

# LEADERSHIP, SUCCESSION PLANNING AND TRANSITIONS: “HOW DO WE BALANCE THEM?”

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RURAL HEALTH INNOVATIONS & THE  
NATIONAL RURAL HEALTH RESOURCE  
CENTER



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May 25, 2016

# MANY THANKS!

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# Healthcare Is Changing.....



**"Part of the problem is the number of employees  
who think they know the solution."**

# Healthcare Is Changing.....





# According To ACHE 2015

Financial challenges again ranked No. 1 on the list of hospital CEOs' top concerns in 2015, according to the American College of Healthcare Executives' annual survey of top issues confronting hospitals. Patient safety and quality ranked second, followed by government mandates.

“While financial challenges remain the top concern for CEOs, survey results suggest that senior leaders still have their eye on their organization's financial strategy, and they are also making strides in moving forward patient safety and quality initiatives,” says Deborah J. Bowen, FACHE, CAE, president and CEO of ACHE.

“The rise in rank of personnel shortages as a top concern for hospital CEOs—from the 10th-ranked concern last year to the fourth-ranked concern this year—is noteworthy, indicating organizations are also concerned about recruiting and retaining the right talent.”

“The best way to get a good idea is to get a lot of ideas.”

“There is a right thing to do with regard to quality of care: improve it. If that takes courage, so be it.”

Donald Berwick

# Learning Objectives

1. Discuss why succession planning is even more important now, as the industry transitions to a value-based system. Why is it so important to focus on succession planning as we 'cross the shaky bridge' to value-based payments?
2. Define succession planning
3. What is leadership's role in succession planning?
4. How do transitions in leadership affect the organization?
5. How do leaders handle succession planning and job transitions?
6. Review practical methods for succession planning

# Hospital CEO turnover rate in 2015 among highest reported in 20 years

Written by Kelly Gooch | March 11, 2016 Becker's

- "Our data show a continuation of the elevated CEO turnover rates we have seen over the past several years," Deborah J. Bowen, ACHE's president and CEO, said in a prepared statement. "The continuing trend of consolidation among organizations, the emergence of new models of care, retirement of leaders from the baby boomer era as well as movement of CEOs within health systems may all be contributing factors. **The high level of change taking place in hospital C-suites underscores the importance of organizations having well-developed succession plans to manage changes in senior leadership roles to ensure success in today's environment.**"



# What is Succession Planning?

The deliberate, organized effort to identify and prepare a process for the replacement of individuals in positions when the incumbent departs.

- Involves predetermined planning
- For the CEO position it is supported and approved by governance
- Succession planning involves more than the C-Suite (manager/director)

# Succession Planning

It involves two parts:

1. When the position is vacated suddenly (voluntarily or involuntarily)
2. When there is a planned departure



# 3 Succession Planning Pitfalls

**1. Lack of a clear strategic plan** — For a succession plan to be successful, there must be a strategic plan which supports the organization's vision. In the absence of a strategic plan, resources will be spent without a clear vision of the organization's leaderships needs.

**2. Absence of a contingency plan** — The budget for a nonprofit organization or hospital should always be flexible and contain a contingency plan to account for unanticipated leadership vacancies. Very frequently, a contingency plan is absent and the accuracy of the budget is compromised due to unforeseen expenses related to filling leadership positions in healthcare organizations.

## 3 Succession Planning Pitfalls (Cont.)

**3. Lack of board approval/involvement**— The governing board, in conjunction with the CEO or head of the organization should approve the succession plans and stay current with leadership's performance. The absence of board involvement will preclude proper monitoring of the organization's performance and proper safeguards must be implemented to reduce succession planning pitfalls.



