

Smart Investing in Executive Talent Management

Best Practices from Leading Healthcare Systems

Facing the “5/50” leadership crisis

A perfect storm is on the horizon for human resources executives. A shrinking economy, the impending retirement of baby boomer-generation leaders, and inadequate numbers of future leaders prepared to take those retirees’ places are all combining to create a real healthcare leadership crisis. Perhaps the most challenging dilemma is what human resources professionals call the “5/50 crisis,” the prospect of losing 50 percent of all management talent to retirement over the next five years.

The simple answer to the crisis is to invest in executive talent management, the process of identifying people with high leadership potential (“high potentials”), and establish development practices to prepare those people for leadership roles of increasing scope and responsibility. The simple answer, however, brings challenges of its own. Increasing costs accompanied by shrinking revenues put healthcare organizations under pressure to squeeze as much expense out of their systems as possible. One result: under-investment in talent management.

Some healthcare organizations are taking the long view and have shrewdly invested in talent management. These systems find themselves better positioned than others to meet the coming talent management

challenges head-on and ensure a sustained pipeline of future leaders.

Framing a best-practice talent management model

In 2009, Witt/Kieffer supported a study conducted by Kevin Groves, Ph.D., Assistant Professor of Management, Graziadio School of Business & Management, Pepperdine University. Its purpose was to assess executive talent management best practices at forward-thinking healthcare organizations. The research included interviews with 15 top human resources and organization development officers from 13 national healthcare systems noted for outstanding talent management practices. The study’s goal was to determine the systems’ (1) practices and policies for identifying high-potential talent, (2) leadership competencies and other defining characteristics of high potentials, and (3) development practices and policies targeted to high potentials.

Systems in the study are among the industry leaders in building a balanced, objective and comprehensive talent management system. They value talent discussions and manager input, but work to minimize the impact of negative politics and undue influence by consistently applying an objective framework and tools.

The research reveals a series of dominant

themes that characterize talent management systems at best-practice healthcare organizations. They included six distinct phases, each characterized by key success factors and targeted outcomes.

Phase 1: Make the business case for talent management

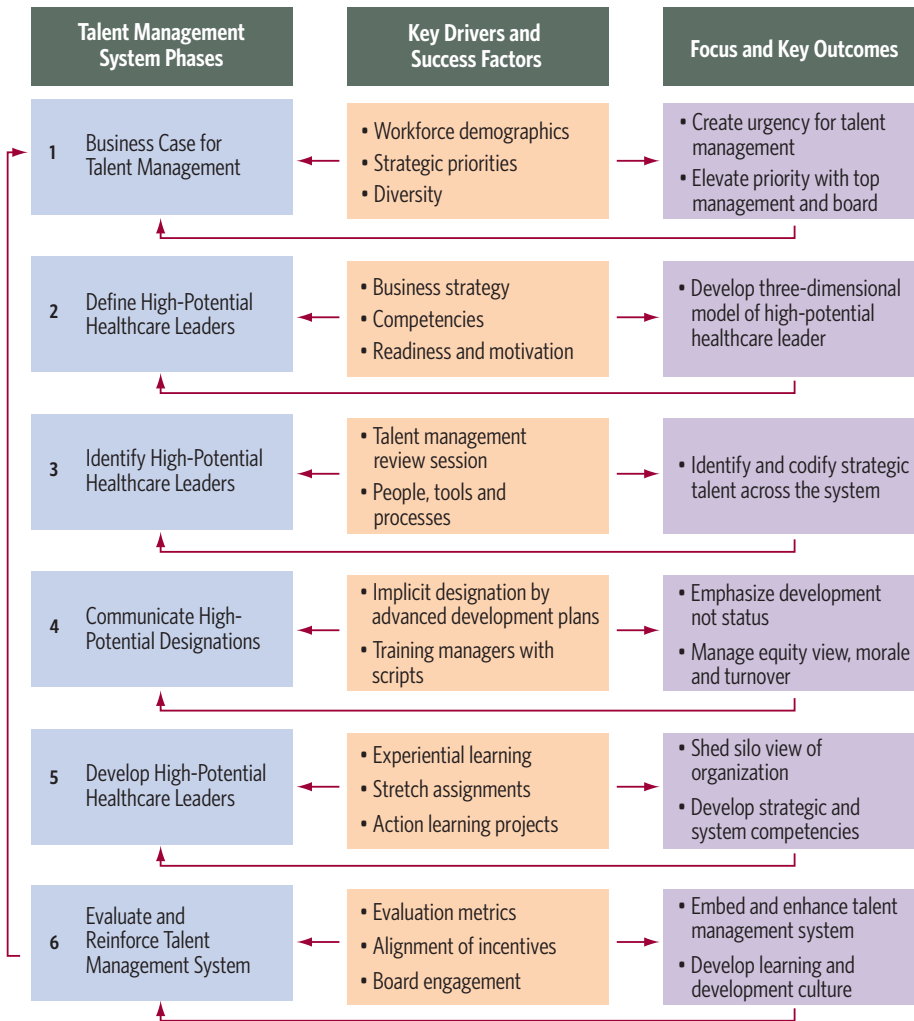
What does it take to convince a CEO and board to elevate talent management to a high-priority among a system’s competing priorities: a strong and urgent business case.

