Sooner Rather Than Later: The Benefits of Leadership Transition Planning

By Barry S. Bader
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Jack Gilroy was worried. Every morning, the youthful-looking 61-year-old hospital CEO gazed at the photo of his spacious Montana retirement home, and he agonized how to tell his board he longed to be there.

For the past 19 years, Gilroy had built a premier, regional health system with services spanning the continuum of care, fulfilling a vision few dreamed possible. But now, he'd tired of the endless battles with regulators, HMOs and doctors.

Each time he broached the subject of retirement, though, his board chair brushed him off. "We're keeping you locked up 'til you're 65," he'd say. "The board can't imagine anyone else in the job."

What could Gilroy do to get the board to confront reality?

Jack Gilroy isn't real; he's a composite based on several CEOs, and his story illustrates how hard a time board members and CEOs have talking about leadership transition.

CEO selection is the ultimate board responsibility. No other decision has a more profound impact on the organization's fortunes and the fulfillment of its mission.

Yet, hospital and health system boards typically spend little time planning for a foreseeable change in leadership.

As governance authority William G. Bowen writes in his book, *Inside the Boardroom*: "Too often non-profits, especially those founded or run for many years by charismatic leaders, devote little thought to the eventual need for a new president. When issues associated with succession are ignored until the search for a new leader must be launched, the search process itself may not go well."

When planning is deferred until the last moment, the board misses the opportunity to address critical questions that should precede a sound selection decision.

One community hospital, for example, had a tradition of long-tenured and effective executives, just six CEOs in its 120-year history. When its revered, 60-year-old CEO announced his plans to retire within a year, he expected the board to accept his choice for a replacement, the 50-year-old chief operating officer he'd hired five years before.

But the board's executive committee barely knew the COO. So it hired a national search firm and indicated its preference for an outsider. The board chose a dynamic young executive from outside and was shocked when the popular COO resigned and staff morale plummeted. Had the board known the result in advance, it could have given the COO a fairer evaluation. If it still selected an outsider, the board could have handled the announcement differently, with fewer negative repercussions.

Leadership Transition Planning

Leadership transition planning is a well-organized process by which the board anticipates a leadership change, identifies and addresses critical issues in advance and creates a deliberate, well-communicated and well understood transition plan. The process gives the board a chance to consider the multiple ramifications on the executive team, medical staff, financial supporters and other important stakeholders.

While a CEO search process usually begins several months before a retirement, leadership transition is often a multi-year process started when CEOs reach their late 50s or early 60s. For example, when the Board of Directors of Houston's Memorial Hermann Healthcare System announced in January 2002 that long-time CEO Dan S. Wilford would retire in November, the announcement culminated several years of preparation.

At Bay State Health Systems, Inc. in Springfield, Mass., the leadership transition process began when CEO Mike Daly let his board know several years out that retirement was on his radar screen. One board member, Thomas Wheeler, a former president of Mass Mutual, said a thoughtful leadership transition planning process helped solidify the board's thinking and understanding about the organization's future and the kind of executive it needed. "We were not prepared to address Mike's transition since he had served so successfully for a long period of time," he said. "Facing a CEO transition required a thoughtful process,

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and transition planning helped us achieve a very good plan."

'"Not every CEO is perfectly positioned to retire," says Jack Schlosser of the executive search firm Spencer Stuart. "Starting a transition process a few years before retirement gives both the CEO and the organization time to work out a succession that's comfortable for the governing board, CEO, and internal or external successors, as well as the organization and the community."

"Good succession planning and leadership transition planning are important, but they've been less attended to in healthcare than in other industries," says Schlosser. "We'll see more of both."

Key Questions

A leadership transition planning process is most appropriate for CEOs who are within a few years of retiring. More and more CEOs can opt for early retirement because they've achieved financial security. Some want to spend more time with family or have other priorities, and some have health concerns unknown to the board.

Another time when leadership transition planning could be appropriate is when the CEO is a "rising star" who is unlikely to spend his or her career with this organization. For example, consider the CEO of a 150-bed hospital that is part of a nationwide health system. The CEO may be tapped for a post at one of the system's larger hospitals in the next few years. A leadership transition planning process would allow the board to plan with its parent organization for this eventuality.

Every leadership transition presents issues unique to the organization, its executive and potential successors within the organization. Among the questions that may be addressed in the process are these:

1. What is the timeframe for executing the transition plan?
   - When does the incumbent want to leave?
   - Is an overlap period with the successor desirable? For how long?
   - How long will a search process take? When should it begin?
2. Have appropriate steps been taken to provide for the incumbent's financial security after retirement?
   - Is the CEO remaining longer than desirable because of the organization's failure to provide appropriate financial security?
3. Besides choosing a great successor, does the board seek to achieve other important outcomes, such as:
   - Maintaining momentum of new strategic initiatives, such as a merger or new cardiac care center, during and after the transition.
   - Retaining key vice presidents during the transition and after a successor is named.
   - Communicating organizational strength and stability to stakeholders worried about the organization's future after the CEO leaves.
   - Providing the medical staff and other important stakeholders with appropriate inclusion in the executive selection process.
4. What is management's bench strength?
   - How will the board obtain an objective assessment of the management team and determine if internal candidates exist?
   - Has the CEO, formally or informally, groomed any individual as

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The Benefits of Transition Planning

- Planning allows for thoughtful deliberation, stakeholder understanding and collaboration.
- Planning clearly communicates the complexity of leadership transition and indicates that the board recognizes that complexity. Most stakeholders don't understand the complexity and simply want their particular voice or point of view to be heard and followed.
- Planning reinforces the board's commitment to the organization, confidence in the future and full capability to handle the task of executive selection.
- Planning shows the board is keenly interested in being fully accountable for the transition decision and making sure that the organization and community are rewarded with the best possible individual.
- Planning ensures that the organization's values about treating employees fairly and rewarding excellence are followed in the evaluation and treatment of members of the executive team.
- Planning ensures that the organization's strategic imperatives and needs for the future are objectively considered.

