Office of Inspector General

March 2007
Report No. EVAL-07-001

Evaluation of the FDIC's Succession Planning Efforts

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Background and Purpose of Evaluation

Managing human capital continues to be a challenge for all federal agencies. The U.S. Government Accountability Office (GAO) continues to identify strategic human capital management as a government-wide, high-risk area because of the lack of attention to human capital management.

Specifically, GAO has reported that in the wake of extensive downsizing during the early 1990s, done largely without sufficient consideration of the strategic consequences, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Agencies are also facing a growing number of employees who are eligible for retirement and are finding it difficult to fill certain mission-critical jobs, a situation that could significantly drain agencies' institutional knowledge.

The Corporation has reported that over the last 3 years, it has focused considerable resources on human capital planning and is in the process of developing and implementing several key structural components of its human capital strategy for the future, including identification of succession planning and management strategies.

The evaluation objective was to determine the extent to which the FDIC's succession planning efforts identify and address future critical staffing and leadership needs.

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Results of Evaluation

We evaluated whether the FDIC's succession planning initiatives were consistent with the seven key principles for effective succession management identified by GAO, the Office of Personnel Management, the Corporate Leadership Council, and the National Academy of Public Administration and found that the FDIC has recently put initiatives in place and is developing others that are consistent with the seven key principles.

Key Principles	FDIC's Initiatives
Commitment and active support of top leadership.	• FDIC's Human Resources Committee meets weekly to discuss human capital issues. • The FDIC has a Chief Human Capital Officer. • FDIC's Corporate University includes a College of Leadership Development. • Executive Managers are responsible for the development of employees.
A direct link between the organization's mission, and its strategic plan and outcomes.	• The FDIC incorporates succession planning in its Corporate Performance Objectives, Strategic Plan, Annual Performance Plan, and Diversity Strategic Plan.
Identification of the critical skills and competencies that will be needed to achieve current and future programmatic goals.	• The FDIC has developed Key Leadership Competencies for each grade band. • The FDIC has analyzed corporate retirement projections.
Development of strategies to address gaps in mission critical and other key positions.	• The FDIC piloted the Talent Review Program and plans to pilot a Corporate Executive Development Program. • The FDIC initiated the Honors Attorney Program. • The FDIC has a Mentoring Program.
Leadership training programs that include formal and informal training for all levels of supervisors, managers, and potential leaders.	• The FDIC has several internal and external developmental programs for employees. • The FDIC established the Corporate Employee Program. • The FDIC established a Professional Learning Account Program.
Strategies for addressing specific human capital challenges, such as diversity, leadership capacity, and retention.	• The Diversity Strategic Plan will be updated in 2007. • The FDIC can offer retention bonuses. • The FDIC requires a Continued Service Agreement for employees participating in external development programs.
A process for evaluating the costs and benefits of succession planning efforts and the return on investment it provides for the organization.	• The FDIC evaluates human capital efforts through the Human Resources Committee, Corporate Performance Objectives, Corporate University 360-degree assessments, supervisor appraisals, and employee surveys.

Recommendations

Many of the FDIC's succession planning initiatives for ensuring the continuity of leadership positions were new or in the process of being developed. Therefore, we limited the results of this review to describing and providing the status of the FDIC's current and planned initiatives. We are not making recommendations but note in the report that the initiatives should be assessed at a later date to determine their effectiveness in achieving the desired outcomes.

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Federal Deposit Insurance Corporation
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Office of Evaluations
Office of Inspector General

DATE: March 28, 2007

MEMORANDUM TO: Arleas Upton Kea
Director, Division of Administration

FROM: Stephen M. Beard
Assistant Inspector General for Evaluations and Management

SUBJECT: *Evaluation of the FDIC's Succession Planning Efforts*
(Report No. EVAL-07-001)

This report presents the results of our evaluation of the Federal Deposit Insurance Corporation's (FDIC) succession planning efforts. In light of the 12 years of continuous downsizing of the FDIC and an aging workforce, it is important to ensure that the FDIC has a comprehensive succession management plan for the future.

EVALUATION OBJECTIVE AND APPROACH

Our objective was to determine the extent to which the FDIC's succession planning efforts identify and address future critical staffing and leadership needs. To accomplish our objective, we evaluated whether the FDIC's initiatives addressed seven key principles for effective succession management common to human capital guidance issued by the U.S. Government Accountability Office (GAO), the U.S. Office of Personnel Management (OPM), the Corporate Leadership Council (CLC), and the National Academy of Public Administration (NAPA).

Most of the initiatives presented in this report are related to ensuring the identification and development of employees with the capacity to be effective in key leadership positions. However, the report also presents several entry-level recruiting and development programs that FDIC executives indicated were important to ensuring longer-term succession management.

During the evaluation, we found that many of the FDIC's succession planning initiatives for ensuring the continuity of leadership positions were new or in the process of being developed. Therefore, the results of this review are limited to descriptions and status of the FDIC's current and planned initiatives. An assessment of how effective these initiatives are in identifying and addressing staffing and leadership needs should be conducted at a later date.

Appendix I describes our objective, scope, and methodology in more detail.

RESULTS IN BRIEF

The FDIC has recently put initiatives in place and is developing others that are consistent with seven key principles of an effective succession management program. Table 1 below provides a summary of the FDIC's initiatives on succession planning. These initiatives will serve the FDIC well as the Corporation has the opportunity over the next decade to substantially reshape its workforce in conjunction with the projected retirements of a large number of long-serving employees. The downsizing that has occurred over the past 12 years has resulted in limited hiring of new employees. This trend will change as the FDIC moves beyond downsizing and begins to fill positions as they become vacant.

