



RISKY BUSINESS

AVOID TRANSITION TRAUMA WITH A SUCCESSION PLAN

By Melanie Lockwood Herman and Erin Gloenkner

Succession planning can be a touchy subject. Some executive leaders may feel disinclined to raise the subject because it could send mixed signals about their intent to remain with the organization. Yet succession planning is a critical risk management issue for every organization. Getting over the taboo associated with succession planning is the first step to managing the myriad of risks associated with poorly planned executive leadership transitions.

If conversations from recent **Risk Assessments** are any indication, the lack of a succession plan opens the door to confusion and turmoil in the board room, infighting on the senior management team, concern on the part of key stakeholders, uncertainty and fear among rank and file staff, reduced productivity, and more. Based on our engagements with dozens of boards, the absence of a plan outlining critical steps in the wake of executive leadership departure is the #1 risk issue keeping members of boards awake at night.

If many downside risks can materialize during poorly planned or unexpected executive leadership transitions, then why do so few organizations have formal succession plan?

Tom Adams in his terrific book, *The Non-profit Leadership Transition and Development Guide* helps readers see succession planning in the proper light and dispels some of the myths about the process. First, Tom reminds us that the purpose of a succession plan is not to select an understudy for your executive leader. The purpose is to undertake a planning process that will ensure the health of your organization during and after a leadership change. Second, Tom notes that since the only thing we can count on is change, leadership transitions should be anticipated and viewed as wonderful opportunities to grow and transform .



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Risky Business is an electronic newsletter, produced by the Compliance and Internal Control Division and published quarterly for the staff of the Financial Services Commission.

Please send in ideas for ways we can improve the publication to ComplianceandInternalControl@fscjam.aica.org

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SUCCESSION PLANNING IN SEVEN STEPS

In the list below we offer seven “to do” items to set the stage and plan for succession planning.

STEP 1. Clarify back-up personnel for key responsibilities.

The sudden or planned absence or departure of an executive leader should not cause your organization’s mission to stumble. The best way to avoid the downside risk of a leadership vacuum is to make certain that back-up personnel are available for key executive responsibilities. For example, if the executive leader is the primary point of contact for major stakeholders, make certain that another senior staff member or board member is known to these key stakeholders as a back-up contact. Ensure that the back-up leader has opportunities for email as well as in-person or telephone contact with stakeholders. Another area where back-up is likely needed is responsibility for convening the department team. Identify which member of the senior management team will coordinate team meetings in the executive leader’s absence.

STEP 2. Keep the executive leader’s Position Description up-to-date.

During a succession planning exercise, many boards discover that the position description for the executive leader is woefully out of date. The description of duties and responsibilities is often filed in the new hire’s personnel file and long forgotten. The Position Description should be a current document that is helpful to the CEO and the executive leaders. It should offer a straightforward reminder about the essential duties and responsibilities of the position, as well as the board’s expectations.

STEP 3. Assign responsibility for developing a plan to an existing or new Committee (e.g., the Executive Committee, Personnel Committee or a Succession Planning Committee).

STEP 4. Focus on “how” and “what,” not “who.” Many organizations shy away from succession planning because they believe that a “succession plan” requires naming a successor. The fact is that many organizations are not large enough to have a full-time, #2 person on staff who has the talents, capabilities or desire to serve as “the next executive leader” during a transition period. Organizations that are large enough to have a #2 may not want to include interim executive leadership responsibility as part of the #2’s role. Why not? The CEO may decide that having an outsider who isn’t likely to vie for the position is preferred. Remember that the

fundamental purpose of a succession plan is to ensure that a plan—a process that will be followed—exists.

STEP 5. Adopt a timeline for the project. A succession planning project might require two, three or four months, depending on the frequency of executive management meetings and the experience of the organization with similar projects.

STEP 6. Keep the board apprised and involved. The succession plan drafted by the assigned committee should be presented in draft form to the full board with time set aside for discussion. Questions to pose to the board might include:

1. Is the plan clear about the steps we will take if one of our executive leaders departs the organization for any reason?
2. Is the plan sufficiently flexible and not dependent on the events surrounding the departure?
3. Does the plan identify the preferred option for interim leadership (e.g., appointing another member of the management team as “Acting”)?

STEP 7. Adopt and disseminate the succession plan.

Once the board and executive management has had ample time for discussion and is comfortable with the format and details of the plan, the succession plan should be formally approved. Copies of the plan should be placed in accessible locations, such as on the board’s password protected Web portal. Reference to the plan should be included in future board orientation sessions, so that incoming board members are clear about the plan that is in place.

Leadership turnover is natural; change drives us to adapt to fluctuating internal and environmental pressures. Planning ahead will simply increase the odds that your organization is able to make the most of a change that is certain to occur.





