

# **CEO Succession Planning in Freestanding U.S. Hospitals: Final Report**

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by

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## Executive Summary

A substantial cohort of senior healthcare leaders is expected to retire over the next 5 to 10 years. Is the next generation of senior healthcare leaders being adequately prepared to assume their roles? To help answer this question, a national survey was conducted to determine the current state of practice in CEO succession planning within freestanding U.S. hospitals. The survey was constructed based on a review of succession planning research and practice writings, to determine the extent to which current practice reflected our current thinking on “best practices.” In an effort to maximize organizational participation, both CEOs and Board Chairs were queried. A total of 722 institutions returned a survey, representing 44 percent of the institutional sample. In broad strokes, the results suggest the following:

### Succession Practices:

- Succession planning for managerial positions is practiced far less frequently in freestanding hospitals (21 percent) than it is in private-sector organizations (estimated at 64 percent).
- The low incidence of regular succession planning in freestanding hospitals is *not* due to a belief that the practice lacks value. This was cited as a barrier in only one percent of cases. The two most frequently cited barriers were:
  1. More immediate organizational challenges continuously take priority.
  2. Effective succession planning is thought to take more resources than the hospital has to spare.
- Overall, 15 percent of responding hospitals had identified a specific successor to the current CEO. Such hospitals tended to be larger with a median of 130 staffed beds versus those that had not identified a specific CEO successor, where the median number of staffed beds was 61.
- Among the responding CEOs, 15 percent stated they had assumed their roles as part of a planned succession process. A higher proportion of freestanding hospitals led by such CEOs had identified their own successor (23 percent) than hospitals where the CEO had not been part of a succession planning process (13 percent).
- The median length of transition between a successor being named and assuming the CEO role was 12 months.

### Evaluation of Current Practices:

- Even among hospitals that conduct formal succession planning routinely, most hospitals do not conduct formal evaluations of their succession planning practices.
- Most hospitals do *not* view their succession planning practices as effective, either in terms of selecting candidates or in preparing them for the CEO role.
- In terms of **identifying successors**, the key factors influencing perceived effectiveness were:
  - Whether or not succession planning was conducted routinely in the organization

- The source of the candidate pool (higher perceived effectiveness when all candidates were internal)
  - The succession planning process is formally evaluated.
- In terms of **preparing successors for the CEO role**, the key predictors of perceived effectiveness were:
  - The extent to which succession planning was routinely done in the organization (more widespread practice was perceived as more effective)
  - The length of the most recent transition process (longer transitions were perceived as more effective)
  - The succession planning process is formally evaluated.

**Limitations:**

- This study focused specifically on freestanding general medical/surgical hospitals in the United States. Freestanding hospitals represent 48 percent of all short-term general medical/surgical, non-federal hospitals. The remainders are members of health systems. Compared with such hospitals that are part of systems, freestanding hospitals tend to be smaller in size (median bed size 87 beds versus 141 beds) and located in small cities and non-metropolitan areas and in the Mid-Atlantic, East North Central, and West North Central regions.
- Readers should not assume that these results will generalize to hospitals that are structured differently from those in the sample (e.g., specialty and system hospitals).

**Action plan:**

- A majority of respondents indicated they were interested in having access to cost-effective methods for learning more about effective succession planning practices.
- A number of respondents cited the need to have education and other offerings available to board members in addition to senior executives.

## Introduction

This report contains an analysis of the results from the CEO succession planning survey conducted jointly by the Department of Health Systems Management, Rush University Medical Center, and Tyler & Company, with support from a Health Management Research Award from the American College of Healthcare Executives. Interest in conducting such a survey developed from the recognition that a substantial cohort of senior healthcare leaders is preparing for retirement, and therefore should be preparing successors to step into their positions. The goal of the research was to (1) assess the extent to which hospitals in the United States are appropriately planning for these transitions, (2) identify any practice gaps that may need to be addressed, and (3) assist in planning appropriate communications and educational interventions to assist the profession as necessary.

## Background

Changes in leadership at the top of any organization will inevitably cause great stress and uncertainty among all stakeholders. When a successor is not immediately apparent, these noxious effects are intensified and may negatively affect organizational performance at a measurable level. Conversely, organizations with top-level succession plans in place are likely to be in a better position to address changes in leadership proactively and positively.

Healthcare organizations, in particular, may stand to benefit from effective succession planning, for several reasons. For one, healthcare organizations are complex and highly political environments; as such, it can take considerable time and effort for outsiders to learn to navigate them. Additionally, many employees are drawn to the healthcare field at least in part for its stability and predictability. Smooth transitions between top-level leaders can assist in maintaining this stability, in fact and appearance, at all times.

Given the above, it is at first glance perhaps surprising that succession plans are not a core component of hospital operations to the same degree as, for example, performance appraisals or compensation planning. However, as the next section details, succession planning—particularly top-level succession planning—may be far trickier to execute than meets the eye.