Table 1: Summary of FDIC's Initiatives on Succession Planning

Key Principles	FDIC's Initiatives
Commitment and active support of top leadership.	• The FDIC's Human Resources Committee meets weekly to discuss human capital issues. • The FDIC has a Chief Human Capital Officer. • The FDIC's Corporate University includes a College of Leadership Development. • Executive Managers are responsible for the development of employees.
A direct link between the organization's mission, and its strategic plan and outcomes.	• The FDIC incorporates succession planning in its Corporate Performance Objectives, Strategic Plan, Annual Performance Plan, and Diversity Strategic Plan.
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Strategies for addressing specific human capital challenges, such as diversity, leadership capacity, and retention.	• The Diversity Strategic Plan will be updated in 2007. • The FDIC can offer retention bonuses. • The FDIC requires a Continued Service Agreement for employees participating in external development programs.
A process for evaluating the costs and benefits of succession planning efforts and the return on investment it provides for the organization.	• The FDIC evaluates human capital efforts through the Human Resources Committee, Corporate Performance Objectives, Corporate University 360-degree assessments, supervisor appraisals, and employee surveys.

Source: OIG analysis of key principles.

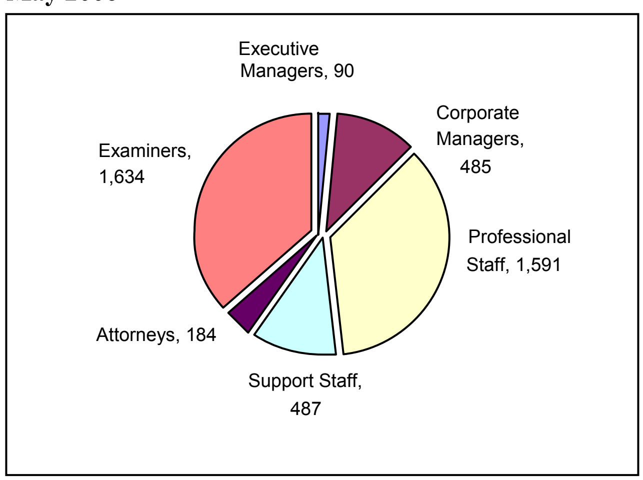
BACKGROUND

Since 2001, GAO has identified strategic human capital management as a government-wide, high-risk area because of the lack of attention to human capital management.[1] Specifically, GAO has reported that in the wake of extensive downsizing during the early 1990s, done largely without sufficient consideration of the strategic consequences, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Agencies are also facing a growing number of employees who are eligible for retirement and are finding it difficult to fill certain mission-critical jobs; a situation that could significantly drain agencies' institutional knowledge.

In 2001, the President's Management Agenda (PMA) included the Strategic Management of Human Capital as one of five government-wide initiatives. The PMA referenced GAO's work in the area and noted that by 2010, over 70 percent of the government's employees will be eligible for either regular or early retirement, and 40 percent are expected to retire. In December 2006, the Office of Management and Budget (OMB) reported in its quarterly *Executive Branch Management Scorecard* that agencies are making adequate progress in building strong human capital programs. However, according to OMB's Web site, ExpectMore.gov, more remains to be done to help agencies build a pool of potential leaders that can adequately replace managers and executives when they leave the organization.[2]

Further, the FDIC is required to follow the Federal Workforce Flexibility Act of 2004, which requires that each agency have a comprehensive management succession program to provide training to employees to develop agency managers. In that regard, the Corporation has reported that over the last 3 years, it has focused considerable resources on human capital planning and is in the process of developing and implementing several key structural components of its human capital strategy for the future, including identification of succession planning and management strategies.

Figure 1: Permanent On-Board Employees as of May 2006



Source: Division of Finance

In August 2006, the Corporation announced that approximately 18 to 34 percent of the Executive Managers (EMs) and 8 to 20 percent of the overall workforce would be eligible to retire in the next 5 years. An FDIC executive acknowledged that for the past several years, the Corporation has been focusing on downsizing and that 2006 was the first year that the FDIC had focused on succession planning.

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1 GAO High-Risk Series Report Numbers: GAO-01-263, GAO-03-119, GAO-05-207, and GAO-07-310.

2 ExpectMore.gov provides information developed by OMB and federal agencies on the performance of every federal program.

EVALUATION RESULTS

The FDIC defines succession planning as an ongoing strategically-aligned process of systematically identifying, assessing, and developing internal talent and identifying and assessing external measures to ensure leadership continuity for all key positions in an organization. The Corporation is in the process of implementing several initiatives to manage succession effectively and efficiently as workload demands change in the future. Generally, we found that the FDIC's efforts related to succession planning were consistent with seven key principles of an effective succession management program as defined by GAO, OPM, CLC, and NAPA.

Principle 1: Commitment and active support of top leadership.

Description: Top leadership actively participates in, regularly uses, and ensures the needed financial and staff resources for key succession planning and management initiatives.

GAO's past work has shown that the single most important element of an effective succession management program is to have top management clearly and personally involved in workforce planning in order to provide the organizational vision that is important in times of change and generate cooperation within the agency to ensure that planning strategies are thoroughly implemented and sustained.

FDIC Initiatives

The FDIC has demonstrated in several ways that its top leadership is committed to succession planning. First, in 2001, the FDIC established the Human Resources Committee (HRC), comprised of EMs from each of the FDIC's driver and support divisions, who meet weekly on human capital issues. Specifically, the HRC provides strategic direction and leadership at the corporate level and is responsible for developing policy recommendations and monitoring the implementation of human resources initiatives.

Second, the FDIC has a Chief Human Capital Officer (CHCO) who is responsible for bringing a strategic approach to the FDIC's human capital initiatives and for aligning human capital policies with organizational mission, goals, and outcomes. The CHCO chairs the HRC.

Third, in 2003, the FDIC established the Corporate University (CU) to support the Corporation's mission and business objectives by providing high-quality, cost-effective, and continuous learning and development. CU consists of three colleges, each headed by an EM-level Dean. The College of Leadership Development provides programs and resources to enhance the leadership skills and capabilities of FDIC employees. As discussed later, FDIC EMs volunteer to be sponsors for the various leadership development programs offered by CU.

Fourth, the FDIC held its annual Executive Leadership Conference in February 2007. A portion of the conference agenda was devoted to discussions of succession planning and leadership and management challenges that EMs and Corporate Managers (CM) will face in 2007 and beyond. All CMs were asked to submit topics for discussion, especially those related to human capital management and employee engagement.

Principle 2: A direct link between the organization's mission and its strategic plan and outcomes.

Description: To focus on both current and future needs and to provide leaders with a broader perspective, succession planning and management initiatives figure prominently in the agency's multiyear human capital plan and provide top leaders with an agency-wide perspective when making decisions.

