

# *Elements of* GOVERNANCE®

Providing CEOs, board chairs, directors, and support staff with the fundamentals of healthcare governance

A SERIES BY THE GOVERNANCE INSTITUTE

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## SUCCESSION PLANNING *THIRD EDITION*



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# *Elements of* GOVERNANCE

A SERIES BY THE GOVERNANCE INSTITUTE

*Elements of Governance*® is designed to provide CEOs, board chairs, directors, and support staff with the fundamentals of not-for-profit governance. These comprehensive and concise governance guides offer quick answers, guidelines, and templates that can be adapted to meet your board's individual needs. Whether you are a new or experienced leader, the *Elements of Governance*® series will help supply you and your board with a solid foundation for quality board work.

## About this Edition

This edition was reviewed and updated by **Marian C. Jennings**, president of M. Jennings Consulting, Inc. and a Governance Institute advisor. Ms. Jennings has over 30 years of healthcare consulting experience and is a nationally recognized expert in strategic planning, governance restructuring, and affiliation planning. She served as editor and coauthor of *Health Care Strategy for Uncertain Times*. Ms. Jennings is a frequent national speaker and author on the topics of strategy, health system integration, physician development strategies, contemporary governance, healthcare reform, and finance. Ms. Jennings holds a Master of Business Administration degree from Harvard University and a bachelor's degree in mathematics, *magna cum laude*, from Tufts University.

We thank Ms. Jennings for her expertise and time dedicated to this updated edition.

The second edition (2011) was based on materials from Integrated Healthcare Strategies (IHS), now a division of Gallagher Benefit Services, Inc. **David A. Bjork, Ph.D.**, Managing Director and Senior Advisor at IHS, reviewed the manuscript and IHS provided us permission to use its materials. A list of these references appears at the end of this publication.

## The Governance Institute

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The Governance Institute is a membership organization serving not-for-profit hospital and health system boards of directors, executives, and physician leadership. Membership services are provided through research and publications, conferences, and advisory services. In addition to its membership services, The Governance Institute conducts research studies, tracks healthcare industry trends, and showcases governance practices of leading healthcare boards across the country.



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# Introduction

One of the most important—and difficult—decisions a hospital or health system board of directors can make is choosing the next CEO. Planning for an orderly change in leadership requires foresight. It requires developing consensus *a priori* about the policies and principles for CEO selection; implementing a thoughtful candidate search and selection process; creating a deliberate, well-communicated, and well-understood transition plan; and delivering a positive message about the organization’s future direction.

Traditionally, many boards regarded CEO succession planning<sup>1</sup> as less than critically important until the CEO approached retirement age. The board practice of requiring the CEO to maintain a written and current succession plan tends to rate relatively low in adoption among boards responding to The Governance Institute’s biennial surveys over the past several years.<sup>2</sup> But the rate of CEO turnover is on the rise, with a reported 18 percent turnover in 2014 as industry pressures and transformation have accelerated.<sup>3</sup> Additionally, in a 2014 report developed by B.E. Smith, 70 percent of hospital/health system CEOs indicated that they plan to retire within the next ten years. Despite this, two-thirds of healthcare organizations report having no succession plans in place. Our new reality is that CEO turnover is unpredictable. In order to be prepared for a sudden, unexpected change in leadership, succession planning should always be on the board’s agenda.

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**For hospitals that are part of a system, the CEO selection process typically is a joint responsibility of the hospital board and system executives. Before commencing succession planning, the board should review the system governance authorities matrix to understand its role and responsibilities.**

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This *Elements of Governance*<sup>®</sup> is intended to help boards create a leadership transition plan that facilitates an orderly transition to new leadership. CEO turnover can cause major disruption in an organization, but a well-thought-out strategy, with a clear transition plan, effective ways of communicating the change to stakeholders, and—where relevant—a clearly defined transitional role for the departing CEO, will make the process run more smoothly.

1 Throughout this document, “succession planning” refers to identifying, evaluating, and developing internal candidates for succession to the CEO position (or other senior executive positions) and “leadership transition planning” refers to planning for the transition from the current CEO to the next one.

2 See K. Peisert, *21st-Century Care Delivery: Governing in the New Healthcare Industry*, 2015 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

3 See [www.besmith.com](http://www.besmith.com).

# A Case for Succession Planning

**D**espite rising rates of turnover, many organizations still do not address leadership transition until the CEO's retirement is imminent.

In 2015, two-thirds of healthcare organizations reported having no succession plans in place,<sup>4</sup> despite the likelihood that over the next five years, many of those without such a plan in place will face CEO transition. Without a plan in place, these organizations may default to promoting an internal candidate or begin a search without thinking through the competencies needed in the next generation CEO or the ramifications for the executive team, medical staff, philanthropic supporters, or other constituencies. Last-minute scrambling to find a successor can stall implementation of critical strategies, stymie the organization in responding to competitive threats, and/or make it look as if the board has not been vigilant in safeguarding the organization's future.