### ***Succession planning: A research review***

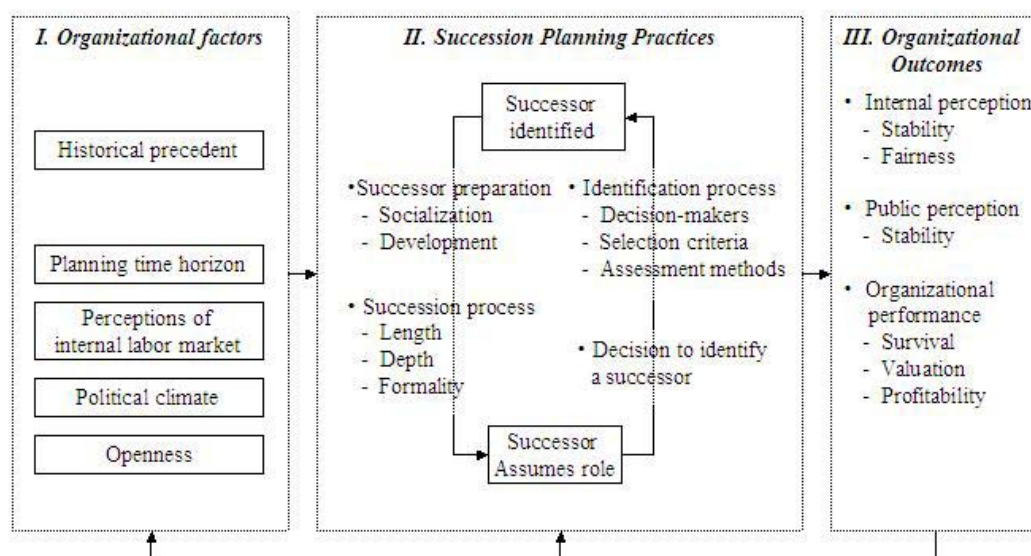
The construct of “succession planning” has been defined in many different ways; therefore, we start this section with an operational definition for our purposes. We will define succession planning as: a structured process involving the identification and preparation of a successor; for a given organizational role, that occurs while that role is still filled. By “formal,” we refer to a process having some reliable structure and/or custom, thereby excluding from the definition the more ad hoc or “just-in-time” identification of successors. The identification and preparation processes in our definition are purposely left undefined as to specific methods, to reflect the full heterogeneity of current practice. Finally, the qualifiers, “given organizational role” and “while that role is still filled,” were added to exclude the preparation of individuals for new and

emerging roles, as well as the more reactive process of finding a successor once a position has been vacated.

Despite the tremendous breadth and diversity of field research that has been conducted regarding top-level succession planning, its prevalence is difficult to estimate. Most studies have employed convenience samples. However, one group researching this topic suggests that in 2003, approximately 64 percent of organizations had succession planning systems implemented (Bernthal & Wellins, 2003).

In general, no dominant theoretical model of succession has emerged. To better frame this research into a coherent whole, we have constructed the model represented in Figure 1.

**Figure 1: An integrated model of the succession planning process**



This model divides succession research into three domains: organizational factors affecting succession process, practices (the succession process itself), and outcomes associated with each.

## Organizational factors

The organizational environment significantly influences the succession planning process (e.g., Cannella & Lubatkin, 1993). The strongest influence on succession planning is historical precedent (Ocasio, 1999): quite simply, succession planning is most likely to take the form of prior approaches, or lack thereof. Assuming that succession planning is taking place, the specifics of the process will be affected by the other environmental factors listed in Figure 1. “Planning time horizon” refers to the extent to which long-range goals dominate over immediate challenges; longer time horizons may allow for a greater focus on position transitions and, subsequently, succession planning. Internal labor market perceptions will influence whether the internal pool is considered in exclusion to an external search or, if external search is conducted, the extent to which it is taken seriously. Political climate will determine the relative weight

given to existing relationships vs. objective competency. Finally, the “openness” in the organizational climate will influence the extent to which succession planning processes are communicated within the organization.

## **Succession practices**

Although succession planning practices vary considerably from organization to organization, an underlying structure common to all can be identified. The process shown in Figure 1 depicts succession planning as cyclical in nature, moving from successor identification to role assumption and back again. If we arbitrarily decide that assumption of a role begins the cycle, the next phase will begin with the decision that a successor should be identified. Organizations differ in terms of the extent to which responsibility for candidate identification rests with the CEO versus the Board Chair, or in combination with other key stakeholders (Schleifer & Summers, 1988; Vancil, 1987). In terms of who is eligible for consideration, hospitals may employ “first-cut” criteria for experience (e.g., a certain number of years in an executive leadership position) and education (e.g., an M.D. and/or MBA/MHA/MPH). The identification process itself may vary from highly informal to highly structured; the latter may include formal assessment processes using objective outside counsel. Candidates may be identified from within the organization, or outsiders can be brought in to assume a temporary role (e.g., EVP or COO) in anticipation of succeeding to the CEO role. Once the successor is identified, a preparation phase begins. Here also, in practice this can vary from informal and unstructured to a more structured, planned process of forming relationships with key stakeholders and gaining exposure to critical processes.

## **Outcomes**

The ultimate goals of succession planning typically involve improved organizational performance. Studies of succession outcomes typically sought to evaluate the utility of succession practice via study of, for example, perceptions of stability and financial performance (Kotter, 1982). Although multi-organization evaluation studies of succession planning remain relatively uncommon (for exceptions see Conger & Fulmer, 2003; Karaevli & Hall, 2003), these evaluation studies have yielded a number of important findings, particularly in relation to the implications of internal versus external successors. External succession will often be interpreted as below-expectations performance on the part of the incumbent (Dyl, 1985; Friedman & Singh, 1989; Lorsch & MacIver, 1989) and/or fundamental differences between the executive leadership and the board (Faith, Higgins, & Tollison, 1984).

## **Best practices**

Results of the evaluation studies described in the prior section, supplemented by the more informal “lessons learned”-type writings of succession practitioners, were used to craft a preliminary set of “best practice” guidelines. Most writings reviewed discussed succession planning in a broad sense, rather than as it specifically should play out with the CEO role. Where differences were cited between CEO succession versus succession for other positions, there was a universal emphasis on the importance of CEO succession planning being an ongoing process, i.e., having a successor ready to step in if needed at all times.