SUCCESSION

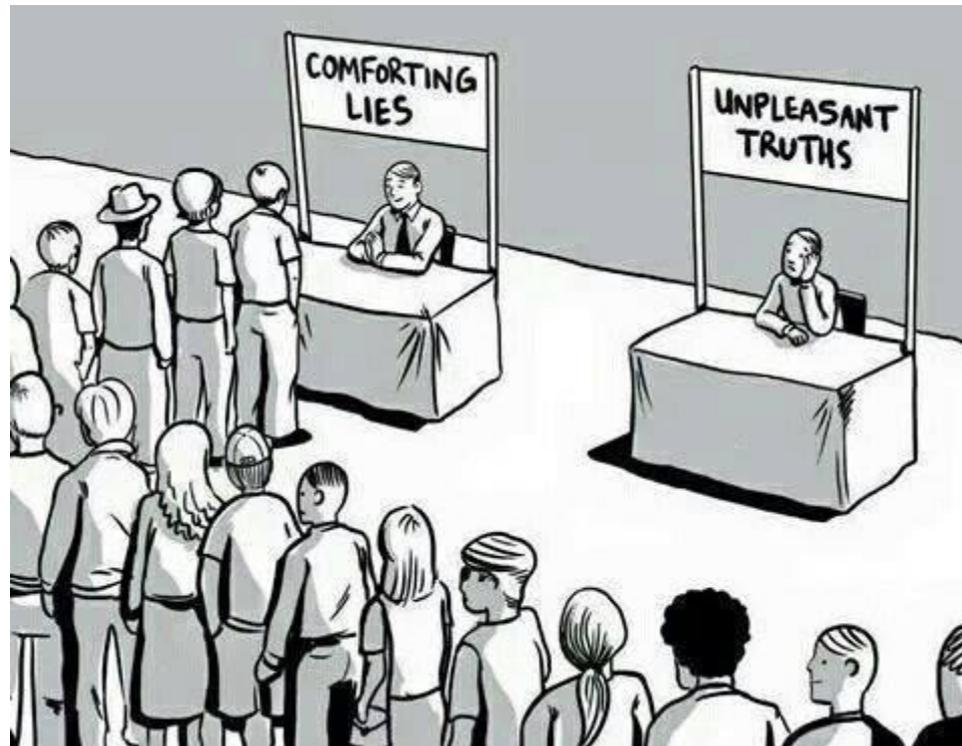
*Planning*

# Succession Planning Warning & Reality Check



- ❖ The path will be difficult and not all will want to go
- ❖ There will be frustration and growing pains

# Succession Planning



# Hospital CEO turnover rate in 2015 among highest reported in 20 years

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- Hospital CEO turnover in **2015 held steady at 18 percent**, according to a recent [report](#) by the American College of Healthcare Executives.
- That's less than the record high of 20 percent in 2013, but equal to that reported in 2014 and still among the highest rates reported in the past two decades.
- According to the ACHE, the highest hospital CEO turnover rates in 2015 occurred in Missouri (30 percent), Washington, D.C. (29 percent), Alaska (28 percent), Nevada (27 percent) and Oregon (26 percent). The lowest hospital CEO turnover rates in 2015 were found in Michigan (12 percent), Illinois (12 percent), Maine (9 percent), Wisconsin (7 percent) and Puerto Rico (2 percent).

# Changes In Healthcare

Average Tenure for CEOs was 4.16 years  
(ACHE 2010)

Average Tenure for CEO's was 3.5 years  
(Becker's 2013)

- ◆ Factors include aging workforce
- ◆ Changes in healthcare regulations
- ◆ Mergers, acquisitions and closures

*The CEO is not the only leadership position “at risk” during CEO turnover.*

# 10 Statistics on CEO Turnover, Recruitment (Becker's 2013)

The poll was completed by 1,404 healthcare provider organizations' human resource officers and board members.

- The average hospital CEO tenure is under **3.5 years**.
- **Fifty-six percent** of CEO turnovers are involuntary.
- When a new CEO is hired, **almost half** of CFOs, COOs and CIOs are fired within nine months.
- Within two months of a new CEO appointment, **87 percent** of CMOs are replaced.

# 10 Statistics on CEO Turnover, Recruitment (Becker's 2013)

- **Ninety-four percent** of new CEOs without healthcare sector experience believe extensive healthcare knowledge is not necessary to replace senior management positions.
- **Eighty-nine percent** of people involved in the hiring process believe a broad area of business expertise is beneficial in a hospital CEO position.

*Most new hospital CEO candidates come from a venture capital/private equity industry background (42 percent,) followed by finance and accounting (40 percent,) banking (32 percent) and marketing and sales (19 percent.)*

Akanksha Jayanthi December 18, 2013 Becker's

# The Texas CAH Project

## Project Conclusions:

- Half of the respondents felt they inherited healthcare organizations in a weak financial position
- The study demonstrated that 67% of the respondents did possess a graduate degree
- Board relationships were ranked the number one priority for the CEO followed by organizational commitment

“Studies have shown that continuous change in key leadership positions is not indicative of thriving organizations, and often leads to periods of instability.”

