

BACK TO BASICS

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Succession Planning: The Art of Transferring Leadership

Predicting future trends is the business of futurists. But preparing for predictable circumstances with a clear and decisive plan is the business of all wise and responsible governing bodies. As part of its critical role in selecting and evaluating the CEO, a board must also prepare its organization for the eventual change of executive leadership.

Succession planning helps boards ensure a smooth and orderly transition of leadership. This primer offers trustees a framework on which to build an effective succession plan.

The Case for Succession Planning

The first critical step when developing an effective succession plan is to establish a clear purpose. A board may choose to begin succession planning discussions in order to:

- Groom one or more successors to step into the CEO or other senior leadership roles
- Identify or develop a new leader, internally or externally, pending the CEO's retirement
- Prepare for the unexpected—e.g., the CEO's sudden resignation or dismissal, a serious accident or death
- Decide whether the existing COO, CFO, physician leader or other senior executive—given the opportunity for board exposure, leadership training, job rotation or other professional

development—could fill the CEO's shoes

- Assess leadership competencies, skills, experiences and behaviors required of a CEO-in-waiting
- Analyze and modify the current CEO's severance agreement, covering traditional provisions; change-in-control provisions, i.e., when a hospital or health system is acquired or merges with another health organization; and change-in-duties provisions, which seek to define the roles of the departing CEO and/or incoming CEO throughout the transition.

Step One: Establish the Purpose

At the beginning of every succession plan discussion, the board needs to articulate a clear purpose by asking:

- Who wants the plan and why?
- What contingencies need to be addressed? In virtually all cases, the board will want to address what actions should occur when there are vacancies; the strengths and weaknesses of internal leadership; training and development requirements for existing executives; and whether or not to interview executives from the outside.

- What's the timeline for creating the plan? Trustees need to consider which board members, committees, senior managers and other constituencies should provide input on the plan, who will approve it and how much time should be allowed for those processes.

- What's the timeline for finding a successor? For example, perhaps the board wants to prepare for the current CEO's retirement by retaining the COO or other leader and considering him or her for the position. Determining the hiring scenario should help the board determine why it needs a plan, how much time it should allow for the search and what it hopes to gain as a result.

- Who's responsible for drafting the plan? The board may choose to begin succession planning with the full board or it may decide to assign the job to one of its committees. The key is to keep the process front-and-center on the board's agenda and send the message that succession planning is vital to the organization's future.

- How should the board implement the plan? What are the next steps in grooming and developing leaders in the wings, or assessing critical competencies?

- How and when should key staff be informed about the plan?

Step Two: Review Strategic Goals

As part of the initial succession planning discussion, the board needs to ask itself these questions:

- What is the organization's vision of the future?
- What are the organization's leadership requirements—both short-term and long-term—to achieve the vision?
- What are its strategic goals?
- Where are the gaps in existing leadership competencies?

Step Three: Initiate CEO Succession Planning

Traditionally, the topic of succession planning has been difficult for hospital boards to broach, causing health care to lag behind public companies in formalizing these plans. If the board raises the topic of succession planning, the CEO may feel as if he or she is being eased out. Conversely, if the CEO brings up the topic, the board may wonder if the chief executive is preparing to leave.

A good starting point is the CEO's annual performance evaluation, which should include a discussion of his or her professional and personal goals, future aspirations and job satisfaction. The evaluation should also address how well the CEO performs and fits in his or her current position and discuss developmental needs, leadership style, values, skills and behaviors.

At the same time, trustees should consider the age and tenure of their CEO. An older CEO may be considering, at a minimum, a lifestyle change that reduces time on the job or possibly, full retirement. Younger CEOs may be eager to see career progression, either in their current role or elsewhere, whereas CEOs with school-age or college-bound children may be seeking stability in a longer-term contract.

Five Key Components

Most CEO succession plans have at least five elements in common:

1. An action plan that details what must be done and who should be in charge of making it happen
2. A succession profile that outlines competencies and requirements for the new CEO
3. A communications plan describing how the plan will be announced to specific internal and external audiences
4. Opportunities for physician leaders to provide the medical staff's perspective on CEO succession
5. A compensation discussion that outlines how both the retiring and future CEO will be rewarded for successfully implementing the succession plan. For

example, an incoming CEO may be provided incentives by the board to hold off making immediate changes in key executive positions until mutually agreed upon timeframes for change are determined. The board may want to consider compensation incentives that create "golden handcuffs" to retain top talent. If they decide to do so, the board must be aware of current market trends and regulatory requirements of CEO compensation. The board may also retain a retiring CEO as a consultant so that he or she can become fully vested in the retirement plan. Trustees may also want to consider other financial retention strategies, such as supplemental executive retirement plans (SERP) fashioned to include long-term incentive payouts.

The Three Basic Plans

Health care boards should focus on developing succession plans that address three primary causes of CEO departure. Each plan outlines the specific actions the board would take in the event of a planned or unplanned leadership vacancy.

