CEO Transition: Overcoming Common Pitfalls

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While all boards take the task of selecting the next CEO seriously, most are unprepared for it.[1] Like it or not, this responsibility is at hand for many healthcare boards. The strategic challenges facing healthcare have contributed to an increasingly high CEO turnover rate, and roughly one-third of industry CEOs are age 65 or above.[2] The wave of CEO transition in healthcare is just beginning.

In our experience, CEO transition has three phenotypes, with different timescales depending on board proactivity. Most often, the incumbent CEO notifies the board that they plan to leave within a year or so, resulting in an immediate CEO search.[3] Sometimes, the board or CEO implements a thoughtful transition process over roughly two years. Rarely—but by far the most impactful—the board, CEO, and Chief Human Resources Officer (CHRO) collaborate to drive a strategic CEO succession and executive development process, typically taking place over three or more years. More proactive CEO transition builds alignment between the board and senior management, promotes business continuity, and positions the organization for the future while strengthening execution today.[4] Regardless of the timeframe, the CEO transition process has multiple steps (see CEO Transition sidebar).

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CEO TRANSITION

1. **Align on the role of the future CEO.** Even when a CEO search is imminent, the transition process must begin by defining what the organization needs in its next CEO. This dialogue should begin with the unique strategic priorities of the organization: how will it fulfill its mission and compete in the ever-changing healthcare landscape? This should determine the key accountabilities of the next CEO and, therefore, the successful candidate's required experience, skills, and leadership characteristics.
2. **Assess and develop internal candidates.** If the organization has two years or more, the board has the gift of time to evaluate internal candidates against the CEO role profile. This assessment should be as data-driven and objective as other critical business planning processes, enabling the board, CEO, and CHRO to make wise choices about executive development. Leveraging CEO transition to inform executive development—and investing in building capability—makes a strong statement about the organization's commitment to its high-potential talent, accelerating their current impact and increasing their engagement.
3. **Benchmark against external candidates and select the next CEO.** As the CEO's departure nears, even organizations engaged in strategic succession should pause to canvass the marketplace and benchmark internal candidates against external executives. This assures the board that in-house candidates are viable and lends credibility to their promotion; alternatively, it serves as the foundation for a formal executive search.
4. **Accelerate the impact of the new CEO.** For a board, identifying the new CEO is cause for celebration but not for rest. Up to half of executives are regarded as disappointments within two years after beginning a new role;[5] unfortunately, this extends to CEOs as well. Underperformance at this level results in lost momentum on strategic priorities, declining morale, increasing turnover, and external reputational damage (among partners, funding institutions, donors, and external candidates). Given that a staggering 90 percent of CEOs wish they had handled their transitions differently,[6] the board has a critical role to play in what happens "after the handshake."[7]

Studies estimate that public companies have lost an average of $1.8 billion due to ineffective CEO transitions.[8] In healthcare, suboptimal transition causes not only financial losses but also tragic impacts on human health, lives, and communities. Despite knowing this, too many boards postpone taking on the challenge of CEO transition, instead waiting for the CEO to force their hand.

Why aren't boards more proactive in taking on CEO transition proactively? At root, we find that it's because leadership changes are messy, involving tough decisions and challenging conversations. This article outlines the biggest pitfalls we see and provides tips for overcoming them.

Pitfall #1: Unclear Roles

Boards often leave roles and responsibilities vague heading into a CEO transition, including those of their chair and committees. Boards may wish to avoid having "too many cooks in the kitchen" if only to ensure confidentiality.[9] In reality, it is easier to maintain confidentiality when the responsibilities of key constituents are clear.

