

Succession Planning - Dress Rehearsal for the Understudies

By Donald H. Hutton

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Many hospital and health system CEOs looking ahead to retirement fear their departure will create a leadership gap. A recent report, "Preparing Future Leaders in Health Care," from Oakbrook, Ill.-based executive search firm Witt/Kieffer, shows that few health care organizations are grooming their future executives: 67 percent of health care CEOs surveyed believe their organizations have no clear career path for young executives. As a result, Jordan Hadelman, chairman and CEO of Witt/Kieffer, believes we may be on the brink of a leadership crisis.

It is hard to imagine, given all the men and women in the field, that there is not enough talent to meet the industry's needs. Future leaders exist; they just need guidance. Health care organizations worried about replacing CEOs should consider succession planning, an intentional and deliberate process of preparing promising executives for greater responsibilities. Both Larry Tyler (see "Succession Planning: Charting a Course for the Future," in the June 2002 issue of *Trustee*) and Michael Doody, writing for Health Leaders News ("Leaders on Call: Developing a Succession Plan," February 2003), have published detailed information about the benefits of succession planning. What follows here are findings from a survey of executives with experience in succession planning designed to provide further insights into this practice.

The survey, conducted last Spring by the Morgan Executive Development Institute (MEDI), Ponte Vedra Beach, Fla., of more than 100 health care executives and industry leaders, showed that succession planning maintains the momentum of the organization and helps retain talent. A good succession plan, survey participants agreed, clearly defines the qualifications a successor will need, establishes a time frame for the transition, and is tailored to the organization's unique needs. Finally, the survey indicated that while some individuals in an organization often resist succession planning, better knowledge about the practice often allays their fears.

Perceived Value

Survey participants reported that succession plans benefited both the organization and the people in it. Most notably, succession planning maintains the organization's momentum and direction because there is a seamless transition to a new CEO. Better organizational continuity and predictability have a positive effect on bond ratings, as financial rating institutions value leadership stability. Peter Chalke, CEO of Central Maine Medical Center, Lewiston, says

that succession planning kept the medical center on track without missing a beat when he took over as CEO. By promoting from within, existing relationships with the board, medical staff and executive team remained intact, Chalke says. "My existing relationships permitted me to 'hit the ground running' on day one after being named CEO."

Succession plans also help retain needed talent. An executive is less likely to be recruited away from an organization when an effective succession plan is in place, since that executive has an opportunity to advance within it. And less turnover helps protect against the loss of organizational knowledge.

For the people within an organization, a succession plan offers them clear opportunities and a chance to remain longer with the same organization. The organization should create clear career paths within the organization and clarify how internal candidates can get in the queue for leadership roles.

Elements of an Effective Plan

Respondents to the survey noted that the current chief executive, the incoming CEO, and the organization's human resources department all played important roles in ensuring the success of a succession plan.

The current executive. An exit strategy was the most frequently stated requirement for the current executive. If there is to be a further role for the exiting CEO, that role must be well defined, and, if possible, set within a specific time frame. For example, Tom Collins, CEO for the last 10 years of Memorial Health Services, based in Long Beach, Calif., reports that as he was preparing to leave, he and his board decided that he would serve as chair for two years, after which he would step aside completely. All CEO candidates were well aware of Collins' ongoing role.

It's critical that the current executive accept the succession plan. Survey respondents said the CEO's support was key to the program's success. Don Faulk, president and CEO of Central Georgia Health System in Macon, understood the importance of succession planning and suggested to his board that a formal plan be developed. His strong support of succession planning and his involvement in the entire process will go a long way toward making it successful.

The incoming executive. The organization's board should determine which traits and qualifications they expect from the new CEO. This discussion should produce a detailed position description (in collaboration with the current CEO and the board), which will become a significant component of a formal program to help the incoming executive make the transition into the new position.

Memorial Health Services saw the wisdom of this when it developed the Memorial Leadership Academy. This in-house training program, modeled after similar programs at Toyota and General Electric, has an annual enrollment of 20. The graduates become "preferred" candidates for open positions. Two individuals from this group were considered to fill the CEO position, and one of them was chosen.

The plan's structure. The succession plan must be flexible enough to accommodate the changing needs of the organization and the industry; it must also be tailored to meet the individual needs of the organization. The plan should be communicated to members of the organization and have defined goals and time frames. It should not focus on a single person or role; rather, it should be part of a formal leadership development program that anticipates the natural turnover of all executives. The plan should include a way to assess existing executive talent that helps identify, evaluate and develop future leaders in the organization.

Steve Barney, senior vice president of human resources at SSM Health Care, St. Louis, says that his company conducts a career interest inventory of senior-level executives every other year. Leadership development opportunities, such as classes, coaches and new assignments geared to their interests and SSM's needs are made available to executives to encourage the growth of this internal pool of talent. The results are impressive: Internal candidates have filled 75 percent of the top 31 most recently vacated positions. In addition, the company has improved gender and ethnic diversity: Female leadership grew from 37 percent in 1990 to 50 percent last year, and minority leadership grew from 3 percent to 6 percent during the same time period.

Barney says that it is important to manage the expectations of internal candidates--SSM has found that open and forthright executive conversations are best. If, for example, senior leaders and human resources executives believe an individual has limited opportunities for advancement within the organization or if an executive requires further leadership development before he or she could be considered for advancement, that message is communicated clearly.