“Some healthcare organizations are taking the long view and have shrewdly invested in talent management as a strategic advantage in the marketplace.”

Successful HR leaders point to three factors that generate the support of top executives:

1. **Workforce demographic trends, such as the retirement trajectories of key management personnel.** HR practitioners interviewed consistently focus on investing in talent management given the pending massive executive turnover due to retirement. Demographics have an especially dramatic impact in health care: CEOs tend to retire younger, and there are fewer resources available for developing

Figure 1. Talent Management System Best Practices in Healthcare Organizations



new leaders to take their place.

2. Diversity statistics related to minority representation in managerial positions. Best-practice executives demonstrate to top management and the board that sharp discrepancies between diversity in executive ranks (e.g., primarily white males) and

that of the workforce and service delivery communities result in strategic disadvantage in the marketplace. The participants think it's imperative to enhance diversity in management ranks to meet both strategic and corporate social responsibility objectives.

3. Talent management's strategic role in achieving and sustaining competitive advantage. Study participants work hard to persuade top management and the board to view talent management as a strategic lever to help the organization accomplish specific strategic initiatives, rather than as a supporting human resources function. Furthermore, several executives interviewed say a best-practice talent management system should be completely embedded in the operational and service delivery model of the organization.

Phase 2: Define high-potential leaders

With the business case made, the best-practice model defines what a high-potential leader looks like. Key success factors include:

- **Defining high-potential leaders in the context of the organization's current business strategy and specific strategic initiatives.** This process assumes a fluid set of leadership competencies that may change according to the dynamics of the business environment as well as regular discussion with top management to identify strategically imperative positions.

“[W]hen we say, ‘We’re going to buy a hospital,’ or ‘We’re going to start a medical school,’ [the CEO and board] are asking, ‘What is your talent plan for this?’”

- **A core set of leadership competencies.**

The leadership competencies cited most often by the HR leaders include: team-building skills/collaborative style; systems thinking and system view of the organization; values-centered style; visionary/promotes collective goals; change agent/promotes innovation; and results-oriented.

- **Assessment of candidate readiness for advancement, including willingness to relocate.** Several executives describe high-potential readiness for advancement as an individual “who can step forward functionally a couple of roles ahead” and “has the capability to advance two levels above where they currently are.”

Phase 3: Identify high-potential leaders

After clearly defining high-potential leaders in terms of strategy, competencies and readiness, organizations identify high-potential leaders by assessing

managers at the director level and above. Identification takes place in talent management review sessions conducted at multiple organizational levels, including hospital/medical center, regional and system. The primary outcome is a fluid list of high-potential candidates slotted into all strategic positions across the system.

