

Leaders On Call: Developing a Succession Plan

The unexpected has happened. Your health system CEO has just resigned. Fortunately, your organization's succession plan prevented leadership gaps and organizational instability from dragging down the system.

By Michael F. Doody

Senior Vice President, Witt/Kieffer

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Michael F. Doody

Senior Vice President
630/990.1370

miked@wittkieffer.com

Like any board of directors, healthcare governing boards can, from time to time, face leadership transitions. Sometimes these transitions occur as a result of a CEO's career change, retirement, disability, death or termination. When such change happens, boards often find they can think best with a succession plan in hand.

In my years of experience as a CEO and executive search consultant for some of the country's most prominent hospitals and health systems, I have seen *succession planning* as:

- A blueprint for executive management continuity within an organization
- A process by which trustees evaluate at least yearly the organization's leadership needs and determine how executive leadership can enhance the organization's strengths and reduce (or eliminate) its weaknesses
- An assessment of executives' skills, talents, values and traits in relation to the organization's current and future needs

Simply put, succession planning is the art of transferring leadership and responsibility within an organization by identifying and preparing the executive or executives who will assume future leadership roles.

Succession planning is choosing and preparing the right people for the jobs that will be required to meet the organization's vision. Succession planning may also focus on identifying, recruiting, selecting, training and developing leaders for the future. As you can imagine, career planning, mentoring and continuing education are often important aspects of any succession plan. Here are some major ingredients of successful planning:

- **Use insight and foresight.** If the board and CEO cannot envision what talent is needed for the future – and what the organization would lack if one or more key leaders were absent from the management mix – it is important to prepare a succession plan. While leaders cannot see the future, they can commit to planning with the understanding that it is never cast in concrete.
- **Rely on a strong CEO-board partnership.** Succession planning is the responsibility of trustees and the CEO. With proper planning, both the CEO and the board will be assured they have done everything humanly possible to pave the way for a smooth leadership transition.
- **Wanted: A secure CEO.** Initially, when planning turns to discussing new leadership, the current CEO may become uneasy. However, secure CEOs who know their plans for the future will be prepared to discuss candidly their own strengths and weaknesses, as they seek key leaders for the future.
- **Commit time and effort.** It takes commitment to properly conceptualize the succession plan, recruit executives and commit to their future with the hospital or health system. Planning and implementation are never one-meeting efforts.

Here is what succession planning is not:

- **It is not "CEO succession planning" exclusively** – though that is the obvious emphasis. Succession planning demands CEOs and trustees evaluate all talent needs to ensure the organization reaches its goals and objectives for success.
- **It is not merely placing golden handcuffs on current executives in the organization** – though that method may be one your organization uses to keep good leaders from accepting enticing career opportunities elsewhere. Incentive plans, top-tier compensation programs and supplementary executive retirement plans (SERPs) are commonly used golden handcuffs.

- ***It is not a guarantee to anyone.*** Things change, people change, organizations change, circumstances change. Succession plans even change. But having a plan will give you a jump on pressing issues.
- ***It does not necessarily identify an internal candidate as your next CEO.*** The board may determine that the next CEO should come from outside the organization. And why not? Some organizations may need a builder, while others need a turnaround specialist. Organizations don't always have in their ranks the person who is needed next.

Here are among the *major advantages* of succession planning and implementation. Succession plans:

- ***Provide leadership continuity.*** Organizations have succession plans because they recognize the organization will encounter setbacks without leadership continuity. Such planning considers “what-if” scenarios and determines how leadership can provide continuity.
- ***Help to eliminate potential surprises.*** The unexpected departure of a CEO or other key leader will be traumatic for every organization. If succession steps are in place once the unexpected happens, the organization should continue to operate smoothly through the transition period and into the new CEO's tenure.
- ***Highlight the importance of having an interim CEO at the ready.*** Should your CEO leave the organization unexpectedly, do you have an executive in the wings who can lead as an interim CEO? Your interim leader may not be your choice as new CEO, but the interim CEO will have experience and ability to work with physicians, administrators and trustees until a new CEO is recruited.
- ***Assist trustees.*** When a CEO leaves an organization, trustees may find it difficult to operate effectively and become indecisive. A succession plan can provide a timely guideline for trustees when unexpected organizational change occurs.
- ***Lead to success.*** When *The Dallas Morning News* reported on Texas Instruments Inc.'s CEO transition (see “Succession Plan Helps Firms Thrive Despite Changes,” July 12, 2000), TI's executives said a formal succession plan removed “guessing games” by the board and other leaders – and led to a smooth leadership transition.
- ***Promote the need for regular reviews.*** Your succession plan should be reviewed at least once a year to ensure it accurately remains workable. Some trustees find it beneficial to review the plan along with the CEO's own annual review.
- ***Focus on the senior team and their future with the organization.*** The plan should incorporate a review of each senior team member to evaluate that person's future with the organization.
- ***Solidify interaction among physicians and administration.*** When trustees and administration use succession planning to solidify interactions with physicians, they can instill in physicians the importance of reaching objectives – no matter who occupies the executive suite.

Challenges for health care

As you can imagine, the transition to a new CEO can be a traumatic situation. While a good succession plan will never eliminate tension, it can provide a basis for leadership stability. It also may help keep trustees from the temptation of choosing the first CEO candidate who comes along, especially when that replacement is ultimately the wrong choice for the organization's future.

