State of Oregon

Department of Administrative Services Should Enhance Succession Planning to Address Workforce Risks and Challenges

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Report Highlights

The Secretary of State's Audits Division found that the Department of Administrative Services (DAS) should play a stronger leadership role in addressing key workforce risks and challenges within the state executive branch, through enhanced workforce succession planning.

Background

This audit reviewed succession planning within the Oregon executive branch. Succession planning is an ongoing management process used to ensure workforce continuity and effectiveness, particularly in key leadership and technical functions.

Purpose

The purpose of the audit was to determine if and how the State of Oregon could better plan for future key workforce needs, including preparing state employees to fill key roles.

Key Findings

Within the context that effective succession planning is difficult, complex and is frequently not a priority within the public sector, we found:

1. DAS has not developed or implemented a state-level succession planning framework, despite recognizing the importance of succession planning.

2. The lack of a succession planning framework increases workforce risks, such as not developing or retaining knowledgeable and skilled employees to perform critical functions.

3. These risks are exacerbated by demographic and economic trends, including increasing retirement rates, and a lack of formal succession planning processes within state agencies.

4. State agencies also report challenges, including inaccessible workforce information, that may hinder strategic human capital management practices and should be addressed at a state level.

To reach our findings we conducted interviews, reviewed documents and reported practices, researched leading practices and analyzed workforce data.

Recommendations

Drawing from national leading practices and benchmarking with other states, the report includes eight recommendations to the Department of Administrative Services focused on implementing a succession planning framework in the Oregon executive branch. Recommendations include providing guidance to agencies, monitoring workforce risks, and working with agencies to identify and address barriers at a state level.

The Department of Administrative Services agreed with our findings and recommendations. The agency's response can be found at the end of the report.

Secretary of State, Dennis Richardson
Oregon Audits Division, Kip Memmott, Director

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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Department of Administrative Services Should Enhance Succession Planning to Address Workforce Risks and Challenges

Introduction

Succession planning is an ongoing process used to ensure workforce continuity and effectiveness

Succession planning has many definitions. For the purpose of this audit, we define succession planning as an ongoing management process used to ensure workforce continuity and effectiveness in key leadership and technical functions. While there is a lack of consensus on what exactly succession planning entails, literature suggests that it is more than just planning for replacing top leaders. Succession planning should include developing a "talent pipeline" throughout all levels of an organization. It can also include planning for senior technical roles, such as head engineer, in addition to leadership roles. However, the lack of agreed upon terminology and understanding, can make executing succession planning more challenging.[1]

Succession planning is an ongoing systematic process. It involves assessing the skills and competencies needed for meeting organizational objectives, implementing workforce strategies, and continually evaluating and enhancing these strategies. Strategies can include preparing employees for future roles through leadership development, career development[2] and knowledge transfer; targeted recruitment and retention strategies; and designing and communicating career pathways. Succession planning is a component of strategic human capital management.[3]

Effective succession planning mitigates workforce risks. It helps organizations retain knowledge by identifying needs and putting strategies into place to transfer knowledge and retain knowledgeable employees. It also helps organizations identify and execute strategies to close gaps in technical and managerial competencies. Additionally, succession planning

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[1] Succession planning is also called succession planning and management, and succession management, with some variation in meaning.

[2] Development refers to learning experiences for long-term career growth and future positions, as opposed to training, which is typically focused on acquiring skills needed to effectively perform one's current position

[3] Strategic human capital management represents the entire range of practices and processes for managing people in an organization.

can demonstrate formal and intentional investments in career development and career paths to current and potential employees. Providing a fair and clear process for succession into future roles can improve recruitment, retention and employee engagement.

Finally, a succession planning framework, tailored to an organization's needs, can guide succession planning efforts. Frameworks can include objectives and vision, guidelines and policies that set operational parameters, definitions of key concepts, formalized processes, clearly defined roles and responsibilities, and tools or templates. They can also include systems, information and training to support processes.

Changing state employee demographics increase the need for effective succession planning

The strategic importance of succession planning has become more pressing owing to changing workforce demographics, including a higher proportion of workers over 60 and increasing workforce diversity. More workers at or near retirement age presents additional risks of knowledge loss. An increasingly diverse workforce presents increased complexity and an opportunity to capitalize on broad backgrounds and perspectives, as well as to diversify management and leadership positions.

Oregon has a higher proportion of workers over 60 than in the past. About 15% of the workforce is 60 or older. [4] As shown in Figure 1, this percentage has almost doubled since 2006.

Figure 1: Distribution of Executive Branch Employees in Age Categories, in 2006 and 2016
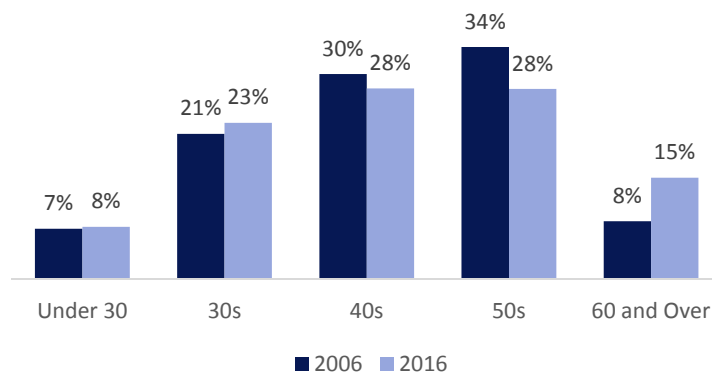
Source: Oregon Audits Division, using Department of Administrative Services (DAS) personnel data, obtained from Position and Personnel Database (PPDB).