CEO succession planning needs to take into account the possibility of the five different types of CEO transitions listed below. Retirement at the end of a long career should allow plenty of time for a carefully planned transition. In general, we have found that such a transition will require two or more years. However, an accident, stroke, or heart attack may leave no time at all. Unless the board has a transition plan already developed and ready to use, a CEO's decision to move on to a new position elsewhere or an involuntary termination of the CEO may allow for a planned, but not a carefully orchestrated, transition. Each of the types of transitions listed below entails different circumstances, each with its own timeline and issues:

1. Scheduled retirement at the end of a career
2. Mid-career move of the CEO to a new position elsewhere
3. Involuntary termination of the CEO
4. Disability of the CEO
5. Death of the CEO

A well-developed succession plan should help the board deal with any of these events by their having identified and systematically developed a qualified internal candidate for the CEO position or by making it clear that the board will need to conduct an external search.

## **Succession Plan Elements**

The board should recognize that CEO succession planning is not simply replacing the current CEO with another individual with the same qualifications and experience. Yesterday's independent hospital or health system CEO must be succeeded by a CEO for the future, who will lead an integrated delivery system—potentially including a financing

<sup>4</sup> See [www.besmith.com](http://www.besmith.com).

arm such as a health plan—focused on effective population health management and capable of balancing myriad collaborative partnerships. While many of the skills, competencies, and experiences that were deemed essential for such CEOs five years ago are still relevant, the role of the CEO in the future is likely to be markedly different.

Additionally, if your hospital is a member of a health system, the future hospital CEO may play a fundamentally different role from your current CEO. Highly centralized health systems, for example, drive strategy, financial, and quality policies and procedures; population health; and other initiatives from the corporate office. Succession planning is typically undertaken jointly by system leaders and the local board, with the system recommending the final candidate for system approval. Clarifying the system's expectations for the future role of its hospital CEOs prior to developing a succession plan is critical. The system may also have a succession plan framework/template and process that the board can use for its succession planning efforts.

Ideally, every hospital or system would develop a succession plan well before it needs to be implemented. This plan can serve as a contingency plan, should there be an unexpected need to transition leadership. The following nine elements should be considered when planning for a change in leadership, whether imminent, planned, or unexpected:

**1. *Competencies and experiences needed by a future CEO:***

- Are we recruiting for the present or the future?
- How different will healthcare be in our region/state; specifically, how much disruption do we anticipate within five years? Within 10 years?
- What performance drivers will be critical to our organization's success in this new environment?
- What competencies must a future CEO demonstrate?
- What track record of success related to these future needs are we seeking in a candidate?
- What new skills will be needed to bridge clinical and administrative realms?
- *If your hospital is part of a system:* What does the system believe will be the key performance drivers in the future? What competencies, new skills, and experiences does the system believe are most important for our next hospital CEO?

**2. *Goals to be achieved:***

- What outcomes will indicate that the board has done the job of succession planning well?
- How important is it to retain other senior executives while the transition occurs?
- Are there strategic initiatives under way that need to continue without disruption during any change in leadership?

**3. *A search and selection process:***

- Have we clearly articulated our long-term strategic direction and developed selection criteria based upon this desired future state?
- Are there internal candidates for the CEO position who demonstrate the desired competencies, skills, and experience?

- Will an external search be conducted—and if so, what are the roles for the current CEO, a search committee, and the board in such an external search?
- How and in what order will internal and external candidates be evaluated?
- Which search firm will best meet the organization's needs and timeframe?
- *If your hospital is part of a system:* What is the system's strategic direction? What are the system's policies related to executive search and selection? Under what circumstances does the system utilize an external search, and has it identified a list of preferred search firms? Are there external candidates from within the system who should be considered, and should such individuals be given preference before commencing an outside-of-system external search? What role will system leaders play throughout this process?

**4. *Definition of a future role for the departing CEO:***

- What, if any, kind of ongoing role is appropriate for the departing CEO?
- Will the current CEO be available to support the board or the new CEO during a transition?
- How long should any such transition period be?
- *If your hospital is part of a system:* What are the system's policies related to a future role for a departing CEO during a leadership transition?

**5. *A transition plan for the new CEO's responsibilities:***

- If there is sufficient time prior to a CEO's departure, should an internal successor assume some of the CEO's duties prior to the departure date?
- If a CEO's departure is sudden, should we appoint an interim CEO?
- How will key internal and external introductions be made?
- How will a newly hired CEO be apprised of key internal operating systems and processes?
- *If your hospital is part of a system:* What are the system's policies related to CEO transition? How will a newly hired CEO be apprised of key system policies, operating procedures, and processes? If the CEO's departure is sudden, could the system provide us with an interim CEO or do they recommend use of an external interim CEO?