OPM found that one of the many elements of an effective succession plan is to have the succession plan linked to strategic planning and investment in the future. OPM identified the following steps:

- Identifying the long-term vision and direction.
- Analyzing future requirements for products and services.
- Using data already collected.
- Connecting succession planning to values of the organization.
- Connecting succession planning to the needs and interests of senior leaders.

Further, GAO found that leading organizations use succession planning and management as a strategic planning tool that focuses on current and future needs and develops pools of high-potential staff in order to meet the organization's mission over the long term.

FDIC Initiatives

The FDIC's human capital vision, strategic goals, and strategic objectives are integrated in the FDIC's corporate-level planning documents: the Strategic Plan, Diversity Strategic Plan, Annual Performance Plan, and Corporate Performance Objectives (CPOs).[3] These plans collectively provide an agency-wide vision and framework to guide the FDIC's succession planning. The FDIC has developed a Human Capital Blueprint, which illustrates the relationship between FDIC strategic planning documents and human capital initiatives. In addition, the FDIC's 2006 and 2007 CPOs have a number of human capital-related objectives and specific initiatives for succession management strategies. For example, in 2006, the FDIC established a CPO to enhance and promote a motivated, high-performing, and results-oriented workforce.

[3] Corporate Performance Objectives are a compilation of specific performance targets and measures developed during the annual planning and budget process and approved by the Chairman.

One of the FDIC's CPOs for 2007 is to continue to develop effective succession management strategies with initiatives to:

- Continue implementation of the Leadership Development Program, including the pilot Corporate Executive Development Program (CEDP).
- Refine and enhance the pilot EM talent review program structure, and assess the need for a follow-up EM talent review in 2007. Follow through on developmental and other agreed-upon actions to achieve the outcomes identified during the 2006 EM talent review.
- Conduct a pilot talent review for the CM-II band. Evaluate expansion of this pilot to the CM-1 band.
- Begin implementation of a knowledge management program.[4]

The 2007 CPOs also include objectives and initiatives related to implementing the Corporate Employee Program, enhancing strategies for recruiting and retaining a highly skilled and diverse workforce, and addressing diversity issues. Each of these areas is discussed in greater detail later in this report.

Principle 3: Identification of the critical skills and competencies that will be needed to achieve current and future programmatic results.

Description: An analysis of gaps between skills and competencies currently needed and those that will be needed is critical to mapping out the current condition of the workforce and deciding what needs to be done to ensure that the agency has the right mix of skills for the future.

The GAO found that it is essential that agencies determine the skills and competencies that are critical to successfully achieving their missions and goals. This is especially important as changes in national security, technology, budget constraints, and other factors change the environment within which federal agencies operate. Agencies can use various approaches for making a fact-based determination of the critical human capital skills and competencies needed for the future such as interviewing agency executives and managers, surveying employees, and using information on attrition rates, projected retirement rates, fluctuations in workload, and geographic and demographic trends.

According to NAPA, before an organization can provide the requisite developmental experiences for future leaders, it must identify the characteristics and competencies needed to meet the challenges of the next 5 to 10 years.

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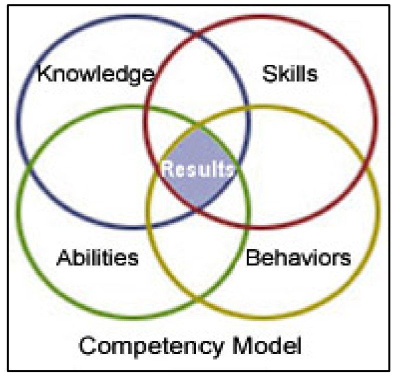
[4] The FDIC established a knowledge management action learning team to develop standard protocols for capturing and sharing personal knowledge held by officials in key positions to maintain the FDIC's ability to perform at a high level as the employee population changes.

FDIC Initiatives

The FDIC has taken steps to determine the critical skills and competencies that will be needed to achieve current and future programmatic results. The FDIC has a Key Leadership Competency Model that defines leadership competency as the knowledge, skills, abilities, and behaviors that an individual must have to lead successfully. The FDIC's executive leaders have identified 5 to 10 key leadership competencies by grade band that are needed for successful leadership. The College of Leadership Development's Web site lists the key competencies for each grade band and provides: a definition of the competency; an action guide for development; online training resources; books and articles; and a leadership toolkit, as illustrated below.

Figure 2: Leadership Competency Model



Source: Leadership Development Web site

Figure 3: Example of Executive Manager Competency Description

Competency – Vision/Strategic Thinking

Definition – Takes a long-term view and acts as a catalyst for organizational change; examines policy issues and strategic planning with a long-term perspective. Determines objectives and sets priorities; anticipates potential threats and opportunities. Identifies and keeps up-to-date on key international policies and economic, political, and social trends that affect the organization.

Action Guide for Development:
- Collect Vision statements from 5 or 10 companies that EM admires.
- Visualize the way EM's organization will look in 5 years.
- Act as a catalyst for change beyond EM's own organization.
- Hold strategic planning session with EM's team.
- Represent the FDIC on an interagency task force.

On-line Training Resources – FDIC Leadership Development Channel and Skillsoft.

Books/Articles
- Blink: The Power of Thinking Without Thinking.
- Primal Leadership: Learning to Lead with Emotional Intelligence.

Source: Leadership Development Web site.

CU is working on developing a new Learning Management System (LMS), which would also serve as a skills database. CU's Governing Board[5] has approved the LMS for development and the project is being monitored as a Capital Investment Review Committee project.

[5] The Governing Board is comprised of the Deputy to the Chairman and Chief Operating Officer; Deputy to the Chairman and Chief Financial Officer; division directors; General Counsel; Regional Counsel and the CU Chief Learning Officer.

Retirement Projections

The Division of Finance (DOF) has prepared annual retirement projections for the past 3 years to provide the FDIC with fact-based workforce information. DOF found that although a number of FDIC employees were eligible to retire between the ages of 55 and 57, they were not retiring and were following the same trend as the rest of the Federal population (tracked by OPM) which indicates that the average federal employee retires at age 61.5. DOF makes two projections each year: a conservative projection using the 61.5 age retirement assumption, and a more aggressive, "incentive" projection that estimates retirement projections if the FDIC offered a buyout or early retirement incentives.

