

## Succession: Planning for a Leadership Transition

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One of the most important decisions a hospital board of directors will ever make is who will lead the organization as its Chief Executive Officer. Each hospital's circumstances are different, of course, so what factors are important to one, may not be to another. In this article, we will explore some of the issues we commonly see when assisting boards with planning for a leadership transition. Although we will concentrate on the CEO position, the process we describe can be utilized in any executive or leadership role. We will explore:

- Board responsibility
- Reasons for CEO transitions
- Assessing your current situation
- Transition types
- Determining talent needs and wants
- Developing or hiring—Grooming internal candidates or hiring from outside
- Process considerations
- Common mistakes we see

**Board responsibility.** The CEO has a significant impact on the success of your hospital. Regardless of the reasons a transition happens, it is the ultimate responsibility of the board of directors to ensure that the top leader in your organization has the skills and competencies to do the job, now and into the foreseeable future. Since no one can predict with absolute certainty when your current CEO will leave you (see reasons below), it is in the board's best interests to *be prepared* for any circumstance. We strongly encourage boards to include CEO transition planning in their strategic planning process at least every three years. What you may be looking for today if you needed to replace your CEO may be very different from what you would have looked for ten years ago, or what you will need five years into the future. In order to keep the process nonthreatening to current leadership, build it into strategic planning. A Succession Planning Committee can be assigned to this task, which could then become the Selection Committee when the time is right.

**Reasons for CEO Transitions.** Sometimes you have the luxury of knowing when your CEO will retire and you can effectively plan for the event. However, there is always the chance that he or she could leave suddenly because of another offer, medical or family reasons, or even an involuntary separation. Regardless of reasons, the board should be prepared for all of these:

- **Retirement**—If you know when your CEO will retire, you have the benefit of time and being able to carefully plan how the transition will proceed. If there are internal candidates, they have the opportunity to go through a "grooming" process over the course of a few of years to help them prepare for additional

responsibility (more on internal candidates later). Regardless of the strength of internal candidates, the board may still want to consider looking at outside candidates as part of its due diligence process for sourcing the *best* candidates at *this point in time*.

- **Voluntary separation**—When CEOs leave for other job opportunities, in our experience it has generally been because of a career progression step, trouble with their work relationships, and/or for family reasons. Each of these reasons requires careful board consideration and should be delved into because they will also be considerations for hiring the next CEO. If your CEO leaves for career progression reasons, it's often out of your control and involves him or her going to a larger hospital with more responsibility or the opportunity to do something not available at your hospital (i.e., integration, building, new programs, etc.). For troubled work relationships (i.e., board, physicians, employees), it's time to reflect on just where the issues are because they will likely influence your choice of candidates. For family/personal reasons, consider this, as well, when you are looking for new candidates—family issues can be a great "glue" for having people stay with you and can strongly influence why executives leave. (Although you are not hiring a family or spouse, they definitely have an impact on stay/leave decisions.)
- **Involuntary separation**—Whether you have "just cause" or not, terminating your CEO is, no doubt, a worst-case scenario. This is a primary reason the board should have a succession planning process in place. Sometimes terminations happen quickly, sometimes they take a long time; whatever the situation, these are always emotional and consume a lot of board time and energy. It is better to have a plan in place so you can avoid scrambling if this scenario presents itself.
- **Medical/family issues**—As the top executives in organizations all over the country age, they become more susceptible to illness—same issue with spouses, aging parents, and children. Be sure to have a succession plan in place that includes who will act as an interim should your CEO leave suddenly due to illness, injury, or death. You'll need to assess your bench strength internally or contract with an interim CEO who specializes in short-term assignments.

Regardless of any of these circumstances, it is the board's responsibility to be prepared. Do it *before* you need to. A long-planned retirement can lull you into inaction. A sudden, unexpected departure can leave you in a very difficult situation. You may want to consider having someone on your board who has a strong background in human resources, or you may want to work with an outside consultant to assist you in developing your plan.

