

Closing the Leadership Gap

Boards drive the CEO succession process.
Is your transition plan ready?

By Jena E. Abernathy and Andrew P. Chastain

Famed management expert Peter Drucker noted that “health care is the most difficult, chaotic and complex industry to manage today.” His observation hits home as hospitals and systems face unprecedented change in the form of reform, an aging population and continuing economic uncertainty.

Clearly, hospitals and systems need visionary leaders who are innovative and capable of developing new models of care despite narrowing margins and stringent performance incentives. Success in today’s market requires nontraditional skills such as keen strategic talents, extensive financial acumen, an appreciation and understanding of IT, and emotional intelligence. As leaders reposition their organizations to meet quality and cost goals, they need other core competencies including expertise in physician integration, process improvement, best practices and labor relations, among many more.

Identifying, developing and attracting dynamic CEOs represent a critical challenge for trustees, particularly when succession planning is not on the board’s priority list. According to a recent study, about two-thirds of health care CEO respondents report their organizations do not conduct formal succession planning.

While other strategic and financial matters often appear to be more pressing than leadership continuity, a gap can expose a hospital to its greatest risks. Boards without a formal succession plan run the risk of a serious lapse in leadership and overall confidence in

the organization. Boards must give succession planning immediate, focused attention to safeguard the future vision of their organizations. Succession planning is an ongoing, committed initiative to keep C-suite talent management needs in the line of sight at all times.

Boards engaged in formal succession planning gain exposure to potential CEO successors well before a leadership change becomes imminent. If the board waits until the moment of change, it runs the risk of failing to prepare a talented internal leader to take the helm or impacting the timing of a seamless transition process. Visibility with the entire executive team places trustees in a much stronger position to understand and develop talent. Think of it as peeling back the layers to understand the leadership pipeline. This level of involvement will help prepare the board for changes at the CEO level, both planned and unplanned.

Prepare For the Best

When it’s time to choose the next CEO, trustees must make the most of the opportunity to assess the organization’s current status by identifying growth opportunities and challenges. Begin with a deliberate review of the mission, vision and culture. Trustees sometimes uncover disconnects between the stated vision and where the board wishes to take the organization.

One successful technique involves a cultural audit, in which trustees, physicians, staff, community leaders and industry partners are interviewed to un-

derstand different perspectives on the organization’s culture, strategic vision, leadership capabilities and needs for success. The findings can be used to develop a profile for the new CEO.

For example, an organization may use the results of a cultural audit to build the case for a more innovative, risk-taking CEO if the strategic direction requires it. A realistic assessment of current culture — including any glaring gaps — helps an organization position itself for the rigors of improving and sustaining quality performance. It also provides the opportunity to do a start-stop-continue analysis. With this review, the board can provide guidance to the new leader on what activities they wish to begin and which they would like to sustain or discontinue.

Selection of a new leader can be overshadowed by such fundamental changes to the organization as moving from nonprofit to for-profit status or merging with a larger system. When these seismic events occur, the board must have a robust understanding of strategy, organizational structure and future direction. Only then can it identify the most effective executive to lead the organization at a pivotal point.

Succession planning can be an intimidating exercise for the existing CEO and awkward for the current leadership team. But boards can’t afford to ignore this responsibility. While CEOs are most comfortable leading, CEO succession planning must be directed by the board. The process goes well when embraced as a board responsibility with

the sitting CEO providing candid input.

When the Search Begins

When the transition is imminent, the board must establish a transition and search committee with fewer than 10 members. Larger groups can lead to slow decision-making and tangled politics. A small committee will be nimble enough to meet critical milestones while representing the board's vision.

One of the committee's first tasks should be developing a charter, a useful practice that clearly delineates roles and responsibilities between the com-

mittee and the board. For example, the charter could define the committee's role as selecting final candidates while the board chooses the new CEO. Some organizations broaden the committee's role to include making a final candidate recommendation for board approval.

It is essential to create a complete, well-conceived position profile that includes responsibilities, competencies, goals, leadership style and other attributes. It should define experiences the board expects the new leader to possess, such as a successful track record in clinical integration or a full-scale IT

conversion to electronic health records. Use the profile as a guide for a deliberate, consistent assessment of both internal and external candidates.

Boards must engage internal candidates in conversation to assess their skill sets and fit with the organization's future needs. Look closely at relevant educational background, hands-on experience with launching new programs, leading teams across the organization and personal leadership style.

Focus on the same talents when assessing external candidates including on-the-job performance, decision-making skills and fit, among other critical factors. One common trap is prematurely falling in love with an external candidate without fully understanding his or her strengths and weaknesses. Avoid the halo effect of newcomers by vetting both internal and external candidates in the same rigorous way to level the playing field and illuminate head-on comparisons. Furthermore, it is increasingly important — and the board's responsibility — to consider candidates who understand and reflect the communities they serve. Cast the search net wide to include candidates who bring new perspectives and diverse skills to the organization.

Outside search counsel can go a long way in assessing candidate strengths and weaknesses and exploring their backgrounds, including checking credentials and references. Sometimes boards also participate in reference checks, but those must be carefully coordinated so the candidates' current positions are not exposed to risk.