In addition, 2 years ago, DOF began conducting a coverage analysis to determine how many of the next lower graded employees would be available to replace higher graded retirement-eligible employees (e.g., the FDIC has 10 CM-II employees who could fill vacancies of 5 retiring EMs and 15 CM-I employees who could fill 7 retiring/or promoted CM-II employees).

A DOF executive who oversees the retirement projections noted that the HRC determined that many of the support division executives (e.g, human resources and information technology) could be filled, if necessary, by personnel outside of the FDIC. However, the more specialized positions (e.g., DIR economists and DSC large bank specialists) were positions that presented greater replacement risk for the Corporation.

The DOF executive sponsored a CU Action Learning Team during 2005 that analyzed and added additional context to the Corporation's retirement projections. Specifically, the team was asked to identify specific areas where the FDIC may have a potential shortage of employees due to retirements between 2005 and 2010 and to research and propose targeted strategies to address any shortages.

The team interviewed FDIC division executives and used a criticality matrix[6] to identify 100 individual positions of concern and found that:

- Most of the 100 positions were not in the driver divisions.
- Many of the EM positions identified were due to a concern that eligible CMs did not have the necessary technical or leadership skills.
- External hiring was possible for over 50 of the identified positions.
- The competitive external market was a concern for 26 of the 100 identified positions.

The team recommended that the FDIC:

- Develop a corporate-wide, formal succession management program that targets key areas of vulnerability.
- Promote mid-career outside recruitment and interdivisional development opportunities involving meaningful work, lasting at least 1 year, and requiring accountability for real business results.

[6] A criticality matrix is a tool that can help identify positions of concern with respect to replacement planning.

- Pursue leadership development as a critical component of succession management.
- Track and evaluate succession management program success rates and costs.
- Provide strong FDIC senior management commitment to the program.

Principle 4: Development of strategies to address gaps in mission critical and other key positions.

Description: Developing strategies creates a road map for an agency in moving from the current to the future workforce needed to achieve program goals. Strategies include the programs, policies, and practices that will enable an agency to recruit, develop, and retain critical staff.

The CLC has reported that, to ensure a high-quality supply of executive leadership for the future, organizations must develop succession management systems that take action to address four fundamental succession risks: vacancy risk, readiness risk, transition risk, and portfolio risk:

- Protecting Against Vacancy Risk by Safeguarding Critical Business Capabilities: Organizations must ensure succession efforts are focused on the most vulnerable portions of the business by accurately translating business strategy into talent strategy and effectively planning for key talent departures.
- Protecting Against Readiness Risk by Accelerating Executive Development: To ensure effective executive development, succession systems must match executives to needed development experiences, balance the short-term risks of stretch assignments with their long-term benefits, and enable enterprise-wide mobility of talent.
- Protecting Against Transition Risk by Balancing Compatibility with Expectations for Changes: To ensure executives succeed in new roles as they join organizations and are promoted, systems must be in place to identify needed behavioral changes for executives and to ensure organizational fit.
- Protecting Against Portfolio Risk By Maximizing Strategic Talent Leverage: In addition to managing the talent supply, organizations must also systematically consider the structure of talent demand (e.g., jobs, processes, structure) to ensure that the organization is getting maximum return on talent.

FDIC Initiatives

The FDIC has developed strategies to address gaps in mission-critical and other key positions at the executive level with the Talent Review Program and the CEDP, and at the career development level through the Corporate Employee Program (CEP), the Honors Attorney Program, the Professional Learning Account (PLA) Program, and the Mentoring Program.

Talent Review Program: The FDIC piloted a Talent Review Program in 2006. A talent review is a confidential and constructive forum for evaluating the executive leadership cadre in the areas of business results, key leadership competencies, demonstration of corporate values, and risk of loss due to retirement or separation from the Corporation. An FDIC executive indicated that the purpose of the talent review is to assess the current executive leadership by identifying strengths and gaps and to develop specific strategies for succession planning. The goals of the talent review are to:

- Identify EM succession management needs and strategies put into place.
- Identify EM developmental needs and develop strategies to close gaps established.
- Provide feedback, as appropriate, to individual EMs.
- Develop a corporate understanding of leadership bench strength.

For the talent review completed during 2006, each division/office director gave a report on his/her executives' performance, risk of loss (e.g., probability that the executive would leave the organization), and an assessment of whether the position required specific/technical skills. An FDIC division director who participated in the Talent Review stated "it was very powerful for senior management to hear about all of the EMs in the Corporation." According to a July 2006 presentation to the Chief Operating Officer (COO), the talent review consists of two parts as shown in Table 2.

Table 2: Overview of Talent Review

Part I—Individual assessment of existing Executive Managers (15 minutes per EM for a total of 3 days)	Includes assessing individual EM: • Responsibilities, number of reports, budget; • Key business results and contributions; • Key leadership competencies; • Demonstration of corporate values; • Potential for loss; • Technical requirements, if any, of position; and • Effective use of talent/skills in the Corporation.
Part II- Consolidation of leadership needs and development of strategies to fill gaps (One day)	For the purpose of succession management: • Identify bench strength requirements for "at risk" EM positions. • Determine if losses can be mitigated. • Identify strategy for replacement and/or enhancing bench strength and assign accountability. For the purpose of leadership development: • Gather consensus on corporate leadership developmental needs. • Identify strategies for closing gaps and assign accountability.

Source: July 2006 Presentation to the COO.

The presentation also noted that future steps of the talent review effort will include:

- Evaluating the talent review process and effectiveness of strategies implemented.
- Assessing the feasibility of extending the talent review process to CM-IIs and CM-Is.
- Assessing the need for extending the talent review process and succession management to non-supervisory "at risk" positions.