The other best practice findings are summarized in Table 1 and are annotated here. First, executive ownership is considered critical for success, as it helps ensure that executives and the board dedicate time and hold one another accountable for the process (Axel, 1994; Beeson, 2000; Buckner & Savneski, 1994; Carey & Ogden, 2000). The succession planning process should start identifying talent at an early point in one's career in order to orchestrate significant developmental assignments. These developmental tasks should be cross-functional in nature in order to expose candidates to the entire business and functions (Beeson, 1999; Metz, 1998). Succession planning should also include objective criteria or competencies against which to assess potential candidates. This can be accomplished through assessment centers or structured interviews (Axel, 1994; Beeson, 2000; Buckner & Savenski, 1994). Another important aspect in assessing candidates is to benchmark those candidates not only against one another, but also against outside leaders to ensure that the chosen successor could lead the company successfully into the future and that the identified "high potential" would also be considered an industry best (Beeson, 1999; Carey & Ogden, 2000).

**Table 1: Summary of "best practice" findings from the literature review**

Executive ownership	<ul style="list-style-type: none"> <li>• Dedicate time, and hold people accountable to the process</li> </ul>
Early identification of talent	<ul style="list-style-type: none"> <li>• Orchestrate significant developmental assignments at a time when major shifts in job responsibility are easier to handle</li> </ul>
Assessment of candidates' strengths and weaknesses	<ul style="list-style-type: none"> <li>• Use objective criteria/competencies <ul style="list-style-type: none"> <li>• Use formal assessment processes (e.g., structured interviews, assessment centers)</li> </ul> </li> </ul>
Developmental assignments	<ul style="list-style-type: none"> <li>• Develop needed skills and networks through developmental assignments</li> <li>• Build feedback loops into the assignments (e.g., 360-degree feedback, post-assignment debriefings)</li> </ul>
External benchmarking/ Recruitment	<ul style="list-style-type: none"> <li>• Assess high potential inside against industry "best"</li> <li>• Use search firms as complementary to internal development to ensure competent successions</li> </ul>
Inside successors	<ul style="list-style-type: none"> <li>• Greater likelihood to maintain current strategic vision</li> <li>• Leads to homogeneous groups because of similarity in past experience and organization tenure—more cohesive/communicate more frequently/high level of integration</li> <li>• More likely to follow in predecessor's footsteps</li> </ul>
Outside successors	<ul style="list-style-type: none"> <li>• Greater likelihood to experience significant strategic change</li> <li>• Leads to more heterogeneous work group—challenge existing viewpoints/more solutions</li> <li>• Represents new power base because of few ties to the old system</li> </ul>
Measuring success	<ul style="list-style-type: none"> <li>• Use formative and summative assessments to evolve succession planning practices</li> <li>• Outcome metrics for broad succession planning programs include: percent of candidate pools selected for key positions; business results achieved</li> </ul>



This literature review provided a solid foundation upon which to develop a questionnaire based on best practices in CEO succession planning. The next section describes how this survey process was implemented.

## **Methods**

Research was conducted via structured surveys, using mail-based solicitations for participation. The sample consisted of all CEOs and Board Chairs whose contact information was available from the mailing list vendor SK&A, a leading provider of senior leadership information. Hospitals were included in the list if they met the following criteria: non-federal, general medical/surgical, short-term, and freestanding (not part of a system). A comparison of the nation's freestanding and system hospitals is presented in Appendix A. The comparison shows that freestanding hospitals are smaller (median bed size 87 versus 141 in systems) and more often located in smaller cities and non-metropolitan areas than are system hospitals. Also, freestanding hospitals are found in different areas of the United States. Compared with system hospitals, more freestanding hospitals are found in the Mid-Atlantic, East North Central, and West North Central regions.

To ensure accurate categorization, records in the SK&A database were checked against records from the American Hospital Association. A total of 1,651 institutions met these criteria.

Surveys were distributed via first-class mail to the two mailing lists. Mailings contained a cover letter explaining the survey, the survey itself, and a prepaid return envelope. Individuals not responding to the first survey within several weeks were then re-queried via a second "reminder" mailing containing a new copy of the survey.

A total of 722 institutions returned a completed survey, representing 44 percent of the 1,651 institutions originally sampled that met the study criteria. There were 34 institutions in which both a CEO and Board Chair responded; in these cases the CEO's response was retained for the institution-level analyses. This final sample consisted of 656 CEOs out of 1,431 sampled, and 66 Board Chairs out of 100 responding from 611 sampled. This represented a response rate of 46 percent for the CEOs and 16 percent for the Board Chairs.

## Results: Description of Participants

### ***Respondent demographics***

The median respondent age was 55 (s.d. = 7.9); median age for Board Chairs was 62 (s.d. = 9.7), and for CEOs it was 55 (s.d. = 7.4). Median respondent tenure in their current position was five years (three years for Board Chairs, six years for CEOs). The total sample was 86.4 percent male (86.2 percent for Board Chairs, 86.5 percent for CEOs). In terms of ethnicity, 97.5 percent of the sample reported they were White/Caucasian (96.9 percent for Board Chairs, 97.5 percent for CEOs); 1.3 percent were Black/African-American (1.5 percent for Board Chairs and 1.2 percent for CEOs). The categories “Hispanic or Latino,” “American Indian,” “Eskimo or Aleut,” “Asian or Pacific Islander,” and “Other” each represented less than 1 percent of the respondents.

CEO respondents were asked about their educational background: 19.3 percent of respondents reported a BA/BS level of education; 67.2 percent had one or more master’s degrees (42.4 percent reported having an MHA, 23.3 percent an MBA, and 5.0 percent an MPH); and 4.9 percent had a doctoral-level education (2.4 percent a PhD or DrPH, 2.5 percent an MD or D.O.).

A total of 75.9 percent of the CEO respondents indicated they were ACHE affiliated. Of the affiliates, 31.0 percent indicated they were Member status, 41.2 percent were Diplomates, and 27.9 percent were Fellows.

