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Improving Leadership Stability in Healthcare Organizations

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Improving Leadership Stability in Healthcare Organizations

Healthcare organizations need continuous and effective leadership to be successful and fulfill their mission of delivering quality medical care. However, unless action is taken by governing boards and CEOs, a growing number of organizations are likely to find themselves with highly disruptive vacancies in their top leadership positions.

With baby boomers reaching retirement age, the rate of CEO turnover is likely to increase over the next 20 years. This trend, coupled with the current short median tenure for community hospital CEOs, means that leadership change is becoming a fact of life for many healthcare organizations. Yet, the most current data suggest that less than a quarter of healthcare organizations have CEO succession plans in place. When they lose their chief executive, many organizations will either have interim leadership for an extended period or will need to make quick hires that may not be in the best interest of all involved in the long term. Further, short CEO tenures and insufficient preparation of those stepping into the CEO role reduce the effectiveness of some leaders while they head their healthcare organizations.

Both real and potential leadership instability has negative consequences not only for the organizations involved but also for the nation's health. This white paper presents evidence of the growing problem and includes suggestions for how governing boards and CEOs can help ensure greater leadership continuity and effectiveness in their organizations.

The Evidence

CEO turnover is on the rise. According to an ACHE (2011) study, CEO turnover increased from an average of 14.6 percent between 2001 and 2008 to 17 percent between 2009 and 2010. Also, according to ACHE (1991) the rate of involuntary turnover in healthcare organizations is the same as in other U.S. businesses—approximately 30 percent. This means that most turnover is voluntary, due to job change or retirement. The voluntary turnover rate is likely to rise as the full impact of baby boomers' retirement is felt.

Even facing this level of turnover, healthcare organizations lag far behind general business organizations in planning for CEO succession. A study conducted by Andrew Garman, PsyD, and J. Larry Tyler, FACHE, and funded by ACHE revealed that only 21 percent of free-standing U.S. hospitals routinely conduct CEO succession planning (Garman and Tyler 2007). Their findings are in contrast with common business practice. A 2009 survey by the National Association of Corporate Directors (as cited in Miles and Bennett 2009) indicates that an estimated 57 percent of public companies had formal succession plans in place. Even this figure is lower than desirable.

Further, the situation in healthcare organizations has not improved since 2006. According to a 2010 survey of healthcare leaders by the American Management Association/Corporate Learning Solutions (2011), less than 7 percent of healthcare organizations were well positioned for the sudden departure of a key executive, and only 25 percent were firmly committed to succession planning.

Without a succession plan in place, healthcare organizations may have to contend with a lack of permanent leadership for a considerable time. As the 2008 study by Amir A. Khaliq, PhD, David M. Thompson, PhD, and Stephen L. Walston, PhD, funded by ACHE, showed, 25 percent of U.S. hospitals took between six months and a year to fill vacant CEO positions, while 5 percent needed more than a year to do so.

Such gaps in hospital leadership are highly disruptive. According to the study by Khaliq et al. (2008), the perceived effects of a CEO's departure include reductions in services and staff. Without a permanent occupant in the top leadership position, other key staff members may leave, and activities such as community outreach, physician recruitment, development of new services and strategic planning may be suspended.

Simply filling the CEO position with a qualified candidate is not sufficient to set the organization on the right track. The CEO must be supported through the first year with a well-planned on-boarding process. The study by Garman and Tyler (2007) revealed that the median length of time needed to groom a permanent CEO successor (from the time the successor is identified to the time he or she assumes the CEO role) is three years for hospital CEOs and four years for health system CEOs.

Further, CEOs must remain in their positions long enough to effect and sustain improvements. According to ACHE, in 2011 the median tenure for community hospital CEOs was four years, and the mean was 6.2 years. Some would argue that this is an insufficient amount of time for a leader to advance a strategic agenda, and a longer tenure is needed for a CEO to make improvements that will last (Dolan 2011).

What the Board Can Do

Governing boards can take the following actions to help ensure continuous and effective leadership in their healthcare organizations.

1. Look for a five- to ten-year commitment from CEOs when they are hired or appointed.

New CEOs need time to become established in their positions and to develop and realize key elements of their organization's strategic vision. According to Thomas C. Dolan, PhD, FACHE, CAE, president and CEO of the American College of Healthcare Executives: "CEOs considering a new position with an organization should think about whether they envision staying there for five to ten years. Only during an ample amount of time with an organization can CEOs make permanent improvements that will last after their departure" (Dolan 2011). The board should look for such a long-term commitment when they hire or appoint a CEO. Further, the board must seek chief executives to whom it can commit its support over that time.