*Garman and Lemak; Evolving leadership development in health-care: a commentary. 10<sup>th</sup> ed. Bingley, 2011*

# The Texas CAH Project (Cont.)

## Critical Factors in CEO Retention

- Intent to leave is not based primarily on financial performance and geographic location
- Good working relationships with the hospital board is important
- Governing boards need to be reliable, supportive, accommodating and dependable
- Governing board positions are not subject to high turnover
- Quality and safety of the CAH is affected by CEO turnover

# Turnover According To ACHE

“Now more than ever, hospitals must ensure they have the appropriate succession plans in place to avert any potentially negative impact of leadership changes. Hospital boards and CEOs must work together to achieve this.”

Thomas C. Dolan, PhD, FACHE

President and CEO of ACHE

March 4, 2013

# Leadership Challenges

- Severe limitations on access to capital of necessary investments in infrastructure and provider recruitment
- Increased burden of remaining current on onslaught of healthcare changes
  - *Volume to value*
  - *Quality outcome reporting*
  - *Changes in payment methodologies*
    - Regulatory Friction / Overload

# Leadership Challenges (Cont.)

- Continued difficulty with recruitment of providers
- Increasing competition from other hospitals and physician providers for limited revenue opportunities
- Requirement that information technology is on par with large hospital systems
- Hospital governance members without sophisticated understanding of hospital strategies, finances, and operations

# Where are we headed?



# Future Healthcare is Based on Value



**Quality + Service**



**Cost**

**= Patient Value**

# Why is Succession Planning Important?

- First and foremost it provides long term continuity and stability for the organization
- Reduces chaos, confusion and apprehension during turnover
- Provides stability during what can be a difficult time

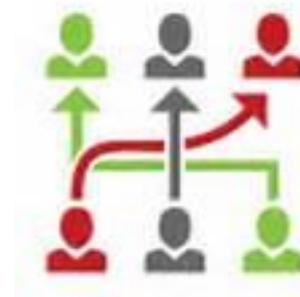
*\*According to ACHE in 2015 the annual rate for CEO turnover has fluctuated between 14-18% in the decade prior to 2013.*

<http://www.ache.org/PUBS/research/ceoturnover.cfm>

# What positions should be considered for Succession Planning?

All C-suite positions +:

- CEO
- CFO
- CNO
- COO
- HR
- Director/Manager Level



**Succession  
Planning**

# Who should do Succession Planning?

- For the CEO, a committee made up of the CEO and select members of the Board
- For other key positions, (manager/directors level) a committee made up of CEO or designee (HR) and other members of the management team

# What manager/director level positions should be considered for Succession Planning?

Any key positions that may be difficult to recruit

- Laboratory Manager
- Diagnostic Imaging Manager
- Perioperative Manager
- Pharmacy Manager
- IT Manager

# What Is the Current Status of Succession Planning in Hospitals?

- Articles abound geared to larger facilities with depth of resources for succession planning
- Even with that, less than 50% of large hospitals have Succession Plans
- Why?
  - Regardless of the size of the organization, most CEOs haven't thought about it and don't know where to begin
  - Boards similarly don't think about it so don't raise it as an issue

# Status of Succession Planning in Hospitals (Continued)

## Why?

- Both are afraid raising the issue will create concern
- Lack of resources
- Not a current top priority
- New CEO

# What would your hospital do if the CEO suddenly departed?

- Panic?
- Appoint the CFO or CNO as interim?
- Appoint a “team” leadership committee?
- Find a senior manager who would say yes?
- The Chairman of the Board becomes acting CEO or some other Board member, (generally retired)?

***OR...***

## **Develop a Plan of Succession!**

- The focus is on a planned approach, not “finding a person”
- It may include appropriate individuals in its design as chosen by the Board in conjunction with the CEO
- The CEO should develop the DRAFT materials and tools
- And normally it should be reviewed annually to ensure its appropriateness

# Suggested Preliminary Steps

First.....