“One of the biggest benefits was that [our leadership was] blown away by the depth and breadth of the talent throughout the organization.”

Success factors include:

- **A robust performance appraisal** supported by objective performance measures such as quality indicators, patient satisfaction, employee satisfaction, turnover and financial factors.
- **Use of effective tools for categorizing high-potential leaders**, including the popular nine-box tool that plots key personnel according to job performance and leadership competencies, which are assessed through 360-degree, multi-source assessments.
- **Data-driven discussions of system-wide talent.** Talent review sessions in best-practice systems avoid the silo

approach that is often characterized by “talent hoarding.” They also discourage the replacement-planning approach to talent management—simply viewing the next-in-line manager as the only replacement for a given leadership role rather than being open to high potentials across the system. Best-practice systems instead promote a culture that encourages managers to “release” their top talent to other parts of the system and accept high potentials from different regions, centers and business units.

Phase 4: Communicate high-potential status

The predominant practice among the organizations participating in the study is to designate high potentials implicitly. The study participants trace the reluctance to be explicit in naming high potentials back to the “niceness” of health care and the influence of faith-based organizations in the industry.

“We advise [our managers] to talk to their talent and say, ‘You have the capacity to take on more responsibility, so let’s talk about what that could look like.’”

How do employees know that they are considered high potential if their

managers don't tell them outright? They benefit from exclusive learning and development opportunities, including invitations to leadership academies, stretch assignments and cross-divisional assignments.

Best practice emphasizes the importance of continued development and of key leadership competencies for employees with high potential, while de-emphasizing the status associated with elite designations or titles.

To ensure consistency, the systems surveyed train line managers to deliver carefully scripted conversations with both high-potential designates and those not designated as high potential. Executives emphasize the importance of clearly communicating with employees to promote transparency of the talent management system regardless of an employee's high-potential designation.

Phase 5: Develop high-potential leaders

"We try to move people as far away from their day-to-day work as we can. Those are indeed stretch assignments."

While each high-performing healthcare system offers a range of leadership development opportunities for high

potentials, the most critical include stretch assignments; cross-divisional or cross-site assignments; and leadership academies. Four of the top five most frequent opportunities focus on (a) experiential learning, (b) shedding the silo view of the organization and (c) enhancing the candidate's understanding of strategic, system-level challenges.

Stretch assignments that work well include multi-functional, multi-site and/or system-wide assignments, as well as placements into a new center, site, region or functional role. Key success factors of action learning projects include post-project implementation, innovation, creative synergy among team members and alignment of projects with current system-wide strategic initiatives. The goal is to develop high potentials' capacity for a broad-scope view of the organization and analysis of strategic problems at the system level.

Leadership academies generally serve as the umbrella for leadership development opportunities. The typical leadership academy selects 35 high-potential participants across the system. The participants are organized into five teams, and each team receives an action learning project that addresses a strategic, system-wide problem.

The project is usually sponsored by an executive team member, and sometimes

board members serve as project sponsors. In all cases, results and team recommendations are presented directly to the top management team for review and potential implementation. The review of presentations is rigorous and sends a clear message to high potentials about the importance of the projects to the system and their careers.

"[Our] CEO is accountable to the Board [for] what he is doing to grow and develop talent. You get what you measure."

Phase 6: Evaluate and reinforce the talent management system

The final phase of this best-practice talent management model is measurement: implementing metrics that diagnose the effectiveness and value of the talent management system. With rigorous measurement and positive results, talent management gains widespread support across the organization. The organization benefits from a culture and shared set of values centered on learning and development.

Success factors associated with this evaluation phase include:

- **A balanced scorecard approach to evaluation metrics.** The most common metrics to track success are:

- the ratio of internal to external hires for key leadership roles and strategic positions
- success rates of high potentials in new roles
- benchmarking data comparing the percentage of top leadership positions with at least two “ready now” candidates.