Therefore, one of the board's obligations is to define and communicate "who does what" during a CEO transition. While there are few absolute answers here, clarity matters—and the primary responsibility lies with the board, not the CEO. We have found the following roles to be most helpful, especially during

1 Elena Lytkina Botelho, Shoma Hayden, and BJ Wright, "Beware the Transition from an Iconic CEO," *Harvard Business Review,* February 2023.
2 WittKieffer proprietary research on the career paths of CEOs at leading 200 health systems.
3 Rebecca Slan Jerusalim and Navio Kwok, "The Vital Role of the Outgoing CEO," *Harvard Business Review*, July–August 2024.
4 Andrew Chastain and Susan Snyder, "CEO Succession Planning: A Strategic Journey," The Governance Institute, *BoardRoom Press*, August 2023.
5 Scott Keller and Mary Meaney, "Successfully Transitioning to New Leadership Roles," *McKinsey Quarterly*, May 2018.
6 Carolyn Dewar, et al., "Starting Strong: Making Your CEO Transition a Catalyst for Renewal," *McKinsey Quarterly*, November 17, 2022.
7 Dan Ciampa, "After the Handshake," *Harvard Business Review*, December 2016.
8 Eben Herrell, "Succession Planning: What the Research Says," *Harvard Business Review*, December 2016.
9 Joseph M. Yaffe and Ryne C. Posey, "Nine Mistakes To Avoid When Transitioning CEOs," *Harvard Law School Forum on Corporate Governance*, June 24, 2023.

strategic CEO transitions of two years or more:

- **Board chair**: Holds overall responsibility for the CEO transition process and its outcome.
- **Transition committee**: A working subset of the board (sometimes the executive committee or the compensation committee) accountable for establishing the CEO transition process, driving communication with the incumbent CEO and other internal stakeholders, and making recommendations to the board. If a CEO search is required, the transition committee can morph into a search committee (with the addition of other constituents).
- **Full board**: Approves a sub-committee (i.e., transition committee) to manage the process, ratifies the CEO transition planning process, and appoints the new CEO.
- **Incumbent CEO**: Provides insights into the strategic agenda and implications for the CEO profile, shares perspective on the executive team and potential successors and assists in their development, and provides clearly defined support once the successor is chosen.
- **CHRO**: In partnership with the CEO and the board, drives strategic executive development, supports succession and search, and oversees the new CEO's onboarding. CHROs also coordinate with outside resources to support the transition process, as necessary.
- **Senior management**: While some executives may be potential successors, all can provide perspective on the organization's strategy, strengths and opportunities, and implications for the future CEO's role.

Pitfall #2: Avoiding Difficult Emotions

CEO transitions can be emotionally wrenching affairs, and it's normal for people to want to avoid them. Unfortunately, avoidance makes things worse, not better.

Especially when the incumbent is strong, the board may defer bringing up the question of transition timing. Board members may fear "rocking the boat" or causing disruption among the executive team. Directors often have strong opinions about current executives and may believe they have no—or only one—internal successor. Taking on CEO transition proactively requires the board (led by the board chair) to initiate exploration of tricky issues.

The transition is messy for the departing CEO too, whose self-image is understandably tied to being a CEO, often causing them to defer change.[10] Hyper-stewardship can arise, leading CEOs to worry about the organization's success once they are no longer there. This is even more sensitive when the retiring CEO's compensation package is linked to company success after they retire. Finally, it is natural for the CEO to be anxious about disruption on the executive team.

Both the board chair and CEO often fear that internal candidates will leave if not promoted to the CEO role. This is a valid concern: a recent study in public companies found that nearly three-quarters of internal candidates not chosen as CEO leave or retire.[11] In reality, though, internal candidates will raise their hands once an external search has begun. It is far better to begin the succession process early so the organization can build executive capability and, where needed, manage unrealistic expectations than to find itself with multiple ill-prepared internal candidates who don't know it. Failing to make this investment can lead irrevocably to resentment and discontent, followed by resignation and, often, vocal dissatisfaction with the organization. Instead, the organization can develop executive capability and benefit from stronger performance and a reputation as a development stronghold that often results in better retention and attraction.

Emotions run high for the organization broadly too, especially members of the executive team. Potential successors—or those who want to be—are particularly prone to emotions linked to reputation and competition. Learning to manage and channel these emotions is a critical part of potential successors' development. Once placed, new CEOs make changes to their leadership team; in fact, assessing the strength of the team is one of a new CEO's critical tasks. Even if the team remains constant, each executive will need to adapt to a new CEO and team dynamics are sure to change.

