

Succession Management – A CEO’s View

By Don Hutton, FACHE and Steve Moulton, SPHR

With so many baby boomers in senior management preparing to retire in the next 5-10 years, what is being done to prepare talent for succession? Is succession management an important function for an organization? What role should HR play?

Some organizations conduct annual succession planning efforts and then put the plan on the shelf not to be worried about until the next year. Other organizations have living succession management processes in place that are integrated into their leadership development programs, while developing a talent pool. But it seems that most organizations, have put succession management on the back burner.

Yet, significant research tells us that visionary organizations develop, promote, and carefully select managerial talent, grown inside the company, to a greater degree than comparison organizations. James C. Collins and Jerry I. Porras reported in their book *Built to Last*, “In short, it is not the quality of leadership that most separates the visionary companies from the comparison companies. It is the continuity of quality leadership that matters – continuity preserves the core. Both the visionary companies and the comparison companies have had excellent top management at certain points in their histories. But the visionary companies have had better management development and succession planning.”

In December of 2004 Action Insight and the Morgan Executive Development Institute (MEDI) conducted a survey of hospital and health system industry leaders. The results of the survey are most interesting. The CEO’s that were interviewed were not surprised with the disparity in the results. The survey asked the respondents to rate each statement as to the current reality and the desirability of the statement.

The first statement was: *We have a well developed succession plan that we use in our overall employee and leadership planning efforts.* There was a 65 percentage point difference between current reality (17.5%) of having a well developed succession plan and the recognized desirability (82.5%); it seems that succession planning is a back burner priority that few organizations take action on. Why?

Barriers to Succession Planning

The culture of the Healthcare industry presents some unique problems for leaders in implementing succession planning including, varying sizes of organizations, differing priorities, talent, values, organization cultures, economic issues and timing.

Considering the survey results Dennis S. O’Leary, M.D., President of the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) said, “there are a number of possible explanations as to why people answered they way they did – think of it this way, if you say that’s not desirable it is like arguing against Apple Pie and

Motherhood. I would have had trouble arguing against the statements, but the reasons that we might or might not have been doing certain things, are not convoluted.”

Organization Size - The smaller the organization the more challenging it is for high performing talent to rise in an organization, absent a turnover of senior leaders. Scott Malaney, President of Blanchard Valley Health Association offered, “At a certain level, upward mobility is limited. Often in smaller organizations you have to move out to move up. So to many organizations it is conceptually identified as an important thing to do, but often falls on the priority list.”

Priority – There is a priority problem because non-HR leaders, which make up most senior leaders, don’t think about succession planning. They see it as an issue for the future, that may be important, but it is not pressing. Senior leaders are more often focused on pressing matters that clog their day. Dennis O’Leary, M.D. explained, “It is not a top of mind issue, when you go to work every day, you are not thinking about what happens if you get hit in traffic. It takes an affirmative effort to think about this and it is hard enough to think about it at the CEO level let alone at the senior officer, junior officer, or department head levels, all of which are important within the organization.”

Values – Healthcare is obviously focused on delivering quality services and often has a different set of values that challenge the mind set. Scott Malaney shared that, “I don’t think our business environment is as acute as other businesses. We have been able to pass our inefficiencies on to the customer through increased costs, despite the overall economic climate in our communities or region. What we value is often not the same as other businesses. We generally don’t get measured as other businesses get measured, and often are not held to the same level of accountability. On the other hand, the public has inordinately high expectations of us, often demanding immediate service with no regard to cost or over utilization. It creates a bizarre dynamic that creates a myriad of conflicting incentives.”

Talent – Not everyone is capable of becoming a member of the executive team let alone the CEO. Even some who become senior leaders are not prepared for the responsibilities they must deal with. This creates a problem all of its own. Unprepared or marginal leaders, shares Scott Malaney, “tend to be threatened, they don’t know what to do or how to do it, and they may not understand the long-term value of a long-term perspective. There can be complacency, a lack of willingness, and fear.”

Timing and Economics are also important. The importance of succession planning is an economic issue because it is expensive to maintain two senior leaders for a position as one prepares to transition into the job while the other develops the replacement over an extended period of time. “The closer you get to needing to replace someone who is retiring, the more it becomes a desired state. Two to three years to vacancy is probably good for succession planning.” Said David Benfer, President of Saint Raphael Healthcare System in New Haven, Connecticut. Yet, there was disagreement. “I disagree. You never know for sure when someone may need to be replaced” said Scott Malaney. “That reality alone suggests the need for an ongoing process of identification and preparation.”

Culture – is another issue that must be considered. Some organizations are in fact visionary, and the senior leadership, along with the board of directors, have created a culture of developing talent from within. The vision is that having talent that can take over as incumbents vacate their positions, helps maintain the culture and continuity of the organization. David Benfer shared that, “I think the nature of the organization is important. Some organizations embrace this better than others.”

We asked about Leadership involvement, in identifying and developing leaders, in two statements. First, *Our senior team plays an active role in identifying and developing future leaders.* And second *The CEO spends time assessing and developing members of the executive team.* The results here were more encouraging with current state rating being 61.4% and the desirability being 91.2% for the first statement and a current state rating of 70.2% and a desirability of 98.2%. Yet there is still about a 30 point spread between current and desirable states.

