

BACK TO BASICS

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CEO Transition and Succession

A hospital or health system's transition from one leader to the next—if handled well—can provide an opportunity for organizational reflection and renewal. If handled poorly, it can compromise a board, make a new leader's job more difficult and alienate employees, physicians and community members.

When done properly, CEO transition planning allows a board to prepare a graceful and honorable exit for the incumbent while ensuring a forward-looking, positive entry for the new leader. Yet many boards do not have formal processes in place to allow for such a transition.

While it may be up to the CEO to develop individuals with leadership potential as part of a formal succession planning process, handing over the reins to a new leader—a delicate balancing act under the best of circumstances—falls to the board. This potentially sensitive process has received far less attention than succession planning, yet is equally important for the continuity of a health system's mission and strategy. Failure to address leadership transition before the need arises leaves a board ill-equipped to fulfill its governance obligations and can lead to a variety of issues including undue influence on the process by the departing CEO.

Controlling the Process

Leadership transitions can result from an expected departure or retirement or without warning when a leader resigns or is terminated abruptly. Although dealing

with each scenario requires a somewhat different approach, boards need to be in control—and that means being prepared. Preparation involves knowing which board members—whether the executive committee or the entire board—are in charge of the process. Preparation also means being ready to make the tough choices needed for the long-term good of the organization, rather than the expedient ones that might be harmful down the road.

A board with a good transition plan has a strong sense of the qualities the hospital or system CEO should have, knows what stakeholders expect in a leader and is confident there are potential candidates in the pipeline with appropriate leadership skills and experience.

Planning for a leadership transition is an ideal time for a board to review the organization's overall mission, vision, strategic plan, organizational charts and governance model. Among the relevant questions:

- What will it take to achieve three-, five- and 10-year strategic goals?
- What leadership will the organization require to meet those goals?
- What changes to organizational structure may be needed?
- Are changes to the organization's

governance model needed?

- How do key stakeholders contribute to the organization and its decision-making, and what are their leadership expectations?
- What are the differences between perceived and actual culture, and how do they affect the organization's ability to achieve goals?

The next step in transition planning is to prepare a CEO profile, including a job description and list of traits the board thinks an executive leader should have. While no two CEOs are alike, most organizations typically seek consistent types of leaders. However, because organizations grow and change over time, boards should review ideal leadership qualifications every few years. With a defined CEO profile in place, the board is less likely to be caught off guard and can be ready to take action if a current leader abruptly announces departure plans.

A Smooth Separation

One of the board's primary goals during a transition is to ensure a smooth separation for the departing CEO. While a transition can occur at any time, a board should plan to initiate a discussion with the existing CEO, if possible, at least two years before an expected departure. Such communication clarifies differences between what the board expects and what the CEO has in mind about those final years, months or weeks.

The more specific the board is about expectations, the more likely the CEO will focus on fulfilling those requirements. If

everyone clearly understands the organization's priorities, there is less chance a transition will disrupt a health system's operations or jeopardize its standing in the community. Furthermore, the departing CEO has a better chance of leaving the organization with good will, rather than resentment.

At the same time, the board should review retirement and/or severance agreements with the CEO and be prepared to resolve issues that arise as a result. Also at this time, the board should address with the outgoing CEO any concerns it may have with performance during his or her tenure.

With respect to the actual transition process, the best way to avoid misunderstandings or hard feelings is to respectfully and openly outline to the CEO what is happening and what his or her role will be. A CEO who is left in the dark is more likely to feel resentful and try to control the process than someone who knows what to expect.

One good way to satisfy an outgoing CEO's desire to be a part of the process is to request his or her input in writing and in an advisory capacity. At the same time, the

board should make it clear that the incumbent is not in charge of the process. If the CEO is unwilling to accept a solely advisory role, the board may want to consider mediation with an objective third party. This can diffuse emotional reactions and often makes the process more credible to a skeptical CEO and even other stakeholders.

Transferring Power

While attention to and respect for the outgoing CEO is necessary during a transition, the board's primary responsibility is to the current and future health of the organization. Therefore, any transition plan should approach transferring authority in a way that minimizes disruption and maintains employee, physician and community good will.

Once a new CEO has been chosen, it is important to let that person lead with minimal interference from the preceding CEO. This may require the board to have a firm hand in the process. While it may be tempting to assuage the ego of a departing CEO by offering an ongoing role in the hospital's or system's operations, in

general, the cleaner the separation the better. The last thing a new CEO wants is to emerge from the corner office to see a predecessor in an office down the hall. When an outgoing CEO refuses to cut ties, the new CEO may feel overshadowed and unwilling to make decisions that run counter to the outgoing CEO's policy or style. Such a situation also undercuts the relationship between the board and the new CEO if board members show divided loyalties.

Obviously, the board and outgoing CEO need to provide the new leader with background on the organization's operations, finances, strategy, etc. However, effective transition planning occurs within a predetermined time frame and focuses on bringing the new CEO up to speed in ways that minimize awkward overlap in leadership responsibilities.