Additionally, the state workforce has become more generationally diverse as baby boomers are leaving and being replaced by gen xers and

[4] This audit focused on permanent employees in the executive branch and excluded the judicial and legislative branches, semi-independent agencies, and temporary/seasonal workers. Future references in the report to "workforce" refer to this narrower definition, unless otherwise specified.

millennials. Figure 2 illustrates this demographic shift. Generational differences can add complexity, but also different perspectives and opportunities to the workforce.

Figure 2: Distribution of 2006 and 2016 Workforce in Generation Categories[5]
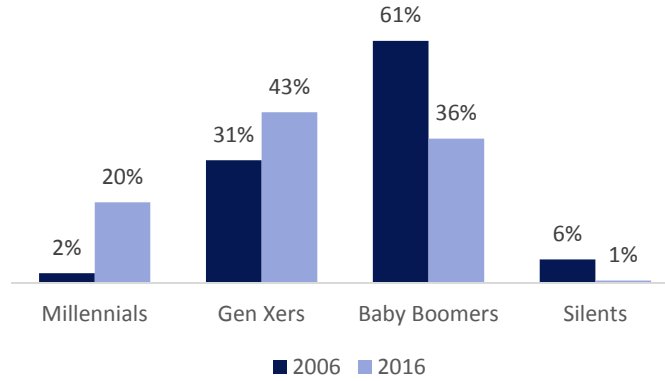
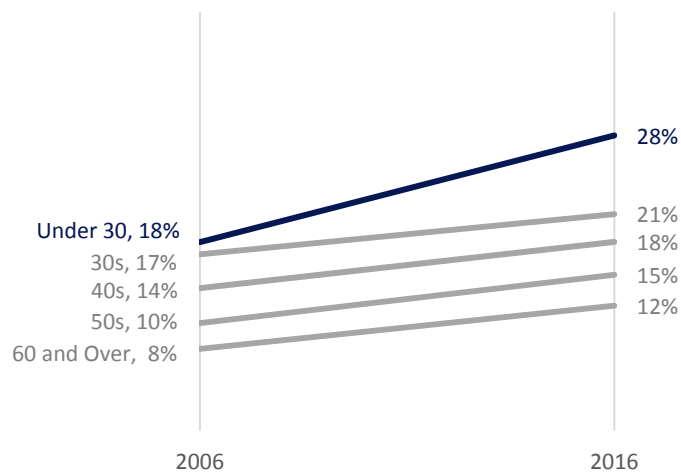Source: Oregon Audits Division, using DAS personnel data, obtained from PPDB.

The workforce is also becoming more racially and ethnically diverse, particularly among younger workers. Figure 3 shows increasing diversity across all age groups, but particularly among workers under 30. This may present an opportunity to build a talent pipeline that is more reflective of the people of Oregon, with a stronger diversity of perspectives.

Figure 3: Workforce Representation of People of Color[6] (as Percentage of Workforce) within Age Categories, in 2006 and 2016

Source: Oregon Audits Division, using DAS personnel data, obtained from PPDB.

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[5] Generation definitions are based on Pew Research's definitions – Millennial Generation: born 1981-97, Generation X: born 1965-80, Baby Boom Generation: born 1946-64, and Silent Generation: born 1928-45.
[6] Employees identified as African American, Asian American, Hispanic, Native American, Pacific Islander, or multi-ethnic in the state's personnel data system.

The workforce is among the state's most important and costly resources

The state's workforce performs jobs that directly affect the lives of Oregonians; it is the state's most important strategic resource. Funding this resource, through salaries and benefits, is costly.

In the executive branch, Oregon employed over 35,000 permanent employees in 2016. [7] These employees perform a wide variety of jobs to ensure the health, safety, and education of Oregonians; protect the environment; and boost the Oregon economy. For instance, state police officers promote highway safety, environmental regulators safeguard clean air and water, and employment specialists help unemployed Oregonians get back to work. Those are just a few examples from over 500 position classifications. Many jobs require technical skills or advanced training and often draw on years of accumulated knowledge.

The state expends significant resources on its workforce. The state budgeted roughly $7 billion for overall state employee compensation in the 2015-17 biennium.[8] This represents 10% of the overall state budget. State General Fund monies accounted for nearly half of that amount.

The Department of Administrative Services has responsibility for the personnel system and policy

State law gives the Oregon Department of Administrative Services (DAS) responsibility for the state's personnel system.[9] DAS has the authority to delegate human resource (HR) management and, in fact, many state agencies maintain their own HR functions.

The Chief Human Resources Office (CHRO), within DAS, is responsible for managing state personnel processes, including maintaining the classification and compensation systems, facilitating collective bargaining negotiations, administering employee training, providing HR services, and establishing statewide HR policy. CHRO provides training relevant to succession planning. For example, it provides centralized leadership development training to around 30 participants a year from multiple state agencies, through a program called Leadership Oregon. It also offers management training for current and prospective managers.

CHRO also oversees state agency HR functions. Many state agencies, particularly larger agencies, have their own HR functions. Agency HR

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[7] According to the Legislative Fiscal Office, there were over 40,000 budgeted positions (slots for workers) throughout all three branches of state government in 2015-17. However, 10 – 15% of positions are vacant at any time.
[8] This includes salaries, benefits and other payroll expenses for all three branches of state government.
[9] Oregon Revised Statute 240

departments are responsible for strategic human capital management, such as succession planning, for their agencies. In contrast, at least 20 state agencies, boards, and commissions pay assessment fees for CHRO to provide HR support services. CHRO offers additional fee-based HR consulting services to agencies, which could include succession planning.

