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Why Boards Must Match CEO Competencies with Strategic Priorities

BY JIM GAUSS AND DAN FAIRLEY

ONE WOULD FULLY EXPECT A BOARD TO know that its hospital or system CEO has the core competencies required to achieve the organization's mission, vision and strategic goals. At minimum, the CEO's annual performance review should include an assessment of how well his or her skills match the organization's current needs. In the event of an impending CEO transition, aligning organizational goals with leadership competencies is essential.

Yet trustees often fail in both regards because they do not or cannot identify which core competencies are most critical to the organization's future success. The end result is often an inflated expectation that a full complement of equally important core competencies is necessary to succeed in a specific CEO role. Likewise, trustees may mistakenly assume that a plethora of leaders possess the broadest range of leadership competencies, each in equal measure. Nothing could be further from the truth.

Our work with trustees and CEOs tells us what's most important is that a governing board clearly understands the strategic demands it faces now and in the future and whether the current—or incoming—leader has what it takes to move the organization forward.

Identifying New Competencies Can Drive CEO Transitions

We recently worked with a large community hospital in the Southeast that had fallen behind competitors in efforts to build a multispecialty network of

employed physicians. The current CEO had successfully steered the organization through an expansion of both the physical plant and nursing team. Yet the CEO lacked strong relationships with key physicians, which compromised the hospital's ability to recruit medical staff. The COO, on the other hand, had earned the respect of even the most difficult physicians through his unwavering support of numerous quality-improvement initiatives. The board subsequently proposed an attractive retirement package to the CEO, which was accepted. Then the board promoted the COO, who had the competencies needed to move the hospital forward. The leadership change worked. The hospital has hired dozens of new physicians during the last 18 months, and physician relationships have markedly improved.

Another client resolved a similar situation in a different way. Trustees at a West Coast community hospital were concerned because the long-tenured CEO, who was within two years of retirement, couldn't resolve difficult issues in negotiations with anesthesiologists.

Shying away from a potentially painful termination, the board refocused the CEO's responsibilities. Medical staff relations and contract negotiations were delegated to the CFO and CMO. The CEO then was able to concentrate on quality improvement, which included an electronic medical record installation.

Two years later, the situation is much better. The hospital has renegotiated the anesthesiologists' contract, improved

patient care in orthopedics and cardiovascular services, and leveraged its improved quality to get better pricing from a managed care company.

Both examples illustrate the need for boards to pay attention to changing strategic priorities and determine if the CEO's skills and experience are right for current and future organizational needs.

One final example is a rural health system in the Northeast. Its CEO was terminated under difficult circumstances, leaving behind a shaky financial situation and anxious employees, physicians and senior executives. The board was concerned about reimbursement issues, expense control, loss of service lines and fractured internal relationships.

In its assessment of what competencies were most important in a new leader, the board focused on:

- Financial acumen and wherewithal to make tough decisions
- Personal sensitivity, in this case to the needs of employees and physicians, to rebuild a shaky culture
- Able to bring disparate groups together to achieve strategic goals
- Capable of integrating a variety of components within a complex enterprise
- A skilled communicator who is responsive to stakeholders.

Specifications for the CEO position highlighted these well-defined, predominant competencies. After a national search, the board found a leader who was able to turn the organization around financially and, at the same time, reassure and smooth relations with employ-

ees and medical staff.

How to Align Strategic Goals and Core Competencies

In creating a priority list of CEO competencies, trustees should:

- Evaluate and update the organization's vision and strategic goals based on confidential interviews with trustees, senior management, physicians and community leaders.
- Translate strategic goals into specific CEO competencies, also based on stakeholder input.
- Determine gaps in CEO competencies as well as those for other executives.

- Solicit the current CEO's opinion on goals and competencies, and request a plan to fill gaps.

Matching Competencies Is Critical in New Economy

Core competence matched with strategy in the executive suite is particularly important during an economic downturn. Moody's Investors Service noted in a November 2008 report that hospitals with strong, stable leadership and governance would be well-positioned to weather the recession. A Moody's analyst confirmed this with a CFO at a large community hospital, indicating that the hospital's efforts to align strategic goals and exec-

utive competencies would have a positive effect on its credit rating.

Staying current on leadership competencies takes discipline, focus and willingness to take action if a gap develops. Trustees who are diligent in this regard will strengthen what matters most to their organizations, whether it's financial standing, competitive positioning, medical staff relations, quality or other strategic priorities. **T**

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JIM GAUSS is president and CEO of Witt/Kieffer, a national executive search firm specializing in health care. DAN FAIRLEY is a health care industry consultant.

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