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a successor?

- Do internal candidates need further development and evaluation prior to a decision on their potential to succeed to the top position?
- Do succession and recruitment plans exist for other key positions in the organization, especially for any key vice presidents nearing retirement?
- Does the organization have other rising stars who need development or promotion? Are some at risk of being recruited away?
- Are some VPs so critical to the new CEO's success that it makes sense to offer them financial incentives to remain for a period of time?

5. Should the incumbent CEO have any role in the selection process and after a replacement is hired?
   - Does the board believe that the continuing presence of the CEO in some role, such as adviser or board member, would be a help or a hindrance in establishing a new leadership team?
   - Does the incumbent expect or want a future role? Has such a role been promised by prior board leaders?
   - How will the decision regarding the incumbent's future role affect the selection of a new CEO?
6. When and how should a search process be conducted?
7. What kind of communications plan will be needed during the leadership transition process and the search process?
   - Which constituent groups need to be informed of the transition, and when?
   - Who needs to be told first, privately or officially?
   - What is the overarching message the board wants to deliver through these communications?

Avoiding Common Mistakes

Leadership transition planning won't prevent every possible thing that can go wrong, but it improves the odds of anticipating and thereby avoiding many common mistalkes.

In one typical scenario, the board fails to evaluate internal candidates objectively. This cuts both ways. A long-serving, well-liked and competent vice president may seem the obvious choice, but as management guru Peter Drucker writes, "It's wise for a board to be a little leery of the faithful assistant who is either a 'carbon copy' of the CEO or who has been 'at the boss' side' anticipating his or her every wish, but has never made a decision alone. People who are willing and able to

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Succession Planning vs. Leadership Transition Planning

Leadership transition planning is designed for foreseeable CEO turnover. By contrast, succession planning is something every board should do routinely regardless of their CEO's age or tenure.

As Charles M. Ewell and Dennis D. Pointer write in *Really Governing:* "Because vacancies seem to occur at the worst possible times, boards should have a transition plan in place that will serve as a roadmap for the organization during the period between the departure of one CEO and the arrival of the next."

Succession plans prepare the organization to stay on course during unexpected executive changes, such as when the CEO accepts a great opportunity at a larger facility or suddenly becomes ill, incapacitated or must be terminated. Every one to two years, the board's executive committee or a similar body should review the organization's succession plan, raising such questions as:

- Which members of the executive team have the capability to fill in and perform the functions of the CEO during an unplanned transitional period? If no one has such capabilities, how does the board plan to address this shortcoming?
- If an interim executive is present, who will it be? How will the roles of other members of the executive team change?
- Will compensation of interim executives change during the transitional period to recognize added responsibilities?
- If the previous CEO was a voting member of the board, will this be extended to an interim executive?
- What is the CEO doing to develop members of the executive team? Is the CEO cultivating and retaining rising stars, or losing them to other organizations because of an inability to delegate responsibility or provide development opportunities?

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make decisions don't stay in that role very long."

On the other hand, every outside candidate is an insider elsewhere whom the other organization perhaps undervalues. The board should have an objective assessment of internal candidates and be sure that they've had opportunities to broaden their skills and prove their leadership ability.

Another common mistake is to ignore warning signs and allow a highly regarded CEO to remain too long. One CEO's style with physicians had worked for decades but turned toxic in in his final years on the job. The new CEO had to rebuild physician relationships because of the bridges his successor had burned. In retrospect, the board should have given the prior CEO a great retirement package a tad sooner.

One nationally known executive casually told the board chairman over dinner one night that he'd retire in a year or so. The executive committee, which believed he was locked in until he turned 65, decided his heart wasn't in the job. It immediately began a search process and told the CEO to leave in six months. The CEO was crushed, and the organization was shocked.

Sometimes transition planning identifies "wild cards," individuals with personal agendas who can skew a search process. In one case, a physician fancied himself the next CEO and angled to put friends on the search committee. In another, the board chairman secretly disliked the current CEO, and wouldn't give his COO a fair shake.

A search consultant will help the board address such problems but is limited because search processes are just a few months long. Leadership transition planning allows more time to spot and cool incendiary situations in advance.

When executive succession is not well handled, the potential for organizational confusion, drift and disarray is real and predictable.

A carefully conducted transition planning process can prevent other common mistakes , such as:

- Thinking of succession planning as an event — the CEO search process — rather than as a process
- Failing to consider the perspectives of multiple stakeholders
- Ignoring the inevitable lame-duck syndrome
- Delegating too much responsibility to the chairperson, CEO or executive committee. The full board needs to own the process.

Sooner Rather Than Later

When executive succession is not well handled, the potential for organizational confusion is real and predictable. At its worst, once an announcement of a pending retirement is made, succession planning spirals quickly into the pit of politics and personalities.

When the process is handled well, the organization makes an executive change without missing a beat. At Central Maine Health Care in Lewiston, Maine, CEO Bill Young and the board initiated a transition process several years before his retirement.

"Looking back, I am thankful I didn't start at age 64 or 65," says Young. He had been grooming his COO, Peter Chalke, who had been running the medical center for 12 years. "Peter had tremendous credibility with and support from the board, but the board felt to discharge its fiduciary responsibility, it needed an outside perspective," recalls Young. A search firm helped the board develop criteria for a new CEO and conducted an independent evaluation of internal and external candidates.

When the board concluded Chalke was its No. 1 choice, he was glad it had conducted a national search. "I am in a much stronger position for the future," says Chalke, because the board conducted such a thorough process.

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