**6. *Transition, succession, development, and recruitment plans for senior executives:***

- Are changes to the organization's structure needed to ensure a smooth transition?
- Are any other senior executives nearing retirement or likely to leave upon the CEO's departure?
- Are there rising stars who need development and do we have in place a robust leadership development process for such individuals?
- Who is at risk for recruitment by other health systems?
- Will the organization be able to fill openings in executive ranks while the leadership transition is under way?
- *If your hospital is part of a system:* What system-level leadership development is available to cultivate future talent locally? How can the system help the hospital during



this leadership transition? What roles can the system play in helping us to retain our executive talent during the transition?

**7. *Retention planning for key executives:***

- Are there senior executives who would be especially difficult to replace in the next one to two years?
- Are there executives whose support will be critical to the new CEO's success?
- Does it make sense to offer financial incentives to retain key executives?
- *If your hospital is part of a system:* What roles can the system play in helping us to retain executive talent during the transition? What is the system's policy on providing financial incentives to retain key executives?

**8. *CEO employment agreement extension or modification:***

- Are the dates and definitions within the employment agreement consistent with the CEO's plans?
- Are documents for non-qualified retirement plans and other benefits consistent and compliant with applicable law?
- Will any ongoing transitional employment affect the CEO's retirement benefits, or ability to obtain a distribution of deferred compensation or other benefits?

**9. *Communication plan:***

- What constituent groups need to be informed of the transition, when, and in what order?
- What overarching message does the board want to deliver through its communications?
- *If your hospital is part of a system:* What communications support, advice, or assistance is available through the system?

In addition to the nine elements of a succession plan outlined above, if the plan is focused around the planned retirement of a CEO, the succession plan should include a 10th element:

**10. *Preferred timetable for executing the succession plan for planned retirement:***

- When does the CEO want to retire?
- Is it desirable for the departing CEO to have an overlap period with his or her successor?
- When does the search need to begin, and how long will it take?
- *If your hospital is part of a system:* What policies does the system have related to succession of a CEO who is planning to retire?

## The Well-Developed Leadership Transition Plan

The succession plan alone does not tell the board all the things it needs to do to make the transition from one CEO to the next as orderly as possible—it must also include a leadership transition plan.

A plan of the sort described here can help the board deal with any type of transition, too, by making it clear that it is far more complex than simply choosing the next CEO. Whether the board has a year or two or only a few months to plan and execute the transition, the general outline for a transition plan is the same. If the vacancy occurs unexpectedly, the board can give itself time for an orderly transition by appointing an interim CEO, but the transition first to an interim CEO and then to a permanent replacement makes the leadership transition plan all the more important and all the more complex.

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**The issues and steps involved in a well-developed and carefully scheduled CEO transition still need to be considered for circumstances in which the transition is unexpected and the timeline is short. This is a decision the board cannot delegate. If it doesn't manage the process well, it exposes the organization to internal turmoil and raises the risk of serious disruption. Considering *these a priori* by developing a solid succession plan helps to mitigate these concerns.**

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The following are key issues that should be addressed in any CEO transition plan:

- Clarification of the organization's strategic direction in an era of unprecedented industry change and consensus on the associated skills, competencies, and experience needed by the future CEO. The optimal selection process—whether it will consider internal candidates, utilize an external search, or use a combination of both—and the criteria for identifying and evaluating candidates.
- The anxieties other senior executives may have about their own continued employment and future roles within the organization.
- The need to ensure management continuity by keeping the rest of the senior executive team in place through the transition period and forestalling retirements or defections of other key executives until the new CEO is well established.
- The need to address other key constituencies about the organization's direction and future under new leadership.
- The risk of potential disruption to operational stability, performance, strategic initiatives, and any affiliation discussions with potential partners.
- If associated with a planned retirement, the ideal timeline for such a retirement and whether this will mean departure from the organization altogether or will involve a transition to some other ongoing role with the organization.
- *If your hospital is part of a system:* What are the system's policies and procedures to ensure a smooth leadership transition plan? How can the system support us during the transition?

Boards that identify their own unique issues up front and then develop a detailed leadership transition plan to deal with those issues, will find that the time spent in planning will pay dividends in the search and selection process and ensure a smooth transfer of duties to the incoming CEO.

Even if the board shares the responsibility for leadership success with system leadership, this is a decision the board cannot delegate. If it does not manage the process well, it may expose the organization to unnecessary criticism and raise the risks of serious disruption.

# Key Considerations

## **Contract Issues and a Future Role for the Departing CEO**

Contract issues may be important to the departing CEO, particularly if his or her contract has not been updated recently. Retirement arrangements that were negotiated in good faith in the past may not have kept up with tax laws. Changes in health status, marital status, or other factors can cause an individual to accelerate or delay a planned retirement date. The financial health of the organization and the intricacies of IRS regulations applicable to tax-exempt employers may make it difficult to make adjustments late in the game.