### ***Institutional demographics***

Median number of staffed beds at responding institutions was 70 (s.d. = 121), and median net revenue was \$34m (s.d. = \$127m). In terms of settings, 8.1 percent self-identified as academic/training, 60.5 percent as community, and 3.0 percent as religious affiliated. In terms of locale, 64.0 percent indicated they were in rural settings, 10.5 percent urban, and 12.8 percent suburban (the remaining 12.7 percent did not identify their locale). As displayed in Appendix A, freestanding hospitals constitute approximately 48 percent of the short-term, general medical/surgical, non-federal hospitals in the U.S. Compared with such hospitals that are part of systems, freestanding hospitals tend to be smaller in size (median bed size 87 versus 141 bed size in systems) and located in small cities and non-metropolitan areas and in the Mid-Atlantic, East North Central, and West North Central regions.

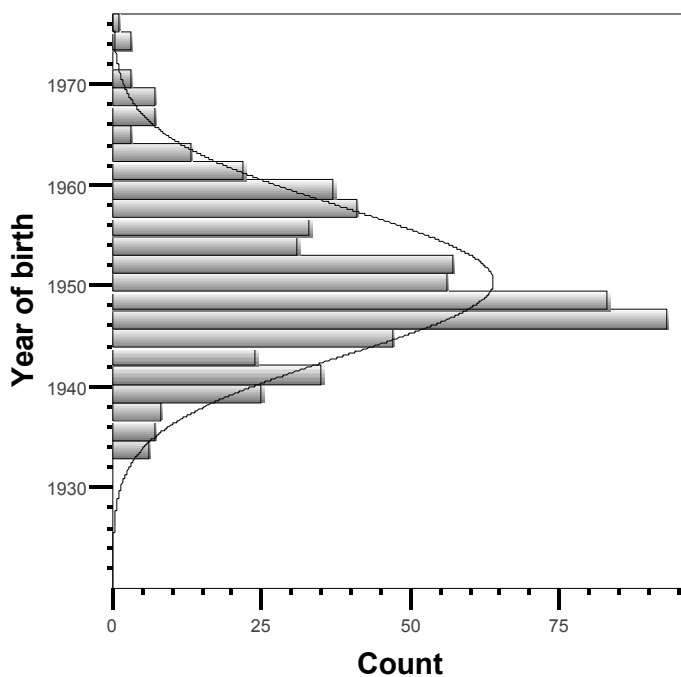
## Succession Planning Practices

The first set of questions on the survey asked whether respondent organizations had succession planning practices in place, whether successors had been named, and if not, the nature of the organizational barriers that were preventing progress in this area.

### ***Status of the current CEOs***

Median tenure of the current CEO was six years (s.d. = 7.5). The median tenure of the prior CEO was seven years (s.d. = 8.7). Fifty-seven percent of responding institutions (n = 397) indicated that their institution's current CEO was hired from outside the organization; 28 percent were hired from within; and 15 percent assumed the role as part of a planned succession process. For CEOs reporting they were identified in advance, the median amount of time between when a CEO was identified and when s/he assumed the position was 12 months.

**Figure 2: CEO age distribution**



### ***Has a specific successor been identified for the CEO position?***

Of the 711 organizations that responded to this question, a small minority ( $n = 105$ , or 15 percent), indicated “yes,” the remaining 606 (84 percent) indicated “no.” Organizations indicating they had a named successor were significantly larger than those without named successors, both in terms of staffed beds ( $F(1,632) = 14.1$ ,  $p < .001$ ), and net revenue ( $F(1,606) = 20.1$ ,  $p < .001$ ). A specific successor was identified for 23 percent of the CEOs who had themselves been part of a succession planning process, and for 13 percent of the CEOs who had not been part of a succession process. The table below illustrates other group differences.

**Table 2: Characteristics of CEOs and institutions with and without a named CEO successor**

	<b>Has a named successor</b>	<b>No named successor</b>
Median CEO age	57	54
Median staffed beds	130	61
Median net revenue (millions)	55	30
Academic/training	11.6%	7.6%
Community	61.1	60.8
Religious affiliated	2.1	3.1
Rural	52.6	66.8
Urban	11.6	10.5
Suburban	20.0	11.4

For institutions that had not identified a successor, the reasons for not naming a successor were requested. As shown in Table 3, the most frequently cited barrier was that it was not a high enough priority ( $N = 276$ , or 46 percent). The second most frequently cited reason was that the current CEO was “too new” to be considering a successor ( $N = 187$ , or 31 percent), followed by the perception that there were no viable internal candidates ( $N = 154$ , or 25 percent). The least frequently cited reason was succession planning being viewed as not useful ( $N = 7$ , or 1 percent), suggesting that most organizations see value in having a succession plan in place.

**Table 3: Reasons cited for not naming a successor**

<b>Response choice</b>	<b>N</b>	<b>(%)</b>
Not a high priority	276	(46)
Because the current CEO is too new	187	(31)
No internal candidate to prepare	154	(25)
Other	120	(20)
Not part of our culture	127	(21)
Not offered package	87	(16)
Several candidates make selection more challenging	74	(12)
Not viewed as useful	7	(01)