CEO Transitions

In one real-life example of a successful transition, a well-respected CEO, who had held that position for 11 years, was recruited by another hospital. The board appreciated and admired this CEO, but that did not prevent trustees from instituting a robust and independent transition process.

After the CEO moved to his new position, the board appointed an interim leader from within the C-suite who had previously rotated through various positions.

Although the outgoing CEO clearly supported this internal candidate, the board conducted a national search before making a final decision. Ultimately, a different internal candidate—not the interim CEO—was selected, but the board's actions made it clear that it was in full control of the process.

In another transition that did not go as smoothly, a health system's board members thought they were prepared by having two executives share the CEO role through an office-of-the-president model.

Under the arrangement, a chief administrative officer and a chief medical officer split the top executive responsibilities with the CAO assuming operational responsibilities and the CMO overseeing the system's relationships with physicians. The board's underlying plan was that if

Preparing for Leadership Continuity

While it is the CEO's responsibility to develop the hospital's or system's future leaders, the board needs to ensure the executive pipeline is being filled. The board needs to work with the CEO to give promising executives opportunities to prepare for the hospital's top leadership spot.

One method for doing that is by rotating potential leaders through different management positions to give those potential leaders a greater sense of how the system or hospital works and provide an opportunity for them to showcase their leadership skills.

They must also learn how to work with physicians, human resources and the legal department and assume financial management responsibilities.

Potential leaders should be encouraged to take educational courses that broaden their knowledge base, including finance, business and health care administration or other types of education. Bringing in an executive coach for one-on-one training also helps prepare an individual to handle unfamiliar management areas. And, because many successful top executives say some of the most valuable lessons they have learned came from their mentors, the organization should have a strong mentoring program.

Finally, giving potential leaders a chance to interact with those outside the organization demonstrates their ability to relate to various stakeholders and gives a preview of how they will represent the organization to the broader community. Being in charge of a community fund-raising event, sitting on the board of a local Chamber of Commerce or Rotary Club, or being otherwise involved in community activities all improve visibility and give a candidate a chance to be an ambassador for the organization.

Case Studies: Time to Let Go

After 27 years at the helm, a hospital CEO was approaching retirement and thought it was time to start looking for a successor. He told the board he would likely retire in about two years. At the time, the hospital had no chief operating officer, and the CEO thought continuity would best be maintained by first hiring a COO who would eventually replace him as the next CEO. The transition was expected to take about two years, although the CEO never provided a definitive timetable.

Once the COO was on board, the outgoing CEO began thorough training of the presumed successor. The CEO shared all of his knowledge about the organization, from its finances to its organizational structure, as well as sharing his office space to give the COO as much access as possible to his decision-making process. No meeting or conversation was off limits during the COO's orientation.

The outgoing CEO had expected the COO to be grateful for the access and support. Instead, the new COO felt smothered. Sitting a few feet from the person the COO was replacing, there was no clear sense of where the outgoing leader's responsibilities ended and the new leader's began. After nine uncomfortable months, the COO left and the CEO was back to square one, looking for a new replacement.

The second time around, the hospital board, with input from the medical staff, led the search. There was an understanding that the CEO would step down on a definite date, and that the replacement would start as the new chief on day one. Once a new CEO was selected and accepted the job, the outgoing CEO moved to a part-time position at the hospital's foundation.

The board further ensured the new CEO's immediate leadership authority by relocating the outgoing CEO's office. At the same time, the outgoing CEO

was available for support in the event the new CEO needed assistance, or worse, was failing to lead the organization or carry out his executive responsibilities successfully. A year later, the outgoing CEO gave up the part-time foundation work and retired permanently.

Lessons learned: Outgoing CEOs may remain available in support roles but should stay in the background. Details about the outgoing CEO's retirement dates and transition expectations and responsibilities should be outlined clearly ahead of time and put in writing. Finally, and most importantly, the board—not the outgoing CEO—should control hiring the next CEO.

Get It in Writing

A CEO planning retirement after more than 20 years at a midsize regional hospital had an eye on two internal vice presidents as possible successors. The

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CEO urged the board to evaluate both candidates for a two-year period and choose one to ascend to the CEO position at the end of that time.

With two executives in the running, board meetings became tense auditions. One vice president would come forward with a proposal to renovate a bed tower, for example. At the next meeting, the other vice president would present a proposal to form a joint venture with physicians. The board judged each performance in turn. Absent was a written plan detailing what

the board expected of its future chief executive.

Before the two-year period was up, the board's executive committee and retiring CEO agreed the process wasn't working, and the board decided to conduct a national search. While both vice presidents were considered, in the end, the board selected an external candidate. The board also decided the outgoing CEO would stay on for 30 days after the new CEO began. Nevertheless, during that time the outgoing leader remained in the CEO's office space, while the new CEO occupied a smaller office around the corner.

The new CEO recalls being unsure of job expectations in the first 30 days and spent most of her time walking around talking to people. The outgoing CEO's role during the overlapping month was equally unclear.