<u>Corporate Executive Development Program</u>: The FDIC plans to pilot a CEDP in 2007. According to an FDIC executive, this program is designed to identify high-performing, high-

potential employees for development as future executive managers and provide the Corporation a mechanism to create a pipeline for EM positions. The goals of the program are to:

- Retain the best and brightest employees.
- Have a positive impact on culture and eliminate stovepipes.
- Lead to a legacy of excellence in leadership and leadership development.
- Contribute to the FDIC's reputation as a best place to work.
- Be responsive to the complexity of issues requiring good leaders to keep the FDIC relevant.

CG-15, CM-I, and CM-II employees with 1 year of supervisory or Team Leader experience will be eligible to apply for the program. Table 3 presents an overview of the CEDP program.

Table 3: Overview of Corporate Executive Development Program

CEDP Program Steps
Written applications will be rated and ranked utilizing the QuickHire system, FDIC's automated hiring tool. An FDIC executive panel will conduct quality control reviews of system-generated evaluations.
The best qualified applicants move forward to the OPM assessment center and are scored and ranked by OPM assessors. OPM provides specific feedback directly to each applicant.
A second executive panel will conduct interviews, review the assessment center evaluations, and acquire supervisor and EM references. This panel will review all of the results and make recommendations for selection to the Executive Review Board (ERB).[a]
The ERB will approve the final selections.
Once selected, the participants will be assigned an Executive Advisor (an FDIC EM outside of the candidate's chain of command) who will play a critical role in the development of the Corporation's CEDP candidates.
Executive Advisors will receive training on their roles and responsibilities. The advisors will: • draft Leadership Development Plans; • identify other developmental activities; and • monitor the effectiveness of the training and development activities.
The best qualified candidates will complete two 360-degree Leadership Assessment Instruments: the OPM 360-degree assessment and an Emotional Intelligence 360-degree assessment. The assessments will provide feedback from the participant's supervisor of record, peers, direct reports, and the participant's perspective. The results will: • help participants identify their specific strengths and developmental needs in relation to OPM's Executive Core Qualifications[b] and the FDIC's Key EM Leadership Competencies[c] and • be used to identify the developmental activities to include the participant's Leadership Development Plan.
Selected candidates will be required to complete a robust 18-month training program, to include in-house training, external training such as the Federal Executive Institute or Harvard University John F. Kennedy School's Senior Executive Fellows Program, and developmental assignments. Because it is critical that the candidate have a corporate perspective, the assignments will: • be in a leadership capacity that is both meaningful and challenging, and • require a 2- to 3-month assignment in a location other than the candidate's permanent duty station.

Source: CEDP Presentation for the COO.
[a] The ERB is comprised of the three deputies to the FDIC Chairman.
[b] OPM's Executive Core Qualifications are: leading change; leading people; results driven; business acumen; and building coalitions.
[c] FDIC's Key Leadership Competencies are: Vision/strategic thinking, creativity and innovation, open communication, partnering, and resilience.

At the conclusion of the 18-month program, the ERB, Dean of the College of Leadership Development, the Executive Advisor, and the CEDP Program Manager[7] will assess each candidate's readiness to assume the duties of an EM. The graduates of the program who are deemed ready will be eligible for EM positions that become available on a non-competitive basis; however, the candidate is not guaranteed an EM position.

The Honors Attorney Program: An HRC member and senior executive within the Legal Division also identified the FDIC's Honors Attorney Program as an important initiative in addressing the Legal Division's future succession management needs. The goal of the program is to provide the Honors Attorneys with a better understanding of the FDIC's role in the nation's financial system while providing new attorneys with an opportunity for public service. In order to qualify for the Honors Attorney Program, an applicant must satisfy the following requirements:

- Be (a) in the final year of law school graduating from an American Bar Association-accredited law school, or (b) a full-time graduate student in the final year of study which started immediately following law school, or (c) a recent law school graduate leaving a judicial clerkship, and
- Be admitted to practice before the highest court of any state, territory or the District of Columbia or be taking a bar examination following graduation, and
- Have, at a minimum, a "B" average or equivalent or be in the top 33 percent of the law school class, and
- Be a United States citizen.

The FDIC assigns its Honors Attorneys to a wide variety of projects throughout the Corporation's Legal Division that provide extensive legal experience and a substantial amount of individual responsibility. In addition, during the first year of the program, all Honors Attorneys participate in 3-month rotations through various sections of the Legal Division in the FDIC's Headquarters office as well as one rotation to one of the Corporation's field locations. During the second year, the Honors Attorneys devote their time to more long-term substantive projects.

The Mentoring Program: The FDIC Mentoring Program is designed to support a productive workplace by enhancing employees' job skills, empowering employees, and promoting good corporate citizenship. Participation in the program gives employees the opportunity to broaden skills, knowledge, and perspectives so that they are better prepared for career opportunities and challenges. Since 2000, on average, 180 employees have participated as mentors or mentorees each year.

[7]The Program Manager will be responsible for coordinating the CEDP, designing training and development, implementing and managing all components of the program, and gathering data on program effectiveness.

Principle 5: Leadership training programs that include formal and informal training for all levels of supervisors, managers, and potential leaders.

Description: Agencies use developmental assignments, accompanied by more formal training components and other support mechanisms, to help ensure that individuals are capable of performing when promoted.

The GAO found that, in addition to formal training, leading succession planning and management initiatives emphasize developmental or "stretch" assignments for high-potential employees. These developmental assignments place staff in new roles or unfamiliar job environments in order to strengthen skills and competencies and broaden their experience.

FDIC Initiatives

The FDIC has several internal and external programs that give employees the opportunity to develop and enhance leadership skills. An FDIC executive stated the total payroll cost for employees who participate in leadership programs compared to the overall payroll costs is small. However, the positive return on investment from these leadership development programs in the form of increased morale and productivity, and stronger leadership is directly linked to creating a better organization.

Internal Programs

CU's College of Leadership Development sponsors required leadership and supervisory programs for team leaders, supervisors, and CMs. Table 4 identifies some of the required programs.

Table 4: Required Leadership and Supervisory Programs

Program	Description
Team Leader Core Program	The program provides team leaders with skills, knowledge, tools, and techniques required when leading a team. The program provides tools for promoting teamwork and communicating effectively in teams.
Supervisory Core Program	Designed to enhance the core skills and knowledge needed to be an effective supervisor in a changing FDIC. Participants learn leadership tools to provide direction, create a high-performing climate, promote teamwork, manage performance and develop employees, improve operating effectiveness, and develop effective client/business relationships.
Senior Executive Leadership Core Program (This program is for CMs)	Designed for participants to explore critical leadership strategic issues, to provide valuable new insights and perspectives, and to create a blueprint for achieving outstanding corporate performance.