- CEO brings the topic up to the Board Chairman typically in the form of an informal, casual discussion
- Explains the process and, depending on the hospital's culture, determine the next steps



# Next Steps

The next step is to introduce the topic to the full Board

- Depending on the Board culture either the Board Chair or CEO lead the discussion
- A short Board education session may be part of the initial discussion

# Next Steps

## Board Committee

- The Board should formally establish the duties and responsibilities of the committee
- The Chair of the Board should appoint the Chair of the Committee
- The CEO should be the staff person charged with providing the necessary tools for the committee

# Succession Planning

Board of Directors process may include:

- National search
- Use of independent consultants
- Identification of internal candidates?
- Promoting from within?
- Board discussions at each step are essential
  - Normally the search committee will have weekly meetings for updates

# Expanding the Committee

Other members may include

- Physicians
- Community members
- Volunteers
- Select department managers (depending on the position recruited)

# Job Descriptions

Review the CEO position description:

- Does it meet the current and future needs of the organization?
- What skill sets will be most important to the organization?
- What personality, character traits are desired?
- What are the academic/experience qualifications needed?

*Update the job description as needed to meet the organization's strategic goals.*

# Succession Planning Tools

## Tools

- CEO job description
- List of CEO competencies that the Committee can rank
- List of CEO personality characteristics that the Committee can rank
- Check list of elements that should be included in the plan
- CEO evaluation tool

# Succession Planning Check List

Check List of Elements may include:

1. Communication Process during the transition

- Physicians
- Employees
- State Health Department
- Constituency groups
- Public

2. Development of sample memos for staff (and media press release if appropriate)

3. Development of scripts for board and committee members

# Check List (continued)

4. If using an interim; how will the interim CEO be chosen?

- Is there an internal candidate?
- External placement, ie: search firm?
- What duties will the interim perform?
- What will need additional Board approval?

5. How will a permanent CEO be chosen?

- Internal candidates
- Advertising
- Search firm

6. List of potential interim staffing and search firms

7. Location of succession plan file

8. Access to succession plan file

# Caution!

- ❖ Developing a succession plan should not be accomplished over night.
- ❖ Take your time
- ❖ Use interims as necessary to give the organization time to make the right decision



"Rumor has it that you bailed from your last job."



# Recruiting Realities

- How difficult is it to recruit to your geographic area?
- Do we have the funds to use search firms?

There may be many applicants but it may be hard to find the correct fit for your organization.

Don't rush and make a bad decision.

*It is professionally incumbent upon a CEO to leave their organization in a position that provides long term organizational continuity and stability in order to meet its ongoing mission. **This includes department/manager level positions!***

# What Outside Search Firms See...

Frequently, outside search firms uncover the following:

- \*Current leadership workload inhibits mentoring of future leaders
- \*Organization's inability to deal with ineffective leaders are communicated informally within the organization and often to outside recruitment firms
- \*Inefficient and extended interview processes send wrong signals to candidates
- \*Salary ranges tend to lag behind what is currently offered

Leadership  
Recruitment

*Getting it right*

- Understanding true recruitment costs
  - \* Recruitment cost of Med/Surg RN ranges from \$15K - \$25K
  - \* Recruitment cost of C-Suite ranges from \$32K - \$62K
  - \* Typical contingency search firm fees range from 20 - 30% of candidate's first year salary
  - \* Average search firm guarantee is >90 days and < 1 year
  - \* Opportunity costs are created by vacancies and vary due to staff morale, turnover, physician & patient satisfaction

# Leadership Recruitment First Line Of Defense...

Consider interim leadership consultants as a stopgap measure

- \* Usually available within 15-days
- \* Candidates typically over qualified having served as a manager, director, vice president and C-suite levels
- \* Can provide team assessment and develop subsequent plan for success
- \* Normal length of assignment 90 - 180 days
- \* Able to stabilize and advance departments/teams/facility

# What A Good Search Partner Can Do For You...

Facilities seek search firm partnerships to accomplish the following:

- \*Increase the placement guarantee >1 year
- \*Expand the candidate pool beyond the local environment to bring diversity and varied viewpoints to the organization
- \*Bring forward passive candidates who are not currently in an active job search
- \*Have a Primary Search consultant to conduct searches ensuring a deep familiarity with your organization and can bring in candidates who mesh with staff, physicians and other new hires

# Internal Candidates

- Are there internal individuals that have the leadership skills, abilities and interest to become a CEO?
- What is the educational level of the individual?
- What skills and abilities need to be honed?

