

Best Practices in Board Succession Planning

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Agrowing body of evidence from studies in the health, business, and other sectors show the quality of governance has material impact on the success of the organizations for which they have legal responsibility. These studies demonstrate there is linkage between how effectively boards fulfill their fiduciary duties and various measures of organizational performance.¹ Effective boards tend to make better decisions in shaping the organization's strategies and monitoring its performance with the goal of continuous improvement.

Numerous factors influence the effectiveness of corporate boards. Among the key determinants are the board's size, how it is structured (e.g., the number and nature of standing committees), how well board and committee meetings are led, the quality of staff support, and the extent to which the board's culture nurtures constructive deliberations and builds trust.² These factors are important and warrant ongoing attention by board and executive leadership. However, there is broad accord among experts that the *composition* of boards—their collective expertise, diversity, and independence—is decisive in determining board effectiveness.³

In short, there is abundant evidence that *board effectiveness* has substantial impact on organizational performance and that *board composition* is a principal determinant of board effectiveness (as depicted in **Exhibit 1**).⁴ Given the importance of board composition in this equation, it is surprising that board succession planning—the process through which the needs for board talent are determined and future board members and board leadership are selected—is not given more attention and priority, both in organizational policies and practices and in governance studies.

This article demonstrates why succession planning is a fundamental and vitally important governance duty and—based on available evidence and our experience in serving on, studying, and advising many boards—identifies a set of best practices in board succession planning.

Basic Best Practices in Board Succession Planning

There is substantial evidence that leadership succession planning—both for CEO and board members—is spotty in the healthcare field. For example, a study conducted by the American College of Healthcare Executives in 2014 found that only 52 percent of America's hospitals routinely conduct succession planning for CEO positions.⁵ Similarly, The Governance Institute's 2019 biennial survey of hospitals and healthcare systems showed that only 44 percent of the participating organizations had a written, current CEO and senior executive plan in place.⁶ A lack of succession planning exists in other sectors as well. A global survey of over 5,000 board members in multiple sectors conducted during 2015 and 2016 found that only 46 percent of

Key Board Takeaways

The effectiveness of governing boards has a substantial impact on the long-term success of healthcare organizations. Evidence shows that the most important factor affecting board performance is board composition—the board's collective commitment, diversity, expertise, and independence. The board should:

- Have a well-designed board succession planning process. This is instrumental in creating and maintaining excellence in board composition. Unfortunately, formal board succession planning occurs in only about half of America's hospitals and systems.
- If you do not have a well-developed board succession planning process in place, create one by adopting, installing, and sticking with the nine best practices outlined in this article. These practices require buy-in and ongoing efforts by board and executive leadership, but they are straightforward and doable. If instituted and maintained, these practices will have a positive impact on the board's composition and effectiveness and, over time, on the performance and success of the organization for which it has legal and moral responsibility.

the companies they governed had a formal planning process for CEO succession.⁷

Exhibit 1: Linkage Among Board Composition, Board Effectiveness, and Organizational Performance



1 See, for example, G. Tyge Payne et al., "Corporate Board Attributes, Team Effectiveness, and Financial Performance," *Journal of Management Studies*, June 2009; Thomas Jha et al., "Hospital Board and Management Practices Are Strongly Related to Hospital Performance on Clinical Quality Metrics," *Health Affairs*, August 1, 2015; Hongjin Zhu et al., "Board Processes, Board Strategic Involvement, and Organizational Performance in For-Profit and Non-Profit Organizations," *Journal of Business Ethics*, 2016.

2 David Nash, William Oetgen, and Valerie Pracilio (Eds.), *Governance for Health Care Providers: The Call to Leadership*, Boca Raton, FL: CRC Press, 2008.

3 See, for example, Ross Millar et al., "Hospital Board Oversight of Quality and Patient Safety: A Narrative Review and Synthesis of Recent Empirical Research," *The Milbank Quarterly*, December 2013; Jana Oehmichen et al., "Who Needs Experts Most? Board Industry Expertise and Strategic Change—a Contingency Perspective," *Strategic Management Journal*, March 2017; and Jared Landaw, "How Diverse Is Your Board, Really?" *Harvard Business Review*, June 11, 2020.

4 Lawrence Prybil et al., "Building the Case for Including Nurse Leaders on Boards," *Nursing Economics*, July/August 2019.

5 Kevin Groves, "Examining the Impact of Succession Management Practices on Organizational Performance," *Health Care Management Review*, October/December 2019.

