Trustee
Workbook 4
NOVEMBER/DECEMBER

Taking Responsibility for Transitions at the Top

Succession planning is a high-stakes governance responsibility. The significant costs of protracted CEO searches and failed replacements are well-documented. Yet, data from the for-profit and nonprofit sectors continue to show that many boards aren't focusing enough attention on succession planning or on getting it right.

A 2014 study of U.S. public and private companies conducted by the National Association of Corporate Directors found two-thirds of respondents had no formal CEO succession plan in place. Findings reported in February from a global study of succession management conducted by Korn Ferry showed that only one-third of those surveyed said they were satisfied with the results of their succession programs.

A report of the American College of Healthcare Executive's 2014 Hospital CEO Survey on Succession Planning noted that 52 percent of respondents conducted CEO succession planning. While that percentage more than doubled over the past decade, results still indicate that almost half of hospitals don't conduct succession planning in a time when industry transformation demands strong leaders specifically suited to an organization's strategic vision and priorities.

A variety of reasons are likely at play for lack of solid board oversight for CEO succession planning. They include the perception that it is a delicate topic not easily broached with incumbents who may feel the board is really saying, "It's time to move on." Other reasons include the belief that board members lack the skill and experience to appropriately vet candidates (*Harvard Business Review,* May 15, 2015). Still others cite the overly full agendas facing many boards trying to guide their organizations through transformational change.

Data from the American Hospital Association's 2014 National Governance survey also suggest that health care organization boards may be concentrating more on retention than succession. Forty-seven percent of CEO respondents reported that CEO retention plans had been updated in the past two years compared with 31 percent who said CEO succession plans had been updated within the same period.

THE BIG PICTURE

Because health care is a transforming sector, boards looking for successor CEOs may be at somewhat of an inflection point in discharging this governance responsibility. While best practices for how to conduct succession planning have not changed dramatically, the type of talent boards may be looking for and board accountability for getting it right have.

"Today's boards should expect to engage in more rigorous oversight of succession planning and to tighten their related governance processes," says Eugenie Dieck, senior partner, leadership and talent development at Korn Ferry. "They have to be very clear up front about how succession activities will be conducted and managed: for example, how successors are being developed for key positions; how the CEO search committee will be selected; clearly defining expectations for the CEO role; ensuring appropriate sourcing of both internal and external candidates; and handling the political and other sensitivities surrounding these processes. Boards also need to determine how they will make key succession decisions — by general consensus or majority vote."

The days when succession planning amounted to having in an envelope the name of an internal candidate ready to step in if the CEO abruptly departs are long gone. Today boards need to understand their ongoing succession responsibilities to ensure that when a change at the top occurs, the transition can be implemented as smoothly and successfully as possible [see the sidebar on Page 29 for an outline of board succession oversight responsibilities].

CENTER FOR HEALTHCARE GOVERNANCE

BY THOMAS GIELLA AND MARY K. TOTTEN

DEVELOPING TO STRATEGY

Making the right decision for a new CEO or other key executive begins long before the incumbent's departure. About two-thirds of health care CEOs are replaced by internal candidates; their success depends on appropriate development for the CEO role. Preparation for an internal candidate to assume a key executive position should occur two to three years in advance of the transition.

To ensure that all key managerial and executive positions have ready candidates, boards need to task the incumbent CEO with seeing that succession planning reaches deep into the organization and that candidates are continually being prepared, monitored and assessed. Boards also need to be clear on the organization's philosophy for talent development: Is the focus always on promotion from within or on ensuring that the best candidate available is selected?

Today's health care leaders must be prepared within the context of the organization's strategic priorities, Dieck says. To empower candidates to work at the highest level possible, current CEOs should engage in leadership development and offer candidates:

- work experiences in different parts of the organization or in different areas of responsibility, such as line vs. functional roles. An example might be a strategic planning executive rotating into a service line leadership position with profit-and-loss responsibility.
- opportunities to report to or work with different leaders. This might include candidates' working with external stakeholders or getting more exposure to the board.
- coaching or mentoring relationships to work through issues or learn about alternative leadership styles and skills.
- education or training to gain new knowledge for expanded leadership responsibilities. A physician seeking an executive role might get business school training, for example.

Leadership development may require incumbent CEOs to step back and let subordinates take on new responsibilities, such as participating in strategic planning, managing relationships with community leaders or other activities the CEO normally would handle. Candidates also should interact with the board — giving presentations at board meetings or participating in board and leadership retreats.

Boards have to care about succession — it's one of their most important responsibilities — but it's difficult, and sometimes complex, work. "Oversight of talent development must take a prospective point of view," Dieck says. "As boards carry out this sustained work, they always need to be asking: Is now a moment for change? Do we need new leaders or should our current leaders be thinking and acting differently? Are the expectations for this leader's role clear for the next three years?"