**Assess your current situation.** The Board's Succession Planning Committee should conduct this process at least every three years. It includes an assessment of the current:

- **Strategic plan**—Your strategic plan will help define the type of person you need. What are your SWOTs (strengths, weaknesses, opportunities, threats)? Are you going to be building? Are you in a turnaround or growth situation? Fundraising mode? Current and future service offerings? Consortiums, joint ventures, or associations you are involved in?
- **Executive talent**—What does the current team have to offer? Are there potential succession candidates there? If No, why? How will you evaluate them?
- **Patient satisfaction**—What are you measuring, and how does it compare to peers? What program do you use and why?
- **Financials**—What is your financial trend? What can you afford to do? Will your new CEO need to be very strong financially, or do you already have this talent on board?
- **Quality improvement status**—What processes do you use? Balanced Scorecard? Other? What does quality really mean at your hospital? Where are you on the journey?
- **Physician relations**—Absolutely critical in this day and age. Are physicians in an independent clinic? Owned by the hospital? Affiliated with a larger clinic? Where are the problems—with individuals or the whole group? What about Electronic Medical Records?
- **Employee relations**—What are you measuring, and what is the trend with results? Union or nonunion environment? What is your nursing turnover/retention rate?
- **Community support**—Who are your major employers and institutional stakeholders (foundation, schools, government, nursing homes, churches, prisons, tribes, etc.). Do they need to be heard?

Each one of these items plays a key role in determining what you will be looking for if you need to conduct a CEO search. Be honest with all of this—you need to know and accept the challenges that your hospital faces and be up-front about it with candidates.

Developing an Organization Specifications document from this information will help when you need to “go to market” for a new CEO. This document can be part of the recruiting process to help candidates understand the current situation at your hospital.

You may also want to consider involving key stakeholders from the physicians and community leaders by asking for their input on what the hospital should be considering if there is a need to hire a new CEO. We have found that at times some of these groups can appear to be at odds, but when interviewed individually, most are already on the same page. This process can be very helpful in overcoming perceived differences of opinions.

**Transition types.** According to Michael Watkins in his book *The First 90 Days*, there are four different types of transitions a leader faces when taking on a new position. There are opportunities in

every type of transition. Although a strong leader can thrive in any one of them, it helps to know where your hospital is currently because each has its own challenges.

- **Realignment**—There are significant pockets of strength, so people want to continue to see themselves as successful. The challenges include dealing with deeply ingrained cultural norms that no longer contribute to high performance. It can be an uphill climb to convince employees that change is necessary. It may involve restructuring the top team and refocusing the organization.
- **Sustaining success**—A strong team is already in place, people are motivated to succeed, and the foundations for continued success are already in place. The challenges include playing a good defense to avoid decisions that cause problems, living in the shadow of a revered leader and dealing with the team he or she created, and finding ways to take the organization to the next level.
- **Turnaround**—Everyone recognizes that change is necessary, and a little bit of success goes a long way. The challenges are in reengineering demoralized employees and other stakeholders, handling time pressures, and having a quick and decisive impact. This often requires deep, painful cuts and difficult personnel issues.
- **Start-up**—We don't encounter this one much with hospitals, though if building new, you can do things right from the start. People are energized, and there is no preexisting rigidity in people's thinking. The challenges include building infrastructure from scratch, welding together a cohesive and high-performing team, and “making do” with limited resources.

**Determine talent needs and wants.** It is absolutely essential to outline what you need and want in your next CEO in a comprehensive position description. If the board does not know exactly what it's looking for, it is very easy to become distracted and side-tracked with ancillary issues, extraneous information, and qualifications that are nice but not necessary. A good job description keeps people focused. In addition to the standard job duties, responsibilities, and reporting relationships, your job description should include:

- **Educational requirements**—Most CEO candidates we see now have a Master's Degree, either an MHA or MBA. This is a good differentiator. It may not mean you won't consider someone without the degree, but it does indicate a desire for continued learning. Also consider the amount and types of continuing education that will be desirable, especially in this day and age of rapid change in health care.
- **Work experience**—Do you want someone with similar experience to your size of organization? Whether someone is moving *up* to a larger organization in the same role, or moving *down* in organization size to a larger role, consider what you would prefer or accept. Will you consider someone who does not have a key element of experience you'd like to have (like long-term care or working with an integrated physician practice)?