For the 2017-19 biennium, CHRO's budget is roughly $34 million with 76 positions. The Legislature increased CHRO's budget substantially by adding $20 million in funding for a new human resource information system, which includes 30 new limited duration positions and three new permanent positions. The Legislature also eliminated three permanent CHRO positions - an executive recruiter, a training development specialist, and an administrative specialist. CHRO's principal revenue source is from assessment of state agencies.

Objective, Scope and Methodology

Objective

Our audit objective was to determine if and how the State of Oregon could better plan for future key workforce needs, including preparing state employees to fill key roles.

Scope

The audit focused on succession planning and management within the executive branch including assessing the responsibilities and activities of DAS and selected state agencies.

Methodology

To address our objective, we executed a multi-faceted methodology that included, but was not limited to: conducting interviews, administering a questionnaire, reviewing documentation, and analyzing workforce data.

We conducted interviews with approximately 50 state agency leaders, employees, and stakeholders, including directors and deputy directors, HR directors and analysts, policy analysts, economists, internal auditors, project staff, and other representatives from organizations including:

- Oregon Department of Administrative Services;
- Eight large Oregon state agencies with 250 or more employees - the Oregon Departments of Education, Human Services, Corrections, Employment, Fish and Wildlife, Transportation, Consumer and Business Services, and Revenue;
- Five small/medium state agencies, boards, and commissions with less than 250 employees - Oregon Public Utility Commission, Department of Veterans' Affairs, Department of Land Conservation and Development, Department of Geology and Mineral Industries, and Board of Dentistry;
- Oregon Governor's Office;

- Labor groups - Service Employees International Union (SEIU) and American Federation of State, County and Municipal Employees (AFSCME); and
- HR offices in seven other states - Washington, California, Texas, Ohio, Tennessee, Delaware, Pennsylvania.

In addition to interviews, we further reviewed practices at the eight large Oregon state agencies, through a detailed questionnaire. We asked HR directors to coordinate written responses to detailed questions, including providing supporting documentation. These agencies collectively employ over half of executive branch employees and provide services in eight different program areas, as defined in the state budget.

We analyzed DAS workforce data for permanent employees in the executive branch, covering the period 2006 – 2016. We assessed the data for reliability and concluded it was sufficiently reliable for our audit purposes.

We reviewed reports and documentation pertaining to succession planning and related practices and projects in the Oregon executive branch. We also reviewed personnel policies, laws, and leading national practices.[10]

Due to the breadth of the audit and nature of the topic, we relied on testimonial evidence, such as interviews, but obtained supporting documentation or independent verification when possible. We also focused on central offices, and did not conduct interviews in field offices.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained and reported provides a reasonable basis to achieve our audit objective.

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[10] Sources for leading practices include US Office of Personnel Management, National Association of State Personnel Executives, Society for Human Resource Management, Government Finance Officers Association, "Effective Succession Planning," by William J. Rothwell, and reports and websites from other states.

Audit Results: The Department of Administrative Services Should Enhance Succession Planning to Address Workforce Risks and Challenges

A skilled state government workforce is essential for delivering high quality services to Oregonians. The Department of Administrative Services (DAS) should play a stronger role in ensuring continuity of a quality workforce through enhanced succession planning.

Currently, the Oregon executive branch lacks a robust workforce succession planning framework. Within the context that effective succession planning is difficult, complex and is frequently not a priority within the public sector, DAS has not prioritized developing and administering a succession planning framework within the state executive branch. Most of the state agencies we reviewed also have not prioritized formalizing succession planning processes. As a result, the state faces significant workforce risks, especially owing to shifting demographics and increasing retirements and turnover. Leading practice literature and succession planning practices implemented by other states can be instructive to DAS as it moves forward on this strategic human capital management objective. We offer several recommendations in this regard for enhancing state workforce succession planning efforts.

Oregon lacks a robust statewide workforce succession planning framework

The Oregon executive branch lacks a robust statewide workforce succession planning framework. DAS utilizes a decentralized approach to strategic human capital management, with decision-making often delegated to state agencies. Within this model, DAS does not provide formal oversight and has not developed or provided succession planning guidance to state agencies. Additionally, while the state agencies we reviewed are managing their workforce, most have not created or fully implemented their own succession planning processes. Furthermore, both DAS and state agencies lack efficient access to data and thorough information about workforce risks to guide their actions and decisions.

DAS does not provide formal workforce succession planning oversight or direction to state agencies

DAS has not developed or communicated formal policy and guidance to facilitate succession planning for state agencies. Currently, state agencies lack access to statewide objectives or vision; written toolkits, templates or process tools; and definitions of key concepts, such as differentiating workforce and succession planning. Furthermore, DAS has not provided guidance on the state's recommended approaches for incorporating public sector principles and values of fairness and equity. While some state agency HR directors expressed concern that if DAS took a more directive role, it could restrict their ability to innovate and meet their specific needs,

other agency HR directors and executives told us that having a central framework and vision could make succession planning easier.

In addition to the lack of direction, there is also minimal oversight from DAS. DAS has delegated succession planning, at least implicitly, to state agencies, but does not systematically check to ensure sufficient actions and efforts are occurring. However, the chief human resources officer does meet regularly with state agency HR directors, where they discuss topics related to strategic human capital management issues.