1. Unexpected Emergency Plan

This is the succession planning strategy an organization needs if its CEO becomes incapacitated or dies. It is essential that all health care organizations have a documented emergency plan in place. A useful outline should look something like the following:

A. Actions required

- a. Identify someone in the organization who can assume the role of interim CEO. Ask senior managers and physician executives for their opinion, and listen to whose name is mentioned most often.
- b. Draft a board resolution that appoints the interim CEO. All members of the senior management team will report to this designated individual during the interim period.
- c. Make appropriate arrangements with banks and other entities granting the interim CEO signing authority.

B. Contingency Plans

- a. If the CEO is incapacitated, how long will recovery take? What will happen in the interim? If the vacancy is permanent, what happens next?
- b. Should the interim CEO be

A compression of talent

Over the past two decades, health care organizations have experienced a "compression" of executive talent, meaning that more must be done with fewer potential leaders. In prior years, hospitals and health systems were structured with multiple layers of management, and it wasn't uncommon to have assistant vice presidents and directors in each functional area.

This changed radically once managed care redefined the delivery and business of health care. Organizations were stripped of managers and executives waiting in the wings. The result: a dwindling pool of future leaders, leaving many health care organizations with a dearth of qualified internal candidates.

Compounding the problem is the looming age of baby boomers and a probable shortfall of young executives ready to step into CEO roles. Over the next decade, replacing aging CEOs will be the board's biggest challenge. Baby boomers who reach age 65 by 2011 will retire in large numbers.

Similarly, younger boomers will reevaluate their work/life commitments and may choose to leave the "pressure cooker" health care environment even sooner. The combined effect could create a significant executive leadership void.

Meanwhile, professional recruiters report a scarcity in the number of qualified young executives being groomed to become CEOs. Recruiters also note that the rising Generation X seems more selective than their predecessors when considering a new position. Many hesitate to accept new posts unless they consider the job a perfect fit. The likely gap between capable future leaders and open CEO spots will create a scenario decidedly in favor of talented younger executives.

Succession Plans in Action: Two Case Studies

Succession plans are like fingerprints—no two are alike, and they leave an impression on everything they touch. How a board approaches succession planning leaves its mark on the future success of its organization.

Following are real-life examples of how two very different health care organizations—one with a succession plan and one without—approached this crucial governance responsibility.

A MODEL APPROACH

For more than 10 years, this urban East Coast-based health system, (called "System A" here), comprising five hospitals and covering a broad service population of 350,000, has had an extensive history of leadership development, actively promoting needed development for all its executive staff.

As a result, the system has a full pipeline of internal leaders and a succession plan that asks senior managers to:

- Conduct performance reviews that encourage open discussion between managers discussing their career goals and how they can develop them.
- Incorporate 360-degree analyses into performance reviews/evaluations and provide other opportunities for executive assessment.

Performance reviews serve as a valuable tool in leadership assessment and development.

The process involves an active exchange of ideas and emphasizes each individual executive's personal career goals and long-term aspirations.

Such an evaluation also offers developmental opportunities and honest analysis and feedback of the executive's strengths and weaknesses.

- Encourage job rotation within the system.

Because hospital operations are contained within a geographic region, System A can offer executive job rotation opportunities among its various member hospitals. Such rotation permits career growth without personal and/or family upheaval.

Nevertheless, losing talented staff is inevitable. But what distinguishes this system is how it plans for such losses. Attrition is incorporated into succession planning.

To balance the anticipated loss, the board and CEO have been committed to finding potential new leaders within the system. To date, they have identified more than 75 potential executives.

The board has also made the wise decision to involve its medical staff in succession planning. Previously, only the chief of staff had direct contact with the board.

An underlying benefit to greater medical staff involvement is that the board's actions convey to the medical staff that their opinions and ideas are valued.

A LACK OF FORESIGHT

"Hospital B," a 300-bed teaching hospital located in a Midwestern suburban location, does not have a formal plan for leadership development. Developing a formal succession plan and leadership development program rests with the board and CEO.

Although Hospital B has encouraged mentoring for its senior management team, it has been implemented by only a few, and no one has been accountable for identifying and grooming potential leaders. This lack of foresight and planning has left the organization unprepared to replace key executives when they resign.

So, when the board chair stepped down, followed closely by the CEO's

announced plan to retire—each of whom had held their positions for more than 25 years—the board was unprepared to deal with the impending dual loss, and the organization was thrown into confusion.

LESSONS LEARNED

Unwittingly, the board had exacerbated the problem by communicating only with the CEO, effectively excluding senior management and the medical staff from contributing to top-level decisions. This produced an atmosphere of secrecy and suspicion, which led talented staff to seek career opportunities elsewhere.

As a result of this confusion and a destructive leadership culture, it has taken longer than anticipated to replace both executives. The CEO is still on the job without a replacement in the wings.

After nine months of lost time, Hospital B has now retained an executive search firm.

The board realized that its failure to discuss succession planning cost Hospital B valuable time, so trustees reviewed what happened and identified ways to better prepare for the future.

