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Change at the Top

A solid plan for selecting a new CEO will ease a change in leadership when the time comes

By Mark T. O'Neil Jr.

The most crucial time in an organization's life is the transition from one CEO to another. But while considerable time and attention are given to the mission and vision of a company, this often isn't the case with CEO-transition planning. Such planning is particularly needed in health care, where hospital CEO turnover was 18 percent in 2014, among the highest rates in the past 15 years. Additionally, the CEO population is aging: The average age is 62, making transition all the more imminent for many organizations.

Hospital and health system leaders are continually making improvements in strategic planning, operating performance and management discipline, yet transition rarely receives the attention it warrants. The most important duty of an organization's board of directors or trustees is hiring and firing its CEO and providing a smooth transition when it does.

Why transition occurs

There are at least three circumstances that require a change in CEO. Rather than implementing a one-size-fits-all approach, leadership teams should be prepared for the following possibilities:

Voluntary change: This is the most common situation; it is often the result of the CEO finding a better opportunity or deciding to retire. The more notice the CEO gives, the more fluid the transition.

Involuntary transition: When the CEO is asked to leave, certain factors can make the process difficult. There is often an extended period of unrest involving board members, medical staff, employees and other stakeholders.

Illness or death: Tragic circumstances can become even more so when the board has given no previous thought to CEO succession. One of the most difficult decisions a board must make is determining the appropriate time to ask a CEO to step down temporarily or permanently due to a prolonged health problem.

Effective planning

As circumstances can vary, leaders should protect themselves and their organization against the harmful effects of CEO transition by planning ahead.

Recognize the need for succession planning. During performance evaluations, succession planning is often mentioned but seldom completed. It is imperative for the governing board to insist upon and follow through with formal succession planning. Failure to do so may be a sign of complacency and an indicator that transition will be difficult.