Boards also should understand how people throughout the organization are being developed. With the consolidation now occurring in health care, some key staff may not get the jobs they were previously in line for. In these cases, opportunities to assume new positions still can occur horizontally, rather than vertically, as individuals move into different roles in the larger organization.

IMPLEMENTING CEO SUCCESSION

A strong, ongoing leadership development and succession planning process lays the foundation for implementing leadership changes when they occur.

These changes can result from unplanned emergencies or planned transitions, such as CEO retirement. Sometimes, a search will combine characteristics of both unplanned and planned succession processes [see sidebar on Page 30].

Planned transitions at the top should begin 18 to 24 months prior to the incumbent's departure. This time frame allows for thorough and thoughtful implementation of steps to ensure appropriate leadership continuity, and consideration of the outgoing CEO's input, legacy and contributions.

As with ongoing leadership development, selecting a new CEO begins with the organization's strategic context. Boards need to consider future strategic priorities and goals and consider the competencies and experience necessary for success in the CEO role.

Given the changes underway in health care, the skills and capabilities of a new CEO may look different from the incumbent's. It's important for the board and the existing CEO to understand that the search for the next CEO is not a referendum on the incumbent. Rather, the future of health care may favor candidates who have been clinical or insurance executives; have experience with acquisitions, sophisticated financing arrangements or business development risks; who understand population health or consumer-centric care or care across the inpatient and outpatient continuum. Some successful future CEOs may come from sectors outside of health care or have skill sets that do not yet exist. Many of today's executive searches also require inclusion of diverse candidates that understand the health needs of specific populations. That's why boards must base the profile for the next CEO on their organization's longer-term strategic plan to ensure that the competencies they are looking for meet the anticipated needs of the organization and those it serves.

Often, an internal candidate is selected to succeed the outgoing CEO and a national search is not conducted. If the board decides to do an external search, there is a greater chance an external candidate will be selected, given the talent and skill sets available nationally. Therefore, boards should determine early on whether and how the CEO replacement process might draw on external candidates.

There are several ways external expertise can contribute to the CEO replacement process. Internal candidates are typically of two types: long-term employees who have spent most of their careers at the hospital or health system or outsiders hired

Board Succession Oversight Responsibilities

Boards have two broad categories of succession planning oversight responsibility.

ONGOING OVERSIGHT: LEADERSHIP DEVELOPMENT AND SUCCESSION PLANNING

1. Ensure that the board understands the importance of succession planning to organizational stability and success.

2. Review at least annually the organization's succession planning policy/process, including steps to be taken to implement a transition when an emergency occurs.

3. Discuss the value of succession planning with the CEO and the role of the CEO in ensuring development of successors for all C-level and other key management positions.

4. Assign oversight for succession planning to a board committee with support from the CEO and the organization's senior human resources executive. The committee should:

a. review at least annually a report listing all key positions, their incumbents and status, potential successors and development efforts underway for them.

b. ensure that an individualized development plan is being implemented for all key successors so they are ready when an opening occurs.

c. ensure that talent development is occurring throughout the organization.

d. ensure that candidates for top-level positions have opportunities to interact with the board.

5. Provide high-level oversight for CEO succession.

IMPLEMENTING A PLANNED CEO TRANSITION PROCESS

2 years to 18 months out

- Have a board discussion about succession process and timing.
- Confirm with the CEO the timing of his or her departure and role in the transition process.
- Conduct a board discussion to confirm the organization's direction and strategic priorities over the next three to seven years and identify the skill sets and experience desired for the next CEO.
- Establish a multidisciplinary search committee comprising board members. Opinions from external stakeholders may be sought, but replacing the CEO is board work.
- Identify potential internal candidates with input from the current CEO.
- Approach internal candidates confidentially about their interest in being considered and offer support/development if needed.
- Discuss whether a search should include both internal and external candidates.

12 months out

- Select and hire a search firm that will:
  - interview stakeholders.
  - develop a "perfect candidate" profile.
  - identify organizational strengths and challenges.
  - validate the organization's vision and direction for the future with the search committee.
  - develop a position description and validate it with the search committee.

12 to 9 months out

- Announce the CEO's departure.

Last 6 to 9 months

- Share the position description with internal candidates so they can determine their continuing interest.
- Identify external candidates, if part of the process.
- Vet and assess all candidates.
- Select the incoming CEO.
- Determine the outgoing CEO's role during the initial months of the new CEO's tenure.
- Celebrate the outgoing CEO.
- Support and onboard the new CEO and integrate the CEO and family into the community as needed.
- Appoint a small transition team that will provide ongoing counsel and guidance during the first six months to a year of the new CEO's tenure. The board should not overlook its role in actively assuring that the new CEO, once in place, has all the knowledge and support needed to succeed.

in the past two to three years to bring the organization different skills or out-of-market experience. A search firm or other outside resource can benchmark an organization's internal candidates against likely external candidates for the CEO position. Benchmarking typically is conducted to reduce the risk of an internal replacement by clarifying the board's expectations for the new CEO and identifying development opportunities that internal candidates need. The process is done anonymously without contacting potential external candidates directly or announcing an external search.