2. Have succession plans in place for both planned and unexpected changes in leadership.

Healthcare organizations should always have at least one person identified who can step immediately into the chief executive position on an interim basis should the current CEO depart unexpectedly. The designated interim CEO will most likely be a member of the senior leadership team, such as the chief operating officer, who is well versed in the organization's strategic plan and operations and is familiar with the CEO's day-to-day responsibilities. Ideally, one or two permanent successors should be identified who can take over from the CEO as part of a well-planned transition.

With one to three years needed to fully prepare a CEO and a median CEO tenure of four years, the math is clear and compelling. To help ensure that a successor will be ready to assume the leadership role when the current CEO leaves, the CEO succession planning process should begin as quickly as possible after the current CEO is hired.

3. Hire from within whenever possible.

Zhang and Rajagopalan (2010) summarize the results of a number of studies on the performance of CEO successors chosen by different methods across many different types of businesses. The results were clear: Executives inside the company who had been identified and extensively groomed for the CEO position were more successful when they assumed the CEO role than those company insiders who competed in a multiple-candidate "horse race" for the top leadership position, and both were more successful than successors from the outside. Further, the latest Booz & Company analysis, also considering many types of businesses, suggests that insider CEOs produced superior regionally market-adjusted shareholder returns, had a longer tenure by almost two years and were less likely to be forced out of office than CEOs recruited from the outside (Favaro et al. 2010).

Evidence suggests that these findings extend to healthcare, according to a study by Cejka Search, a healthcare executive and physician recruiting company. Researchers found that the top 100 hospitals in the United States, as rated by Thomson Reuters using a series of clinical and financial performance measures, were 35 percent more likely to promote an insider CEO than was the average hospital (Wilson 2005).

4. Plan on one to three years to prepare the new CEO and a one-year on-boarding process.

Aspiring CEOs must master many new skills to successfully take on the top leadership position. Among the most important are interpersonal skills. CEOs are required to co-lead board meetings and liaise with many stakeholders (e.g., business leaders, government officials, community leaders). They must also take on the role of ultimate decision maker for other C-suite executives who were once their peers and the medical staff. They may need to sharpen their skills with goal-setting, prioritization or maintaining good staff relations. New CEOs must learn any aspects of healthcare management to which they were not sufficiently exposed in their previous position. Improved time management skills may be required to cope with the unrelenting demands of the top executive position. Finally, new CEOs may need to master a new image and self-image as they take a place in the spotlight where everything they do or say is evaluated.

Because executives need several years of careful preparation to step into a CEO position in a way that causes minimal disruption to the organization, boards need to partner with the current CEO to devise and execute a development plan for the designated successor. Most often this involves a commitment from the CEO to provide mentoring, structure stretch assignments and help the successor foster relationships with key stakeholders. These steps allow the successor to become familiar and comfortable with the responsibilities of the position (Garman and Tyler 2007).

Current CEOs may struggle to find time to mentor their successors. Professional executive coaching is another tool that boards can use to prepare designated CEO successors for their new responsibilities. Executive coaches focus on helping executives enhance their contribution to organizational performance (Axmith 2004). Because they are not intimately acquainted with the inner workings of the organization, coaches cannot teach executives this aspect of their jobs or provide specific solutions to operational issues. They can, however, identify and address development issues (e.g., communication skills) and act as a confidant, helping executives work through strategic, operational and political decisions. Frankness from both parties is required for the relationship to be successful, so any information that passes between the coach and executive must be confidential, even from the board. In fact, using an external executive coach avoids concerns about potential conflicts of interest, trust or ability to maintain confidentiality that might arise between the CEO and a mentor from inside the organization (Wasylyshyn 2003).

Executive coaches should be able to demonstrate an understanding not only of the business but also of psychology. Specifically, they must be able to recognize psychological and interpersonal issues that may prevent executives from achieving their goals. Coaches should also be able to provide referrals from other successfully coached executives (Wasylyshyn 2003).

After assuming their position, new CEOs need to be supported during their first year with an on-boarding process that should include, if possible, additional mentoring from or access to the recently departed CEO. Additional executive coaching may also be helpful during the on-boarding period.

5. Maintain open communication with the CEO and regularly evaluate him or her.

When asking for long-term commitments from their CEOs, boards need to be willing to support their CEOs for the long haul. Job insecurity may be a reason for current CEOs to resist some succession planning efforts. To mitigate these concerns, boards must clearly convey to CEOs that they are invested in helping them succeed. Open and frequent communication between boards and CEOs is vital to helping organizations move forward. Further, boards should evaluate CEOs at least yearly to help ensure the goals and expectations of both CEOs and boards remain aligned.