6 Kathryn Peisert and Kayla Wagner, *Transform Governance to Transform Healthcare: Boards Need to Move Faster to Facilitate Change*, 2019 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

7 J. Yo-Jud Cheng et al., "Your CEO Succession Plan Can't Wait," *Harvard Business Review*, May 4, 2020.

With respect to *board* succession planning, unfortunately this important governance task is often ignored.⁸ A study of 14 of our nation's 15 largest non-profit systems completed in FY 2013 found that only six of these 14 systems (43 percent) had some form of succession plans in place for both board and CEO positions.⁹ The Governance Institute's biennial survey had similar findings, with only 42 percent of boards saying they use an explicit process of board leadership succession planning to recruit, develop, and choose future board officers and committee chairs. Yet, today's environment demands secure board leadership, planned in advance, in order to be successful.

Effective succession planning must consist of more than simply tapping into the same traditional "old friend networks" whenever a board vacancy occurs. Boards must take account of the full range of experiences, personal characteristics, and skills needed on a successful governing board. This, in turn, requires attention both to the qualifications of each potential member *and* the needs of the board as a whole. In a high-performing board, each board member should be expected to possess integrity, passion for the organization's mission, and willingness to ask probing questions. Dedication to attend board and committee meetings, be well-prepared, and participate actively in the deliberations is essential.

Therefore, the process through which board members are identified and appointed is important to the organization's long-term success. We recognize there are some boards that already have highly effective leadership succession policies and processes. However, based on published information and our joint experience in working with numerous and diverse boards, we believe there are a set of practices that would be beneficial for many boards and their organizations to adopt:

1. **Board understanding and commitment to succession planning.** Board education and understanding is essential in building support for any board policy or initiative. There is abundant evidence that a large proportion of hospital and health system boards are not actively engaged in formal succession planning for board

What Are Some Tools of Effective Succession Planning?

In addition to the best practices identified in this article, below are some of the key *tools* used by high-achieving hospitals and systems:

- **Governance and nominating committee:** The process starts with the appointment of an effective governance and nominating committee whose composition principally includes experienced, longer-serving board members.
- **Dedicated staff support:** The committee (and the board) should be supported by a member of the executive team who has board support as a major component of his/her job.
- **Skills matrix:** The committee and staff should make use of a "skills and experience" matrix to identify high-priority "gaps" to be filled when the terms of current board members expire.
- **Feeder boards:** Some systems make effective use of subsidiary and foundation boards to identify and get to know potential future recruits.
- **Committee membership:** High-performing hospitals and systems also add highly qualified non-board members to certain standing board committees and *ad hoc* work groups.
- **Member education:** Education and training of board members—both for onboarding new members and for all members on an ongoing basis—is done regularly by successful boards; in these educational programs, they involve experienced board members with diverse skills who devote time to educate other members in their areas of expertise.
- **Mentors:** Longer-serving board members take the time to mentor newer and incoming members in systems with effective succession planning.
- **Recruiters:** Some non-profit boards (especially health system boards) have begun to use headhunters, much the way they are used to recruit directors in the corporate world.
- **Compensation:** A minority (around one in 10) of non-profit hospitals and systems compensate board members. Boards should discuss whether compensation is appropriate for their board members and if so, why.
- **Ongoing role for retiring board members:** While term limits are important, successful organizations also can provide opportunities for retiring board members to continue to contribute their skills and experience.

positions. If a board believes its composition is an important determinant of its effectiveness, the place to begin is board education and strong commitment to creating and maintaining a strong succession planning program. The board's commitment should be expressed in the organization's bylaws, a formal policy statement, and/or in the board's charter.

2. **A board policy establishing term limits: both the length of board member terms and a formal limit on the number of consecutive terms a member can serve.** Defined term limits are essential to effective succession planning. Their existence—in combination with board commitment to balance new appointments with the retirement of longtime directors—enables the introduction of needed experience, expertise, and fresh thinking. Without them, boards gradually

can become too large and/or stale. Of course, careful attention must be given to the timing of term expirations to avoid losing an overly large number of valuable board members in any given year.

3. **Board-approved statement of the basic qualifications for all board appointees and a position description for board members.** All boards should establish, periodically review, and, if indicated, refine a definition of the fundamental characteristics and values that *all* board members should possess. This statement should provide the initial screen against which all potential candidates for board appointment are assessed and become an integral part of a formal position description for board members. The position description needs to clearly spell out the basic role and responsibilities of all board

8 The Governance Institute, *Board Leadership Succession Planning*, March 2017.

9 Lawrence Prybil et al., *Governance in Large Non-Profit Health Systems*, Commonwealth Center for Governance Studies, Inc., 2012.

members. This document must also be shared and discussed thoroughly with all potential board candidates.