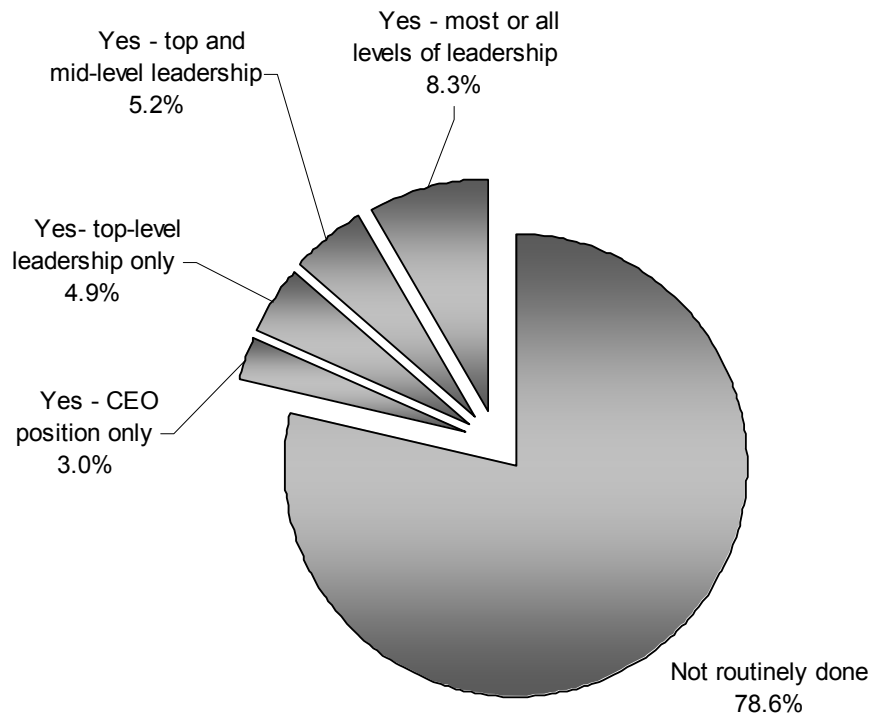
$N = 606$

### ***To what extent is succession planning routinely done?***

For the 699 organizations responding to this question, only 149 (approximately 21 percent) indicated that succession planning was routinely done in their organizations. By comparison, a recent review of succession planning surveys in traditional corporate settings estimated its prevalence to be between 45 and 65 percent in those settings (Garman & Glawe, 2004).

The extent to which succession planning was practiced at different organizational levels in hospital settings is shown in Figure 3.

**Figure 3: Extent to which succession planning is routinely done**



## **Assessment and Selection Practices**

Selection of potential successors is an essential early step in the succession planning process. A review of the literature suggested a diversity of assessment and selection practices, as well as the level of emphasis placed on this process by different firms. Participants in the current survey were asked several questions about how candidates were selected, and the extent to which a consideration of ethnic diversity played into the assembly of candidate pools.

### ***Who was involved in the selection?***

For institutions reporting a named successor, a set of questions asked about who had been involved in the candidate's selection. Among the CEO respondents (N = 95), the most frequently cited additional decision makers were the Board Chair (N = 44, or 46 percent) and the executive committee of the board (N = 43, or 45 percent). Among the Board Chair respondents (N = 10), other board members were the most frequently cited additional decision makers (N = 8). Selections were only rarely based solely on recommendation of the current CEO or Board Chair alone (N = 8 total, or 8 percent, across both groups).

### ***How was the successor chosen?***

Organizations were asked to describe the methods used to make the choice of successor in their organizations. Of the 109 respondents, 77 (71 percent) said the decision was made informally (e.g., through internal discussion). The remaining 32 said that more formal methods were used. Where specified, the most frequently mentioned formal processes were structured interviews (N = 16); no other specific approaches were mentioned more than a few times.

### ***Who was considered as a potential successor?***

For the 154 institutions responding to this question, 62 (56 percent) indicated that only internal candidates were considered. For 14 institutions (13 percent), only external candidates were considered. The remaining 34 institutions (31 percent) considered both internal and external candidates.

### ***How important was diversity in selecting the candidate pool?***

Several questions asked about the extent to which ethnic diversity was taken into consideration in assembling the most recent successor candidate pool. A total of 142 responses were provided to this question. The results suggest that ethnic diversity was at least somewhat important in a little under a majority of cases (47 percent for the “long list,” i.e., first-round interviewees; 45 percent for the “short list,” i.e., late-stage candidates). However, only a minority of respondents indicated it was either very important or mandatory (27 percent for the long list; 25 percent for the short list). Correlation between responses for long and short lists was very high ( $r(126) = .93, p < .001$ ), suggesting that the importance of diversity was consistent within organizations across both phases of the selection process. A breakdown of respondent organizations by importance level is provided in Table 4.

**Table 4: Extent to which ethnic diversity was a factor in assembling...**

	<b>N</b>	<b>(%)</b>
The Long list		
Diversity was considered mandatory.	8	(06)
It was viewed as very important, but not mandatory.	30	(21)
It was somewhat important.	29	(20)
It was not important.	75	(53)
The Short list		
Diversity was considered mandatory.	9	(06)
It was viewed as very important, but not mandatory.	31	(20)
It was somewhat important.	31	(20)
It was not important.	87	(55)

*N = 142 (long list); 158 (short list)*



## Successor Development and Transition

### ***How are successors prepared for the role?***

The majority of respondents (N = 631, or 87 percent) did not indicate that any formal preparation had been provided to successors prior to their assuming the CEO role. Of the 91 organizations that did cite the use of developmental activities, most cited multiple methods; the modal response included two choices (N = 32, or 35 percent). As can be seen in Table 5, mentoring was the most frequently cited method employed, followed by structured socialization and developmental assignments. All three were cited by a majority of respondents.

