CEO Retention: Beyond the Compensation Package

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Key Board Takeaways

- Certain non-economic elements, all of which are within the control of the board, are as important as the financial package to achieve long-term CEO retention.
- Boards that practice strategic governance reduce the risk of CEO turnover.
- A strong board culture is very attractive to CEOs.
- Sound governance practices are foundational to an effective CEO retention strategy.
- When boards and CEOs work together as partners, all parties benefit.

As the pandemic shifts into endemic status, CEO retirement announcements are appearing in healthcare news feeds almost daily. The American College of Healthcare Executives recently announced a 2021 CEO turnover rate of 16 percent, which matched the rate in 2020. Notably, there is significant state-level variation ranging from 3–33 percent.[1] Healthcare executive search experts informally predict even higher CEO turnover in the future due to a combination of baby-boomer demographics and pandemic-related burnout.[2]

CEO retention is a primary focus of boards and their compensation committees. As expected, compensation committees concentrate on the CEO's total compensation package: salary, benefits, and incentives. Without doubt, the total compensation package is vital to successful CEO recruitment and retention. However, the non-financial aspects of CEO retention can significantly impact the decision of a CEO to engage (or not engage) in a search for a new position. Along with the compensation package, boards should also consider the non-financial aspects that mitigate the risk of CEO turnover. Fortunately, these elements are all within the control of the board.

Non-Economic Retention Considerations

CEOs are often reluctant to leave a situation in which the overall board culture is positive and forward-thinking. This means the board focuses on governance-level work, including devoting the majority of board meeting time to strategic pathway discussions and deliberations. Such boards feature engaged directors who are committed to sound governance practices. Boards that desire a lengthy tenure from their CEO should consider these non-monetary retention points:

- Boards that are deliberate in defining the roles and responsibilities of governance (especially in relationship to the CEO's role) have created the foundation for strategic (or generative) governance. When a board by design does not become involved in operational matters, it signals confidence in its chief executive and respect for the CEO position. A board that devotes its agendas to strategic challenges, questions about the future, and governance oversight is an attractive partner for a CEO.
- Are directors prepared for meetings? Is there robust participation in the boardroom? Is attendance generally very good at board meetings and board events such as retreats? It can certainly be discouraging to the chief executive if the answer to any of these questions is a consistent "no." The answers to these questions are direct indicators of board culture.
- Boards with a disruptive director must remember their self-governance responsibilities and "take care of business." Disruptive board members who are not addressed by board leadership will create an unappealing environment for the CEO (and other directors too).
- A conflict-of-interest policy that is clear, robust, and respected by all directors is essential to CEO retention. When a known conflict is not addressed by the board, the CEO can find him or herself in an untenable situation.
- A strong partnership between the board chair and chief executive is also an attractive scenario for a CEO. As boards select officers, one consideration should be the potential to develop a high-quality partnership with the CEO. Boards should seek confidential input from the CEO as one of many considerations in board leadership selection.
- CEOs aspire to work with top board talent. Boards with a history of attracting directors from diverse backgrounds, industries, and perspectives create an enticing boardroom environment for the CEO.
- CEOs need performance feedback on a regular (usually, annual) basis. Especially when a CEO is generally acknowledged to be high-performing, it can be tempting for boards to skip this step. Instead, boards should commit to conducting an annual CEO performance review. The dialog surrounding the review—along with associated insights—are beneficial to the CEO.
- Boards should both encourage and support the CEO to be active in professional development activities at the local, state, and perhaps even the national level. CEOs learn from involvement in these external activities and benefit from sharing insights with other healthcare leaders. The organization (and often, the board) also profits from the external knowledge the CEO gains from these activities.

Final Thoughts

As a point of clarification, "rubber stamp" boards or boards that always agree with the CEO are not contributors to CEO retention. Instead, CEOs thrive in a respectful atmosphere in which directors pose challenging questions to one another and to the CEO—and the CEO does the same. In the ideal boardroom, directors and the CEO are continuously learning from one another and are working in partnership to advance the organization's mission. Finally, the risk of CEO turnover can be mitigated when the board considers both economic and non-economic factors that contribute to retention.

The Governance Institute thanks Kimberly A. Russel, FACHE, Chief Executive Officer of Russel Advisors and Governance Institute Advisor, for contributing this article. She can be reached at russelmha@yahoo.com.

1 American College of Healthcare Executives, "Hospital CEO Turnover Rate Remains Steady" (press release), May 23, 2022.
2 Kimberly Russel, Marian Jennings, and Andrew Chastain, "Retaining Executive Leadership for Healthcare's Next Generation" (Webinar), The Governance Institute, November 4, 2021.