State agencies lack systematic succession planning processes

Risks resulting from the lack of a statewide succession planning framework are exacerbated because individual agencies lack formal and transparent succession planning processes. Specifically, while many are proactively working on workforce development activities, the state agencies we reviewed generally lack systematic succession planning processes that could target, improve, and inform those actions.

All the agencies we reviewed take steps, formally and informally, to prepare their workforce for future positions through career development. These steps include leadership development programs, DAS's emerging manager training, job rotations, mentoring, and coaching. For instance, nearly all reviewed agencies either have formal leadership development programs within their agencies or send employees to leadership training outside their agencies, such as DAS' Leadership Oregon, or both. All of them also reported offering informal career development opportunities. These activities provide a good platform on which to implement more formal succession planning activities.

However, most of these agencies lack formal processes to assess workforce needs, and monitor and evaluate workforce outcomes. For instance, most agencies do not have processes in place to assess future workforce competency and skill requirements, in order to inform workforce strategies. Additionally, agencies do not clearly thread their workforce development actions to their agency's strategic plans and goals.

While agencies take actions to develop employees, there are additional risks stemming from informal workforce development activities. For example, some agencies have delegated the majority of succession planning decisions to managers, without strong controls in place to ensure the effective and transparent implementation and management of these activities. For instance, agencies generally lack processes for tracking employee development activities, outside of those registered through the state's online training portal.

DAS and agencies also lack strategic personnel management information to support succession planning

Limits on data accessibility and availability inhibit the usage of strategic personnel management information, critical for informing agency strategy

and personnel management decisions. The accessibility and availability of workforce data is limited in two ways. First, the current state personnel data system is over 20 years old. It lacks functionality for users to produce custom reports easily and the system does not have built-in career planning tools. Some data elements, such as employee skills and competencies, are also not collected. Second, information on retirement eligibility is limited. DAS does not have access to data from the pension system, so retirement eligibility reports are estimated, rather than actual.

Some recent enhancements may improve workforce data accessibility. For example, DAS made system changes to provide for easier online access to estimated retirement eligibility reports for state HR personnel. The Legislature also approved funding for a new human resource information system in June of 2017. DAS estimates the new system will be fully implemented by the summer of 2018. The new system should allow greater accessibility to workforce data for more users.

In addition to challenges with the data system, DAS is also not regularly monitoring, assessing, or disseminating information about workforce risks. DAS does not regularly assess state-level workforce risks, such as risks of knowledge loss from retirements, through data analysis or by systematically collecting information from state agencies about risks or activities. In particular, DAS has an opportunity to assess risks for positions that are common throughout state government, such as information systems specialists or HR analysts. However, DAS does gather some workforce information on a requested or event-driven basis, for example to present to the Legislature or fulfill a data request.

Implementing a succession planning framework has not been a state priority

DAS has not prioritized developing and implementing a robust succession planning framework despite recognizing the importance of succession planning. DAS has started work on a state-level project, but up to this point, other business needs and strategic initiatives have taken precedence. Agency HR directors and executives also reported competing priorities and state-level barriers as challenges to succession planning, which lessen incentives to prioritize this work. This is not an uncommon situation within the public sector.

Despite recognized importance, implementing a framework has not taken priority over competing initiatives

The chief human resources officer and agency HR directors and executives consider succession planning, career development and filling key positions as important. However, other initiatives have taken priority over developing and implementing a robust succession planning framework in the Oregon executive branch.

DAS has worked on initiating a state-level project focused on succession planning for several years. In 2014, DAS staff conducted a literature review of best practices, compiled workforce data, and drafted a white paper. In 2016, an intern at DAS interviewed state agencies and representatives from other states. At that time, DAS staff reported planning to draft a project proposal. However, a key employee left the agency and DAS did not make additional progress. DAS staff attributed the lack of progress to the busy legislative session.

While there have not been any formal statewide succession planning initiatives, DAS has worked on other strategic statewide projects that could support succession planning in the future. For instance, as part of the Oregon Management Project,[11] DAS staff and agency representatives created a list of statewide competencies for managers. Some agency HR directors reported plans to incorporate these competencies in agency succession planning and manager training, to ensure their work aligns with the overall state strategy.

State agencies report competing priorities and state-level barriers

State agency HR directors cited limited resources and competing priorities as significant barriers affecting succession planning activities. Operating in an environment without a state-level succession planning framework, real and perceived barriers add disincentives for pursuing formal succession planning activities. Themes about state-level barriers and challenges include the lack of accessible data, restrictive personnel rules and structures, public sector principles, and the lack of a state-level framework and strategy for information sharing and collaboration.

As noted, Oregon's data system is over 20 years old and lacks functionality. HR directors and agency executives reported that the current workforce data system makes elements of succession planning more challenging. HR directors anticipate that a new human resource information system will improve and streamline strategic human capital management, including succession planning. The new information system is also expected to have built-in succession planning tools, such as tools to identify talent pools and monitor successor readiness. However, the tools available in a new system will only be useful if employees actively use them and data is accurate and complete.