Responsibility for Succession Planning

The responsibility for succession planning is dependent on several factors. The Board of Directors plays two key roles. First, taking the lead on succession planning of a potential successor for the CEO. The need here is for the Human Resource and Compensation committee, with input from the Chairman of the Board and the CEO, to focus on the development of potential successors. Doctor O’Leary pointed out that, “This is primarily a board responsibility, and it is the job of the CEO and staff to support that activity. Most boards worth their salt, are going to anticipate this activity. In Fact, in my organization, the board chair will play an active role in leading the succession process.”

The second role is to hold senior management accountable for ensuring that preparation is being made for those levels below the CEO. Lee Kirk of Culpepper Regional Hospital, in Virginia adds, “I think there is an expectation that senior leadership jointly develop with board leadership the succession plan.”

The Senior Leadership team needs to assume responsibility and accountability for succession planning and talent development within the organization. It is important for senior leaders to set the example and play an active role in identifying and developing future leaders. Scott Malaney adds, “Each VP is responsible for developing potential successors. It is a simplistic process. The person is reviewed yearly, they have a development plan, and 5% of their potential compensation increase is based on fulfilling their development plan.”

Taking a traditional approach at Poudre Valley Hospital System in Fort Collins, Colorado, President, Rulon Stacey said, “Every supervisor in the organization is supposed to develop somebody to replace them in the event of an emergency of some kind. We have established criteria for jobs that are hard to recruit and we make specific note of those positions and who we are going to have to fill into those positions.”

Taking a cross-functional development approach for building potential leaders, Blanchard Valley Health Association, builds more of a pool of potential leaders. Scott Malaney says, “I think to succeed you have to give the person the opportunity to be successful. Based on the assignments you give them – initially match the assignments with their demonstrated competencies, but then keep stretching them by giving them tougher assignments to tackle. Mentors need to guide the individual through the minefields, when there are potential problems.”

Having a formal internal mentoring program offers another way that leaders can participate in developing others and sharing their unique skills. Rulon Stacey shared that, “Anyone in the organization can approach anyone else in the organization from whom they believe they can learn and the two of them can form a mentoring relationship. We have a salary category where people can charge that time so that it doesn’t come out of their unit budget.”

Coaching and developing is one effort that some CEO’s take on personally. In addition, bringing in Executive Coaches takes development to another level. Lee Kirk explains, “What I’m doing through executive coaching, with my two senior leaders is to work with them to get them to the level that they are qualified candidates for my position, when I leave.”

Human Resources Role

While the CEO should be accountable for succession planning, Human Resources has the responsibility to manage it.

Human Resources can play a number of roles. First and foremost the senior Human Resource Leader and their team need to develop and retain the trust of the senior leadership team and the board. David Benfer says, “First it depends on the confidence and trust you have in your HR function. If you trust them and they are your HR confidant, then they play a major role.”

HR can also be a sounding board, mentor, be part of the coaching team with the CEO, provide direct feedback from the peer group and help understand what is and is not working. David Benfer also sees the role as: “I think HR people can give more direct tough love as a peer – because when the CEO gives the tough love depending on how the person receives it the person can get defensive, passive aggressive, or accept it and take it in a way that it was intended to help improve their performance.”

Competencies for Success

Position analysis is conducted to identify the essential behavioral competencies necessary for success in key positions and their feeder positions. The survey results revealed that only 27.8% of the organizations currently conduct a position analysis, and the desirability rating was 84.6%. As vacancies become apparent, taking a good look at the requirements for success in the position, becomes important.

When it comes to leadership positions, though technical competencies are important, behavioral competencies often play a more important role in the success and failure of the leader. Doctor O’Leary adds: “Behavioral competencies are far more important. Frankly, technical description only describes the work to be done, but the who you are - really the behavioral traits – frames and distinguishes the kind of person you are looking for.”

To become a CEO requires a solid understanding of the financial workings of the organization. Understanding what drives Profit and Loss is essential. Understanding the revenue cycle and the process from the time the phone rings or someone walks through the door, to the time the cash comes in, is also important to success and failure. Scott Malaney pointed out, “that understanding the intricacies of the balance sheet, along with principles of capital, is essential.”

Conclusion

Succession planning is a complex combination of effort and culture that is often ignored for more pressing issues, but a broad look at incorporating some simple, and yet key components, can smooth the transition when changes take place.

CEO’s see Human Resources adding value in the organization in a number of ways. HR can become a leader in succession management by playing four different roles. First, developing or having credibility with the leadership team and the board is critical. Second, providing leadership and structure in establishing the processes that will make succession planning possible. Third, helping the senior team identify and clarify the success criteria and then assess and develop talent to meet the criteria. Forth, by becoming a sounding board, mentor, and bridge for the leadership team in developing talent.

As one CEO put it, “the Bunsen burner is heating up with the challenges and leaders need the help that coaches can provide when working through issues.”

Next issue: Suggestions for implementing or enhancing a succession management process.

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Be sure to catch Part II of **Succession Management: A CEO's View** in the next issue of **HR Pulse**. In the second installment, Don Hutton and Steve Moulton offer specific suggestions and ideas for implementing or enhancing a succession management process.