• **Aligning performance management and incentive systems.** Aligning incentives for supporting the talent management system begins with board and compensation committee discussions of CEO performance metrics and extends through multiple levels of management for bonus and at-risk compensation.

• **Supporting a learning culture.** While culture change is a longer-term outcome of a talent management system, executives note that after several rounds of the talent management cycle (two to three iterations of review sessions and broad buy-in from management ranks), the system culture becomes more accepting of learning experiences, risk tolerance and prioritizing people development over immediate business outcomes.

• **Board engagement and development.** Most best-practice systems

accomplish these goals by having human resources officers report directly to the board, often quarterly to the compensation committee and annually to the full board. They also directly engage board members in identifying and developing high potentials through leadership academy activities (e.g., co-sponsoring action learning projects, working directly with high-potential teams, attending academy graduation sessions to hear project presentations, etc.).

Despite its critical importance, the evaluation process at the healthcare systems studied was the least developed compared to more sophisticated approaches observed in other industries. Many of the participants’ metrics include common outcome indicators, such as hiring ratios and turnover. While indicative of a healthy talent management system, they may not provide insight into active process indicators (e.g., how talent management systems produce 70/30 ratios of internal to external hires or the standard industry low 3% turnover among high potentials).

Conclusions and recommendations

The exemplary executive talent management practices highlighted in the research offer healthcare organizations a

practical framework for successfully confronting the leadership succession crisis. By using the six-phase framework to audit current processes for managing the leadership pipeline, HR/OD practitioners, top management team members and corporate boards may collectively design and execute a comprehensive talent management system that transforms the imminent leadership crisis into a competitive advantage.

Most organizations are already executing one or more of the phases described. Applying the best-practice model provides an opportunity to improve in particular areas — competency modeling, for example, or leadership development planning.

Furthermore, while the research was conducted with HR executives from large healthcare systems, lessons learned apply to smaller systems and single sites as well. The model is easily scalable; however, smaller organizations will likely have fewer internal development opportunities and less depth and diversity. Innovative approaches can address these differences. For example, one smaller system sends high-potential executives to challenging positions in other organizations with the clear message that they will be welcomed back.

Study Participants:

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Yvonne Gardner, Vice President, Talent Management and Organization Development, Sutter Health, Sacramento, CA

Stacey Griffin, Regional Director, Organizational Development, Providence Health & Services, Seattle, WA

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Jamie Parsons, Vice President of Human Resources, Mountain States Health Alliance, Johnson City, TN

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Roger Smith, Vice President, Human Resources, Hospital Corporation of America/HealthOne-Continental Division, Denver, CO

Herb Vallier, Senior Vice President, Human Resources; Louis Forbringer, Vice President, Talent Management, Catholic Health Initiatives, Denver, CO

Steven Wantz, Senior Vice President, Human Resources, Clarian Health Partners, Inc., Indianapolis, IN

Michael Wukitsch, Vice President of Human Resources, The Children's Hospital of Colorado, Littleton, CO

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The sample of executives and their respective organizations was selected for the study according to the following criteria: (1) multi-hospital systems with a minimum of three hospitals or sites, (2) demonstrated best practices in talent management systems, and (3) a track record of effective executive succession decisions. The average system in the study employed approximately 53,000 employees, operated 38 hospitals/medical centers and 103 outpatient clinics/treatment facilities, reported annual 2008 revenue of \$9.16B, and represented a network spanning five states.

About the study

This project was spearheaded by Kevin S. Groves, Ph.D., Graziadio School of Business & Management, Pepperdine University, Los Angeles, CA. Witt/Kieffer CEO and President Jim Gauss from the firm's Southern California office in Irvine, CA, Senior Vice President, Western Region Director/Central Region Co-Director Elaina Genser from the San Francisco Bay Area office in Emeryville, CA and Consultant Dave Conner from the firm's Denver location also participated in the project.

About Witt/Kieffer

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