

Leveraging Board Succession as a Strategic Asset

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Today's healthcare market is simply too complex, unpredictable, and competitive not to have a well-constructed and finely tuned board. Such a board doesn't just happen. It takes time, thoughtfulness, intentionality, some trial and error, and incremental improvement. While strong board succession is not the end of the journey to a high-performing board, it is an essential component. If skipped, the other steps in the journey are much more difficult.

Much is made of the high cost of a bad CEO or executive hire. The consequences of recruiting the wrong (or even the "just-okay") board member can be severe as well, especially when factoring in opportunity costs. The ROI of recruiting the right board member, on the other hand, can be significant. An inspired new member can open the organization's eyes to possibilities it had never even considered. For example, one health system we know places great emphasis on innovation. Its new CEO had much success developing an innovation fund in an earlier organization and wanted to replicate the success. To gain additional support, the board recruited a new member with significant experience investing through venture capital. The new board member provides expertise at the governance level required to balance the risks associated with innovation, adding tremendous value. This is an example of a strategy driving board succession.

Good board succession planning, therefore, is critical as it elevates the likelihood of bringing on directors suited to the organization's needs now and in the future. Board succession sets the stage for good governance and maximizing the organization's potential. It can also have ancillary benefits such as greater leadership stability (especially during crises or leadership transitions) and enhanced board diversity.

In our two recent articles, we emphasized that CEO and broader executive succession planning are a direct extension of organizational strategic planning.¹ Board succession fits within this dynamic. Strategy informs talent decisions while talent then enables strategic implementation. While the board's role is one of oversight and counsel, the CEO and executive team is under-served if members of the board do not bring the experience, insight, and temperament needed for a very different landscape. Board succession, too, is a strategic imperative.

Who Leads (and What Is the CEO's Role)?

The responsibility for board succession rests with the governance and nominating committee. The committee's success depends on a clear mandate, the experience and recruiting capabilities of its members, as well as their collective

Key Board Takeaways

- As with CEO and executive succession planning, board succession planning is a strategic imperative that benefits the organization in the short term and long run.
- The nominating and governance committee should "always be recruiting," with the support of the CEO (who is typically a committee member).
- A competency/experience grid or matrix is essential for tracking what the board has now, what gaps it needs to fill, and (equally important) when it needs to fill them.
- A measure of bylaw flexibility is important to allow boards to add key competencies or address immediate concerns, while incumbency should not be taken as a given for members who are not contributing satisfactorily.
- Board succession planning dovetails with organization DE&I priorities and can facilitate the diversification of board membership.

harmony and shared sense of purpose.² It must also make board member succession a perpetual topic (i.e., keep it as a fixed item on the agenda). When the governance and nominating committee maintains an ongoing conversation about its pipeline and needs for future members, it exercises its succession muscles and positions itself to educate the broader membership on succession best practices.

The board chair and CEO typically sit on the nominating committee. Many boards wrestle with how much to involve the CEO (and to a lesser extent other C-suite executives) in board member succession and recruitment. It requires a delicate balance. You need the CEO involved in board succession. Who else, after all, has the clearest view on where the organization is and where it needs to go? The CEO's insight is critical to determining what talents are needed on the board. That said, we have all heard horror stories about CEO overreach and inordinate influence over who gets a board seat. In today's healthcare environment, there is no room for members who don't bring significant and specific expertise. It is the board's responsibility to ensure each new member fills a vital function.



1 Andrew Chastain and Susan Snyder, "CEO Succession Planning: A Strategic Journey," The Governance Institute, *BoardRoom Press*, August 2023; Andrew Chastain, Megan Hay, and Susan Snyder, "Executive Succession Planning: Strategic Considerations," The Governance Institute, *BoardRoom Press*, October 2023.