Additionally, public sector personnel rules and structures, such as the classification and compensation system, are complex and are perceived as rigid. These controls are in place for important reasons, including ensuring

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[11] The Oregon Management Project is an Enterprise Leadership Team project co-sponsored by the chief operating officer and the chief human resources officer. The Enterprise Leadership Team, comprised of state agency leaders, advises the governor on matters relating to the state enterprise. The project aims to address classification and compensation; overall philosophy; and training, recruitment and retention of senior leadership professionals. The classification and compensation element of the project is on hold, while they work on the other elements.

consistent and equitable compensation practices. However, executives and HR professionals view some of these controls as burdensome when it comes to strategic human capital management. For instance, some agency HR directors and executives reported that redesigning positions to create clearer career paths or reassigning employees for development purposes was challenging and time consuming. One HR director reported that limits in compensation flexibility, such as not being able to offer a geographic pay differential in competitive urban areas, affected the agency's ability to target recruitment and retention strategies. Smaller agencies reported having less flexibility to leave a position vacant or shift employees around.

Furthermore, a lack of clarity and concerns about the best approach to meet public sector employment principles and values has led to some reluctance to take action among managers or HR professionals. Public sector personnel laws and rules are based on merit system principles, intended to ensure that hiring and advancement is based on a candidate's ability, through a fair and open competitive process. Additionally, the vast majority of state employees are represented by labor organizations.

Given these principles and values, some HR directors reported reluctance in their agency to taking actions that they were concerned would appear as unfair, inappropriate or discriminatory. For instance, some HR directors reported concerns about identifying specific individuals as having potential for advancement, fearing it could appear unfair or imply that an employee was guaranteed a position. Some HR directors expressed perceptions that succession planning is more complicated for collectively bargained employees.

Finally, some state agency executives and HR directors reported being isolated from other agencies and DAS, unaware of what other agencies were doing with strategic human capital management. The chief human resources officer has initiated regular meetings with state agency HR directors to improve communications and collaboration. However, given the large number of state agencies, the current approach may not be sufficient to address all concerns.

The lack of a succession planning framework increases key workforce risks

The lack of a formal statewide succession planning framework has several negative impacts. These include an increased risk of institutional knowledge loss, a lack of required skill sets and competencies within the workforce, and missed opportunities for improved employee recruiting, retention, morale and engagement. These risks are further exacerbated by current workforce trends.

State government faces risk of knowledge loss, exacerbated by turnover risks

One HR analyst told us that when people retire, her agency seems caught by surprise, even after receiving advanced notice.

They have hired back retirees on a temporary basis, because no one else knew how to do the job.

If knowledge is not documented and transferred when employees leave an organization, it will be lost. Without planning and implementing strategies, institutional knowledge loss can result in reduced efficiencies or quality of service. Increasing retirement and other turnover risks further exacerbate risks of knowledge loss. Some specialized positions also have higher retirement risks. Knowledge includes an understanding of what has worked or not worked in the past, specialized knowledge about an organization or industry, and even professional relationships.

Retirements and other turnover risks are increasing in the state, leading to greater risk of knowledge loss. As shown in Figure 4, the annual number of retirements has increased over the last decade. Additionally, voluntary, non-retirement resignations have increased over the last eight years, after a decrease during the recession. Demographic and economic trends, such as workforce aging trends and low unemployment rates, suggest increases in retirements and resignations could continue. Additionally, constrained budgets could result in layoffs, dismissals, or delayed hiring, adding to potential loss.

Figure 4: Annual Numbers of Resignations and Retirements[12]

Source: Oregon Audits Division, using DAS personnel data.

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[12] The total number of state employees also increased over this period. As a result, the proportion of employees retiring increased only slightly from around 2% to 3% of the workforce, between 2006 and 2016. The combined turnover rate from resignations and retirements in 2016 was roughly equal to 2006 at around 8.5%, but higher than during the recession at 6.5% in 2010.

While resignations are more numerous than retirements, retirements are particularly concerning when it comes to knowledge loss. Most retirees leave with significant experience. Of the roughly 1,000 permanent state executive branch employees who retired in 2016, 90% had 10 or more years of state experience. For comparison, nearly 2,000 employees voluntarily resigned in 2016, but over half had worked at the state for less than five years.

Additionally, some specialized positions have higher retirement risks than others. For example, nearly all of the state's dental inspectors, who investigate complaints of illegal and unprofessional conduct by Oregon licensed dentists, are currently eligible to retire. In another example, about 30% of information system specialists will be eligible for full retirement within five years.

State government faces risk of inadequate workforce skills and competencies, especially in competitive positions

The lack of a succession planning framework, increases the risk of a shortage of employees with key competencies in the talent pipeline. Risks are higher for specialized and competitive positions that may draw fewer external candidates. Inadequate workforce skills and competencies can affect service quality, increase the time a position is vacant, or increase training costs.

National research has found organizations face recruiting challenges, for jobs with strategic importance and in positions requiring science, technology, engineering and math skills. HR leaders in state agencies reported concerns with having adequately prepared managers and leaders, as well as adequate skilled talent for specialized and competitive positions, such as nurses or IT professionals. They also reported concerns with recruiting in certain areas of the state, such as drawing candidates to rural areas or competing with higher paying competitors in the Portland metro area.

State risks missing opportunities to improve recruitment, retention, diversity and enhanced employee engagement

Without greater investment in career development and paths through succession planning, the state risks missing opportunities to improve recruitment, retention and employee engagement. Clear and fair processes and pathways for advancement may be particularly important for female employees and employees of color, currently underrepresented in management positions.

As part of succession planning, articulating investments in career development and career paths can be used as a recruiting tool or to improve retention, morale and engagement. Improved morale and engagement can affect the quality of service delivery. As one agency director told us, investing in employee development increases productivity and employees' "day-to-day, want to come to work quotient."

Fairness also improves employee commitment. Promoting transparent processes, through formal succession planning and decisions can alleviate concerns about fairness in advancement. This may be particularly important for retention and engagement of employees of color and female employees. Conversely, leaving decisions informal, could risk perpetuating biases.