**Table 5: Kinds of development activities successors are involved in**

	<b>N</b>	<b>(%)</b>
No developmental activities cited	631	(87)
One or more developmental activities cited:	91	(13)
• Mentoring (e.g., regular 1:1 meetings with the current CEO for this explicit purpose)	77	(85)
• Developmental (“stretch”) assignments	64	(70)
• Structured “socialization” (e.g., meeting with key stakeholders to develop these relationships)	68	(62)
• 360-degree feedback	27	(30)
• Job rotation	16	(18)
• Other	16	(18)
• Coaching from external consultant	15	(16)

### ***How long will the transition process take?***

A total of 72 institutions described the length of their planned transition process—the time between a successor being chosen and that successor assuming the CEO role. The median amount of time reported two-and-a-half years. One-third of respondents indicated the transition will take place in 18 months or less; for one-third the process will take four or more years.

## Evaluation Practices

Institutions indicating that they were routinely involved in CEO succession planning were also asked about their evaluation practices. As shown in Table 6, of the 138 respondents, the majority (n = 97, or 70 percent) indicated they did not conduct any formal evaluation of their practices. For those 41 organizations indicating the process was formally evaluated, the most frequently cited evaluation practice was post-transition appraisals (n = 31), followed by statistical analysis of success (n = 4). Cost/benefit analysis was cited by the smallest number of organizations (n = 3). Eleven respondents indicated they used some other means for evaluating succession planning.

**Table 6: Evaluation methods used**

		<b>N</b>	<b>(%)</b>
If routinely done, is it formally evaluated?	Yes	41	(30)
	No	97	(70)
If evaluated, how? (note: respondents can select multiple methods)			
	• Incumbents are appraised on how they identify/prepare successors	31	(76)
	• Statistics are kept on the success of transitions	4	(10)
	• Costs/benefits of succession programs are estimated	3	(07)
	• Other	11	(27)

## Effectiveness of Succession Planning Practices

Respondents were asked for their perceptions of the effectiveness of their succession planning processes via two questions: “How effective is your organization in identifying appropriate successors?” and “How effective is your organization in preparing candidates for the role?” Responses involved a five-option Likert-type scale (“Very ineffective” to “Very effective,” with “Uncertain” as the midpoint). Mean response for “Identifying appropriate successors” was 2.6 (s.d. = 1.2), which translates to somewhere between “Uncertain” and “Ineffective.” Mean response for “Preparing successors for the role” was also 2.6 (s.d. = 1.1).

A breakdown of responses is provided in Table 7. Only a minority of respondents (26 percent) believed their organizations were either effective or very effective in identifying successors. An even smaller minority (23 percent) believed their organizations were either effective or very effective in preparing successors to assume the CEO role. Correlations between perceived effectiveness in identifying CEOs and preparing them for the role were significant and high ( $r(641) = .74, p < .001$ ).

**Table 7: Overall effectiveness in identifying and preparing CEO successors**

	N	(%)
Identifying successors ( $N = 661$ )		
↑ <i>Very Ineffective</i>	138	21
	170	26
↓ <i>Uncertain</i>	186	28
	129	20
↓ <i>Very Effective</i>	38	6
Preparing successors for the role ( $N = 645$ )		
↑ <i>Very Ineffective</i>	134	21
	170	26
↓ <i>Uncertain</i>	196	30
	113	18
↓ <i>Very Effective</i>	32	05

The following sections describe how specific practices related to effectiveness ratings.

### ***Effectiveness as a function of routine practice***

Additional analysis addressed the extent to which specific practices were associated with perceived effectiveness. First, the extent of succession planning (i.e., whether it was routine and, if so, how pervasive the practice is) was correlated with the effectiveness items. An ordinal scale was created to express the extent data (1 = “not routinely done”; “5 = routinely done at most or all leadership levels”). Results indicated that extent of planning was significantly and positively correlated with perceived effectiveness both in identifying successors ( $r(652) = .21, p < .001$ ) and in preparing successors for the CEO role ( $r(636) = .24, p < .001$ ). Mean effectiveness ratings by extent of practice are shown in Table 8. These results suggest that hospitals in which succession planning is not routinely done tend to view their practices as less effective.

**Table 8: Extent of practice and perceived effectiveness**

	How effective is your organization in ...			
	Identifying candidates		Preparing successors for the role	
	% “effective” or “very effective”	% “ineffective” or “very ineffective”	% “effective” or “very effective”	% “ineffective” or “very ineffective”
	↓	↓	↓	↓
Not routinely done	20	52	16	52
Succession planning is routinely done for...				
...CEO only	35	30	35	45
...Top-level leadership	39	24	47	25
...Top and mid-level	48	31	40	26
...Most or all levels	46	26	46	20

### **Effectiveness as a function of evaluation practices**

Next, associations between evaluation practices and effectiveness were assessed via ANOVAs. Results, shown in Table 9, indicate that only incumbent appraisals were significantly associated with perceived effectiveness in both identifying successors and in preparing them for the role.

**Table 9: Organizations with routine CEO succession planning: Evaluation practices and perceived effectiveness**

	Effectiveness in...	
	Identifying candidates	Preparing successors for the role
Is succession planning formally evaluated?	<i>Yes</i> 3.4	3.5*
	<i>No</i> 3.1	3.1
If evaluated, how?		
Incumbents are appraised	<i>Yes</i> 3.7*	3.7**
	<i>No</i> 3.0	3.0
Statistics are kept on the success of transitions	<i>Yes</i> 4.3	4.2
	<i>No</i> 3.1	3.1
Costs/benefits estimated	<i>Yes</i> 4.5	4.0
	<i>No</i> 3.2	3.2
Other	<i>Yes</i> 3.1	3.2
	<i>No</i> 3.2	3.2

1 = Very ineffective  $\leftrightarrow$  5 = Very effective

\*  $p < .05$ ; \*\*  $p < .01$

The next two sections describe analyses related to one or the other of the two effectiveness ratings. The first sections relate to perceived effectiveness in identifying candidates; the second, to effectiveness in preparing candidates for the role.