Increasingly, retiring CEOs are accepting part-time, transitional roles with their organization so they can ease into retirement or continue to work for causes they have supported passionately throughout their careers. A post-retirement consulting role can even be a requirement under the terms of a deferred compensation plan. But defining a continuing role for a retired CEO can be a political quagmire for the board, and a political nightmare for the successor.

The definition of any future role for the departing CEO must be carefully crafted. Even though the board may value the insight of a retired CEO, it is all too easy to cause confusion about who is in charge. The former CEO's presence must not undermine the authority or status of the successor. This can usually be accomplished through creation of a position description that is well defined and limited in scope and authority. Defining this role *before* hiring a successor helps to avoid misunderstandings and ensure good working relationships between all parties.

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### **Boards engaged in thorough leadership transition planning are:**

- Focused on the future, not on the present. They understand the roles a new CEO will need to play in leading the organization forward during a period of significant industry transition.
  - Proactive and intentional about management and physician leadership development and building competencies required for future success.
  - Focused on ensuring an effective, smooth transition.
  - Determined to maintain high performance through the transition period.
  - Committed to having a contingency plan in place for use should an unplanned or accelerated CEO departure occur.
  - Alert to the need to review and update the succession plan at least annually to keep it contemporary.
-

## Retaining Executives During a Transition

Any CEO transition—whether long-planned or more sudden—is likely to create personal anxiety among other senior executives. A pending change in leadership can undermine the stability of the team before the transition actually occurs. If an organization does not act proactively to retain executives during this time of uncertainty, it may find itself dealing with openings in key positions or the loss of key contributors at a time when recruiting will be especially difficult. Losing other senior executives during a CEO's transition can create additional problems in already fragile circumstances.

As executives wonder how the transition to a new CEO will affect them personally, they begin to consider their own plans. For example, some may consider their own career options, including potential retirement, based on the CEO's plans; some may prepare to leave if they are passed over for a promotion; and others may take new positions in other healthcare organizations now, instead of waiting to see what happens.

Boards may need to consider financial incentives for their executive teams to demonstrate commitment and win support for the process, whatever the outcome. Retention incentive plans can be effective tools to stabilize an executive team during a leadership transition. To effectively retain executives, the retention incentive must be large enough to matter. Plans commonly deliver 50 to 100 percent of salary over a two- or three-year period, but the design of a retention incentive plan can differ greatly from one organization to another. Incentives can be uniform for all members of the executive team or highly customized to reflect the varied ages and circumstances of the team members. Any compensation or incentive arrangements should be designed in accordance with applicable law and to ensure no excess benefit transactions.<sup>5</sup>

If your hospital is part of a system, how you approach executive retention during a period of transition will need to be consistent with the system's overall human resource policies and procedures. Additionally, system leaders may prove to be invaluable resources in helping to stabilize the management team and “calm the waters,” especially in the case of a sudden or unexpected CEO departure.

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*If an organization doesn't take steps to retain other senior executives during a CEO transition, it may find itself dealing with openings in key positions or the loss of key contributors at a time when recruiting is especially difficult.*

The retention plan structure should not be so rigid that the incoming CEO cannot choose his or her own team. Rather, it should stabilize the current team long enough for the new CEO to get established. Once this is accomplished, the organization is better positioned to deal with recruitment challenges.

<sup>5</sup> See [www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Intermediate-Sanctions-Excess-Benefit-Transactions](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Intermediate-Sanctions-Excess-Benefit-Transactions) for more information.

## **Communicating a Positive Message to Stakeholders**

Having a succession plan in place is a start. To ensure success, the board also must ensure that it conveys the right messages to the organization's constituencies. Common pitfalls of a poorly communicated message about the change in leadership might:

- Suggest the board was unprepared for the change.
- Imply to executives that none of them are considered competent enough to take over the reins.
- Tell physicians that the board does not care what they think about leadership qualities.
- Suggest to patients and the community that the organization is focusing on internal matters at the expense of service and quality.

A board that has a well-planned leadership transition process can use the opportunity of a change in leadership to deliver a positive message to stakeholders about the organization's future. Engage constituents by sharing an overview of your succession planning and selection processes, including the general criteria that you will use to select the future leader.

During this process, the board is well advised to visibly reiterate its perspectives on the organization's strategic direction and long term goals, while considering the needs and concerns of other stakeholders. Even if you have in place a well-established mission, vision, and strategic plan, take the time to reinforce their importance and ensure that all parties understand that these fundamentals are not changing. Focus on these fundamentals and draw a clear connection between strategy and the succession planning process to reduce anxiety and build support for the process.

Of necessity, the succession planning process must balance transparency with confidentiality. The process deals with sensitive information, so discretion is a must. Working with communications experts, members of the search committee will need to determine what kinds of information can and should be made public, shared internally, or considered confidential.

If the hospital is part of a system, communications should be developed by and/or coordinated with experts from the system. While transitioning to a new CEO may be new to your board, it is likely to be something that other systems have experienced and can provide valuable advice on avoiding common pitfalls.