- **Competencies**—We utilize a tool called the Polaris Competency Card Deck (from Organization Systems International) to help Succession/Selection Committee members narrow down and focus on the competencies that are *essential* for the position. We can then design interview questions around these key competencies to assess candidates.
- **Behavioral traits**—We strongly encourage you to use a behavioral assessment tool to identify motivating needs and personality characteristics that will work in *your* hospital. All are different, so it should be tailored. This information is often the critical “make or break” in selections we have been involved with—and often will differentiate internal candidates as well (for better or worse). We utilize the Predictive Index® because it is a comprehensive model and can be integrated into the entire organization.
- **Professional affiliations**—Support for being involved in key professional and industry associations is critical for keeping up with a rapidly changing health care environment. Also, candidates who are involved (really involved, not just a member) in these groups are usually much more networked, which can be very helpful when seeking advice for approaching unfamiliar projects or situations.
- **Community involvement**—We can’t imagine a good CEO who would *not* be involved in his or her community, so outline expectations for this as well. Candidates who have done a lot of interim work (a year or two at a time) often have not had the long-term experience of being involved with local organizations and building a strong community image.

**Develop or hire.** There are pros and cons for each approach. Developing your own leaders from inside the organization helps to retain key talent and sends a positive message to the work force (especially managers and executives). It can also help you avoid some lost productivity during a transition and is arguably less expensive than hiring from outside the organization. On the downside, though, it does require a comprehensive succession plan to make sure key talent continues to get the training and to experience opportunities to grow to the next level. It’s also much harder to change an existing culture if the situation requires it. We have seen situations where key talent is properly “groomed” for the CEO role and the transition is seamless. We have also seen many situations where internal executives (who are very good at their current role) anticipate a promotion to the CEO role but don’t have some of the key skills, competencies, and/or behavioral traits that are now required in today’s health care environment.

Hiring from the outside also has its pluses and minuses. On the “pro” side, an outside hire can bring in a new, fresh perspective. You can also be more selective in responding to new and future needs at the hospital. If the hiring process is outsourced, it can take much less of the board’s time than trying to run it internally (more on this later). The downside is that, despite your best efforts, you can still make a mistake—the risk is higher with an unknown person. If outsourced, depending on who you use, it can be quite expensive as well. If not outsourced, it can be very time consuming and politically very difficult.

Succession planning through developing internal talent is usually more proactive and flexible than just hiring an external candidate, but it also is time-consuming over a longer period and easily put off (the proverbial “urgent” vs. “important” struggle).

**Process considerations.** Be sure to include the following in your succession/selection processes:

- Have a timetable and action plan developed before you start the process—either succession or selection.
- If you work with an outside consultant in the selection process, it can neutralize a lot of the potential “politics” with candidates who may be personal friends or relatives of board members.
- Have a defined process for decision making in place for your committee because there are almost always disagreements along the way.
- Keep key stakeholders (executive team, employees, physicians, etc.) apprised of your progress—a lack of information is often fertile ground for unfounded rumors.
- Ensure that interview questions relate to the competencies and behavioral specifications you identified as being significant to success.
- Assess current practices in executive compensation and benefits, and be prepared to make a reasonable offer to the talented person you really want.
- Conduct a thorough background investigation on top candidates. (We work with a specialized consultant who is an FBI retiree and highly skilled in interviewing for honesty, candidness, reliability, etc.)
- Work with an employment attorney to develop a comprehensive offer letter and employment agreement.

**Common mistakes.** Some of the more common and troublesome mistakes we have seen made over the years are:

- **TIME**—Most frequently we see boards not taking the time to define what they *really need* in a new CEO, not making enough time for succession planning or conducting a search appropriately, and not taking the time to keep people with a need to know “in the loop.”
- This is a big one—Do NOT conduct your own “informal” background investigation of candidates by calling your contacts who may know them. This is a breach of confidentiality for a candidate and can put them, as well as the board, in a very difficult position. Wait until you get the all-clear from your consultant or the Selection Committee Chair on your final candidates to call people you know.
- **BE SURE** to include at least one physician on your Selection Committee if you are hiring from the outside. Even if this individual is not a board member, it’s critical to have a physician’s perspective in this important decision.

**Summary.** Succession planning for the CEO position is the responsibility of the board of directors. Succession planning for all

other executive and management positions is the CEO's responsibility. If either of these levels have been an issue at your hospital, it should be added to strategic planning activities, both for the board and the CEO. If you have potential internal candidates, it is worthwhile to give them the chance to earn the job. However, it must be emphasized that participating in succession planning activities does not guarantee that this person will get the job when it becomes available. It's a delicate balance to strike—your hospital's success depends upon it.

**About the Author:**

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