## **Effectiveness in Identifying Successors**

### ***Decision makers and perceived effectiveness***

No statistically significant relationships were found between who was involved in the selection decision and the perceived effectiveness in identifying successors. No significant relationships were found between perceived effectiveness and total number of parties involved in the decision.

### ***Candidate pools and perceived effectiveness***

No statistically significant differences were found between the composition of the candidate pool (internals-only, externals-only, mixed) and perceived effectiveness of the organization in selecting candidates ( $F(2,104) = 2.48, p = .09$ ). However, in comparing succession processes with no internal candidates versus some (or all) internal candidates, results were statistically significant in favor of processes with internal candidates ( $F(1,105) = 4.91, p < .05$ ). Mean effectiveness for externals-only candidate pools was 2.6 (between “uncertain” and “ineffective”); for internals-only and mixed pools it was 3.4 (between “uncertain” and “effective”).

There was no significant effect of diversity focus in assembling the candidate pool on perceived effectiveness of the process ( $r(136) = -.04$  for “long list” candidates;  $r(153) = -.12$  for “short list” candidates). In other words, it may be best interpreted as a neutral factor, neither supporting nor undermining the perceived effectiveness of the process.

### ***Assessment methods used and perceived effectiveness***

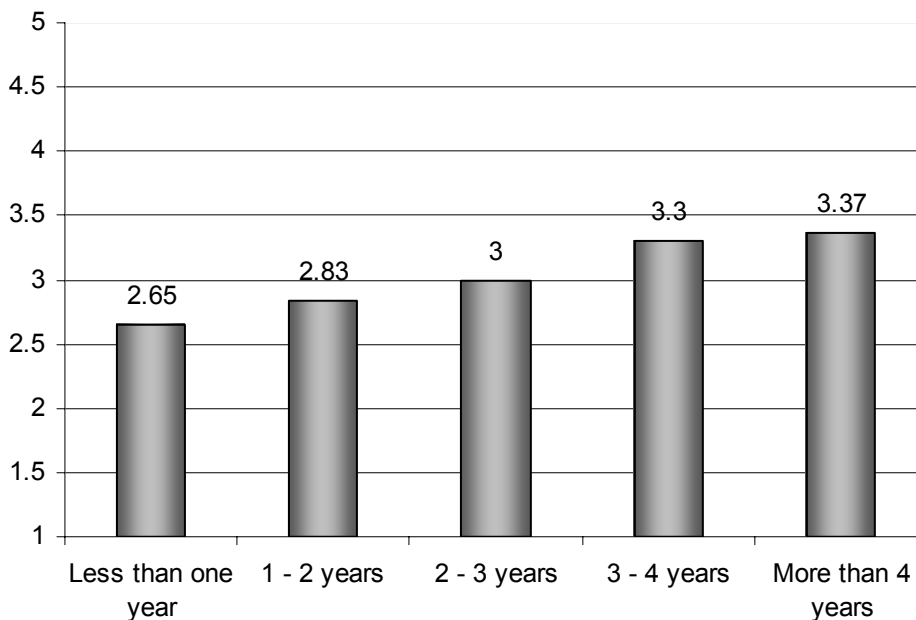
The effect of assessment methods used (formal vs. informal) on perceived effectiveness was also analyzed. No statistically significant differences were found.

## Effectiveness in Preparing Successors for the Role

### ***Transition length and perceived effectiveness***

In examining succession planning practices, the single strongest predictor of perceived effectiveness in preparing successors was the length of the transition process for the incumbent CEO ( $r(100) = .26, p < .01$ ). This relationship is graphically illustrated below in Figure 4, which divides respondents into five groups based on transition length for the most recent CEO transition. As can be seen in the figure, the average perceived effectiveness for the “3-4 years” and the “4+ years” groups on average found their methods to be “Effective” (the anchor point for 4); groups reporting up to three years for the transition were on average “Uncertain” (anchor point for 3).

**Figure 4: Perceived effectiveness in preparing successors as a function of transition length**

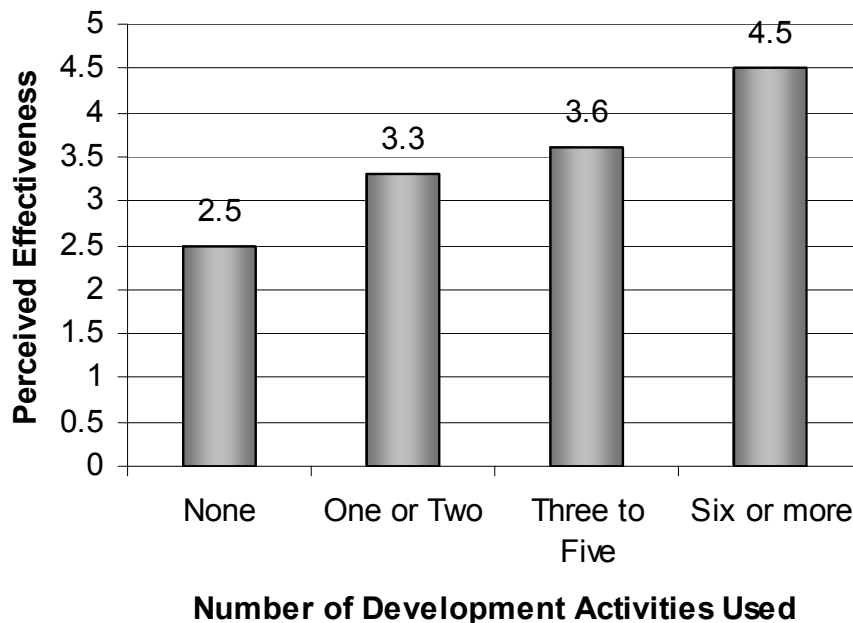


1 = Very ineffective; 5 = Very effective

### ***Developmental activities employed and perceived effectiveness***

We assessed the relationship between specific developmental steps taken and the perceived effectiveness of the organization in preparing candidates for the CEO role. First, a scale score was created based on the total number of developmental activities cited (options given on the survey were: mentoring, coaching, structured socialization, 360-degree feedback, developmental assignments, job rotation, and “other”). Next, this new scale was correlated with perceived effectiveness in developing candidates. The relationship was statistically significant and positive ( $r(642) = .24, p < .001$ ). The association held and strengthened when transition length was controlled for ( $p(65) = .31, p < .05$ ). Figure 5 illustrates the effect by grouping respondents according to the number of development interventions employed.