4. **Standing board committee to lead board succession planning.** To ensure the board's commitment to effective succession planning is sustained, leadership responsibility should be assigned to a specific standing board committee and codified in that committee's charter (usually the governance committee). The charter should clearly define the committee's role, duties, and authority for the succession planning program and specify the decisions that will be reserved to the full board. As an illustration, **Exhibit 2** is the charter of the governance committee of Penn Medicine Lancaster General Health in Lancaster, Pennsylvania.¹⁰ It is recognized that—even when a hospital or health system board has fiduciary responsibility for the organization it governs—the final authority to appoint and remove board members may be vested in a higher authority (e.g., a governmental body that owns the organization or a religious sponsor). In all cases, the decision-making process should be spelled out in the committee's charter.
5. **Assessing the board's evolving needs for talent.** The standing committee that is given lead responsibility for board succession planning should be expected to maintain up-to-date information about current board members, their background, and their terms to use in planning for future board appointments. With that foundation, the committee can and should institute an ongoing process for assessing the board's evolving needs for experience, expertise, and diversity in a dynamic environment and employ this information deliberately in a) setting clear *priorities* for new board appointments and b) systematically identifying highly qualified persons whose qualifications meet the board-approved standards for *all* board members *and* match these *current* priorities well. To be effective, this must be a proactive, continuous process—not a once-per-year event—and recognize that a new range of experience and skills, beyond those traditionally needed, are becoming desirable for boards in meeting contemporary challenges. (See sidebar “New Skill-sets for Board Members.”)

Exhibit 2: Sample Governance Committee Charter: Penn Medicine Lancaster General Health

Membership

Members of the Governance Committee shall be appointed annually by the Chairperson of the Lancaster General Health Board of Trustees, in consultation with the Vice-Chairperson of the Lancaster General Health Board and the Chief Executive Officer. The membership shall include: the Chairperson of the Board of Trustees, the Chief Executive Officer, and additional members selected from the Lancaster General Health Board of Trustees or affiliate boards. The Chairperson of the Board of Trustees shall appoint a Chairperson of the Governance Committee.

Charge of the Governance Committee

The Governance Committee (the “Committee”) shall assist the Board of Trustees (the “Board”) in fulfilling its oversight responsibility relating to proper and effective governance of Lancaster General Health (“LG Health”) and each of its affiliates.

Responsibilities of the Governance Committee

The Committee is responsible for each of the following matters:

1. On an annual basis prior to the Annual Meeting of the Board in September, review the Board composition for LG Health and each of its affiliates for which it is responsible for nominating board members. The Committee may develop nominations at other times of the year if vacancies occur. The Committee shall develop a slate of nominees to fill each of the vacancies on each of the boards. The Committee shall also review each of the Board Committees, assess their membership, and make recommendations for their membership. In making its nominations, the Committee shall be guided by a desire to seat boards and committees with diversity of thought and competency. In considering appointments to the LG Health Board, it shall be mindful of the Position Description approved by the Committee for Board Members.
2. The committee is responsible for planning for the succession of Chairpersons and Vice-Chairpersons for the LG Health Board and each of its affiliates. As used in this Charter, the term “plan for the Succession” shall include identifying suitable candidates for these positions, recommending specific actions to develop individuals to be prepared to hold such offices in the future, and in the case of the LG Health Board, nominating individuals to fill these offices.
3. The Committee shall plan for the succession of Chairpersons for each of the standing committees of the Board.
4. The Committee shall maintain a competency and diversity matrix as it plans for filling Board Chair, Vice Chair, Trustee, and Committee positions. It shall work throughout the year to identify talent for the Board and Committees.
5. The Committee shall, on its own or through a subcommittee, consultants, or other designees, periodically as necessary review and make recommendations regarding the corporate structure of LG Health, and all of its affiliates. This may include reviewing documents such as bylaws and charters, and making appropriate recommendations.
6. The Committee shall, by itself or through one or more designees, periodically review the Bylaws of LG Health and its affiliates in order to assure that these documents are current. In addition, the Committee shall review and approve any other major changes proposed to the Bylaws.
7. The Committee shall, consider and recommend actions for the orientation, continued education, and development of the members of the Board of LG Health and its affiliates.
8. The Committee shall periodically conduct, through itself or its designees, Board and Board member evaluations for LG Health and its affiliates in order to assess Board effectiveness, and make recommendations for improvement as appropriate.