2 Stephen Conmy, "What Is a Nominations Committee?," Corporate Governance Institute.

The Competency Grid

Moving beyond relationships is the first step of board succession and requires a clear perspective on what the board really needs to serve its function, given the organization's strategic context now and in the upcoming years. We recommend building out a comprehensive matrix that includes requisite competencies, capabilities, and experiences.

Regarding experiences, a board may want someone who has, for instance, navigated a financial crisis, successfully led a DE&I program, orchestrated a merger or acquisition, or served in a governmental regulatory role. This need would arise from the organization's anticipated challenges or strategic priorities.

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For competencies and capabilities, the most essential today range from strategic planning, financial acumen, and quality and patient safety, to population health, consumer-oriented business expertise, and fundraising.³ As the healthcare landscape has grown more complex, boards need to understand a myriad of issues driven by a broader definition of the ecosystem (including partnering with private equity-backed commercial healthcare, in addition to relationships with higher education needed for academic medicine, and—for some—extending into life sciences relationships). Depending on your institution's strategy, board composition should prioritize and reflect different elements.

Governance itself can be a needed experience or competency, especially among boards that have struggled with good governance historically. It can make sense to recruit members with experience on reputable boards and a keen understanding of the appropriate relationship between boards and



management. *Succession planning*, too, can be a competency that the board can prioritize on its grid if it does not have a strong track record in this area.

Once the grid is drafted, the committee must track *what it has now*, *what it will need in the future*, and *when it will need it*. This last element, timing, is crucial in determining how to fill gaps. The organization's strategic planning might dictate a need for board competency in, say, artificial intelligence—given the rapid adoption of AI within healthcare today, there is little time to waste. This is likely a grid gap to be recruited for and filled from outside the organization.

Conversely, the shift from fee-for-service to value-based care is an ongoing major transformation that has unfolded like an ocean liner making a years-long change in course. Chances are that an organization's board members have been familiarizing themselves with population health and value-based care principles and practices over the past decade or more and can continue to internalize them in the coming years. This might be considered an area of competence and capability to *develop* first and *recruit for* if needed.

Finding Flexibility

The malleability of the board's bylaws, especially as to membership, often drives whether to develop members to satisfy

current matrix items or recruit for them. If the board size is fixed, the nominating and governance committee should begin to scout for individuals with desired skills and experiences as it waits for current members to serve out their terms. An average healthcare board size today is 14 members, with system boards closer to 17 and independent hospital boards nearer to 11.⁴ If there is potential for member expansion, then members with needed competencies and experience can roll on without anyone rolling off. If expansion in board size is out of the question, instituting or shortening term limits can serve to generate more frequent turnover. Incumbency should not be a given. Automatically electing board members just because they have not met term limits can limit a board's ability to add the current skills needed.

Bylaw flexibility might also allow for acquiring critical short-term expertise in a member who would not be expected to serve a full board tenure. A classic case where this is needed is a hospital facing an impending merger and enlisting the immediate help of a board member with vast M&A experience. Another situation is one in which a truly exceptional board candidate (a "no-brainer") is available but not wanting to commit to a full tenure.

The board's succession plan must also account for contingencies such as the

3 Kathryn Peisert and Kayla Wagner, *Think Bold: Looking Forward With a Fresh Governance Mindset*, The Governance Institute's 2023 Biennial Survey of Hospitals and Healthcare Systems.

4 *Ibid.*

sudden departure of a member. In such a case, the board would look immediately to the board grid to identify the skills and qualities it has lost and what it must fill, and whether it requires someone to satisfy a short-term need or can wait to let the natural recruiting process unfold. Resist the temptation to make a hasty decision on someone who doesn't fit the long-term strategic needs or culture of the board.

A note of caution regarding your board grid: don't view it as gospel. As important as it is to find the right competencies, capabilities, and experiences to check all the boxes, guard against the recruitment of subject matter experts who don't have a passion for governance and your organization. Doing so can lead to various forms of dysfunctionality.⁵ Never lose sight of the fact that you want exceptional individuals who love to serve. Communicate to candidates: "Your expertise and experiences are deeply appreciated but not the only reason we want you here."