Because many board members have never participated in a leadership succession process, outside assistance is often beneficial to ensure a robust, objective process. Skilled resources can assess candidates to provide input about areas that may have been overlooked or undiscovered during candidate interviews and help to level the playing field by standardizing information across a candidate pool, Dieck says. Assessment techniques can include reference checks, detailed interviews conducted by search partners with psychological or behavioral training, and an analysis of online questionnaires designed to illuminate a candidate's competencies and motivations.

Succession and search partners also can help boards to avoid common pitfalls. These include:

• Focusing too soon on the right person for the role. Instead, maintain focus on the organization's needs.

• Not appropriately validating the capabilities of internal candidates. Ensure that internal candidates have the leadership skills necessary for the organization's needs today and into the future.

• Not seeking a skill set for the new CEO that is broad or well-rounded enough. Beyond the necessary professional skills and experience, boards should seek CEO candidates who are articulate, inspirational, visionary, able to manage change, deal with complexity, have the agility and speed to make high-quality decisions and are enthusiastic about what the organization can accomplish.

• Announcing the existing CEO's departure too soon — in general, not more than a year in advance.

• Letting the characteristics of the current CEO drive the search for a replacement. Past success does not necessarily predict future success.

• Relying too much on input from the current CEO. While the board should seek the existing CEO's opinion about his or her replacement, that input should not dominate the process.

• Lack of clarity about overlap between the current and new CEO. Existing CEOs often want overlap; new CEOs frequently do not, especially if they come from outside the organization. Timing for the search process should work backward from the current CEO's last day on the job.

• Ensuring that the new CEO gets off to a good start — acclimating new CEOs to the organization, integrating them and their families into the community or providing executive coaching as needed.

Implementing a CEO Transition

When the long-standing CEO at St. Elizabeth Healthcare, Edgewood, Ky., resigned for medical reasons, board chair Jim Votruba was grateful that the1,200-bed organization with $2 billion in revenue, four campuses, 7,400 employees and 1,000 physicians could rely on strong financial and quality performance going into the search for a new CEO. He also ensured that, long before the CEO transition occurred, the board had made responsibility for leadership development and succession planning part of the CEO's performance and compensation assessment, and was actively involved through the board's compensation committee in reviewing professional development and succession plans for key executives. Because the CEO stepped down within a few weeks of announcing his departure, the board compressed into six months a transition that under different circumstances might have taken three or four times longer.

The board began by considering the organization's opportunities and challenges framed by issues and trends in the national and local health care environments. This analysis yielded qualities the board was looking for in the next CEO:

• Demonstrated success as a health care executive and in managing large-scale organizational change

• Strong visionary and management skills

• An understanding of health care financial issues and how to manage them

• Strong communication skills

• A disposition that focuses on opportunities, not simply problems

• A well-developed sense of diplomacy and an ability to deploy "pull strategies" rather than "push strategies" with organizational constituents

• The ability to work with others in a collegial, empowering manner

• The ability to lead within and outside of the organization — a capability the community identified as critical for improving community health

A search committee comprising board members and other leaders able to focus on the needs of the entire organization, not just a few of its parts, worked with outside experts to identify and vet internal and external candidates. The board was kept apprised throughout the process and the community was informed about the transition and selection of the new CEO.

The organization's COO and interim president and CEO became the new CEO and continues to work closely with a board transition team. After a few months in the role, the new CEO and the board held a retreat to clarify responsibilities and mutual expectations and to have the new CEO share and discuss his or her near-term priorities.

The board also sponsored a celebration honoring the prior CEO's career and contributions and dedicated $100,000 of hospital foundation funds in the prior CEO's name to invest in building the organization's research capacity.

CONCLUSION

Succession planning is among the board's most critical responsibilities — few others have the potential for as significant or long-term impact. Boards that effectively execute succession and transition oversight not only help to ensure organizational stability and leadership continuity, but also can grow and develop in their governance role.

As St. Elizabeth Healthcare board chair Jim Votruba advises, "Think about leadership transitions broadly as a time to clarify the organization's role, purpose and relationships with stakeholders and the community."

For St. Elizabeth Healthcare's board, "the process was uplifting and inspiring," he says. "It reinforced just how important this governance work is despite the current chaos in health care. We emerged from our organization's CEO succession process as a stronger, renewed board." T

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