Women and people of color are currently underrepresented in management and supervisory positions, compared with their representation in the overall workforce. While over half of the state workforce is women, less than half of managers and supervisors[13] are women. In addition, only 12% of managers and supervisors are people of color, not much changed from 10% ten years ago, and below representation in the overall state workforce (18%).

Promising succession planning practices provide insights for addressing workforce risks

DAS can draw on promising practices to inform succession planning in the Oregon executive branch. Best practice literature for public sector succession planning suggests that it should be an ongoing, systematic, strategic and transparent process. Central HR departments in other states, comparable to CHRO in Oregon, have implemented strategies that could be models for DAS. Finally, some state agencies in Oregon are taking innovative steps to intentionally develop employees that are worthy of attention.

Succession planning should be an ongoing systematic and strategic process

According to best practice literature, workforce succession planning in the public sector should be an ongoing systematic process tied to overall agency strategy. It should also account for public sector principles and be fair and equitable. One strategy to promote fairness is to communicate transparently with employees about succession planning.

Many sources, including the US Government Accountability Office (GAO), US Office of Personnel Management and the Society for Human Resource Management, recommend a systematic process, clearly linked to an organization's strategic goals and business needs.

The Office of Personnel Management, which has responsibilities for federal personnel, has outlined a succession planning process with six steps:

1. Link strategic and workforce planning decisions.
2. Analyze gaps between current state and projected future needs.
3. Identify talent within the organization.
4. Develop succession strategies.

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[13] Managers and supervisors are defined as employees in management-service or executive-service with supervisory responsibility. Non-supervisory management service is not included.

5. Implement succession strategies.
6. Monitor and evaluate efforts.

Other sources, such as the National Association of State Personnel Executives, recommend transparency in succession planning, particularly as a strategy to address public sector concerns about fairness within the merit-based system. Transparency includes openly communicating about development opportunities and the decision making process. To help guide prioritization efforts, workforce risks should be identified and assessed.

DAS can leverage succession planning approaches implemented by other states

Oregon can review and adopt succession planning practices used by some other states that have taken promising steps. For example, some states publish and disseminate toolkits, monitor state-level risks, and readily provide data and guidance to departments. Additionally, some states focus on expanding centralized leadership development training. Last, some states provide guidance on approaches to meet public sector principles.

HR offices in California and Ohio have published and disseminated toolkits to guide agency workforce and succession planning, and provided training in succession planning. California hosts forums and a listserv on workforce and succession planning to promote sharing and collaboration. In 2016, the California Department of Human Resources published a report on California state agencies' barriers to workforce and succession planning, as well as opportunities to improve HR service to state agencies. The department interviewed nearly 100 state executives for the report.

Additionally, some states collect reports and information from agencies, which could be used to monitor succession planning actions and statewide workforce risks. HR offices in Pennsylvania, Ohio, and California request that agencies submit succession plans or information about their strategies and workforce risks to the central office. Pennsylvania rolls up the information into one state-level report. Georgia and Texas mandate in statute that agencies produce and submit workforce plans. However, most of the states we contacted did not require plans by law.

Furthermore, other states make workforce demographic data more available to agencies and the public than Oregon does. Pennsylvania's HR department has created a retirement projection tool for agencies. Delaware uses data from the pension system to provide accurate information on retirement eligibility to agencies. At least eight states publish some level of workforce demographic data publically on their websites.

Some states are also focusing on expanding centralized leadership development programs. Tennessee in particular has worked on improving and expanding leadership development, including creating a chief learning officer position. Tennessee centrally trains 250 – 300 employees a year in leadership, in addition to agency-based training. Washington is also focusing on building leadership capacity centrally.

Finally, some central HR offices have also sent clear messages about what approaches they consider appropriate for succession planning in the public sector. For instance, both California and Ohio's HR offices recommend a transparent process. California's team states that all employees should have the opportunity to express their interest in participating in succession planning activities. Conversely, Ohio focuses its formal succession planning on only exempt, non-unionized employees, to avoid concerns about fairness. A representative from Washington reported that to address concerns about fairness, they are considering communicating transparently about their process for identifying high performing employees for leadership succession planning.

In Oregon, some agencies are taking innovative approaches to prepare employees for potential future roles

Some state agencies are implementing innovate strategies to prepare employees for succession into potential future roles. These include agencies of varying sizes and from different program areas. Many of the agencies we spoke with provide formal leadership development training or offer job rotations for experiential learning, an often-cited best practice in employee development. Below are two examples of department innovative succession planning strategies.

- The Department of Geology and Mineral Industries has implemented a job rotation program designed to give technical employees experience in management and leadership positions. Positions are filled on a temporary basis (one to two years), through an open competitive selection process. The program begins with filling one senior level management position through a job rotation, which then creates a cascading set of vacancies, in turn filled through more job rotations. This gives multiple employees development opportunities. The department director had previously implemented this model at the State of Washington Department of Agriculture, where it accomplished its goals and exceeded management and staff expectations.

- The Department of Consumer and Business Services has designed a formal succession planning program that seeks to align employee development with the agency's key competency needs. Staff apply to the program and are accepted on a competitive basis, through committee selection. Each participant selects an aspirational target position, from a list of identified critical positions in the agency. Participants then create individual development plans, and receive targeted development opportunities, specifically designed to increase their readiness for that position.

DAS and state agencies can draw on the above practices when designing and implementing succession planning frameworks and processes.