Planning the Welcome

Trustees must develop an immediate productive relationship with the new CEO. In fact, board members who actively participate in the search process can be instrumental in making introductions and helping the new leader feel comfortable. Often organizations match a trustee with the arriving CEO to serve as a personal advisor during the ramp-up period. In addition to formal events and meetings, don't overlook the value of an impromptu phone call or visit to welcome the newcomer.

Prepare to Act

The following case studies illustrate the importance of keeping succession plans up-to-date and ready to deploy.

PLAYING CATCH-UP

Hospital A: A 450-bed community hospital with a beloved CEO who was retiring after 30 years of service.

Challenge: The hospital was facing financial shortfalls and labor issues. The board felt that a different leadership style and more aggressive strategic plan were needed to stabilize the organization.

Board response: Due to the long tenure of the departing CEO, the board had not dealt with succession planning and usually deferred to the CEO on all talent-management issues. They understood they needed to catch up with some remedial planning, but were not fully acquainted with all members of the C-suite. Because time was limited, they opted to promote from within and did not fully consider the pros and cons of an external search.

Outcome: An internal candidate was selected, but had difficulty with the transition. The board remains concerned that the new leader does not have the strategic leadership capabilities needed to navigate the complex market the hospital serves and to change course for the organization.

READY FOR CHANGE

Hospital B: A 325-bed community hospital was set to join a regional health care system; the CEO chose to use the transition process as an ideal time to retire.

Challenge: Although the board endorsed the strategic move to the system, key physicians and clinical staff were concerned about their futures and ability to make decisions at the local level.

Board response: Reviewing and updating succession plans and the leadership pipeline always had been a board priority. Integrating within the system would involve major alignment issues, so the board capitalized on the transition to update the organization's strategic vision and conducted a cultural audit.

Outcome: Audit findings led the board to recruit a physician CEO for the organization. She had deep experience in system integration, physician alignment and change management — core competencies that were ideal at this stage in the organization's evolution.

The Board's Blueprint

Setting ground rules for productive interaction among the board, president, CEO and other key stakeholders and open, honest communication are major drivers of successful leadership transitions. Here is a way to tackle CEO succession planning without the panic.

Take the Lead

1. Embrace the board's role and responsibility as the leader of succession planning.
2. Outline the scope and outcomes of the board's ongoing leadership succession planning.
3. Share the scope and purpose of the plan openly with the senior leadership team.
4. Stay visible among current leaders and emerging talent.
5. Know the true state of the organization's leadership pipeline, including gaps that need to be filled.



Own the Search

1. Identify and define roles for a small, balanced transition and search committee.
2. Agree to the core competencies desired in the new leader.
3. Fairly assess internal candidates, including development and training needs that will strengthen the leadership pipeline.
4. Decide if search counsel will be used to identify external candidates, vet candidates and benchmark against the industry.
5. Make final decisions based on facts and fit with the organization.

Understand the Landscape

1. Stay connected to anticipate imminent and long-term leadership transitions.
2. If a transition is on the horizon, set a realistic timeline for a well-executed search and transition.
3. Use the transition as an ideal time to review the organization's mission, vision, strategic plan, governance model and current leadership pipeline.
4. Conduct a cultural audit, involving interviews with board members and key staff, to help identify the type of leader needed.

Smooth the Transition

1. Decide how the successful transfer of authority will occur between the outgoing and incoming leaders.
2. Define a transition role that leverages the current CEO's strengths but supports the new leader.
3. Prepare a post-separation agreement and benefits package for the incumbent.
4. Plan a well-coordinated and meaningful farewell to honor the departing CEO.
5. Clearly communicate about leadership changes and take an active role in introducing the new CEO to internal and external audiences. — *J.E.A. and A.P.C.*

A well-thought-out communications plan is the first step in introducing the new leader to employees, physicians, patients and community leaders. That should be followed immediately by the

Transition Traps

CEO departure on the horizon? Avoid these common mistakes.

- Treating succession planning as a "last-minute" emergency
- Not getting to know the entire hospital leadership team
- Creating a large, unwieldy transition and search committee that can't drive decisions
- Allowing the CEO to lead the transition plan

new CEO's participation in meetings with each constituency group. In addition to internal meetings, the CEO should attend town hall sessions to become acquainted with local government and community leaders.

As much as possible, avoid shadow leadership roles where both the incumbent and new CEO overlap for an extended period of time. This can cause confusion and may impede the new leader's assuming rightful authority.

Saying Farewell

While planning on-boarding for the new leader, also pay attention to honoring the departing CEO. He or she may be heading to a new assignment or seeking relevant work on foundations or boards. Many departing CEOs ex-

press strong interest in continuing to do mission-driven work, but have not planned out their next steps. If appropriate, trustees can use their connections to help departing CEOs find meaningful ways to use their talents.

Succession planning is not a moment in time, but an enduring process that must be embraced and driven by the board. When done effectively, new and inspiring leaders are developed internally or attracted from other environments while departing CEOs are honored for their work and helped to make productive transitions. **T**

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