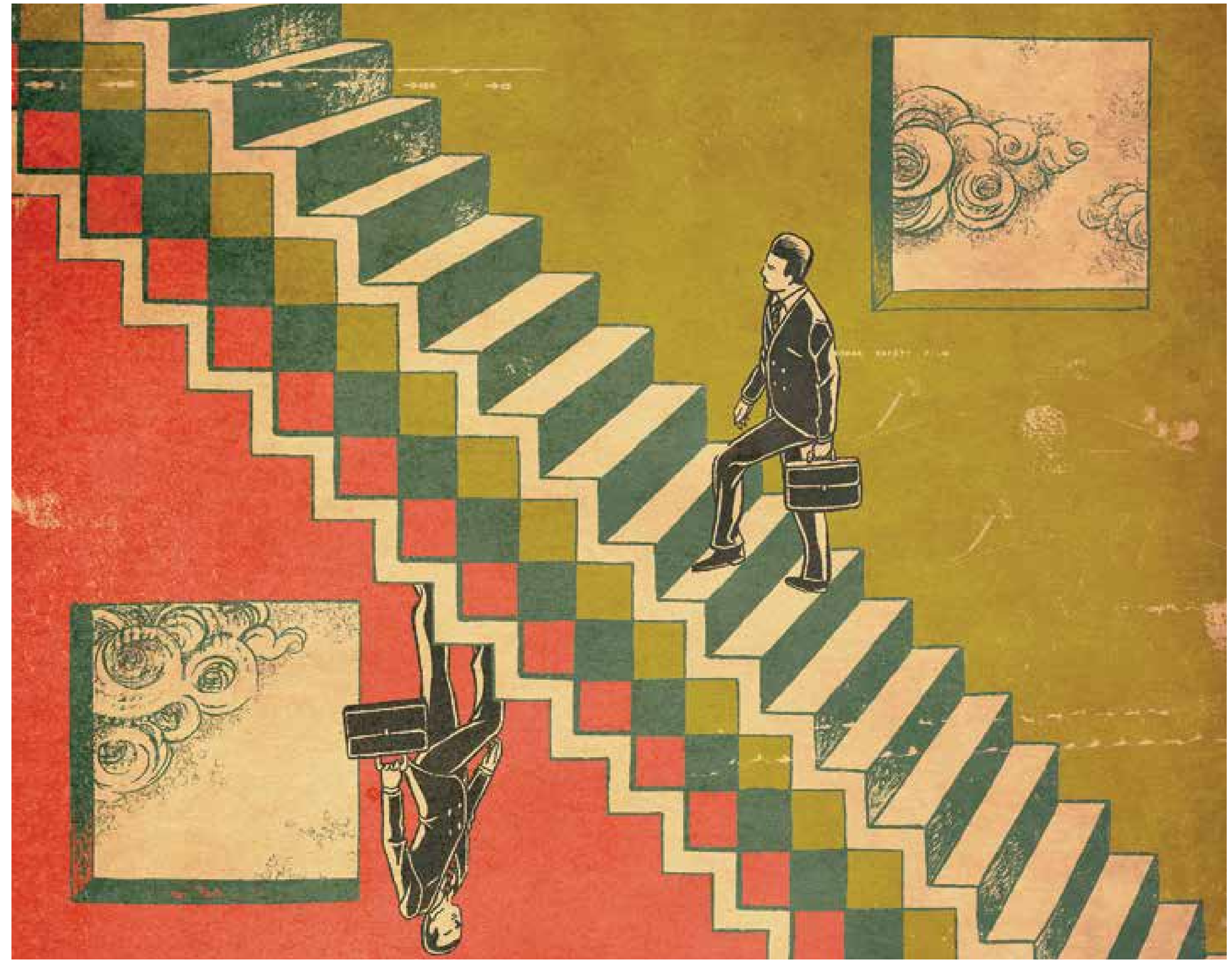

IMAGE FROM FANATIC STUDIO/ILLUSTRATION SOURCE

Hospital and health system leaders are continually making improvements in strategic planning, operating performance and management discipline, yet transition rarely receives the attention it warrants.

Appoint a committee and hire a consultant. The board may be reluctant to spend money on transition planning, but investing in a consultant is a good idea unless the board includes a member experienced in the science of CEO transition. A consultant brings professional experience and provides neutrality.

Have a forthright talk about the most likely time frame for a transition. While this discussion may be difficult, it is critical. Drawing up contracts with CEOs is the norm, so when it's time for renewal, use it as an opportunity to have a constructive transition discussion.

Boards should not make assumptions about the incumbent CEO's intentions. A board may assume that its 63-year-old CEO will retire in the next few years, when, in fact, he or she is planning to work past age 70. Be sure to have a talk with the CEO and a limited number of board members, as a candid discussion reduces misunderstandings.

Develop a detailed transition plan. This step becomes important when the countdown to transition is less than two years. A proper plan may include:

- A detailed communication plan that states what, when and to whom communications will be made.
- A process that the board will follow in selecting the next leader.
- An updated and reviewed CEO profile that describes what sort of leader will be needed for the coming period.
- A list of key activities from a strategic and operational perspective that need to be completed during and after the transition.
- In case of retirement, a candid discussion about what role, if any, the retiring CEO will play in the transition.
- A review of internal candidate possibilities and development activities to implement.
- An outline of detailed procedures that will be used to select a consultant if the determination is made to "go outside."

Prepare an emergency succession plan. Sudden departures happen, and the worst time to decide on an interim CEO is during a crisis. A simple plan, endorsed by the executive committee, will suffice. The plan should be reviewed annually and address authority in the event of an unplanned absence as well as the appointment of an interim CEO. This plan should be communicated to key stakeholders.

There are options for choosing an interim CEO. These range from identifying a senior manager capable of temporary leadership to brushing up on organizations that provide interim leadership. An increasingly used approach is appointing a member of the board to lead temporarily.

Establish consensus on what is needed. Every organization is different. It is essential that job descriptions are in place for senior managers, especially for the CEO position. Formally review and update these profiles annually.

Know the aspirations and development needs of the senior team. Hiring personnel is the most significant investment an organization can make. While human capital, especially leadership, is expensive when invested in correctly, it becomes even more expensive when invested in incorrectly.

Succession planning looks to the next generation of leaders, and it emphasizes a commitment to developing leadership. Through a set of formalized tools, an organization's board and its CEO can ensure that proper talent development occurs.

Big stakes

Because turnover is so expensive, board members should take extreme care to effectively manage CEO turnover. They show commitment to the hospital or health care system by making professional development a key component of the organization's culture.

The hiring and firing of the CEO is the most important function of any board. Remember: Doing it right is better than doing it over. T

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