James Nathan, president and CEO of Lee Memorial Health System, Fort Myers, Fla., says his board went so far as to formulate a board policy that addresses succession planning. This policy spells out the roles and responsibilities of all parties who are involved in succession planning.

Barriers to Succession Planning

As might be expected, it is not always easy to put a succession plan in place. Survey participants listed ways that the CEO, the board, a combination of organizational leaders--or all three--could hinder succession planning. The

barriers in most cases are self-imposed, which means they could easily be overcome if the individual or group really wanted to develop a program.

The CEO. Both CEOs and other industry leaders made it clear in the survey that succession planning threatens some CEOs. Some fear that if another person is preparing to take over their jobs, this person may be seen by the board or others as a better choice, and the current executive may be replaced. In some cases, the CEO may be unwilling to set a definite date to step down and does not want to commit to a program that has defined time frames. Also, because the vast majority of health care organizations do not have formal succession plans in place, it is very possible that most CEOs are poorly informed about how a succession plan can benefit them and their organization.

William Andersen, vice president of human resources at Trinity Health System, Detroit, maintains that once CEOs become involved in the process, "They quickly see the benefits for both themselves and the organization."

Surveyed executives also reported that if a CEO has an employment contract and is reassured by the board that the plan's motives are not to prematurely replace him or her, the CEO is more likely to be comfortable with a succession plan.

Board members. Changing CEOs is not easy for a board, and it is particularly difficult if the current CEO is doing a great job. When CEOs are successful and the board thinks very highly of them, the last thing they want to do is plan for their departure. Our survey indicates that CEOs sometimes have a hard time getting the board to focus on succession planning. Particularly if trustees have no experience with, or knowledge of succession planning and its benefit to an organization, it is easy to understand why they would not consider it a priority. This lack of knowledge or experience was cited often by survey participants.

Collins believes it is the CEO's job to set things in motion and to direct them until the board is on track. Like Collins, Faulk took the lead; years before his retirement, he got his board to focus on succession planning. However, this approach does not always work. A CEO who plans to retire in two years and who asked to remain anonymous, reported that he has talked with his board chairman, compensation committee chairman, and the entire board about his plans to retire, and the only response he has gotten is, "You are too young to retire, and we just know you will stay." He will get his message across sooner or later, but it will mean time lost preparing for the transition.

The organization. Succession planning generally requires human resource executives and members of the management team to evaluate internal candidates to determine who is and who is not an acceptable candidate for the executive position. Survey participants noted that an organization's unwillingness to face decisions about internal candidates is particularly evident

when unqualified executives have served their current roles well and have been loyal to the organization. The concern is that there may be hard feelings, and executives may leave because they feel they have been mistreated.

However, SSM's Barney says that just because a candidate is not chosen does not mean that he or she will find it necessary to leave the organization. When SSM is searching for a new CEO and there are multiple internal candidates, it works hard to manage candidates' expectations by sending a clear message that no matter who is selected, the organization values everyone. Most unsuccessful candidates stay with the organization.

Motivating Factors

When the survey panel was asked what motivated the board, the executive team, and/or human resources to pursue a succession plan, most said that having had experience with succession planning was a key factor, as well as having a champion within the organization and recognizing the benefits to the organization.

Experience with succession planning. When an organization or a key person such as the CEO or board chairman has had previous experience with a succession plan, either at their current organization or at another, they are more likely to sponsor one. Similarly, when trustees come from companies where succession planning is in place, they are more likely either to suggest such a plan, or to embrace a suggestion to put a plan into effect.

On the other hand, if trustees have experienced a CEO's unexpected departure and are faced with a difficult transition to a new leader, they readily see the wisdom of a succession plan. It is also possible that the CEO has suffered through the unexpected loss of a key executive. Either way, the experience makes both trustees and CEOs more receptive to the notion of a succession plan.

A champion. As with most things, if one person becomes an effective proponent, there is a high probability that others will soon embrace the proposal. Trinity's Andersen joined the system from another industry that was heavily invested in succession planning, so he understood that the organization could quickly strengthen itself by instituting a formal plan.

Benefits to the organization. Over the long term, a succession plan will save the organization money. It is less expensive than search fees, and the organization maintains continuity when someone is promoted from within. In addition, succession planning allows the organization to retain and attract top talent.

Andersen reports that three years ago, at the direction of system CEO, Judy Pelham, Trinity began developing a systemwide succession plan. Not only did the system want to maintain continuity, it also saw the need to build the next generation of leaders and believed it had a great talent pool from which to draw. The CEO wanted leaders who could implement the system's strategic plan, and she did not want to lose momentum when new leaders were hired.

Key Responsibility

John C. Maxwell, in his book *The 21 Irrefutable Laws of Leadership*, lists his 21st rule as "The Law of Legacy," which states that a leader's lasting value is measured by succession. More and more boards and CEOs are taking this law to heart and spending the time and money to put in place a formal succession plan. Although succession planning has not been a priority in the past, hospitals and health systems are now developing strong leaders and preparing them to take over the organizations when the time occurs. They agree with Max Dupree, author of *Leadership Is an Art*, when he said that succession planning is a key responsibility of incumbent leadership.

Donald H. Hutton is president of *Morgan Executive Development Institute*, Ponte Vedra Beach, Fla. He can be reached at (904) 543-0235.

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