Recommendations: DAS Should Enhance Workforce Succession Planning Governance by Implementing a Strategic Framework and Addressing Challenges

We offer the following recommendations to assist DAS with efforts to establish and maintain a robust succession planning framework. We recommend that CHRO:

1. Develop a statewide workforce succession planning strategy and framework, in consultation with state agencies and stakeholders, that provides consistent guidance and direction, but also allows agencies flexibility to manage within their unique situations.

2. Provide specific guidance to state agencies on succession planning, similar to the toolkits provided by other states, including but not limited to:

   a) definitions of concepts for statewide use, such as defining workforce planning, succession planning and retirement eligibility;
   b) explanation of the key succession planning processes that should be used;
   c) tools and templates to inform succession planning such as tools to identify and analyze skills gaps or identify talent pools;
   d) recommended metrics to measure performance; and
   e) recommended approaches to meet public sector principles such as guidance on developing a communication plan for improved transparency.

3. Develop and implement processes to monitor, assess and address state agency efforts and state workforce risks to ensure critical positons are filled with qualified staff. This should include:

   a) regularly collecting information from state agencies about their actions and risks;
   b) assessing workforce risks, such as retirement eligibility, from a state-level perspective; and
   c) regularly communicating (e.g., by publishing online) workforce information to state agencies and stakeholders, such as the Legislature, public and labor organizations.

4. Work with agencies to define essential data needs related to succession planning and ensure needs are met, including workforce demographics and retirement eligibility data.

5. Work with PERS to obtain retirement eligibility data in order to improve the accuracy of workforce information used for broad succession planning strategies. Address any concerns about individual privacy and guard against any potential for age discrimination.

6. Provide guidance and training in the new human resource information system to state HR employees to ensure appropriate business process changes are made to support and capitalize on the new system, and to ensure data integrity.

7. Expand on current opportunities for state agencies to share practices and coordinate with each other and DAS. This should include increasing outreach to agencies not represented at the HR advisors meeting, expanding opportunities at the HR directors meeting for agency collaboration and sharing, and reaching out to HR directors who do not regularly attend the HR directors meeting.

8. Work with state agency executives and HR personnel to address barriers in succession planning related to state HR policy, rules, or processes, by making adjustments when appropriate and providing guidance to agencies on how to achieve objectives within existing state structures.

Kate Brown, *Governor*

Department of Administrative Services
Office of the Chief Operating Officer
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August 31, 2017

Kip Memmott, Director
Secretary of State, Audits Division
255 Capitol St. NE, Suite 500
Salem, OR 97310

Dear Mr. Memmott:

This letter provides a written response to the Audits Division's final draft audit report titled Department of Administrative Services (DAS) Should Enhance Succession Planning to Address Workforce Risks and Challenges.

Thank you for providing the DAS with the audit report regarding succession planning. We appreciate the work of the Audits Division staff and are pleased to have the recommendations in the report.

This audit comes during a time of transformational change within human resources in the executive branch. As referenced in the audit, the current human resources information system is over 20 years old, and does not provide us with data to conduct workforce planning activities.

In 2014, a business case was developed collaboratively with agencies to procure a new information system for workforce management. After several years of planning and procurement activities, the Oregon Legislature funded the request for a human resources information system in June, 2017. The State of Oregon selected Workday as the new human resources information system. It is scheduled for full implementation in June of 2018.

Workday will eliminate manual, paper driven processes, and provide capability to manage talent and succession management plans statewide. Employee data should be available for analysis by September of 2018. The Workday application is software as a service, and provides opportunity to incorporate best practices in workforce development from both the private and public sectors. The implementation of Workday is critical to addressing the recommendations in this audit.

Our succession planning strategy is targeted at identifying potential future leaders using developmental tools, preparing our future workforce, and establishing and supporting working environments that foster diversity and inclusion. Over the past three years, we have enhanced workforce planning by incorporating new approaches and encouraging the use of current activities such as job rotations for career development. These activities are ongoing, and provide the framework for a succession planning strategy that includes:

- Continuing to enhance and support the Leadership Oregon development program. The program has been delivered for over 27 years with over 700 attendees. Leadership Oregon has been very successful in developing leaders within state government. Many of the graduates have filled agency director and other key leadership roles.

- Designing and delivering the Management Education Series to enhance the skills of managers within state government. Additional coursework for this series is in progress. Over 500 managers have completed the training.

- Delivery of an emerging manager training program for employees that may be interested in moving into managerial career paths.

- The development of a mentoring toolkit for emerging managers and selected mentors/mentees. The new Workday system includes functionality for making the connection between mentors and mentees.

- The adoption of collaborative enterprise-wide values and managerial competencies that will be mapped to the Workday system for employee development and performance management.

- Launching of a pilot internship program this past summer that included 60 interns from colleges and universities. The feedback was universally positive, and provided an opportunity to connect with a potential new workforce.

- Finalizing and piloting curriculum for an executive onboarding program. A team of senior and new agency leaders will complete this project in October of this year.

Below you will find DAS' response to the specific audit recommendations.

RECOMMENDATION 1		
Develop a statewide workforce succession planning strategy and framework, in consultation with state agencies and stakeholders, that provides consistent guidance and direction, but also allows agencies flexibility to manage within their unique situations.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 6 months)**	**Name and phone number of specific point of contact for implementation**
Agree	February 2018	Madilyn Zike 503-378-3020

<u>**Narrative for Recommendation 1**</u>
Succession planning continues to be a topic during biweekly human resource (HR) advisors meetings with agencies. The Chief Human Resource Office (CHRO) is reviewing the documentation submitted with the audit findings to incorporate practices as appropriate.

