



Succession Planning: The Board-CEO Partnership

Boards and CEOs must constructively address the succession imperative.

Succession planning for the CEO and other senior leadership positions is critical to organizational continuity and stability, especially in a transforming healthcare field. However, over the years, research has shown that a majority of healthcare organization boards say they don't have a formal CEO succession plan in place.

A study conducted by ACHE in 2004 found that only 21 percent of responding freestanding hospitals conducted routine leadership succession planning, and even fewer had identified a successor for their current CEO. A 2006 report of a survey done by Witt/Kieffer and the Ohio State University School of Public Health found nearly two-thirds of respondents said their healthcare organizations did not do formal CEO succession planning, and, for those that did, few put their succession plans in writing.

One recent study suggests the tide is turning in the healthcare sector. A study of governance in large non-profit health systems conducted by the Commonwealth Center for Governance Studies in 2012 showed 43 percent of respondents from 14 of the nation's largest healthcare organizations said they

had formal succession plans for the CEO and senior positions and the board chairman and board committee chairmen. However, a 2014 National Association of Corporate Directors study of U.S. public and private companies indicated only one-third had formal CEO succession plans in place.

The Cost of Leadership Vacancies

Nevertheless, digging more deeply may reveal greater cause for concern. Other recent studies show healthcare leadership demands are growing increasingly complex, and organization performance metrics indicate the number of struggling healthcare leaders is higher than it was three years ago. A study by the organizational performance measurement and data management firm Success Profiles, involving interviews with more than 1,000 healthcare leaders, examined the effect of struggling leaders in manager, director and executive positions on succession vulnerability. The study revealed the following:

- Thirty-eight percent of healthcare executives report being less than two years from retirement.
- Healthcare organizations overall have become more vulnerable to leadership voids:

- In 2012–2013, only 40 percent of interim appointees were immediately ready to fill permanent roles, down from 87 percent in 2008–2009.
- Fewer healthcare leaders are immediately ready for a promotion: 60 percent in 2008–2009 compared with 31 percent in 2012–2013, according to a 2014 article in *Becker's Hospital Review*.

This analysis is consistent with findings from a February 2015 global study of succession management conducted by Korn Ferry, which concludes that succession planning does not go deeply enough, and too much talent is being brought in rather than groomed from within.

Failing to ensure effective leadership continuity costs organizations far more than a temporary vacancy at the top. Strategy&, the global consulting team at PwC, calculates that large global companies lose more than \$100 billion when they don't hire the CEO who is best for their organization, according to *Harvard Business Review*. In the healthcare field, the costs of an interim appointment, loss of several key C-suite executives who often leave in

the wake of the CEO's departure, lagging organizational productivity while top position(s) are vacant and other costs associated with a failed replacement, can add up to many times the CEO's compensation.

Few can argue that succession planning is one of the board's most fundamental and important responsibilities. Yet, candid conversations with healthcare organization boards and CEOs suggest boards may shy away from this responsibility because they feel uncomfortable discussing it with the CEO and may not understand how to address it successfully.

Steps Toward Effective Succession Planning

St. Elizabeth Health, Edgewood, Ky., recently faced replacing its longstanding CEO when he stepped down for medical reasons, as reported by *Trustee* magazine. Board Chairman Jim Votruba offers these tips for boards and CEOs to address the succession imperative constructively.

Preparing for Succession

- Address succession planning before you need to do so. Boards and CEOs should ensure a formal process is in place and that internal candidates are being developed for the CEO and key senior management positions.
- Ensure leadership succession planning is among the CEO's performance goals. Boards that include succession planning among their expectations for CEO performance can better prepare their organizations for both anticipated and unexpected openings in the future.

- Assign responsibility for succession planning to a board committee (often the board's executive compensation committee). The CEO and committee chairman should work together to ensure the committee reviews the status of internal candidate development and the organization's succession process at least annually.

Conducting the CEO Succession Process

- Select an expert search and succession partner. This will allow the board's search committee to spend 90 percent of its time on the candidates who are the most likely replacements.
- Take time to analyze the challenges and opportunities facing the healthcare field today and into the future. This process, often facilitated by an expert search and succession resource with the board's search committee, helps determine the competencies your organization's new CEO will need to succeed. The current CEO and senior leaders can help support this process by making available the organization's strategic plan, environmental assessments and other resources that identify emerging healthcare and market issues and trends.
- In assessing potential candidates for top executive positions, board search committees should pay attention not only to an individual's professional skills and experience, but also his or her personal qualities. For example, consider the candidates' ability to inspire and empower others.
- Ensure key stakeholders are part of the CEO transition process. However, it is important for the

board to remember that the CEO's transition is the board's responsibility.

Ensuring a Successful Transition

- Support the outgoing and incoming CEOs as they make their transitions. Board leadership might appoint a small board transition team to support the incoming CEO and celebrate the contributions of the outgoing CEO.
- Set aside time for the board and new CEO, perhaps as part of a board retreat, to establish mutual expectations for their relationship. Most important, Votruba advises, boards should think about leadership transitions as a time to reinvigorate the organization and build connections with stakeholders and the community.

CEOs can help pave the way for effective succession planning by helping boards better understand their responsibility for it and engaging in the work necessary to build bench strength for top leadership positions. Ensuring that the board and the organization are well prepared for transitions at the top is one element of a legacy every CEO should strive to leave behind. ▲



Combes

John R. Combes, MD (jcombes@aha.org), is CMO and senior vice president of the American Hospital Association and president of AHA's Center for Healthcare Governance. Mary K. Totten (marykaytotten@gmail.com) is senior consultant for content development for the Center for Healthcare Governance.



Totten