Source: CU Web site.

The FDIC also has an internal job rotation program that enables employees to undertake rotational assignments in other operational areas of the Corporation.

In addition, the Corporation's Diversity Web site offers opportunities for employees to participate in details with Expression of Interest postings. For example, CU recently announced an opportunity for employees at the CG-11 and CG-12 to apply for a 180-day detail to serve as a management analyst on the large bank training program development effort. The Division of Administration recently announced a detail opportunity for two employees at the CG-12 through CM-I to serve on a 6-month rotational assignment focusing on corporate recruitment activities.

External Programs

The FDIC has an external job rotation program for executives that enables them to take an assignment in a public agency or a private sector company. The purpose of the program is to expose FDIC EMs to the nation's leading corporations and organizations. It provides these executives with the opportunity to transfer their skills and talents to new situations, observe and engage in challenging programs and projects, and increase the FDIC's knowledge base by bringing enhanced skills, knowledge, and best practices back to the FDIC. The FDIC also gives employees at all levels the opportunity to participate in external leadership development programs. Table 5 identifies the external programs available to employees.

Table 5: External Leadership Development Programs

Program	Description	Employee Participants from 2001 to 2005	Employees Promoted to CM-II/EM thru 2005
Aspiring Leader Program (CG 5-7)	Prepares federal employees for positions as team leaders, supervisors, and managers. This program strengthens basic competencies in managerial skills.	33	None
New Leader Program (CG 7-11)	Provides a solid training and development foundation of leadership skills and team building for federal employees.	32	None
Executive Leadership Program (CG 11-13)	Helps individuals who have little or no supervisory experience to acquire or enhance the competencies needed to become a successful supervisor, manager, and leader within the federal government.	37	4 employees became EMs.
Executive Potential Program (CG 13 - CM I)	Develops senior-level public service employees who have demonstrated significant leadership potential into more effective leaders.	27	2 employees became an EM and 1 employee became a CM-II.
Leadership for a Democratic Society (CM-I, CM-II, and EM)	Examines and enhances the common culture of senior federal executives by addressing the areas of personal leadership, organizational transformation, policy, and global perspectives. It provides an overarching emphasis on our government's constitutional framework.	17	2 employees became CM-IIs.
LEGIS Fellows Program (CG 13 and above)	Provides experienced mid-and senior-level employees the opportunity to gain a comprehensive understanding of how the U.S. Congress operates through hands-on practical experience.	8	4 employees became EMs.
Senior Executive Fellow Program (CG-14, CG 15, CM-I, and CM-II)	Focuses on skills associated with OPM's executive core qualifications: Leading Change, Leading People, Results Driven, Business Acumen, and Building Coalitions/Communication.	4	2 employees became EMs.

Source: CU.

In its Diversity Annual Plan and Progress Report for 2005, the FDIC stated that it is "committed to maintaining a quality workforce with effective leaders. Toward this end, participation in various external programs that develop leadership potential and enhance professional expertise and effectiveness is encouraged."

<u>The Corporate Employee Program</u>: The CEP is an initiative at the FDIC to provide opportunities for employees at all levels to identify, develop, and apply skills in multiple corporate functions through various training opportunities and cross-divisional work assignments. The CEP will create a workforce that possesses a common corporate perspective, with training and experience in multiple corporate functions, which is capable of responding rapidly to shifting priorities and changes in workload. The goal of the CEP is to:

- Provide employees with skills needed to address significant spikes in business line workloads that may temporarily require shifting resources across business lines.
- Promote a corporate perspective and a corporate approach to problem solving.
- Facilitate communication and the transfer of knowledge across all business lines.
- Foster greater career opportunity and job satisfaction.

The CEP includes criteria for hiring and training new employees in the business line divisions[8] in the form of "corporate employees" under term appointments. These employees will pursue commissioned examiner status and will simultaneously receive training in resolution and receivership functions. CEP graduates would be eligible to compete for available permanent positions within the Corporation. As of December 2006, 196 employees were in the CEP.

<u>Professional Learning Account Program</u>: The FDIC's CHCO indicated that the FDIC's PLA program is an important component of the FDIC's succession planning efforts, related to developing employees. A PLA is a specified annual amount of money and/or hours that each employee manages in partnership with his/her supervisor for use towards the employee's learning goals. The PLA allows the employee to train within his/her current occupation, as well as in other areas related to the FDIC's mission and work, to develop skills and knowledge in areas of interest to the employee and of value to the FDIC.

All permanent, full-time, or part-time, term and temporary[9] employees are eligible to receive PLA funds ranging from $1,500 to $2,500 and a maximum of 48 training hours per year. In order to participate in the PLA program, an employee is required to prepare an individual career development plan (CDP) collaboratively with his/her supervisor to identify goals, developmental needs, and activities. Upon approval of the CDP by the employee's supervisor, the employee can request approval to take training in a variety of areas such as: accounting, human resources, and information technology. The employee is required to fill out an evaluation form at the conclusion of each training activity in order to receive credit on training transcripts and any remaining PLA funds.

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[8]The FDIC has identified three major programs or business lines: Insurance, Supervision, and Receivership Management.

[9]Term and temporary employees with 1 year or less remaining on their appointments will receive PLA funds monthly on a pro-rated basis.

Principle 6: Address specific human capital challenges, such as diversity, leadership capacity, and retention.

Description: Leading organizations stay alert to human capital challenges and respond accordingly. Government agencies are facing challenges in the demographic makeup and diversity of their senior executives.

GAO found that leading organizations recognize that diversity, ways in which people in a workforce are similar and different from one another, is an organizational strength and that succession planning is a leading diversity management practice. Given the retirement projections for the federal government that could create vacancies, agencies can use succession planning and management as a critical tool in their efforts to enhance diversity in their leadership positions. In addition, OPM has identified an increase in workforce diversity, including in mission-critical occupations and leadership roles, as one of its human capital management goals for implementing the PMA. GAO found that an agency can use succession planning and management to provide an incentive for high-potential employees to stay with the organization and thus preserve future leadership capacity. OPM also found that organizations with effective succession planning efforts use a variety of strategies to help build the continuity of talent needed for future success including retention strategies.