## **Common Mistakes in Succession Planning**

### **Underestimating the Planning Time Required**

A graceful exit from the high-powered position of CEO cannot be planned and executed overnight. However, experts say the most common mistake boards make is to avoid or delay the transition planning process until it is too late.

There are many reasons boards avoid succession planning. The most common are that the CEO, board of directors, and management team are too busy; there are no strong internal candidates; the CEO would feel threatened by a strong internal succession candidate; the CEO doesn't want to become a lame duck; the CEO doesn't want to

give up feeling invaluable; the CEO can't envision what to do during retirement; or the CEO can't face leaving the organization he or she helped shape.

A critical first step is to recognize and understand that leadership transition is a process rather than an event. The process goes well beyond the executive search to include anticipating the concerns of key executives and other constituencies, preparing a structured communication plan, and maintaining confidentiality during the process. Properly developing and smoothly executing such a process takes time.

Ideally, the transition process should begin two or more years before the target transition date, and may continue beyond this date depending on the role of the departing CEO. **Table 1** below offers a general illustration of an "ideal" transition timeline, such as that for a planned retirement. Should the transition need to be a shorter period, the same steps would be required, albeit in a compressed timeframe. The importance of having an approved succession plan in place even before a CEO indicates that he or she will be leaving is clearly outlined by the scope of work included in **Table 1** to ensure a smooth transition.

**Table 1. Succession Planning Timeline for Planned Retirement**

Pre-Transition			Post-Transition	
Two Years	One Year	Six Months	First Year	Second Year
<ul style="list-style-type: none"> <li>• CEO discusses with board chair the intention to retire</li> <li>• Board leaders deliberate</li> <li>• Transition committee is formed</li> <li>• Board-approved succession plan is reviewed to identify any needed updates, including contingency plans</li> <li>• Committee explores options:               <ul style="list-style-type: none"> <li>» Internal candidates</li> <li>» External search</li> <li>» Executive roles</li> <li>» Retirement plans (if relevant)</li> <li>» Agreements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Transition plan is developed over the previous year               <ul style="list-style-type: none"> <li>» Develop transition responsibility matrix</li> <li>» Determine whether and how to use search consultant and, if so, identify preferred firm</li> <li>» Execute transition plan if an internal candidate is selected</li> <li>» If no internal candidate is selected, move to full search</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Communication about:               <ul style="list-style-type: none"> <li>» Transition or retirement</li> <li>» Succession planning process</li> <li>» Internal selection and transition</li> <li>» "Outside" successor</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Execute transition plan and deploy transition responsibility matrix for internal or external successor</li> <li>• Formal on-boarding process implemented</li> <li>• Other transition plans, potentially including advisory role for retiring CEO</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to execute the transition plan</li> <li>• New CEO has assumed all roles and responsibilities</li> <li>• Final communications</li> <li>• Execute other transition plans at executive levels</li> </ul>

### **Decoupling CEO Succession Planning from Robust Management Development**

A second common mistake is considering succession planning in a silo instead of seeing it as inextricably linked to management development. Once the board has identified the competencies, skills, and experience it is seeking in its CEO for the future, it should be assured that senior management has implemented a talent mapping model that assesses key senior leaders to identify those with the potential to be considered for the CEO position, identifies their strengths and weaknesses, and develops individualized plans to help these individuals close the gap. While not every organization will be able to promote successfully from within, there are advantages to developing the strengths of the senior team regardless of whether the next CEO is from the internal talent pool or recruited from the outside into the position.

If your hospital is part of a system, it is likely that the health system has implemented talent mapping or other leadership development programs in which your leaders participate. The board should be aware of these resources and ensure that your organization is taking full advantage of such system resources and programs.

### **Failing to Have a Contingency Plan in Place**

A third common mistake in succession planning is not having a contingency plan in place. Even if you have not developed a formal succession plan, the board should know what would happen “if” there were a need to replace the CEO within days or months. If you have a formal succession plan, the contingency plan is an essential component. In particular, the board should consider whether it prefers to utilize an external interim CEO or name a senior executive to the interim position.

Additionally, the board should ensure that there is a contingency plan geared for the first year or two of a new CEO’s tenure. While painful to consider, knowing there are agreed upon steps to ensure a smooth transition should a newly appointed CEO not work out would pay dividends if it were needed.

If your hospital is part of a system, the system likely can provide substantial support to help the hospital respond to an unexpected CEO departure, including providing an interim CEO or ensuring that there is adequate local leadership. The board should understand the system’s preferred approaches, capabilities, and role should such a situation arise.



# Outline of a Leadership Transition Plan

The following outline covers the key elements of a leadership transition plan. Developing the plan begins with some initial fact-finding exercises, discussion of alternative approaches, and decisions for moving forward.