BULLETIN: TOP TEN RISKS FOR 2014

1. **Regulatory changes and heightened regulatory scrutiny** may affect the manner of production or delivery of products or services
2. **Economic conditions** will significantly restrict growth opportunities
3. **Uncertainty surrounding political leadership** in national and international markets will limit growth opportunities
4. **Succession challenges** and the ability to attract and **retain top talent** may limit the ability to achieve operational targets
5. **Business Continuity in the long-term** presents a significant challenge to companies and may threaten its viability.
6. **Cyber threats** have the potential to disrupt core operations significantly
7. **Resistance to change** may restrict necessary adjustments to the business model and core operations
8. **Privacy/identity management and information security/system** protection will be significant issues to manage
9. **Anticipated volatility in global financial markets** and currencies will create challenging issues
10. **The organization's operations may be unable to meet performance expectations** or could be impacted by unexpected crisis

Riddle: Insurance Company

A man, having purchased a case of rare, very expensive cigars, insured them against get this fire! Within a month, having smoked his entire stockpile of fabulous cigars, and having yet to make a single premium payment on the policy, the man filed a claim against the insurance company. In his claim, the man stated that he had lost the cigars in "a series of small fires." The insurance company refused to pay, citing the obvious reason that the man had consumed the cigars in a normal fashion. The man sued ... and won!

Instead of a lengthy trial, the insurance company gave him the £15,000 that was due to him. However, the insurance company still had to have the last word. When the man got home, he was promptly arrested by the police on 24 charges. What were they?

Answer: Arson. With his own insurance claim and testimony from the previous case being used as evidence against him, the man was convicted of intentionally burning the rare cigars and sentenced to 24 consecutive one year terms.

WHY POLICIES AND PROCEDURES MATTER

By Andrea Lewin-Brown — Senior Analyst, Compliance & Internal Control Division, FSC

Compliance is adherence to the laws, regulations and policies that govern our everyday activities as members of the FSC. Accordingly, compliance is everyone’s business because we all contribute to improving or lowering the compliance level within the organization. An important area of compliance is conformance to policies and procedures. However, quite often persons feel that policies and procedures are not important, and are basically burdensome and a bother.

Written policies and procedures are important, but poorly written, outdated, and unapproved ones are useless in an organisation and can be considered “bad” policies and procedures. Well written, approved and updated policies and procedures are considered “good” policies and procedures and are extremely useful in an organisation. Good policies and procedures help to define the organization’s governance culture and its objectives. Organizations that value written policies and procedures tend to be more effective and have less compliance failures. In addition, employees are provided with a “roadmap” of how they should execute their jobs. This can improve the quality of work and help to minimize disputes relating to execution of job function.

The lack of written procedures is frequently named as a primary or contributing cause in allegations of unfair application of regulations and laws, inadequate training of employees and poor performance in government audits. It is also often determinative in Court decisions in favour of employees who file grievances and lawsuits. These situations can be expensive for an organisation due to the legal cost of retaining external counsel and lost man-hours in conducting internal investigations and preparing information needed to mount an appropriate defence. Additionally, it can result in embarrassment to the organisation.

Some excuses for incomplete, non-existent or inadequate policies and procedures are:

1. We need flexibility; written procedures are too constraining.
2. There are already too many rules and regulations
3. By the time we finish writing procedures, our processes have changed

Responses to the excuses:

1. The presence of policies and procedures does not preclude flexibility, but it does help to improve consistency in work practices as well as allow for an equitable basis for the evaluation of employees. Hence, policies and procedures should be designed to provide the requisite level of guidance that is necessary to maintain order and promote good work practices.