**Figure 5: Perceived effectiveness and the number of development interventions employed**



1 = Very ineffective; 5 = Very effective



Next, we analyzed the relationship between specific developmental interventions and the perceived effectiveness in preparing successors. Results of these analyses are shown in Table 10. For example, overall perceived effectiveness averaged 3.4 for organizations who reported the use of mentoring, and 2.5 for organization who did not report using mentoring in preparing successors.

**Table 10: Perceived effectiveness in preparing successors: Association with developmental activities used**

		Overall perceived effectiveness
Developmental activities employed:		
• Mentoring (e.g., regular 1:1 meetings with the current CEO for this explicit purpose)	<i>Yes</i>	3.4**
	<i>No</i>	2.5
• Developmental (“stretch”) assignments	<i>Yes</i>	3.6**
	<i>No</i>	2.6
• Structured “socialization” (e.g., meeting with key stakeholders to develop these relationships)	<i>Yes</i>	3.4**
	<i>No</i>	2.5
• 360-degree feedback	<i>Yes</i>	3.5**
	<i>No</i>	2.6
• Job rotation	<i>Yes</i>	3.4**
	<i>No</i>	2.6
• Coaching from external consultant	<i>Yes</i>	3.6**
	<i>No</i>	2.6
• Other	<i>Yes</i>	3.9**
	<i>No</i>	2.6

1 = Very ineffective; 5 = Very effective

\*\*  $p < .001$

Statistical analyses (ANOVAs) revealed statistically significant differences in overall perceived effectiveness depending on whether or not an organization used each of the development activities cited.

To assess whether a combination of developmental activities was associated with higher perceived effectiveness, stepwise regression was used (F-to-enter = .05; F-to-remove = .10). From this analysis, the strongest predictive model included two developmental areas: Mentoring ( $B = .173$ ) and Developmental Assignments ( $B = .139$ ).

## ***Practice implications***

Before describing future studies, we should note some important limitations of this study that the reader should keep in mind. First and foremost involves the restrictions we placed on the survey sample, which consisted only of freestanding, non-federal, non-specialty hospitals. Results from this study may not generalize to hospitals whose characteristics fall outside this sample frame; additional research that broadens this sample would be needed to ensure generalizability. Secondly, results relied on self-report data; to the extent that recall may be biased, these biases will have entered the dataset without objective validity checks.

With these limitations in mind, results of this study do appear to hold some important implications for succession planning within U.S. freestanding hospitals similar to those in the study. The most important point this study makes is that there is room for improvement in succession planning practice. On the one hand, there appears to be widespread acceptance of succession planning as valuable and important for hospitals to conduct. On the other, hospitals with named successors were in the minority, and CEOs who had participated in succession planning tended to have relatively short transition periods.

A second important finding: there appears to be substantial variance in practice, even among like institutions. For example, some participants felt they could not conduct meaningful succession planning in their institutions due to their size, financial position, and/or rural locale; however other participants from similar institutions reported well-developed succession planning processes in place in their organizations. Some attention to helping these latter organizations share their best practices with the broader community of health administrators and boards may be particularly beneficial.

In terms of candidate development, mentoring and developmental assignments appeared to be the most powerful developmental activities. The data also suggested that the greater the number of developmental activities employed, the higher perceived effectiveness of the process. This relationship did not appear to reach a point of “diminishing returns,” at least not for the number of developmental activities queried in our survey (six plus the “other” option). An association was also found between effectiveness and transition period length, particularly for transition periods of three or more years. While these data don’t suggest what the optimal time period or development program should look like, they do suggest that most freestanding hospitals would benefit from expanding on their existing programs.

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## Appendix A

### Comparison Between Freestanding and System Hospitals

The research reported here was confined to short term, general medical-surgical, non-federal hospitals that are freestanding. We include this table to emphasize that these hospitals have distinctly different characteristics from short-term, general medical/surgical non-federal hospitals that are part of health systems.

	Freestanding	System hospitals
Median number of staffed beds	87	141
Control:		
Not for profit religious	2.8	19.3
Not for profit secular	54.5	45.9
Investor owned	5.1	22.4
State/local government	37.5	12.4
	100.0%	100.0%
Size of place:		
Non metropolitan	57	37
Less than 250,000	9	9
250,000-500,000	7	9
500,001-1 million	6	10
1.0 million to 2.5 million	9	19
More than 2.5 million	11	16
	100%	100%
Region:		
New England	5	3
Mid-Atlantic	11	8
South Atlantic	13	17
East North Central	16	15
East South Central	8	10
West North Central	16	13
West South Central	14	14
Mountain	7	7
Pacific	10	14
	100%	100%
Number of hospitals (AHA database)	2,222	2,400

The table shows that freestanding hospitals are smaller and more often located in smaller cities and non-metropolitan areas than are system hospitals. Also, they are located in different areas of the United States. Compared with system hospitals, more freestanding hospitals are found in the Mid-Atlantic, East North Central, and West North Central regions.