risk may need further analysis or re-evaluation, reactivating an earlier step in the process. Part of the genius of ERM is recognizing how interconnected these steps are and the need to continually review and ask the question: “Did we get that right?” This question helps incorporate continuous learning into the process, as well.

Let's Connect

RPAdmin.com

info@RPAdmin.com

