

# GREAT BOARDS

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## Planning for unplanned CEO succession

By Sharon O'Malley

Management guru Peter Drucker said a board's top job is making sure the organization has an excellent chief executive—continuously.

Governance experts agree, recommending that trustees keep an up-to-date succession plan in the hopper just in case the CEO leaves in a hurry because of a sweeter job offer, a sudden illness, termination, or, in the worst case, death.

Yet, according to The Governance Institute, just 24 percent of hospitals and health systems keep their succession plans current—and some consultants say that's a rosy figure. More than half of healthcare organizations admit they have no succession plan—20 percent higher than other industries—even though two out of five new corporate CEOs fail in the first 18 months. And just 15 percent of freestanding hospitals know who their next CEO will be, compared with 60 percent of businesses.

“It just hasn't bubbled up as being that important to them,” says Tom Dolan, president of the American College of Healthcare Executives.

Dolan says boards often believe a young or new CEO is wed to the hospital for a long time, so trustees don't need to think about a replacement.

But the median tenure of a hospital CEO is just four years, according to Dolan's group, and the unexpected, of course, can become reality at any time.

So healthcare boards need to prepare for “the-CEO-gets-hit-by-the-bus-scenario,” says governance expert Mike Kieffer, chairman of the Chicago-based Quick Leonard Kieffer Group. “They need to keep in mind the unplanned transition. It's what to do if your CEO doesn't show up the next day.”

### What to do

A plan for the unplanned departure of a CEO covers, at a minimum, three bases.

**1. Who will step in to run the place right now?** The board has three choices: an executive already on staff; an outsider who can serve as an interim CEO until the board can find a permanent leader, a search that usually lasts at least four months; or a management firm that can keep the hospital running.

Anna Wharton Phillips, senior vice president and Eastern region director for consulting firm Witt/Kieffer, discourages organizations from using outsiders as interim leaders “It sends a message to the senior management team that the board may not have confidence in them,” she says.

Besides, she adds, “In most organizations, there's somebody who can hold things together in the period of time it takes to do an executive search.”

Many plans say the interim CEO is not expected to become a candidate to fill the job permanently, but Kieffer says that dictum is too specific.

“I've seen boards change their mind halfway through the [executive] search,” he says. “They might be so impressed with the job [the interim CEO] is doing that they want to consider him for the position. You can't plan for that.”

**2. How much authority will the interim CEO have?** A plan for an unexpected CEO vacancy should outline performance expectations for the interim CEO and any limitations on the stand-in's authority.

Typically, says Kieffer, boards don't empower an interim to refocus the organization's strategic vision or initiatives, or to unilaterally make major financial policy changes and hire or fire senior executives.

“You don't want to saddle your eventual new CEO with a choice made by an interim,” notes Kieffer.

In addition, Kieffer recommends, the board should

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require the interim to meet weekly with the chair and board executive committee until trustees are comfortable with the stopgap routine.

Finally, the plan should address the interim CEO's compensation. Kieffer suggests the board should seek advice from a compensation specialist to make sure the amount is fair, and then should deliver the extra salary either in a check that's separate from the interim's regular paycheck or as a lump-sum bonus at the end of the service to avoid the perception that the person's regular salary has been raised or cut.

**3. How will we choose the permanent CEO?** Once the hospital or health system is in the capable hands of a trusted interim

administrator, the board must quickly turn its attention to the months-long job of finding a new CEO. A good emergency plan outlines the trustees' first steps: It identifies the executive search firm chosen by the board to handle the task and it might name internal candidates whom the board can consider as possible heirs to the throne.**GB**

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### More Tips for Boards

- Update the succession plan at least annually and when CEO or board leadership changes.
- Drive the process. Involve the current CEO in the planning, but not as its leader. The board, not the retiring CEO, after all, will be working with the new leadership.
- Support leadership development. Task the CEO with developing the senior team.
- Plan for the expected, too. If a CEO is expected to retire in a few years, start a comprehensive leadership transition planning process.