# Internal Candidates

- What is their relationship with the Board, Physicians, Executive Team, Department managers?
- If the incumbent CEO is planning to leave what is the time frame?



# Interim Candidates

- If the Interim is a candidate and not chosen, what are that individual's options?
  - Continued employment in their original position
  - An exit strategy including transition counseling and assistance

If the interim is not a candidate these issues are generally not present

**“Train people well enough  
so they can leave. Treat  
them well enough so they  
don’t want to.”**

Sir Richard Branson



# Succession Planning Process

- Recognize individuals with leadership abilities and desire to advance
- Remember, skills can be taught
- Determine formal educational needs
- Determine experience needs
- Establish mentoring/coaching processes to maintain and grow existing talent

# Transition Process

- Board process if the CEO is **retiring**:
  - Temporary position during the transition process
  - Charge CEO with developing transition plan including:
    - Hiring and training new CEO
    - Orienting new CEO
    - Local, state and federal issues
    - Coaching the CEO depending on experience

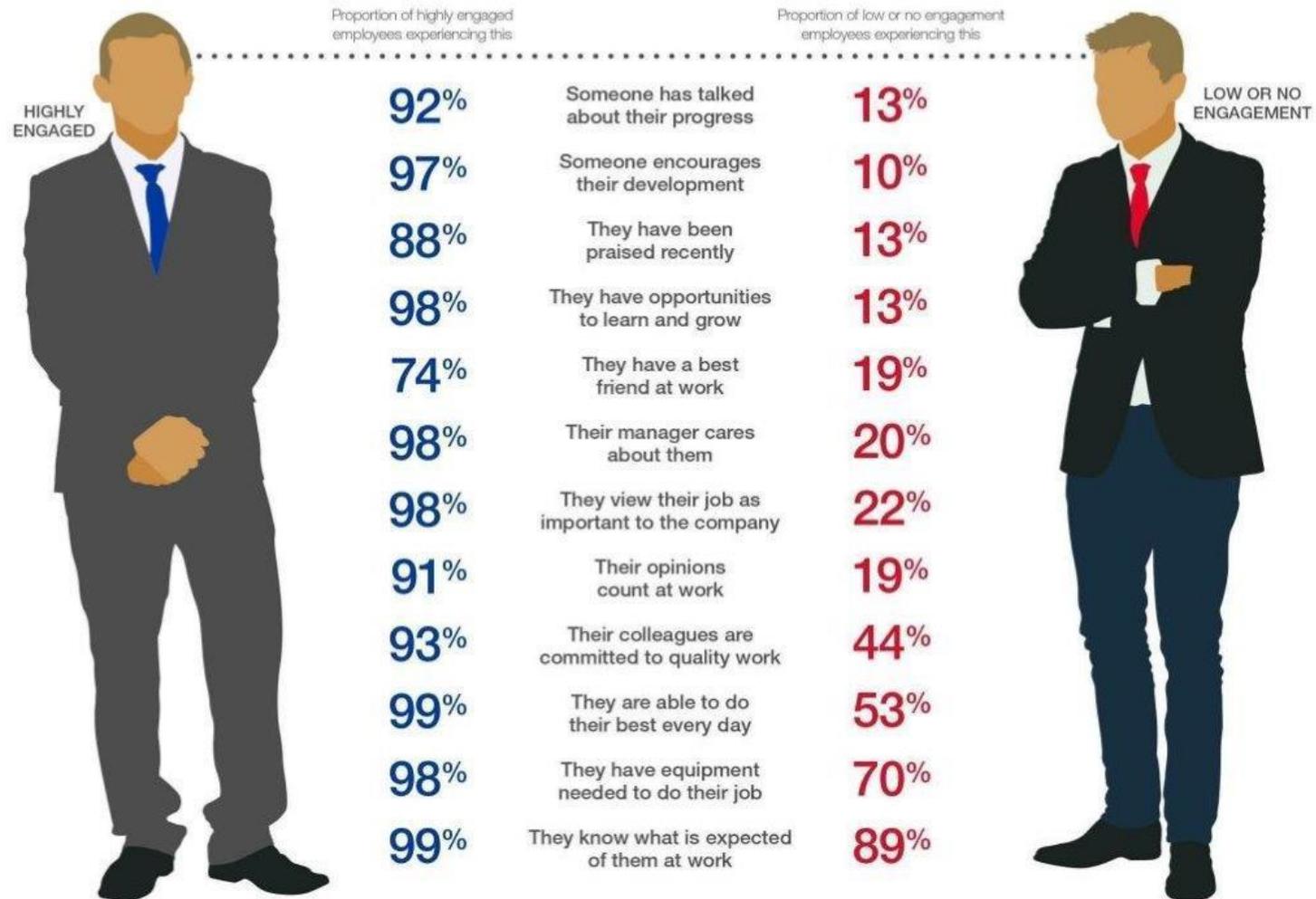
# SUCCESSION PLANNING FOR MANAGER/DIRECTOR POSITIONS

It is important to have succession plans for directors and managers especially in hard to fill departments.

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# Employee Engagement

## WHAT MAKES AN EMPLOYEE HIGHLY ENGAGED?



# Plan of Succession: *Manager/Director*

- Generally within the purview of the CEO
- Delegate to Department Manager with CEO approval
  - Make sure Manager understands rationale for developing the Plan
  - Provide a check list to follow

# Plan of Succession: *Manager*

- Process is similar to that of CEO but typically without Board involvement
- Review job description with Manager
- Have Manager recommend internal candidates if applicable

# Plan of Succession: *Manager*

- If no candidate, consider who could be interim
  - Develop responsibility and authority statement
  - CEO or designee along with Manager discuss plan with potential interim
- If no interim, list firms that can provide interim solutions

# Plan of Succession: *Manager*

- If there is a candidate
  - Determine educational needs
  - Determine experience needs
  - Develop plan to meet the determined needs

There is no right or wrong way to develop a plan.  
The important thing is to have a plan.

# Plan of Succession: *Manager*

- Other considerations especially if there is more than one candidate from a department
  - Solicit input from the department's other employees
  - Ask them to write a short note about their qualifications and why they should be selected
  - Review each prospect's resume and job performance

# Plan of Succession: *Manager*

## Other considerations

- Consider characteristics such as leadership, self starter, team player, creativity, adaptability
