

System Focus

May 2024



The Governance Institute

Avoiding Disaster in CEO Succession

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CEO turnover is increasing, yet many health system boards lack a proactive strategy for dealing with this issue.

The Governance Institute's latest biennial survey revealed that only 57 percent of health system boards maintain a written, current CEO and senior executive succession plan.¹ This is a fundamental failure because selecting and dismissing the CEO is arguably the board's most crucial task. Without a clear and comprehensive plan outlining a system's CEO succession process, boards may fail to fulfill this core fiduciary obligation optimally.

The Heralds of Disaster

Ensuring continuity in CEO leadership should be a top priority for a system board. As the sole employee of the board, the CEO plays a pivotal role in executing its directives. The CEO is entrusted with implementing the organization's mission, vision, values, and strategy. Therefore, maintaining consistent leadership at the executive level is crucial, as patients depend on the system to operate smoothly. The board must establish effective measures to manage CEO turnover, whether unexpectedly or as part of a planned transition.

Missteps in CEO succession planning can stem from various factors, a significant one being the board's failure to establish governing procedures or adequately prepare for the transition. Here are some common scenarios we frequently come across:

1 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.

Ensuring continuity in CEO leadership should be a top priority for a system board.

1. The board lacks clarity on the best practices for replacing the CEO.

The board: *Where do we begin? We have six months to look for a new CEO.*

The CEO: *I informed you of my intention to depart over a year ago.*

2. The board terminates the CEO for not meeting their expectations.

The board: *We are ready for new leadership.*

The CEO: *I didn't know you were unhappy with my performance.*

3. The board lacks consensus on the desired leadership profile because they have not aligned on the strategy or leadership competencies needed for the next phase of the organization's life.

The board: *We can't agree on what type of leader we want in our next CEO.*

The CEO: *Does the board agree with the long-term strategy or the future state?*

4. The board is not confident about the available internal candidate(s) recommended by the outgoing CEO.

The board: *We are unsure whether the internal candidate(s) is the right person to execute our system strategy.*

The CEO: *I developed my team just as you asked. What has changed? What do I tell them?*

When we analyze the underlying causes, we find that boards have experienced one or more of these missteps:

- Failure to craft detailed plans for both emergency and planned succession scenarios
- Overemphasis on identifying the successor (the who) rather than understanding the decision-making points throughout the CEO succession and transition process (the how)
- Avoiding difficult conversations in the boardroom, resulting in growing frustration and a breakdown of trust between the board and CEO
- A lack of clearly defined principles, processes, and structure related to CEO succession planning and executive leadership development
- Overpromising while underinvesting in internal candidates

Avoiding Disaster

Purposeful CEO succession planning starts with an outspoken commitment to maintaining consistent and transparent communication between the board and CEO.

Honest discussions are a hallmark of a high-performing board, so there should never be any surprises. However, a strong board–management relationship characterized by openness and mutual respect is just the baseline. The board must ultimately determine, agree upon, and formalize the process in writing.

A comprehensive succession playbook or guidebook should encompass the following elements as drafts or example templates that can be readily implemented when necessary:

- An outline of the key decision points and considerations
- Call-for-nominations procedure
- Process timeline (around six months) with various scenarios
- CEO search committee membership criteria and charter
- Authority and decision-making matrix
- CEO job description and leadership competency profile
- Communication strategy and implementation plan for internal and external stakeholders
- CEO candidate evaluation process and materials

Playbook: We recommend boards develop a playbook or a guidebook detailing the key principles and process steps. At a minimum, the document should include the following elements:

- An outline of the critical decision points: *Should we hire an external search firm to help us find candidates? Should we encourage self-nominations, or must they be nominated by the CEO or a board member?*
- An authority matrix to determine who will be informed, consulted, or asked for approval during the search, nomination, selection, and appointment processes; for example, *who is responsible for developing and approving the leadership profile? Who selects the executive search firm?*
- A CEO search committee charter describing its roles and responsibilities, the membership criteria, and protocol for handling potential conflicts of interest between the director and a candidate; for example, *what happens if a committee member is a close friend of the candidate?*
- A communication plan with templates and examples for internal and external messages to share the news of the impending CEO transition; for example, *when should we notify the hospital foundation, the hospitals, etc.?*

- A CEO job description, competency model, and eligibility requirements; for example, *what are the non-negotiable aspects we want in our next CEO?*
- A candidate application form, interview guide, and evaluation template; for example, *what questions must we ask to ensure the candidate is a good fit with our culture?*

While there are many unknowns, it is much easier to plan out the various scenarios when the leadership is stable, as opposed to waiting to have these critical discussions while the CEO succession is taking place. A playbook with templates and drafts is much easier to modify than to create from scratch during a stressful time. Furthermore, though a timeline prepared far in advance cannot include precise calendar dates, key meetings and deadlines can be plotted on a general week-by-week or month-to-month work plan, forcing the board to discuss what a healthy pacing looks like in an ideal CEO succession.

Your board should consider the use of an executive search firm when:

- The board has decided that internal candidates are unprepared for the CEO position.
- There is a significant shift in the strategy, and thus, an external leader is necessary to make the pivot for the system.
- Actual or perceived conflicts of interest create concerns about bias or fairness as it relates to the nomination of the candidates or the selection of the finalists.
- The board needs hands-on process facilitation.

Although the hiring decision will ultimately lie with board members, engaging a third party can help to ensure the succession process is fair and objective.

Leadership development: Every member of your board should know who the interim CEO will be in case of an emergency. To adequately prepare for planned succession, your CEO should not make it a secret when they plan to retire or step down. There should be ongoing, honest dialogue about when this might happen and who on the executive team is undergoing leadership development to become a candidate for the board's consideration.

CEO assessment: Continuous, healthy, and candid communication is the most critical success factor in the board and CEO's relationship. The two-way communication must be honest and forthright to avoid surprises during the review process. However, no amount of honest conversation can replace a formal written assessment. The board should conduct

a comprehensive 360-degree review of the CEO's performance every year. An effective review process is the best way to ensure the board and the senior management team are routinely providing feedback to the CEO.

Tips on search firm selection:

- Seek referrals from colleagues at other healthcare organizations because a search firm's approach and style should be a good "fit" for your system.
- Don't hesitate to inquire about unconventional processes and pricing options, especially if you want to validate an internal candidate.
- Ask about a firm's recent activity in the health system space, such as "no touch" policies that may limit their candidate pool.

Conclusion

If your board lacks a clear implementation plan for undertaking an emergency-driven or planned CEO succession, don't wait another minute. Start the conversation now about how the board would nominate or select candidates, what decisions the CEO succession committee and the board must make along the way, and how and when key stakeholders should be informed or engaged. It's the board's fiduciary duty to have a plan in place, even if it consists of samples and drafts.

For a deeper dive into this topic, see these Governance Institute resources:

- [Succession Planning, 4th Edition](#) (Elements of Governance)
- [Retaining Executive Leadership for Healthcare's Next Generation](#) (Webinar)

TGI thanks JoAnn McNutt, Ph.D., Organizational Psychologist and Board Consultant, and Conor Anderson, M.B.A., Consultant, at Board First Consulting, LLC., and Samuel J. Santoro, D.O., FACOG, President and CEO of Sutter East Bay Medical Group, affiliated with Sutter East Bay Medical Foundation, for contributing this article. They can be reached at joann@boardfirstconsulting.com, conor@boardfirstconsulting.com, and samuel.santoro@sutterhealth.org.

