

# Executive Succession Planning: Strategic Considerations

By Andrew P. Chastain, Megan Hay, and Susan M. Snyder, WittKieffer

Succession planning presents a perplexing paradox: most organizations and their leaders believe in it, yet few do it well—if they do it at all.<sup>1</sup>

Healthcare is no exception. In our previous article, we cited statistics indicating only half of healthcare boards have a formal CEO succession plan though the overwhelming majority feel it's important to do.<sup>2</sup> The percentage of industry organizations conducting succession planning for executives and strategic positions beyond the CEO is even lower—30 percent according to one source.<sup>3</sup>

Why is there such a gap between intention and execution? For starters, it can be uncomfortable. For boards, executive succession planning can elicit uneasy conversations with those individuals tabbed as integral to the future of their organizations and, certainly, with those not included in succession activities (who will wonder why). COVID-19 forced many hospital and health system boards to table “non-essential” matters, and today boards are understandably preoccupied with pressing workforce, technology, financial, and other challenges. For one reason or another, most boards simply don't make talent succession a priority.



They should. Leadership succession planning is a strategic imperative, especially in tough times. It ensures retention of institutional knowledge, boosts morale and retention, and mitigates the effects of a sudden or unanticipated vacancy in a mission-critical position. As such, it should be pinned to the board's agenda as an ongoing pursuit—a journey—punctuated by annual or even quarterly reviews and revisions.

Boards must recognize that talent considerations impact every key strategic decision. There must be a traceable link between strategy, organizational capabilities, mission-critical roles, and talent.

## An Investment in the Future

Leadership succession planning makes sense from a pure talent development and retention standpoint. Three-quarters of executives feel they have inadequate development opportunities.<sup>4</sup> Poor development leads to job failure and turnover—which is inordinately costly at the leadership level—as well as to ineffective leadership transitions.<sup>5</sup> Thoughtful succession planning provides the impetus for intentional, structured professional growth and advancement opportunities for an organization's high-potentials and key executives.

The more compelling argument for strategic succession planning is its inextricable link with strategy. Strategic planning allows organizations to make “trajectory-bending moves” to dictate their futures,<sup>6</sup> but those moves require the right people in the right places. Boards must recognize that talent considerations impact every key strategic decision. There must be a traceable link between strategy, organizational capabilities, mission-critical roles, and talent. As strategy changes, looking

## Key Board Takeaways

- Executive succession planning takes time and energy but is a critical activity for boards to keep on their agendas.
- Succession planning both requires and enables strategic planning. Talent plays into every decision an organization makes to meet its current and future objectives.
- Boards should prioritize defining organizational capabilities and key roles. They must identify which positions will truly add value to the organization going forward, then find the right individuals for those roles.
- Boards should involve all members in succession efforts, drawing on their diverse perspectives as a way of building alignment.
- Executive succession planning isn't aimed at perfection, but at consistent strategic planning and implementation for your most critical resource: the executives who drive your business and your mission.

intently at the organizational capabilities needed to achieve the strategy translates to revisiting key roles and talent review.

## Prioritize Mission-Critical Roles

How can the board help maximize the success of succession planning efforts? For starters, think *roles* rather than *individuals*. What positions, competencies, and experiences will add uniquely important value in the next three to five years, given your strategy and context? These roles will often be different than the composition of your current leadership team; some may not yet exist or may reside several levels below the top leadership tier.<sup>7</sup>

An example of this in healthcare is a digital officer position. Many hospitals and health systems have yet to adopt this position; however, given the sheer magnitude of influence digital tools, technologies (e.g., telehealth and artificial intelligence), and data are having on organizations' futures, most boards will need to incorporate a Chief Digital Officer or similar title into their succession planning efforts. The same goes for

1 Kris Routh, Meghan Doherty, and Kelly Monahan, “The Holy Grail of Effective Leadership Succession Planning,” *Deloitte Insights*, September 27, 2018.

2 Andrew Chastain and Susan Snyder, “CEO Succession Planning: A Strategic Journey,” The Governance Institute, *BoardRoom Press*, August 2023.