The elements of the outline include:

- Goals for the leadership transition plan
- Timetable
- Successor CEO selection process and criteria
- Transition plan for CEO role and responsibilities
- Future role of the current CEO
- Transition, succession, development, and recruitment of senior executives
- Key senior executive retention planning
- CEO employment agreement extension/modification
- Communication plan
- Next steps

## Components of the Plan

### Goals for the Leadership Transition Plan

The following are sample goals for the succession planning process. Goals tend to be organization-specific, so adopt goals best suited to your organization's needs. Additionally, if you are part of a system, ensure that the work of your board is consistent with system policy and procedures related to leadership transition.

- Goal 1: develop an orderly, deliberate, thoughtful transition from the current CEO to the new CEO.
- Goal 2: retain the current senior executive team members with positive attitudes toward the transition.
- Goal 3: achieve the transition with the least disruption in current activity while retaining the same organizational momentum as currently exists.
- Goal 4: ensure departure or retirement of the current CEO is handled in a dignified and positive manner.

Goals such as these cannot be met just by conducting a search and choosing the next CEO. There are many elements to a transition plan other than identifying and selecting a successor CEO.

## Timetable

Boards may want to consider alternative timetables depending on the timing of and reasons for the CEO's departure. For example, one timetable might allow for a specified time period where there is an overlap between the departing CEO and the successor CEO, and another might provide little, if any, overlap of the two CEOs.

For the first alternative—where the two CEOs overlap for a specified time—the transition plan hinges on an early start for the search process. **Table 2** outlines how this may work in an ideal situation where the CEO's departure is known well in advance, providing ample time for planning.

The second alternative—little or no overlap between the departing CEO and the incoming successor CEO—allows for a slightly later start for the search process.

**Table 2. Transition Timeline with CEO Overlap (Ideal Situation)**

Month	
1	The CEO and board chair begin discussing retirement and transition.
3	The board transition committee is named and work begins on updating the succession plan and developing the leadership transition plan.
6	Key elements of the leadership transition plan are reviewed with the board.
9	Development of a communication plan outline begins, in preparation for a formal announcement of the leadership transition plan. Determination of whether to use executive search firm is made.
13	If external search firm is to be used, selection of preferred firm is complete and the search process begins. The transition plan is announced. Work continues on key elements of the leadership transition plan, including development of a senior executive retention plan (if relevant).
20	A successor CEO is selected and approved by the full board. For an external successor, a 90-day timetable begins for resignation and relocation for the new CEO.
24	The new CEO arrives and a 60-day "overlap" process begins.

## Successor CEO Selection Process and Criteria

Assuming the board has decided to include an external search process while allowing internal executives interested in becoming CEO candidates into the process, the board's leadership transition committee will need to choose between two search and selection processes:

1. A single pool of both internal and external candidates.
2. A staged process, first with internal candidates only, followed by external candidates if no internal candidate is selected.

The two approaches should differ only in the stages of consideration and are generally driven by the interest of the board in considering internal candidates in the process. Their main advantages and disadvantages are described below.

**Single Pool of Internal and External Candidates.** The search firm and the board leadership transition committee treats all candidates equally; they are placed in a single pool and reviewed and interviewed as a single group.

- Advantages
  - » Neither group is given preferential treatment.
  - » The process is conducted as a single process, not on two separate tracks.
  - » All candidates are evaluated using the same set of selection criteria.
  - » The process requires a slightly shorter period of time than a staged process.

- Disadvantages
  - » Internal candidates may perceive as unfair that they are not being given any preference over external candidates.
  - » Placing external and internal candidates into the same pool may give internal executives the impression that the board already has decided that no internal candidates are capable of becoming CEO.

***Staged Process with Internal Candidates First and External Candidates Later, if Necessary.*** This process gives preferential treatment to internal candidates—allowing them first crack at proving themselves. The search firm interviews and evaluates the candidates against the agreed-upon selection criteria, makes a comparison for the board against the likely external candidates, and provides the board with a recommendation as to whether to proceed with external candidates.

- Advantages
  - » A perceived preference by the internal candidates to be given priority.
  - » The process will be faster if an internal candidate is chosen.
- Disadvantages
  - » Despite good intentions, there may be a bias toward rewarding loyal internal candidates who have performed well in the past but may not demonstrate the skills and competencies or have the experience needed to be a change agent in a time of tremendous industry disruption.
  - » The search process will be lengthier if an internal candidate is not chosen.
  - » There is a risk of losing internal candidates who are not selected before the new CEO is named. If your hospital is part of a system, there may be opportunities to consider individuals who work within the system but are not internal to your organization. Such individuals might be considered external candidates within your process but there are many advantages to selecting a new CEO who knows the system's policies, procedures, and politics. The board should work closely with system leadership to identify whether such qualified candidates exist within the system.