FDIC's Initiatives

The FDIC established a 2007 CPO to ensure that the FDIC is recognized by its employees and other stakeholders as an employer of choice with a corresponding initiative to (1) review and benchmark the FDIC's diversity efforts against other employers, and (2) develop and begin implementation of new initiatives to address cross-generational and other diversity issues to enhance the Corporation's capacity to successfully meet its mission responsibilities in the future.

Diversity and Recruitment

The Board of Directors approved the first Diversity Strategic Plan in 1999. In that plan, the FDIC established several goals related to human capital. For instance, there was a goal to enhance the Corporate Recruiting Program to ensure that the FDIC's recruitment process attracts a diverse and highly qualified pool of candidates. The FDIC also developed a CEP Recruiting and Application Strategy in 2006 for hiring entry-level Financial Institution Specialists (FIS) into the CEP. The strategy indicated that the FDIC has elected to use the Federal Career Intern Program[10] hiring authority which provides the Corporation with the flexibility to focus its recruiting efforts on high-caliber individuals with the qualifications and skills needed to successfully address the FDIC's mission responsibilities.

[10] The Federal Career Intern Program is designed to help agencies recruit and attract exceptional individuals into a variety of occupations. It was created under Executive Order 13162, and is intended for positions at grade levels GS-5, 7 and 9 or other trainee positions. In general, individuals are appointed to a 2-year internship. Upon successful completion of the internships, the interns may be eligible for permanent placement within the agency.

The FDIC's CEP recruiting efforts will seek applicants from multiple sources, with proactive measures to ensure the inclusion of women, minorities, veterans, and persons with disabilities in the applicant population. FDIC recruiters will establish contacts with colleges and universities with recognized programs in business, accounting, finance, economics, and related fields relevant to the FIS occupation, and with professional associations and other organizations that provide employment information services to graduates and professionals in the business, accounting, and finance field.

Employee Retention

The FDIC is revising its Diversity Strategic Plan to include a focus on developing strategies to address generational differences in order to retain valued employees. Specifically, a member of the HRC stated that the workforce is made up of several generational age groups that have different approaches and expectations toward work, motivation, and reward. The HRC member stated that the biggest challenge for succession planning will be to recruit and retain the new millennium age group of employees, because these employees expect and respond to a different set of motivations than prior generational groups.

In this regard, a CU Action Learning Team completed a project on CEP employee retention in 2006. The FDIC hired a psychologist to conduct exit interviews with employees who left the Corporation during 2004 and 2005.[11] The team reviewed employee exit data and found that beyond buyouts and early retirements (the primary reasons for departures) work-life balance and work environment were among the top reasons that employees left the FDIC.

The team reported that employee engagement includes rational aspects, such as financial and career objectives, and emotional aspects such as pride and enjoyment with one's work. The team identified best practices for engaging and retaining employees and developed the following action plan items for completion during 2007 related to:

- Connecting with employees – Formally document and communicate with employees, ensure employee engagement/retention is considered in strategic plans and goals, attain timely feedback for each CEP class, and communicate to stakeholders.
- Developing employees – Conduct corporate-wide "generations at work training" that educates all employees on generational characteristics and teamwork.
- Rewarding employees – Assess current employee benefits to determine if changes can be made to enhance work-life balance.
- Measuring recruiting and retention efforts – Develop and maintain a standardized engagement survey to be given to CEP employees at their first and fourth anniversary; develop and maintain an exit survey for all employees and use results to address engagement issues; develop metrics to quantify the total cost of the CEP from recruitment through conversion to permanent status.

[11] The psychologist interviewed 130 employees in 2004 and 219 employees in 2005.

Other Retention Efforts

Consistent with OPM guidelines, the Corporation also has the flexibility to offer retention bonuses and has used this strategy in rare cases to retain particular employees until a successor can be trained and developed. The HRC is currently researching what other agencies do to retain highly valuable employees.

The FDIC also has a required continued service agreement for employees participating in external development programs to either continue in government service for a specific time after the training has ended or to repay those funds expended by the FDIC related to the training and development.

Principle 7: A process for evaluating the costs and benefits of the succession process, and the return on investment it provides for the organization.

Description: Establishing valid measures to better evaluate how training programs affect organizational capacity can give agency decision makers credible information to justify training and development programs' value.

According to NAPA, an organization must develop assessment procedures and tools to gain insights into how individuals will perform. The tools – including assessment centers, simulations, competency surveys, and performance appraisals – are used to gauge how well-prepared candidates are for management positions.

GAO found that agencies should develop appropriate performance measures to link human capital measures with strategic goals. Performance measures can be used to gauge success and evaluate the contribution of human capital activities toward achieving programmatic goals.

FDIC Initiatives

An FDIC executive stated that it is too soon to evaluate the FDIC's succession planning efforts since the programs are just starting or will be starting next year. The FDIC needs time to develop a baseline to measure the results of its efforts. However, the FDIC currently has several mechanisms to monitor the success of FDIC human capital initiatives through the HRC, CPOs, CU's Governing Board, supervisor evaluations, and employee surveys.

<u>Human Resources Committee</u>: As discussed earlier, the HRC provides strategic direction and leadership for workforce planning at the Corporation and is responsible for developing policy recommendations and monitoring the implementation of human resources initiatives.

<u>Corporate Performance Objectives</u>: As described earlier, the FDIC has specific CPOs related to human capital, succession planning, recruitment and retention, competencies, and continuous learning. FDIC divisions and offices report on the status of meeting CPOs quarterly to the COO and Chief Financial Officer. DOF posts updates on the FDIC's Corporate Planning and

Resource Management Web site throughout the year outlining what has been done to achieve each goal to date.