3 Aurora Aguilar, “Succession Planning Should Promote Diversity,” *Modern Healthcare*, October 26, 2020.

4 Mike Ettore, “Why Most New Executives Fail—and Four Things Companies Can Do About It,” *Forbes*, March 13, 2020.

5 Navid Nazemian, *Mastering Executive Transitions: The Definitive Guide*, 2022.

6 Chris Bradley, Martin Hirt, and Sven Smit, “Eight Shifts That Will Take Your Strategy into High Gear,” *McKinsey Quarterly*, April 19, 2018.

7 Mike Barriere, Miriam Owens, and Sarah Pobereskin, “Linking Talent to Value,” *McKinsey Quarterly*, April 12, 2018.

specialists in, for example, risk/compliance, mergers and acquisitions, strategy and transformation, clinical leadership, or any number of other areas. The key here is to focus on the roles that accelerate your organizational capabilities (such as digital, M&A, etc.) given your strategy.

Once mission-critical roles have been defined, it is imperative to then fill those roles with exceptional talent. Strategy comes first, then roles to enable strategy, then the right people to execute against those roles to accelerate organizational impact.

“Reallocating talent to the highest-value initiatives is as important as reallocating capital,” McKinsey & Co. says. “This is not an annual exercise: it is a never-ending, highest-priority discipline.” *The best organizations make talent placement review a quarterly activity*, McKinsey’s research determined. Further, it found reallocation of high-performing executives to critical strategic roles made an organization twice as likely to outperform its market competition.<sup>8</sup>

## Steps for Getting Started

The following are suggestions for how healthcare boards can jump-start their leadership succession efforts:

- **Start now.** It may be baby steps at first but put executive succession on your agenda and discuss it within the context of your strategic planning efforts. Seek outside advice if necessary. First priorities include allocating resources,

developing processes, and designating timelines and milestones.<sup>9</sup>

- **Determine which roles hold strategic significance.** This is, at its essence, a strategy exercise. Are your board, CEO, and the executive team aligned on the must-win battles for your strategy? What are the implications for critical organizational capabilities: the things that enable your institution to respond to increased complexity and deliver unique value to your constituents? What are the A (and B and C) positions in terms of strategic value in the short and long term for your organization?
- **Involve the right resources.** The board should engage its entire membership in executive succession efforts—because this is a strategic exercise. In many boards, the nominating/governance or compensation committee, or even a designated succession committee, will take the lead. The CEO and CHRO are central characters, of course. The CFO can be as well, as generating human capital requires financial capital. More and more, organizations use this imperative to align the executive team, while building their capability.
- **Objectively identify your strategic players.** These are the people with the potential and interest to fill your mission-critical roles. Using a combination of career conversations, performance reviews, talent assessments,

and 360-feedback helps ensure decisions are not made purely on current performance, but future potential. Consider how to add strategic talent through recruitment, if necessary. (A caveat: Don’t forget about your strategic B and C players—they still play a role in your organization’s future, and you must find a way to continue to acknowledge their value.)

- **Make development impactful.** Leader development should include a mix of three Es: Experience, Exposure, and Education, in that order of priority.<sup>10</sup> More and more, as complexity and executive burnout rise, the time spent on coaching and mentoring makes the difference—and is all too often overlooked.
- **Don’t try to be perfect.** Don’t expect it to work all the time, says former Henry Ford Health CEO Nancy Schlichting. Some leaders designated for development won’t pan out or will leave before they fulfill their strategic destiny within your organization. That’s okay, Schlichting argues, as long as the overall succession process produces net benefits to individuals and organizational strategy.<sup>11</sup>

## An Essential Practice

Healthcare boards confront special challenges with executive succession planning, and they have an obligation to their leadership teams and broader constituents to do it right. With strategic success so dependent upon having the right people in the right positions, succession planning should be a mandatory activity that boards embrace as fundamental to good governance.

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8 *Ibid.*  
9 Nancy M. Schlichting, “Succession Planning in Healthcare: Myths, Realities, and Practical Advice,” *Frontiers of Health Services Management*, Summer 2020.  
10 Routh, Doherty, and Monahan, September 2018.  
11 Schlichting, Summer 2020.