The board needs to establish clear selection criteria for identifying and evaluating candidates. The criteria established should be competency-based but also will depend on the board's timeline and the organization's circumstances. For example, if the organization is facing an immediate crisis, such as avoiding default on bonds, or a near-term challenge, such as being excluded from a narrow network, the board will look for experience dealing with similar issues or challenges. If a board is looking for a CEO who can lead the organization through the disruptions and transformation required in the next 10 years, it will focus on a broader range of leadership skills.

Many organizations and experts have developed models that specify essential competencies for healthcare leaders. In 2010, a long-standing leadership competency model identifying 16 critical competencies for outstanding healthcare executives was updated. The authors identified these characteristics based upon decades of healthcare experience and research (see **Table 3**).

**Table 3. Characteristics of a Successful CEO<sup>6</sup>**

<b>Cornerstone 1:</b> Well-cultivated Self-awareness	<b>Cornerstone 2:</b> Compelling vision	<b>Cornerstone 3:</b> Real way with people	<b>Cornerstone 4:</b> Masterful execution
<ul style="list-style-type: none"> <li>• Living by conviction</li> <li>• Possessing emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>• Being visionary</li> <li>• Communicating vision</li> <li>• Earning loyalty and trust</li> </ul>	<ul style="list-style-type: none"> <li>• Listening like you mean it</li> <li>• Giving feedback</li> <li>• Mentoring others</li> <li>• Developing teams</li> <li>• Energizing teams</li> <li>• Generating informal power</li> </ul>	<ul style="list-style-type: none"> <li>• Building consensus</li> <li>• Making decisions</li> <li>• Driving results</li> <li>• Stimulating creativity</li> <li>• Cultivating adaptability</li> </ul>

If your hospital is part of a system, the system may have developed its own CEO competency framework that is expected to be used consistently across the system. The board should know the competencies, skills, and experience that the system utilizes in the hospital CEO selection process.

### **Transition Plan for CEO Role and Responsibilities**

Unless precluded by a sudden departure, key elements of the transition between the departing CEO and the successor CEO should be completed before the CEO departs, including:

- Introductions throughout the organization.
- Introductions to key external constituencies.
- Review of key internal operating systems and processes (i.e., annual budgeting process, strategic planning process, executive compensation system, human resource systems and policies, etc.).
- Introductions to key operating subsidiaries and their boards and management leaders.
- If the hospital is part of a system, review of key system operating policies, procedures, and processes and introductions to system senior leadership team.

<sup>6</sup> Carson Dye and Andrew N. Garman, *Exceptional Leadership, 16 Critical Competencies for Healthcare Executives*, Second Edition, ACHE Management Series Book, Health Administration Press, 2015.

Planning for this transition will be considerably different for an internal candidate than for an external candidate.

### **Future Role of the Current CEO**

Depending on the circumstances of the CEO's departure, preferences of the current CEO, and the organization's needs and desire for a smooth transition, the board may structure an arrangement that ranges from no ongoing roles and responsibilities for a departing CEO to a formal role with the organization for a specified period of time. For example, in the case of a CEO retirement, both parties may be well served if the departing CEO agrees to a post-termination consulting arrangement that would allow the organization to have continued access to his or her talents and insights as needed. Alternatively, a retiring CEO might be invaluable in helping with fundraising or legislative relations for a period of time.

If the parties agree to some sort of continuing involvement, a description of roles and responsibilities should be developed early in the transition process. This will provide the CEO candidates with assurance that the departing CEO will not continue to be an active part of governance or management.

A decision regarding the departing CEO's involvement as a member of a foundation board, or a board of any other subsidiaries, also needs to be made early in the search process.

If your hospital is part of a system, the system may have policies in place related to whether a current CEO may be retained to serve a specific role following his or her departure. The board should understand the system's policy on this matter early in the transition planning process.

### **Transition, Succession, Development, and Recruitment of Senior Executives**

An interesting situation that occurs more frequently than organizations would like, is one in which two senior executives—the COO and the CFO—both have the option of “early retirement” at or about the same time as the CEO's retirement. It is not uncommon to see senior executives at this stage of their career decide on early retirement at the time of a transition of the CEO who hired them.

The loss of both the COO and CFO places an additional burden on the incoming CEO. It is difficult for the new CEO to begin a recruitment process immediately—he or she may be unsure of the exact nature of the individuals needed to fit the culture, operational needs, and other needs of the organization.

The board should carefully consider whether the COO and CFO (and possibly other senior executives) need to be encouraged to stay. If so, this is usually done through a retention incentive plan.

### **Key Senior Executive Retention Planning**

There are at least three types of retention incentive plans used for a planned CEO retirement of when a CEO's decision to leave the organization is known well in advance of the departure date.

**Select Executives Only—Highly Individualized Plans.** Here, the board transition committee, guided by the CEO, selects a few individuals who are believed to be particularly vulnerable to being recruited away and creates a highly individualized plan for each executive.

**A Group of Executives with a Standard Retention Plan for All.** In this plan, an entire group of executives receives a common retention incentive plan to remain with the organization for a period of at least one year following the retirement or planned departure of the CEO. The plan is identical in all aspects including length of retention period, type of retention incentive, structure of the incentive, etc.