Corporate University: CU evaluative initiatives include the following:

- The College of Leadership Development utilizes 360-degree assessments, which are surveys filled out by an individual's supervisor, direct reports, peers, and the individual to provide feedback on the mastery of the competencies critical to their level of leadership and identified as necessary for effective leadership performance. A confidential report is compiled and provided to participants based on the responses and, in most cases, feedback is delivered with individual consultations by either external or internal coaches. CU obtains a compilation of the data which indicates the overall level of expertise for each of the leadership competencies.
- CU's College of Leadership Development plans to monitor the progress of the CEDP participants quarterly and will provide feedback and counseling as needed. In addition, components of the CEDP will be evaluated using a model based on the work of Kirkpatrick's Four-Level Model. Evaluation at multiple levels allows the FDIC to ensure it is meeting critical benchmarks. The Kirkpatrick levels are:

    - Level 1- Reactions – measures how participants in training programs react to the programs.
    - Level 2- Learning – measures the extent students have advanced in skills, knowledge, or attitude.
    - Level 3- Transfer – measures the transfer that has occurred in a learner's behavior due to the training program.
    - Level 4- Results – measures the success of the program in terms of increased production, improved quality, and return on investment.

- CU hired an educational psychologist to serve as a program evaluations expert to develop metrics for tracking and quantifying training performance from both a qualitative and quantitative perspective.
- Every 2 years, CU tracks employees who participate in the various external leadership development programs via an ODEO database to determine if those employees have advanced in their careers. A CU official stated that 36 percent of employees who have participated in external development programs have been promoted.

Supervisor Evaluations: As part of the FDIC supervisory appraisal process, supervisors are assessed on whether they provide guidance and feedback to help others enhance their knowledge, skills and abilities. Specifically, supervisors must involve employees in assessing their own development needs and ensure that the employees receive the opportunities, tools, and training to achieve their developmental goals.

Employee Surveys: The FDIC participates in OPM's Federal Human Capital Survey, which is designed to gauge employee perceptions on whether they are effectively led and managed, whether they have opportunities to grow professionally and advance in their careers, and whether their contributions are truly valued and recognized. The results of this year's survey will be compared to the previous survey and the Division of Administration will develop strategies to address any issues that emerge from the survey.

CORPORATION COMMENTS AND OIG EVALUATION

In response to a draft of this report, DOA and CU management provided us clarifications and editorial comments, which we have incorporated in this final report. The FDIC's Office of Enterprise Risk Management advised us on March 23, 2007, that FDIC management considered the overall report to be well balanced and very thorough, and that there would not be a formal written response.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

To determine the extent to which the FDIC's succession planning efforts identify and address future critical staffing and leadership needs.

Scope and Methodology

To accomplish our objective, we performed the following:

- Identified and reviewed applicable laws and regulations pertaining to succession planning:
    - Federal Workforce Flexibility Act of 2004
    - President's Management Agenda
- Researched and reviewed:
    - GAO Report No. 03-914 entitled, *Human Capital: Insights for U.S. Agencies from Other Countries' Succession Planning and Management Initiatives*.
    - GAO Report No. 04-343SP entitled, *Comptroller General's High-Performing Organizations.*
    - GAO Report No. 04-127T entitled, *Human Capital: Succession Planning and Management Is Critical Driver of Organizational Transformation*.
    - GAO Report No. 04-39 entitled, *Human Capital: Key Principles for Effective Strategic Workforce Planning*.
    - GAO Report No. 05-207 entitled, *GAO High-Risk Series, An Update*.
    - GAO Report No. 05-585 entitled, *Human Capital: Selected Agencies Have Opportunities to Enhance Existing Succession Planning and Management Efforts*.
    - GAO Report No. 06-86 entitled, *Securities and Exchange Commission: Some Progress Made on Strategic Human Capital Management*.
    - OPM's Workforce and Succession Planning, Leadership and Knowledge Management, Talent, and Succession Planning Process research.
    - OPM's 2006 Federal Human Capital Survey.
    - OPM's Retention Incentive policy.
    - CLC's research on succession management: Executive Summary – High-Impact Succession Management: From Succession Planning to Strategic Executive Talent Management.
    - CLC's research on Attracting & Retaining Critical Talent Segments: Building a Competitive Employment Value Proposition.
    - NAPA October 1, 2003, Testimony before the Committee on Government Reform Subcommittee on Civil Service and Agency Organization, U.S. House of Representatives.
    - Kirkpatrick's Four Levels of Evaluation.
- Reviewed the FDIC's:
    - 2005-2010 Strategic Plan.
    - Diversity Strategic Plan.
    - Diversity Annual Performance Reports for 2001-2005.

    - CPO for 2006 and 2007.
    - 2005 Human Capital Blueprint.
    - 2006 Management Assurance Statements.
    - Management Succession Planning Presentation.
    - COO memo on workforce planning for the future.
    - DOF's FDIC Retirement Analysis.
    - Training and Development policy.
    - CMs Board Room presentation on knowledge management.
    - Performance Management Program – performance plan and evaluation for supervisors.
    - Expressions of Interest.
- Reviewed CU's College of Leadership Development's Web site:
    - External leadership development programs.
    - External job rotation program.
    - Competency Model.
    - Research on Taking Leadership Development to a New Level: An Integrated Approach for FDIC's Current and Future Leaders.
- Reviewed CU Action Learning Team presentations:
    - CEP: Employee Engagement and Retention.
    - CEP Recruiting and Application Strategy.
    - Planning for Retirement and Succession Management at the FDIC.
    - July 27, 2006 Pilot EM Talent Review Presentation for the COO.
    - CEDP report.
- Obtained and reviewed prior related OIG audits and evaluations:
    - OIG Report No. 04-005 entitled, *FDIC's Strategic Alignment of Human Capital*.
    - OIG Report No. 05-012 entitled, *Division of Supervision and Consumer Protection's Process for Identifying Current and Future Skill and Competency Requirements.*
    - OIG Report No. 05-035 entitled, *The FDIC's Corporate University*.
- Interviewed FDIC executives:
    - Associate Director for Human Resources.
    - Deputy General Counsel and HRC member.
    - Dean of the College of Leadership Development.
    - DOF, Deputy Director, Corporate Planning and Performance Management.
- Interviewed officials from GAO involved in human capital work government wide.

We conducted our evaluation from October to December 2006 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.