The “Three Cs” of Succession Planning

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In March 2014, the American College of Healthcare Executives reported hospital CEO turnover rates currently cresting around 20 percent. With this increase in CEO turnover, boards are faced with rising pressure to be proactive about their role in managing leadership changes at the CEO level.

To do this, boards must actively engage in the “three Cs” of succession planning: conversations, competencies, and contingencies.

Conversations

Walking into the conversation about CEO departures can be difficult and awkward for many, but having these critical conversations requires timing and prioritization.

Timing

Hawaiian culture recognizes human interactions as a series of intertwined departures and greetings. It is in this spirit that they use the same greeting (“aloha”) for both an arrival and departure between individuals. It is time for boards to utilize an “aloha” approach of active and regular strategy, discussion, and planning when it comes to the role and future CEOs. While it might seem counterintuitive, these dialogues should begin with the onboarding process of the new CEO.

In addition to starting the conversation early in the CEO onboarding process, having the conversation regularly is also of critical importance. The CEO succession planning conversation needs to be as regular and routinized as the CEO’s performance review. Boards need to build in protocols to ensure the proper discussions are taking place. For example, the board should discuss whether it is necessary to create a standing committee to oversee CEO succession planning, whether it should conduct an annual review/update of succession plans, etc.

Candid conversations regarding expectations reduce the risk of the board being caught off guard by an unexpected timeline with a CEO departure. Has your board had an honest conversation with the CEO about tenure expectations, as well as the CEO’s expectations to ensure alignment on both sides? According to a 2012 Witt/Kieffer

study,[1] nearly three-quarters of CEOs feel pressure from their boards to avoid retiring.

Priority

In the Governance Institute’s 2013 biennial survey,[2] participants rated board performance scores for management oversight at 4.26 (on a five-point scale); when it came to actual adoption of practices, the management oversight scores averaged 2.73 (on a three-point scale). This adoption score may appear generally high, but ranks only sixth out of nine fiduciary duties and core responsibilities included in the survey. In particular, the practice, “The board requires that the CEO maintain a written, current succession plan,” has consistently been a least-adopted practice (a rate of 2.22 out of 3.00 in 2013) over several years of the biennial survey reporting, when compared to adoption rates of other practices.

With mounting fiduciary pressures, policy making, strategy, and general organizational oversight staring boards in the face, it is not surprising that the succession planning conversation easily slips to the back burner.

According to Stanford University’s *2014 Report on Senior Executive Succession Planning and Talent Development,*[3] only 26 percent of boards review the CEO succession plan more than once a year, and on average, about *one hour* annually is dedicated to succession planning. Additionally, less than 50 percent of organizations have a designated committee to oversee the CEO succession planning process.

By routinizing and formalizing succession planning, a system of accountability evolves to ensure adoption of practices that need to take place. Regularly scheduled deliverables (such as plans, competency lists, updated talent pipelines, aggregating performance reviews for high potential leaders in the organization, etc.) and regularly scheduled check-ins can help facilitate accountability as well. Doing this allows for boards to expend both quantity and quality time on succession planning.

Competencies

It is no surprise to anyone in healthcare that the changes are coming fast and furiously. This onslaught of change creates a burning platform for boards to focus on regularly building a set of competencies they believe their CEO needs to have to be successful in this ever-changing environment. A.G. Lafley, the chairman of the board, president, and CEO of Proctor & Gamble, recently said, “The process of choosing a CEO never will be scientific—nor should it be. Nonetheless, a clear list of must-haves is critical.”

As the demands and realities of the healthcare organization change, the board has to be prepared to identify the actual

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1 Witt/Kieffer, *Healthcare CEOs and the Need for Better Succession Planning,* Summer 2012.

2 Kathryn C. Peisert, *Governing the Value Journey: A Profile of Structure, Culture, and Practices of Boards in Transition,* 2013 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

3 *2014 Report on Senior Executive Succession Planning and Talent Development,* The Institute of Executive Development, Rock Center for Corporate Governance, and Stanford University Graduate School of Business.

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behavioral, leadership, and cultural competencies needed for a CEO to be successful in their organization. It goes beyond identifying the competencies, but also practicing a regular review and updating of these competencies to align to the present organizational realities and needs. Inviting your CEO to share in parts of these conversations can help provide insight into the leadership needs of hospital staff and align it with the board expectations of CEO performance.

Defining these competencies and expectations allows the board and CEO to evaluate internal candidates and external candidates as a match for the skills and cultural fit needed in CEO replacement. It also minimizes the personal and political aspects of the replacement search and truly focuses on the abilities needed for success in the CEO role.

Contingencies

Harvard Business Review conducted a study in 2010 that looked at whether or not internal or external candidates were more or less successful (assessed by the organization's financial performance, post-CEO placement) based on the type of hire.[4] Interestingly enough, the study results indicated that the success of the CEO was not contingent on whether candidates were internal or external, but based largely on the environmental pressures the organization was facing and the type of hire they made. Since the healthcare landscape is evolving quickly, it is important that boards enact a plan with multiple contingencies to account for various needs at the time of CEO transition.

4 James Citrin and Dayton Ogden, "Succeeding at Succession," *Harvard Business Review,* November 2010.

Plan A: Internal Candidate

The case for bringing up a CEO through an internal talent pipeline is fairly easy to make: reduced search costs, established credibility, institutional knowledge, and the ability for other employees to see opportunities for growth in their own career paths are definite wins for the organization. Armed with all of the benefits of an internal CEO candidate, boards have still not made it a high priority to look inside the walls when looking for a CEO successor.

The Stanford University 2014 report cited above indicated only 54 percent of organizations were grooming a specific executive to succeed the current CEO. The same study showed that only about half of boards understand the strengths and weaknesses of the senior executives below the CEO. In order to be successful in measuring internal candidates, boards need to go beyond assessing the CEO's performance and have their finger on the pulse of all key leadership positions within the organization. While many will argue that non-profit boards should only be monitoring and assessing the CEO's performance, it is the fiduciary responsibility of the board to ensure that it has an adequate bench of human capital as well as financial capital.

Plan B: External Candidate

There are times when an organization needs new blood infused into its veins—fresh ideas, new competencies, or even just building a more diverse leadership team. In these cases, the board needs to be prepared to bring in an external candidate. The external candidate plan looks very different from Plan A's internal candidate and boards must consider the intensity of the search, the time and cost of onboarding, as well as the culture shock that both the CEO and employees may feel as leadership takes a new direction.

In order for boards to successfully execute an external CEO candidate search, they must be proactive in keeping their finger on the leadership pulse outside their own organization. This can be done by keeping engaged and in regular contact with strong leaders within and outside the healthcare industry, keeping a regularly updated short-list of strong leaders on the board's radar, etc.

Plan C: Emergency Plan

Since no one has yet been able to predict illness, family emergencies, or sudden departures, it is critical for boards to have an emergency plan in place in case of an unexpected CEO departure. The plan should be actionable and ready to execute on a moment's notice in case of emergency.

Boards that govern successfully are able to assess the organizational landscape, build contingencies, and proactively plan for the future, rather than reacting to present realities. By actively engaging in the three Cs of effective succession planning for CEOs, boards can do just this and be prepared for any of the expected or unexpected bumps in the road and maintain continuity in organizational leadership.

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