The retiring CEO's contract included a paid consulting role for a year after departing. But the new CEO rarely called on her predecessor, who still lived in the community. Feeling left out toward the end of the year, the former CEO made disparaging comments about his successor to community leaders, saying that he was concerned about the hospital's direction under new leadership. Those comments circled back to board members, who were left to smooth over hard feelings.

Lessons learned: Before boards start considering CEO candidates, put leadership expectations in writing. Boards will have a better sense of how candidates measure up with a list of specific performance measurements.

The board also needs to consider consequences of the outgoing CEO maintaining a continuing role with the organization and tackle logistical details, such as office space, ahead of time. Sorting through these issues before a search begins can help avert uncomfortable situations later.

one of the two leaders left, the other would take on the broader role as the sole CEO.

When that day came, however, it soon became clear that the leader who remained had not been adequately prepared to assume the other's responsibilities and essentially take on a job with twice as much work.

After about six months of stress that affected both the CEO's health and relationship with the board, the individual opted to resign, and the board was suddenly faced with the need to conduct a search for a replacement. Eventually the board hired a CEO from outside the organization.

In this case, the board might have avoided an unexpected and difficult situation by thinking through all aspects of a transition ahead of time. Instead of maintaining entirely separate roles for the co-CEOs, they might have rotated each through the other's responsibilities so that both executives would be familiar with the entire organization. Then if it became apparent that one individual disliked or was not capable of performing certain tasks, the board could come up with an alternative transition plan ahead of time.

Overcoming Obstacles

Among other common obstacles to a smooth transition are operational and financial difficulties, which can lead to an emotionally charged process. If a hospital faces a financial shortfall, for example, the board might fire its CEO precipitously without considering both short- and long-term implications. Having a structured process in place that includes a checklist of needed steps helps the board avoid snap decisions that might be regretted later.

Another obstacle to a positive transition is potential discord among the organization's various stakeholders, all of whom might have different perceptions of a departing CEO and the expectations of a successor.

Often, board members who are involved in planning a transition think they know what stakeholders want. But unless they talk to stakeholders beforehand, the board can never validate its expectations. Stakeholders should believe they're a part of the transition process. Factoring their

A Leadership Transition Checklist

Having a transition plan in place allows a board to make the most of a potentially turbulent time for an organization. The following checklist can help make the transfer of power as smooth as possible.

1. Decide which board members will be in charge of transition planning as well as the process itself.

2. Use transition planning as an opportunity to reevaluate the organization's vision, future strategy, culture and governance.

3. Create a CEO profile of core competencies that meets the board's goals for the organization's vision and strategy.

4. Give stakeholders an opportunity to weigh in on the CEO competency profile before evaluating potential new CEOs.

5. Communicate to the outgoing CEO the board's priorities and expectations through the end of his or her term.

6. Clarify board and stakeholder perceptions about the outgoing CEO. Work to ensure they are not distorted or misunderstood.

7. Be aware of legacies the outgoing CEO leaves behind and understand how they might help or hinder the next leader.

8. Familiarize yourself with the terms and conditions of the incumbent CEO's employment contract and severance agreement.

9. Explore how the board's vision and strategy will be communicated to a new CEO.

10. Clearly outline expectations for the outgoing CEO's and the successor's responsibilities so the new chief executive has the authority to lead without interference.

11. Make sure there's a leadership pipeline with practices such as job rotation, mentoring and executive coaching that allow potential internal candidates to develop CEO experience.

input into the development of the CEO profile, for example, helps focus the search for a new leader when the time comes and gives the new leader a clear understanding of the organization's needs, goals and culture.

Orchestrating a Final Farewell

Finally, it falls to the board to orchestrate a farewell to the outgoing CEO. Clearly, the nature of the "goodbye" will depend largely on the reasons for the CEO's departure. Still, decisions about whether there should be a big going-away bash or minimal fanfare should be based on the CEO's reputation within the organization and the broader community, rather than on board members' personal feelings.

If the CEO has been with the organization for many years and its culture is closely tied to that person, the board members may be tempted to sponsor extravagant parties or other events. However, they should think twice about over-the-top festivities. If, for example, the organization faces financial constraints, including cutbacks or layoffs,

employees might resent a lavish party. Any ill feelings may become the new CEO's problem to mend.

This is not to say an organization should forego a celebration of a long-standing leader's contributions. Ultimately, however, the board's decision should incorporate a close reading of the broader organization's feelings toward the outgoing CEO.

No CEO transition will be perfectly smooth, but by thinking ahead about an organization's current needs and future direction, a board can make deliberate choices that put it in the driver's seat.

Having clearly defined expectations of the outgoing CEO's role in the transition will go far toward making the current CEO's exit graceful and honorable.

At the same time, when the board knows what its organization needs in a new leader, it will ensure that the person taking the helm will be fully equipped and empowered to move the organization forward.

A board's firm control of the transfer from one leader to the next makes the difference between an awkward passing of the torch and a seamless handoff. **T**