››› KEY BOARD TAKEAWAYS

- CEO transition is a critical board responsibility that, done well, greatly improves the likelihood of the new CEO's early impact and long-term success.
- Transitions are most effective when started proactively, well before the current CEO's contract ends; however, even shorter transition periods benefit when the board:
  - Takes the lead in defining and communicating the roles and responsibilities of everyone involved in a transition, including those of the transition committee and outgoing CEO.
  - Attends to the understandably messy emotions of a CEO transition.
  - Proactively accelerates the newly selected CEO's impact by helping to map priorities, build relationships, and develop an appreciation of the organization's culture.

These emotions cannot be avoided, but they can be managed through a comprehensive, proactive transition process, including the following steps:

- Explore CEO succession during regular dialogue between the board chair and CEO, touching on it annually.
- Incorporate succession into annual strategic planning: what are the implications of the organization's strategy for the CEO and other executive roles?
- Reduce subjectivity by using a thorough leadership assessment process to reduce bias *and* the appearance of favorites.
- Involve all executives in assessment and development to increase capability and leadership impact.
- Include executive development in the board agenda, regularly checking in on how potential successors are progressing and building relationships between board members and potential successors.
- Ensure that communication with all parties is clear and consistent—this reduces the emotional temperature substantively.

10 Paul Bohne and Lynn Foster, "The Heroic Decision: Perspectives on the Healthcare CEO Retirement," WittKieffer, September 11, 2023.
11 David F. Larcker and Brian Tayan, "CEO Succession: Data Spotlight," Corporate Governance Research Initiative, Stanford Graduate School of Business, 2022.

Pitfall #3: Underestimating the Challenges of the First Year

The first year is a steep learning curve whether the new CEO is promoted from within or hired externally. If they come from outside, the CEO must build organizational insight, assess executive talent, build relationships (internally and externally), and establish themselves. Internally promoted CEOs face unique challenges in redefining their relationships and reputation with the board and with colleagues, and in letting go of previous priorities.[12]

Once the CEO is placed, the board can and should accelerate the new CEO's time to impact. Many transition plans over-index on getting the new CEO up to speed on strategic and financial realities but fail to prioritize the culture and people dynamics. These human factors underpin the ability to execute strategic priorities and lay at the root of CEOs' regrets about their transitions. They wish they had spent more time building relationships with board members and external constituents, profoundly understanding and assessing the culture, and evaluating—and acting—on their executive team.

To overcome these stumbling blocks, we recommend the board chair seizes the window between the announcement of the CEO and their start date, with a focus on accelerating PACE:

- **Priorities**: Work with the incoming CEO to identify and prioritize the most critical accountabilities and expectations for the first year that will drive strategy and impact.
- **Alignment**: Foster relationships and connectivity among the CEO, board members, and the executive team as well as critical external constituents.
- **Culture**: Prioritize understanding the "personality" of the organization and how it enables—or slows—strategy execution.
- **Energy**: First-time CEOs are often taken aback by the emotional demands of the job. Learning to sustain equilibrium for the long haul is a critical part of the transition.

Of course, these are not one-and-done activities. They are best undertaken through a series of discussions and feedback loops that continue well beyond the CEO's honeymoon period.

Final Thoughts

Healthcare boards are entering a period rife with CEO changes. Rather than shying away from the challenges outlined in this article, we encourage boards to face them head-on and proactively drive strategic CEO transition. The board, the outgoing and new CEO, the executive team, the organization, and the community will be the better for it.

TGI thanks Andrew Chastain, President and CEO of WittKieffer, and Susan Snyder, Executive Partner for WittKieffer's Leadership Advisory solution, for contributing this article. They can be reached at andrewc@wittkieffer.com and ssnyder@wittkieffer.com.

12 Andrew P. Chastain and Michael D. Watkins, "How Insider CEOs Succeed," *Harvard Business Review*, March 2020.