What the CEO Can Do

CEOs can take several actions to help ensure the continuity and effectiveness in the top leadership position in their healthcare organizations.

1. Commit to a five- to ten-year tenure when accepting a CEO position.

The decision to take or leave a job is a complex one for any individual, involving careful weighing of both professional and personal factors. CEOs of healthcare organizations are entrusted with a special mission because their actions significantly impact not only the viability of their organizations but also the health of the people in their community. Those who consider assuming a CEO position can help minimize disruptions caused by changes in healthcare leadership by seeking a position in an organization where they recognize a mission to effect lasting improvements, believe they can be successful and are confident they can commit to a tenure of five to ten years. This amount of time is necessary to make sustainable improvements in their organizations. Potential CEOs should consider all factors—technical, personal and interpersonal—affecting their ability to succeed at the head of the organization before accepting a chief executive position.

Even the most careful choice of position sometimes turns out to be the wrong one. In such cases, it is often a better choice for a CEO to move to a new job than to remain when he or she and the board do not have common expectations or goals or when other factors prevent the CEO from feeling professionally or personally successful in his or her role. CEOs can help ease the transition to new leadership by providing the board with as much notice of their departure as feasible and helping to set their successors up for success.

2. Be an active participant in succession planning.

It is understandably difficult for leaders to think about who will replace them when they are still trying to make their own mark on the organization. However, part of the legacy of any CEO will be how well he or she sets up the organization to succeed after his or her departure. CEOs can help maintain stability in healthcare leadership by joining with the board in maintaining focus on succession planning throughout their tenure.

In addition, CEOs are in a good position to help their boards identify the best potential successors from within the organization. Because carefully groomed insiders are the most likely to be successful when promoted to the top leadership role, CEOs need to keep succession in mind when making hiring and promotion decisions and when devising development plans for their senior executives. Plans for designating and grooming a successor, of course, need to be made in close partnership with the board.

While it is generally agreed that successors should not be publicly named until the current CEO announces his or her departure (ACHE 2006), the lengthy preparation process for the next CEO requires that there be an understanding before that time of who will step into the current CEO's shoes once he or she leaves.

3. Commit to preparing the CEO successor.

Current CEOs can help ease the transition to a new leader by taking an active part in preparing their successors. From their survey of 783 hospital and system CEOs heading nonfederal, medical/surgical, short-term system hospitals, Garman and Tyler (2007) found that the most common development activities for successors were mentoring (including one-on-one meetings with the current CEO for this purpose) and performing stretch assignments. These two activities were associated with an overall perceived effectiveness of successor preparation, along with structured socialization (such as meetings with key stakeholders to develop those relationships), formal education/training programs, job rotation, 360-degree feedback and coaching from an external consultant. In interviews conducted by ACHE (2006) with board chairs, CEOs and leadership transition consultants, more specific socialization activities were mentioned, such as (1) one-on-one meetings with each board member every month, (2) attending Center for Healthcare Governance or Governance Institute programs with the board and (3) attending medical staff executive committee meetings. CEOs can be in the best position to assess their designated successor's development needs (particularly with insider candidates) and structure development activities.

Finally, CEOs can be very helpful during the on-boarding process for their successors, particularly for new leaders recruited from outside. Often desirable are situations in which departing CEOs can serve as consultants to their incoming successors for up to a year.

Conclusion

In the wake of events such as the precipitous drop in Bank of America's stock price when CEO Ken Lewis announced he was leaving without a successor named, the Securities and Exchange Commission's Division of Corporate Finance issued legal bulletin 14E. This bulletin holds boards more directly responsible for succession planning. Healthcare organizations have even greater trust to uphold than do organizations in other industries because disruptions in their operations can affect the health of their communities.

The evidence is compelling: Without action from current governing boards and healthcare leaders, the elevated rates of CEO turnover expected as the baby boomers retire will lead to significant disruptions in our healthcare system. Succession planning needs to come to the forefront of the agendas for healthcare organization boards. Current CEOs and boards need to maintain open communication on this issue and work together toward the common goal of ensuring an orderly transition of leadership when the time comes. This collaboration includes beginning the process of selecting and grooming CEO successors as soon as possible and ensuring that new CEOs are well supported as they step into their new roles. Further, both CEOs and boards need to consider the disadvantages of short CEO tenures and work toward raising the median tenure of CEOs to five to ten years.

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One North Franklin Street, Suite 1700
Chicago, Illinois 60606-3529