



Andrew N. Garman,
Psy.D.



J. Larry Tyler,
FACHE

Succession Planning at the Top

Effective strategies in today's environment.

Every year, one in seven hospital CEOs will transition out of his or her role. In the best circumstances, these transitions represent both challenges *and* opportunities for a hospital. Whether opportunity outweighs challenge is in part a function of the effectiveness of the hospital's succession planning.

Succession planning may be defined as any process involving the identification and development of candidates for forecasted leadership needs within a given organization.

Nowhere is the significance of CEO succession planning seen more clearly than in the reactions of stakeholders to CEO transition announcements. Stakeholders often view stability in top-level leadership as a key indicator of organizational well-being. Transitions that do not appear well planned will quickly draw unwanted attention and media speculation about whether the house is in good order.

What does effective CEO succession planning look like? A review of 162 articles, books and survey reports concluded that it should, at a minimum, involve the following five elements:

1. An ongoing, shared process.

Given the potential downside of an unanticipated CEO turnover, a

succession plan should *always* be in place. This includes having a named individual ready to step in as acting CEO should the need ever present itself. The ideal arrangement is for the process to be driven by the board but worked on collaboratively with the current CEO; however, some boards hesitate to create a succession plan because they fear sending the wrong signals to the current CEO.

At Albemarle Hospital in Elizabeth City, N.C., President and CEO Sharon M. Tanner initiated the succession planning process herself. "Preparing a succession plan does not reflect on the current CEO's performance," Tanner says. "To me, it is simply the right thing to do in terms of taking care of the organization, which is why CEOs should take the first step and approach their board if the board has not initiated the process yet."

The CEO's responsibilities should involve all aspects of the succession planning process, up to but *not* including actual selection of the successor. Choosing the successor is something that should remain with the board. Although selection of a potential successor will give an

advantage to certain individuals, it should be made clear in communicating with potential candidates that the actual selection decision will be made by the board at the appropriate time.

2. A communications plan. Top-level transitions can involve intense communication needs while at the same time requiring a unified message concerning the succession process. If planned effectively, the increased attention associated with a transition can be used to a hospital's advantage in communicating about its mission and services.

3. A position development process. If the succession planning process is truly ongoing, the board and CEO periodically should be redefining the position require-

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ments for the CEO role. This analytic process should include not only the current challenges the organization is facing but also challenges forecasted for the time when a succession may take place.

Having a discussion about the position's needs should happen prior to considering potential successors to keep social and political ties tempered against the organization's needs. A skilled human resources executive often can effectively facilitate this process internally; alternatively, a human resources or search consultant with job analysis skills can provide assistance.

This position analysis becomes a template by which candidates' strengths and development needs can be considered. Development plans should be crafted to address these needs and should be monitored by the CEO on an ongoing basis.

4. A formal selection process.

Although the CEO will be in the best position to identify internal candidates for development, the actual selection of the next CEO needs to reside with the board. Even in cases where the board agrees about a strong internal candidate, a formal selection process is still warranted. A well-crafted

formal selection process should provide the board with much more than a simple "go/no go" recommendation. "Your board has an obligation to know the strengths and weaknesses of a potential successor as well as areas for development," says Rulon F. Stacey, Ph.D., FACHE, president and CEO of Poudre Valley Health System in Fort Collins, Colo., whose organization has implemented a formal succession planning process. "Our board has asked me to identify those areas with the successor, address them in an annual evaluation, and then report back about how those areas are being addressed and how vital information is being

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transferred. We include the potential successor in board meetings so that the information transfer can be as rapid as possible.”

This type of sharing can help the board in supporting the CEO’s transition, as well as informing future board staffing decisions.

5. An explicit transition plan. An explicit plan, including timeline and package, should be put together when a transition is expected within the coming five (or fewer) years. “In our organization, this is done by policy,” says Stacey. “We have a signed contract with a recruiting firm so that the process of replacement can start immediately if the board so chooses.”

After the successor has assumed the role, a post-transition assessment should be conducted to identify any early points of challenge the new CEO is facing. A 360-degree feedback process, conducted about six months post-transition, can provide the CEO with a good reality check and opportunity to adjust his or her approach as needed.

Barriers to effective CEO succession planning. Although acceptance of succession planning practice is growing, healthcare organizations lag behind the private sector in implementation. For example, in a national study of CEOs and board chairs of freestanding hospitals (“Succession Planning Practices in Freestanding Hospitals: Final Report,” which is available at ache.org), only 21 percent reported that succession planning was routinely

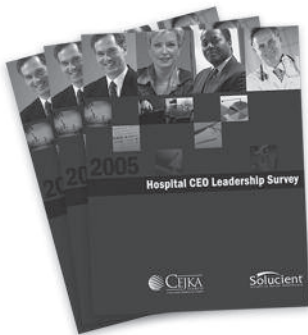


done in their organizations—about a third of the rate reported in surveys of private-sector organizations. However, only 1 percent of the survey respondents said they did not view succession planning as useful. Most often, succession planning did not get the attention it deserved because other organizational challenges perpetually took precedence.

This finding also speaks to the value of having an ongoing process in place. Other frequently cited barriers include political challenges, the feeling that the CEO is too new and thus it is “too soon,” and the absence of one or more of the elements listed in the previous section

(e.g., lack of agreement on a transition process or package).

Following these guidelines should help CEOs and boards alike to most effectively prepare for and navigate these crucial times of transition. ▲

Andrew N. Garman is associate professor in the department of Health Systems Management, Rush University, Chicago. He can be reached at (312) 942-5402 or Andy_N_Garman@rush.edu. J. Larry Tyler, FACHE, is president of Tyler & Company, Atlanta. He can be reached at (770) 396-3939 or LTyler@tylerandco.com.

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