- Conduct interviews of all candidates
- Timing is dependent on culture and the individual manager
- Have a to-do list including timeframes
  - This allows you to make a decision in a relatively short time

# Leaders



# Boss vs. Leader



"He's trying to feel which way the wind is blowing."

# Succession Planning Best Practices

Here are some best practices that can transform succession planning into a value-added activity:

1. Succession planning must be linked to strategic planning since strategic decisions usually have implications that affect leaders.
2. Make succession planning part of strategic planning.
3. The succession planning process should minimize the time spent panicking to develop a plan, collecting and gathering data and spend more time generating ideas for long term strategic decision making.

## Succession Planning Best Practices (cont.)

4. Get agreement on succession plans before you need to implement them.
5. Board members and leaders should have access to succession planning tools for easy reference.
6. Succession planning needs to be implemented quickly and easily.
7. Succession planning should be a continuous process that encourages alternative thinking.

# Essential Leadership Characteristics

- Innovative
- Strong Interpersonal Skills
- Relationship Building
- Talent Management
- Values Diversity
- Vision



# Leaders Must:

- Decide to be **DELIBERATE**
  - Be strong
  - Be resolute
- Decide to be a **DREAMER**
  - Take action
- Decide to be **DEPENDENT**
  - Do your part
- Decide to be **DEVOTED**
  - Be committed
  - Give your all

# Benefits of Succession Planning

- Board has high confidence in CEO and senior leadership
- Medical staff supports CEO and board
- CEO has respect from staff
- Addresses job moves, retirement, etc.
- Succession plans support manager/directors

# Benefits of Succession Planning

- Builds solid executive leadership teams
- Provides stability to the organization
- Continues organizational growth
- Continues to meet strategic plans, goals and objectives
- Continues to enhance community support

***Succession planning results in a seamless transition for leadership***

# Summary

Succession planning should be coordinated and flexible, allowing modification when something changes. For example, the following will impact succession planning:

- Financial conditions of the organization
- General economic conditions
- Competitive market situations
- Local politics
- Availability of resources

# Summary

- Succession Planning is a continuous process that supports strategic decision making.
- The Operating Plan and the Financial Plan should both include and support Succession Planning.



"Sometimes we laugh, sometimes we cry,  
but never do we throw our computers out the window."



"I think we're on different career paths."

# QUESTIONS???

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Thank you!

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