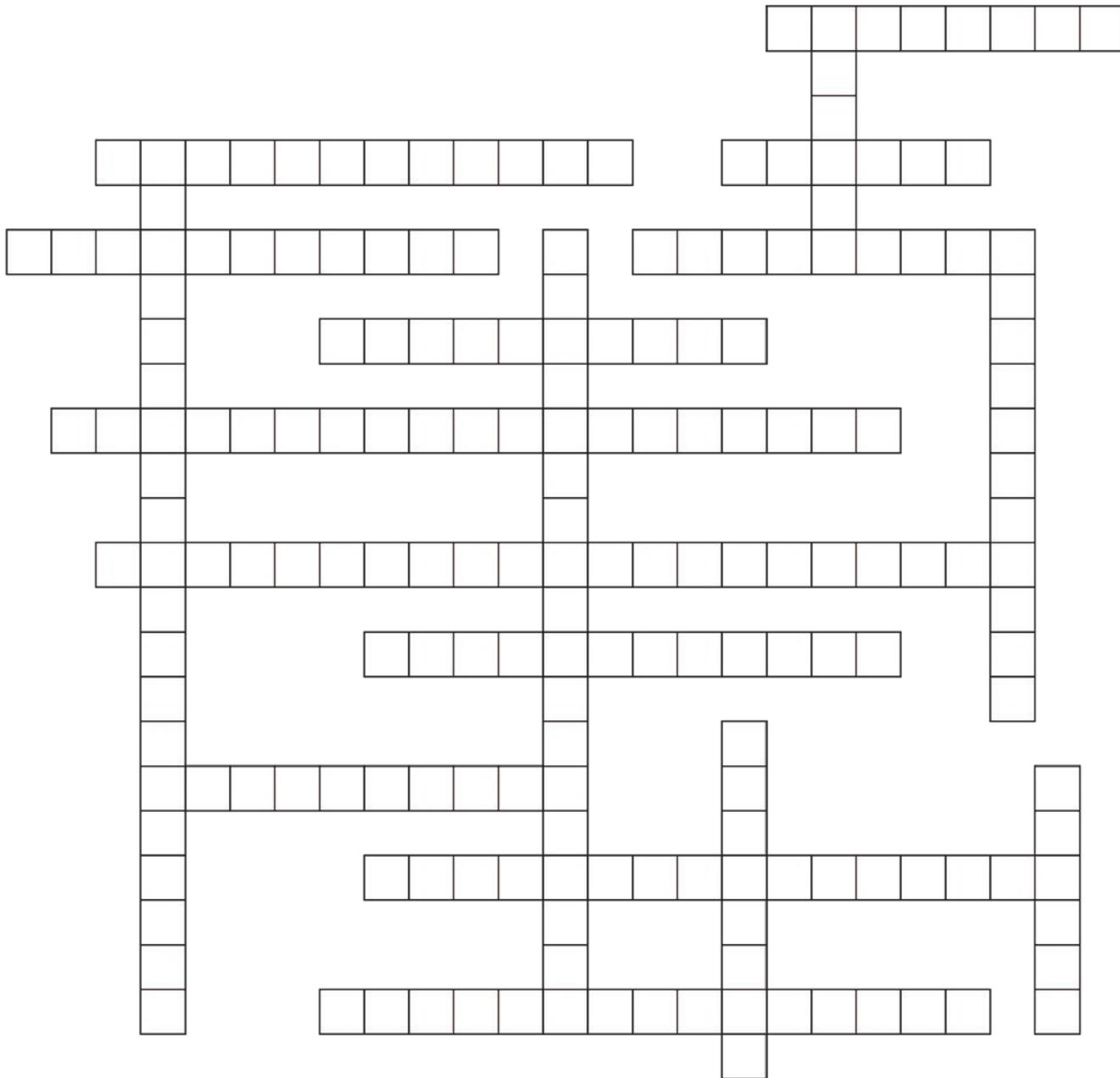
2. While policies and procedures are necessary, balance is key, and therefore there should not be too many policies and procedures nor should they be too voluminous. The presence of either situation suggests that the organisation is focused on the wrong things and increases the likelihood that employees will ignore the guidelines. Policies and procedures should be easily accessible by users as well. Therefore, efforts should be made to develop policies and procedures that are good, sufficient, realistic, relevant and easily referenced.

3. Written procedures are not static. They have to be constantly reviewed and updated. Therefore a system to effectively manage the process needs to be developed. Additionally, efforts should be made to ensure that an effective means of notifying employees of new and amended policies and procedures exist.

Written policies and procedures are needed in all organisations and especially so in an organisation such the FSC. Excuses such as those discussed above or any other should not be accepted by staff or management and so we need to collectively decide to forego all excuses. Policies and procedures are there to protect us and help us to do our jobs more effectively and efficiently.



Complete the crossword below. The first staff member who accurately completes the puzzle will win a gift voucher. Please note that the answers may be more than one word with spaces in between.



Clues (See overleaf)

Across

1. These policies and procedures are considered useless
3. The lack of a succession plan results in a reduction of this
5. Drives people to adapt to fluctuating internal and environmental pressures
6. One of the benefits to work practice as a result of written policies and procedures

8. Specific methods employed to express policies in action in day-to-day operations of the organization
10. These policies and procedures increases the likelihood that employees will ignore the guidelines
11. The outcome of the absence of written policies and procedures
12. Provides an opportunity to grow and transform
13. The possibility of malicious attempt to damage or disrupt a computer network or system
15. Adherence to the laws, regulations and policies that govern our everyday activities
17. Should be identified for the sudden or planned absence or departure of an executive leader
18. Plan outlining the process for identifying and developing potential successors for key positions in an organization

Down

2. This process should be constantly done to written policies and procedures
4. Act of opposing or struggling with modifications or transformations that alter the status quo in the work-place
7. The lack of this is the primary cause of poor performance in Government audits
9. Written policies and procedures help us to do our job more.....
14. Attribute of a well-developed policy and procedure
16. A guiding principle that is adopted by an organization to influence and determine decisions and achieve long-term goals

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Our Vision

To be an impartial, credible & relevant regulator effectively engaging stakeholders to support a robust financial services sector

Our Mission

To regulate and supervise the securities, insurance, and pensions industries for the protection of their users, thereby enhancing public confidence through the efforts of a competent workforce