They have decided to:

- Engage the board and CEO in regular succession planning discussions.
- Fill board vacancies quickly.
- Determine ways that the board can have more exposure to other leaders in the organization and invest in leadership development for physicians and others.
- Engage physician leaders to develop leadership training programs for appropriate members of the medical staff.
- Seek outside help earlier in the leadership transition process.

appointed permanently, or is a search necessary?

c. Does the board want to conduct an internal or external search? Does it want to retain a search firm in the event of an external search?

C. Crisis Communications

a. Have a crisis communication plan ready for immediate implementation.

b. Designate an official spokesperson to lead press conferences and handle all external inquiries.

c. Develop an internal communication plan and update staff regularly.

2. Transitional Plan

A transition plan is implemented in the event a CEO resigns to take another position, or is asked to leave. Unlike the unexpected/emergency succession plan, the board has more time to consider the direction it wants to take. The important issues the board needs to address are to:

A. Define the Timeframe

a. Does the CEO's contract stipulate how much notice must be given? This will help the board decide whether it will need to appoint or hire an interim CEO.

However, a board may choose not to honor the stipulation because holding a departing CEO to his or her contract may create a "lame-duck" scenario that stalls momentum in finding a replacement.

b. How long will it take to conduct a search, if needed, for the new CEO?

B. Identify Knowledge, Experience, Competencies

The success profile of the new CEO comprises essential knowledge, prior experience, leadership competencies and behavior strengths and drives what an organization seeks in a new executive. When drafting a profile, trustees should be as specific as possible when defining competencies, such as being a team builder, being politically savvy, having the right customer focus and good interpersonal skills, being visionary, results-oriented, composed and able to inspire confidence.

C. Evaluate Internal Candidates

Is there an existing executive who has the leadership requirements needed to achieve the organization's vision and goals? Even if the answer is yes, the board may choose to conduct an external search to compare its internal choice for CEO

with external candidates. This often enhances the credibility of the internal candidate in assuming the new role.

3. Anticipatory Plan

Although similar to transitional planning, this succession plan should be developed when a CEO indicates he or she is planning to retire.

A. Define the Timeframe

Ideally, CEOs should inform the board of their decision 18 to 24 months prior to their retirement date. If there's a designated management team member who will assume the CEO role, this provides time for the board to get to know him or her before that person steps into the new job.

B. Choose either a "CEO-in-Training" or an Experienced Leader

One familiar scenario is the CEO who has been in the position 25 or more years and gives the board ample notice of his or her pending retirement. The age of the management team is often similar to that of the retiring CEO, so the board elects to launch an external search prior to the current CEO's departure. Or, the board may consider searching for an heir apparent immediately—an executive vice president, for example, who comes in and learns the organization under the current CEO.

C. Pave the Way for New Leadership

If the retiring CEO's reputation has assumed heroic proportions, which is often the case if he or she has been with the organization for many years, a newly appointed CEO with a radically different leadership style may create unease among a variety of constituents. Often however, a change in leadership direction is both vital and necessary in order to achieve organizational goals. That means the board must determine how to pave the way—with management, employees, physicians and the community—for the new CEO's success.

The Next Generation

The more qualified candidates an organization has, the stronger the organization. Limiting the slate of potential leaders, particularly to the CEO's direct reports, puts the board in a bind. Not all direct reports will step naturally into senior roles. Those chosen to be retained, however, should be reassured

their positions are secure even if they fail to make the CEO cut.

Establish a "pipeline" of executives with high leadership potential by offering them education: e.g., management skills training, job cross-training, job rotation and opportunities to interact with the board and medical staff. Best practices in leadership development also include offering off-site retreats, executive critique sessions, 360-degree feedback, and leadership academy enrollment.

Succession Planning Reminders

Succession planning is a journey—not a destination. There are, however, important sign posts along the road:

- Keep it strategic. A succession plan supports an organization's strategic goals. What an organization cultivates in existing leaders—and looks for in new executives—depends on its future plans.

- Stay in the driver's seat. Succession planning is the board's duty, but the CEO must ride shotgun. Meanwhile, the CEO is responsible for succession planning and leadership development among the rest of the management team.

- Put it in writing. Having a written document provides a road map and a record of the board's deliberations, protecting it if the CEO or board chair were to leave unexpectedly.

- Keep the engine tuned. A succession plan is not something that, once complete, is put to the side. At a minimum, the board should revisit the plan annually, preferably semiannually.

- Tell those who need to know. Making the succession plan too widely known too early can produce a "lame-duck" scenario for your current CEO. On the other hand, limiting knowledge of the plan to a select few—such as the board's executive committee—can create an awkward situation for executives and physician leaders left in the dark.

- Track your progress. Too often, boards draft a plan and then fail to review it, act on it and/or measure their progress. Then when something unexpected happens, the board discovers the plan is dated or of little value, or the organization is left with a promising leader who is still not yet ready to assume the CEO role. **T**