Approved 03-21-19: LG Health Board of Trustees

¹⁰ See also The Governance Institute's best practice governance committee charter template at www.governanceinstitute.com/templates.

New Skillsets for Board Members

While non-profit hospital and health system boards will continue to seek members with traditional health-care board skillsets—such as finance, business, medicine, real estate, and law—effective succession planning today also must reflect the importance of other 21st-century disciplines, such as:

- Enterprise management
- Cybersecurity
- Digital health and telehealth
- Epidemiology
- Population health
- Nurse Leadership
- Operational improvement (Lean, Six Sigma)
- Social media communication
- Robotics
- Nanotechnology
- “Big data”
- Environmental science

6. **Creating and maintaining an inventory of highly qualified candidates as a foundation for identifying nominations.** A *continuous process* of defining a board’s evolving needs for talent, setting priorities, and maintaining an *up-to-date* inventory of potential candidates whose characteristics could meet those needs is a core duty for the committee with lead responsibility to make nominations for board appointments. The direct knowledge and relationships of committee members can and should be augmented by reaching out to individuals or firms known by committee members to have high levels of knowledge, expertise, and contacts in an area(s) the committee has placed priority for a new board appointment(s). The committee should be expected to look proactively beyond the local setting and persons the members already know in the process of seeking potential candidates to include in the inventory. Proper staff support is essential to assist in building, maintaining, and keeping the inventory current and complete.
7. **Interviews with selected candidates for board appointments.** Interviews with persons who are selected by

the committee to be on the “short list” of potential candidates to gain more insight and determine their level of interest and potential availability for being nominated for a board appointment should be an integral step in the process of developing nominations. Both members of the committee and the CEO need to participate in these interviews. It is very likely that those who will not be nominated at that particular time can be excellent candidates for appointment to a standing board committee or work group *and* become part of the inventory for consideration as a nominee for a *future* board appointment.

8. **Limiting the number of *ex officio* board members.** With respect to the size of hospital and health system boards, the trend for several years has been toward decreasing the number of voting members. It is The Governance Institute’s view that “depending on the type of organization and type of board, between 10–15 members is the ideal size to balance out nimbleness in decision making against the right variety of background and perspectives and having enough members to populate board committees.”¹¹ Other authorities concur.¹² The Governance Institute’s biennial survey found the average board size was 12.4 members.¹³ Streamlining boards often requires downsizing and this can be challenging. One way to meet this challenge is to limit the number of *ex officio* or “constituency-based” board members. Having a large number of *ex officio* directors raises the question of whether a board is representational rather than strategic. The CEO, chief of the medical staff, and the leader/representative from an owned/employed physician group are the most common voting and non-voting *ex officio* positions according to The Governance Institute’s 2019 survey.
9. **Building a process for identifying candidates for board leadership roles.** The identification of highly qualified candidates for board and committee *leadership roles* is a critically important function. Providing advice and assistance in this process should be included in the

charter of the board committee leading the board succession planning program. The basic duties of this committee will position it well to conduct this process and nominate persons for leadership roles. Systematic attention to board and committee leadership is essential in ensuring smooth leadership transition and effective board operations.

Closing Remarks

The composition of governing boards—the members’ collective diversity, expertise, and independence—and the culture they create in working together are key determinants of board effectiveness. In most hospitals and health systems, the board’s composition is shaped by the existing succession planning process—whether it is purposeful and systematic or unfocused and informal—yet only about half of America’s healthcare organizations have formal board succession planning programs in place. Boards that have not already done so should take a fresh look at how they have traditionally selected board members and consider amendments that reflect contemporary best practices in board succession planning.

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Additional Resources

The Governance Institute has several resources and templates to support your board in recruitment and board leadership succession planning, including:

- [Board Recruitment](#)
(Intentional Governance Guide)
- [Board Leadership Succession Planning](#)
(Intentional Governance Guide)
- [Board Member Job Descriptions](#)
- [Sample Governance Committee Charter](#)

11 2019 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute, p. 1.

12 See, for example, *Building an Exceptional Board: Effective Practices for Health Care Governance*, AHA Center for Healthcare Governance, 2007, p. 13.

13 2019 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute, p. 7.