**A Group of Executives but with Individualized Plans.** The selected group of executives is each provided with a retention incentive plan, but the plan is highly individualized to their own circumstances and may differ considerably from the next executive's plan. For example, one executive may be offered a plan that focuses on an increased retirement package, another may be offered a deferred compensation plan or supplemental retirement plan, another may receive a three-year cash incentive plan, and yet another may receive a two- to three-year cash incentive plan with a deferral option.

Timing of the retention incentive plan(s) usually focuses on the following options:

- Retention plans developed and in place at the initial announcement of the leadership transition plan
- Retention plans in place when the executive search process is announced
- Retention plans in place shortly before the new CEO selection is announced

As stated previously, if your hospital is part of a system, whether and how you could offer an executive retention incentive plan during a period of transition must be consistent with the system's overall human resource policies and procedures, and have been approved, as needed, by the system's corporate compliance officer. Also, any retention arrangements should be designed in accordance with applicable law and to ensure no excess benefit transactions.

### **CEO Employment Agreement Extension/Modification**

The leadership transition plan should include a review of the current CEO's employment agreement, benefit plans, and other documents. Some issues may need clarification after the review. The employment agreement may need to be modified to fit the CEO's retirement or transition timeline.

Sometimes it is useful to develop a separation agreement for the retiring CEO to spell out exactly what the retirement benefits will be, what else is payable on separation, and whether the CEO must still comply with non-compete, non-solicitation, non-disclosure, and non-disparagement agreements. Any separation agreement should be designed in compliance with applicable law.

As stated previously, if your hospital is part of a system, the board should make sure that any approaches are consistent with system policy and that the system's corporate compliance officer and/or legal counsel have reviewed any agreements.

## **Communication Plan**

Both the timing and content of communications merit attention in the transition planning process. Because each of the organization's constituencies believes it is important to the overall success of the organization, an informal or usual communication process will not be sufficient. Some constituencies need to hear about the leadership transition plan directly from the board of directors, some even by personal contact with a key director. Others need to hear it from the CEO; and still others can hear about it through various forms of written communications.

**Timing.** Four general timeframes for the announcement of a leadership transition plan should be noted:

- Early in the process: immediately after approval of the transition plan by the board of directors. The communications should reassure constituents that the board has a clear strategic vision and is committed to the organization's long-term success.
- Mid-stage: after the board transition committee has made the selection of a leadership transition committee and/or search firm and approved the search process.
- Late in the process: once the final candidates have been chosen.
- Just before the transition: once the successor has been chosen.

**Content.** Content may vary by audience. A carefully designed matrix of communications timing and content may be the best approach. The amount of disclosure typically is determined by the roles of each constituency group:

- Full disclosure: Parties receive a complete description of all elements of the plan with a promise for continuous communications throughout the process. Typically used for the board of directors. May also be used with other selected constituencies as determined by the board.
- Partial communication: Parties receive communications at key points in the transition process, for example, announcement of a search firm, announcement of the finalist process, and announcement of the selected candidate. Typically used for other internal constituents in leadership positions.
- Minimal content: Parties receive only a few selected communications, for example, announcement of the CEO's decision to retire or depart, followed much later by announcement of the selection of the new CEO. Typically used for general internal constituencies and external parties.

Most experienced participants in leadership transition plans believe that "the more, the better." However, given the sensitive information involved in this process, discretion is imperative. Recognize that each situation is different and the content of the announcement will be a decision for the transition committee.

If your hospital is part of a system, the board should avail itself of system-level communications support, advice, or assistance available through the system.

## Next Steps

Next steps for the directors involved in transition planning might include:

- An agreement that it is time to move to ongoing development and/or updating of a leadership succession plan.
- Assurance to the board that when the full plan is developed, it will be brought to the full board for discussion and approval.
- A decision on how many and which board members would make up a board transition committee, when warranted.
- When appropriate, communication with the full board of directors regarding the development of a leadership transition plan and the selection, presumably by the chair of the board or committee members.

There are many alternatives and decisions that a transition committee must make in the development of a full and complete leadership transition plan. Keep in mind some observations of experts in this field:

- The selection of the organization's CEO is the most important function of a board of directors.
- The future CEO must be an individual ready and able to be a "change agent," focused on succeeding in the healthcare environment of tomorrow.
- The transition from a long-time, effective CEO to a successor CEO is a far more complex undertaking than merely hiring a search firm, interviewing candidates, and selecting a new person.
- The board needs to focus as much on the *transition* from one CEO to another as it does on the *selection* of the new CEO. Many search processes fail in this regard.
- If your hospital is part of a system, its approaches to succession planning and transition planning must be consistent with system policies, procedures, and the governance authorities matrix. The board should take advantage of expertise resident at the system level to aide its succession and transition efforts.



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