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Thoughts on Diversity

One might argue that a board grid doesn't factor in the need for most boards to increase the diversity and breadth of representation of members. We disagree. The process of board succession planning—which proactively aligns board composition to long-range organizational strategy, including DE&I objectives—will ensure enhanced diversity is a key consideration when conducting recruiting activities.⁶ Boards can "operationalize" these goals by prioritizing skillsets (and even demographics) via a well-conceived matrix.⁷

Most strategic plans address the need to reshape their boards, leadership teams, and employee base to mirror their communities. Board succession, too, should prioritize diversity—as well as principles of equity and inclusion. Expertise in DE&I is often a critical competency to develop and recruit for, reflecting the reality that diverse, equitable, and inclusive environments—both in the executive suite and the board—generate more innovative solutions than heterogenous ones.⁸

Always Be Recruiting

Keeping succession planning on the agenda affords the board and governance and nominating committee the opportunity to continually identify and establish a pipeline of potential new members.⁹ It also allows the board to:

- **Plan for chair and officer succession.** Succession planning allows for mentoring and grooming of newer members to take on increasingly prominent roles and officer positions.
- **Cast a wider net, given more time and dedicated resources.** The board can go outside its traditional sphere to find members who fill critical needs and competencies that simply might not exist in the local community or region. Again, the board may need to build in more flexibility than it traditionally has in order to, for instance, allow remote members to participate in meetings virtually.
- **Thoughtfully consider compensation.** Healthcare boards are increasingly wrestling with whether to compensate members and how much to offer. Addressing these questions is a component of succession planning.
- **Weigh the merits of hiring recruiters and advisors.** A board may need outside help to do the kind of recruiting and pipeline building it desires.

Transitioning

Briefly, don't forget that a fundamental element of succession planning is coordinating the new member's welcome and transition onto the board. A proper,

thoughtful onboarding process ensures the "recruit" feels comfortable around their new peers, acclimates to the board's behavioral norms, and has the needed background and strategic orientation to hit the ground running. New board members tend to dip their toes in the waters in their first few meetings before becoming more active and vocal. But not always, and planned onboarding and mentoring for newly recruited members can help them contribute immediately. In most cases, new members fill an obvious void on the grid and want to ramp up quickly so they can justify their place on the board and earn the respect of their colleagues. Onboarding should prioritize providing in-depth information on current directors, arranging candid conversations with board colleagues, sharing complete, accurate details about the state of the organization, and (for external directors) orchestrating a "day in the life" experience that includes shadowing key executives and staff in their typical routines.¹⁰

Final Thoughts

Board succession planning provides the board with an opportunity to consider important issues related to its current and future composition. It is not an option but a necessity. The board's succession plan should be reviewed and revised whenever there is a notable strategic update or shift for the organization, promoting alignment between strategy and governance. Most importantly, it keeps the board membership vital, evolving, and passionate so directors serve to the best of their abilities and enable the organization to fulfill its mission and maximize its impact upon patients, communities, and society.

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5 Alex Counts, "Spotting and Fixing Dysfunctional Nonprofit Boards," *Stanford Social Innovation Review*, October 5, 2020.

6 Maria Moats and Paul DeNicola, "You Say You Want a More Diverse Board. Here's How to Make It Happen," *Harvard Business Review*, March 11, 2021.

7 The Academy and WittKieffer, "Governance & Executive Leadership Trends Across Leading Health Systems," 2021.

8 Stephanie Creary, et al., "When and Why Diversity Improves Your Board's Performance," *Harvard Business Review*, March 27, 2019.

9 BoardSource, "Leading with Intent," June 2021.

10 Forbes Business Council, "15 Essential Steps When Onboarding a New Board Member," *Forbes*, October 3, 2023.