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Mind the Gap: Overcoming the Pitfalls and Challenges of the Interim CEO

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Anyone who has ever spent time in the UK on public transport knows to “mind the gap.” The purpose of the statement is to remind riders not to trip during the transition from a platform to the train, or vice versa. In the same way, boards need to be mindful of the transition between CEOs in organizations. It is this precarious transition that can lead organizations to stumble when it comes to performance.

Just how prevalent is CEO turnover in healthcare these days? The most cited source of this data comes from the American College of Healthcare Executives (ACHE),¹ which recently reported that healthcare CEO turnover is climbing to close to 20 percent. Deborah Bowen, President and CEO, noted:

“As our data shows, elevated turnover among hospital CEOs seems to be a feature of the current healthcare environment. The continuing trend of consolidation among organizations, the increasing demands on chief executives to lead in a complex and rapidly changing environment, and retirement of leaders from the baby boomer era may all be contributing to this continuing higher level of change in the senior leadership of hospitals.”

No matter the reason, increased CEO turnover is putting extra pressure on boards to focus on succession planning and consider all of the options available to map out a plan for CEO vacancies. There are many options in the transition plan from one CEO to the next, and the use of an interim CEO is a viable option to “mind the gap” for many organizations during this transitory time.

¹ ACHE, “Hospital CEO Turnover 1981–2015,” March 2015 (available at www.ache.org/pubs/research/ceoturnover.cfm).

In a *BoardRoom Press* article, Colleen Chapp, Senior Vice President of the Division of Interim Leadership and Advisory Services at B. E. Smith, highlighted the valuable benefits of engaging with an interim CEO. When used as intended, she explained that an interim CEO can:²

- Fill a mission-margin critical role.
- Provide leadership coverage while recruiting the permanent CEO replacement.
- Provide a smooth transition in order to support success for the incoming leader.
- Typically gain unplanned quality, financial, and operational improvements.

Interim Frequency and Effectiveness

But how often are these interim positions utilized? The jury is still out. Given the fluid definition of the term “interim CEO,” it is hard to identify how frequently this option is leveraged in the marketplace. The best guesses in the literature show a likely 15–30 percent use of interim CEOs as a tool in succession planning and in transitions in organizations.

While used on a regular basis, the research on interim CEO performance remains mixed. Two of the most frequently cited studies both came to separate conclusions about the performance of organizations with interim CEOs. A *Harvard Business Review* article recently pointed to a survey that demonstrated evidence that organizations utilizing interim CEOs rather than installing permanent ones have lower financial performance.³

² Colleen A. Chapp, “The Advantage of Interim CEO Leadership,” *BoardRoom Press*, The Governance Institute, October 2014.

³ Walter Frick, “What Happens When an Interim CEO Takes Over?” *Harvard Business Review*, June 12, 2015 (available at <https://hbr.org/2015/06/what-happens-when-an-interim-ceo-takes-over/>).

On the other hand, The Conference Board's research team conducted a comprehensive study that evaluated financial performance and market reactions to interim CEO appointments. When discussing this study, they concluded, "It appears that while analysts remain pessimistic about firm performance following the selection of an interim, analysis of multiple measures of performance failed to find any relationship between firm performance and the selection of an interim CEO."⁴ A review of other literature provides similar contradictory conclusions. At best, the research offers one solid conclusion: interim CEO effectiveness (or ineffectiveness) varies from situation to situation.

Interim Communication

To ensure short- and long-term success with any interim CEO situation, it is imperative that boards communicate regularly and as forthrightly as possible to ensure the messages are clear to all stakeholders, staff, and even the marketplace. When communicating, boards must consider both the role and the timing of interim CEO appointments:

- **Role:** For example, some organizations retain an interim CEO for his or her ability to come in and train and/or groom an executive team to bring up the next permanent CEO. In these situations, boards should be specific and direct in their communication. Communication should indicate that the interim CEO has a long and successful history of growing and building leaders from within an organization and that the board is excited to have him/her to work with and grow the leadership team. Without naming names, boards can give the staff a better picture of why the "interim" approach was a calculated move, rather than a temporary fix in a difficult situation. This will likely boost their confidence in board leadership and engagement with the organization.
- **Timing:** If you know in advance this is going to be a longer-term interim leader, be sure to communicate this information to staff and stakeholders alike. In some

⁴ Matthew Semadeni, Christine H. Mooney, and Idalene F. Kesner, "Interim CEO: Reasonable Choice or Failed Selection?" *Director Notes*, The Conference Board, June 2014 (available at www.conference-board.org/retrievefile.cfm?filename=TCB_DN-V6N12-141.pdf&type=site).

cases, interims may be testing the waters as a contender for a good fit—but if you wait too long to remove the interim title, it can leave employees and stakeholders feeling like the board is "settling" on a CEO or has not executed a robust search for the new CEO. Sometimes "interim" is perceived as a lack of succession planning or a failure on the part of the board to have an action plan. By staying in front of these presumed intentions with a clear message, it can help minimize these feelings from staff and stakeholders alike.

In some cases, the "interim" label can lead to a gray area. There are situations when a CEO is labeled "interim" to the staff and stakeholders, but has been given signing power, shows up as CEO on corporate records, and leads both strategically and operationally. When the interim CEO tactically and legally operates like a CEO, the message to staff and stakeholders can be confusing.

This can lead to one of the great challenges with the "interim": the interim CEO's ability to execute in strategic decision making. A 2010 study exploring efficacy of interim CEOs and financial performance in organizations found that major strategic decision making was negatively impacted the longer an interim CEO remained in position.⁵ While interim CEOs can execute upon already determined strategic plans, many times they do not have the authority to move into new strategic directions. This lack of managerial discretion permeates down the leadership pipeline and creates a "leadership vacuum" in terms of organizational decision making.

In addition, when interim CEOs last too long, employees, leaders, and the general public can lose faith in the leadership. It can be interpreted as:

- The board lacking a strong succession plan
- A vote of no confidence in the interim CEO if they ever become permanent
- No qualified candidates

⁵ Gary A. Ballinger and Jeremy J. Marcel, "The Use of an Interim CEO during Succession Episodes and Firm Performance," *Strategic Management Journal*, Vol. 31, Issue 3, March 2010, pp. 262–283.

- Burnout for other organizational leaders hoping to grow into the role

If boards find themselves in this situation where the interim has been in transition for a long period of time, they should consider the following questions:

- Have we gotten too comfortable with the interim?
- Has the search fallen by the wayside?
- Is the organization performing well?

- Does the interim CEO successfully lead both strategically and operationally? If so, is it time to remove “interim” from the title?

By leveraging a mindful approach, boards will be able to navigate the CEO leadership gap successfully and set not only the permanent CEOs but also their organizations up for long-term success.

The Governance Institute thanks Jim Finkelstein, President and CEO, and Sheila Repeta, Senior Consultant, of FutureSense, Inc. for contributing this article. You can learn more about their company and work at www.futuresense.com or contact them at jim@futuresense.com and sheila@futuresense.com.