In short, a hospital or health system cannot afford to be surprised. In today's market, it must have the right executive management resources in place – resources that you consider as part of succession planning.

In addition, health care today faces additional problems when it operates without succession planning. For example:

- ***You can lose momentum if a key leader leaves.*** With a workable plan in place, you can think and act quickly to keep from losing market share, as you continue to operate efficiently and provide high-quality care delivery to your patients.
- ***Contracts that were about to be signed can become stalled.*** Physician recruitment, program affiliations and other partnerships could be put on hold.

- **Employees – and the community – can lose confidence in the organization.** Employees know when the organization appears to be on the road to instability, and they may seek positions elsewhere. Once this occurs, the community may doubt the organization's effectiveness.
- **Other executives may follow the first one out the door.** This could have a devastating effect on an organization. Recovery may be difficult without a succession plan.
- **Losing a key executive can have a negative impact on potential financing.** Major bond rating agencies and financial institutions look closely at the depth of experience among the organization's management team.
- **Organizational history and image can be lost.** The CEO often becomes the most tangible champion of the organization's image and its historical perspective within a community. Key branding elements could be jeopardized without a plan to maintain them.

Why health care sidesteps succession planning

Witt/Kieffer's own research into the work of healthcare CEOs and their mentoring abilities shows they frequently miss or ignore opportunities to mentor future leaders within their organizations. In addition, CEOs sometimes create short-term leadership roles for up-and-comers and fail to evaluate the prospects of future leaders within their midst. Typically, pressing daily issues take precedence over mentoring and grooming.

Such lack of mentoring initiative by CEOs explains why the majority of them actually admit to "driving away" potential future leaders from the healthcare industry (see *Preparing Future Leaders in Health Care*, a confidential Witt/Kieffer survey of healthcare CEOs, 2002).

Beyond these executive failings, there exist four common reasons why hospitals and health systems fail to develop and implement succession planning and the mentoring that naturally extends from it.

1. **Plans are difficult to develop.** Planning for new, key leaders is unmanageable, ill-defined and filled with variables, uncertainties and unknowns. It's hard to get your hands around such a plan.
2. **The topic is touchy.** Succession planning is an extremely sensitive issue because you are discussing lives, careers and families.
3. **It's one of the least familiar aspects of a strategic plan.** Succession decision making is often gray – not black-and-white like other aspects of the strategic plan.
4. **Succession planning has not played a traditional role in planning.** Traditionally, organizations often focus on goals and objectives. Rarely do they consider what happens if the CEO is gone.

Developing the plan and updating it

Hospital and health system leaders may wish to rely on the following suggestions as they engage in succession planning and updating:

Before you begin...

- There is no right or wrong way to develop a plan. Create one that is right for your organization. Involve the CEO and the board in its development.
- The plan may be simple or sophisticated, but it need not be complicated. Trustees will want to ensure the plan is consistent with the overall strategic plan. The CEO and a small committee of trustees may wish to develop a plan structure and agree on how sophisticated the plan should be.

Developing your plan...

- The plan should be developed by the board or a board committee and approved by the entire board. If the board so chooses, management may work with the board to draft a plan based upon the board's succession goals and the level of plan sophistication that the board has determined.

Examples of plan sophistication...

- An informal plan could require each executive to identify a subordinate who could serve as a backup.

- Some plans also feature performance appraisal information containing talent strengths and plans for improving required skills that are deficient.
- More sophisticated plans include the names of individuals who have been identified for discussions about their future and the goals the organization may have for them.
- Additional sophistication often contains specific career development goals within the plan for key individuals. These help to ensure the new executive(s) has necessary training for the new role when the succession transition occurs.

The plan in review...

- The CEO, trustees and senior managers should review the plan annually and update it as needed. Some organizations may wish to review the succession plan along with the overall strategic plan or as part of the CEO's performance review. As a board, you may want to include succession-plan monitoring as an annual performance goal of the CEO.
- At the CEO's annual review, trustees may wish to discuss candidly with the CEO his or her future career plans and how they relate to the organization's future and its succession plan.

Putting the plan in action...

- If an unexpected leadership transition occurs, this event typically triggers a board-directed communication strategy for announcing an interim CEO. This step provides stability and underscores the organization's "people" philosophy.
- The board should communicate details of the plan to appropriate executives. It should be communicated in such a way that it never alienates individuals or offers absolute, lifetime job guarantees.

By ensuring your hospital or health system engages in developing and implementing an appropriate succession plan, you will help to prevent an internal healthcare leadership gap and build the talent your organization needs to stay competitive and successful.

Michael F. Doody is Witt/Kieffer senior vice president who is based at the firm's corporate office in Oak Brook, IL. Witt/Kieffer conducts more executive searches for hospitals and health systems than any leading firm. Doody's executive search efforts focus on consulting with CEOs and boards on recruiting key leaders for healthcare administration. He frequently conducts executive searches for CEOs, CFOs and other highly visible executives for prominent hospital and health system clients nationwide. He can be reached at 630/990.1370 or at miked@wittkieffer.com.

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2015 Spring Road, Suite 510, Oak Brook, IL 60523

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