RECOMMENDATION 2		
Provide specific guidance to state agencies on succession planning, similar to the toolkits provided by other states, including but not limited to: a) definitions of concepts for statewide use, such as defining workforce planning, succession planning and retirement eligibility; b) explanation of the key succession planning processes that should be used; c) tools and templates to inform succession planning such as tools to identify and analyze skills gaps or identify talent pools; d) recommended metrics to measure performance; and **e)** recommended approaches to meet public sector principles such as guidance on developing a communication plan for improved transparency.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 6 months)**	**Name and phone number of specific point of contact for implementation**
Agree	Items a, and e will be completed by February 1, 2018. Items b, c, and d will be implemented with Workday in September of 2018.	Madilyn Zike 503-378-3020

Narrative for Recommendation 2
Due to the audit findings regarding readiness related to definitions and communication plans, we will revisit and prioritize our work in those areas. Training will be provided in the use of Workday to manage talent and complete workforce and succession planning tools and activities. Workday has built-in tools that allow the state to analyze skills gaps, and create talent pools. The talent pools can then be attached to specific positions for use in succession planning.

RECOMMENDATION 3

Develop and implement processes to monitor, assess and address state agency efforts and state workforce risks to ensure critical positons are filled with qualified staff. This should include:

a) regularly collecting information from state agencies about their actions and risks;
b) assessing workforce risks, such as retirement eligibility, from a state-level perspective; and
c) regularly communicating (e.g., by publishing online) workforce information to state agencies and stakeholders, such as the legislature, public and labor organizations.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	To be completed during the Workday implementation. September 2018.	Madilyn Zike 503-378-3020

Narrative for Recommendation 3
Access to the PERS system data through the Workday application will provide dashboards for management and executive staff regarding actions and risks. The legislative and judicial branches are participating in the Workday application using Workday's reporting capabilities and this information will be readily available through the application. Unlike in the past, access to this information will not require custom reports or requests to DAS for the information.

RECOMMENDATION 4		
Work with agencies to define essential data needs related to succession planning and ensure needs are met, including workforce demographics and retirement eligibility data.		
Agree	This information was incorporated into the business requirements for Workday and is included in the Workday system.	Madilyn Zike 503-378-3020

Narrative for Recommendation 4

An integration to the Oregon PERS system is included in the Workday implementation. Data needs, including demographic data requirements, were collected in collaboration with state agencies during the business case development and will be delivered in the Workday system.

RECOMMENDATION 5		
Work with PERS to obtain retirement eligibility data in order to improve the accuracy of workforce information used for broad succession planning strategies. Address any concerns about individual privacy and guard against any potential for age discrimination.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 6 months)**	**Name and phone number of specific point of contact for implementation**
Agree	February 2018. PERS data - September 2018.	Madilyn Zike 503-378-3020

Narrative for Recommendation 5

An integration to the Oregon PERS system is included in the Workday implementation. Data needs, including demographic data requirements, were collected during the business case development. Policies and practice guidelines will be developed to minimize risk in preparation for Workday implementation.

RECOMMENDATION 6		
Provide guidance and training in the new human resource information system to state HR employees to ensure appropriate business process changes are made to support and capitalize on the new system, and to ensure data integrity.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 6 months)**	**Name and phone number of specific point of contact for implementation**
Agree	May 2018.	Madilyn Zike 503-378-3020

Narrative for Recommendation 6

Communication, training, and organizational change management activities are included and funded in the Workday implementation plan. The Workday project team has trainers and change managers dedicated to the project to ensure employees are properly prepared to modify business processes and use Workday to its full potential.

RECOMMENDATION 7		
Expand on current opportunities for state agencies to share practices and coordinate with each other and DAS. This should include increasing outreach to agencies not represented at the HR advisors meeting, expanding opportunities at the HR directors meeting for agency collaboration and sharing, and reaching out to HR directors who do not regularly attend the HR directors meeting.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 6 months)**	**Name and phone number of specific point of contact for implementation**
Agree	Ongoing	Madilyn Zike 503-378-3020

Narrative for Recommendation 7

DAS will continue to meet biweekly with HR advisors and bimonthly with all HR managers with a standing agenda topic to discuss best practices. While it is not possible to contact each agency that does not attend the scheduled meeting individually, DAS will incorporate a synopsis in the HR newsletter as another method of communicating with staff. A position within the CHRO to champion succession management and facilitate the use of best practices is under

development with a target of having the position filled by January 2018. The CHRO also attends all Enterprise Leadership Team meetings and all Agency Directors meetings to share information and practices.

RECOMMENDATION 8		
Work with state agency executives and HR personnel to address barriers in succession planning related to state HR policy, rules, or processes, by making adjustments when appropriate and providing guidance to agencies on how to achieve objectives within existing state structures.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 6 months)**	**Name and phone number of specific point of contact for implementation**
Agree	Ongoing	Madilyn Zike 503-378-3020

Narrative for Recommendation 8
The activities in these areas will continue as a core function of workforce planning within the CHRO. Over the last few months, practices have been modified so that CHRO policies are reviewed by the Enterprise Leadership Team and all agency directors for feedback. They are also circulated to all human resources managers statewide for comment prior to finalization.

Please contact Madilyn Zike at 503-378-3020 with any questions.

Sincerely,

Katy Coba
Chief Operating Officer
DAS Director

cc: