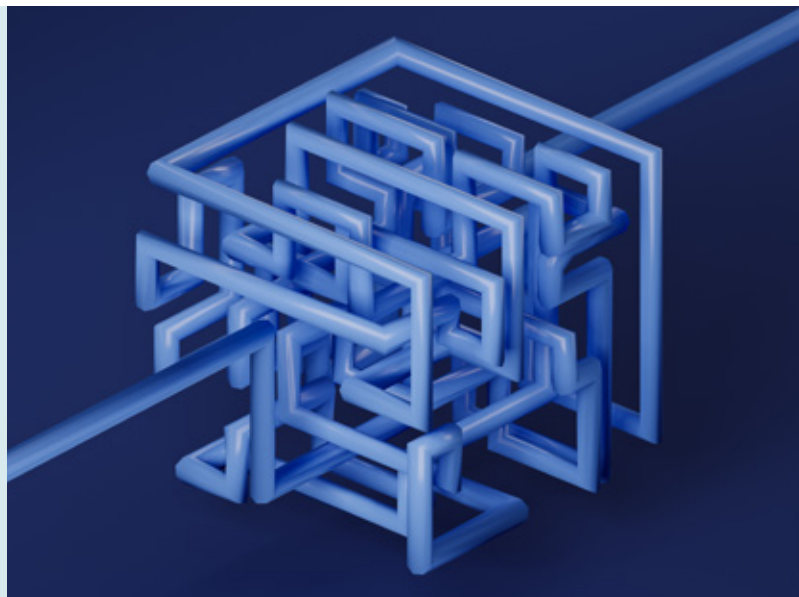


CEO Succession in Healthcare

5 Best Practices for CEOs
to Protect Their Legacy and
Build a Successor Pipeline



The stakes of a CEO transition are always high, but the risks of CEO succession are increasing as healthcare systems grow in size and complexity, and operate in increasingly dynamic conditions.

Based on current trends, it is expected that more than 80 percent of hospital CEOs will turnover or retire within the next five years. Given the generational shift occurring, many of these future leaders are likely to be serving in their first CEO role. This is a pattern we see among S&P 500 companies and healthcare institutions. Seventy-one percent of new S&P 500 CEOs in 2020 were promoted from within the company. And half of the 50 healthcare system CEOs named in the last five years were organizational insiders (in one case, from the board).

While it is likely that many healthcare boards will select an internal candidate as their next CEO, few systems have a multi-year CEO succession process in place. This leaves organizations open to several risks, including:

- » **Being left without a ready internal CEO successor.** Some organizations focus on succession only in the last year of the CEO's tenure, when it may be too late to develop potential successors against a forward-looking CEO profile. When internal candidates have "unfixable" weaknesses or lack the time to address developmental needs in time for the transition — or the board simply does not feel comfortable with the readiness of internal candidates to step into the top role — it increases the likelihood that the board will have to look externally.
- » **Losing the best internal candidates.** We often hear from up-and-coming executives who are frustrated by a lack of transparency about the succession process or a general timeline. When these high-potential, ambitious leaders are unsure of their value to the organization, they are more likely to consider opportunities at other health systems.
- » **Overlooking high-potential internal options.** High-potential executives lower in the organization can be overlooked when the succession process does not start early enough or cast a wide enough net. A longer process provides the time to identify and develop "unexpected" candidates and gives the board time to get to know candidates and become more comfortable with promoting a next-generation leader as a first-time CEO. Being intentional about including more people in the succession planning process not only increases the odds that the board will have the right person for the future, it also can help organizations increase the diversity of their leadership teams.

Beyond these risks, poor succession planning is costly. A recent analysis estimated the cost of poor CEO and C-suite transitions in the S&P 1500 at close to \$1 trillion a year due to the underperformance of organizations that selected ill-suited external CEOs, organizations losing high-potential executives and the lower performance of ill-prepared internal successors. The study's authors estimated that large-cap U.S. company valuations and investor returns could be 20 to 25 percent higher with better succession planning.

How you leave is part of your legacy: Succession best practices for the CEO

Developing strong internal succession options is critical to a CEO's legacy. One CEO cautioned: CEO succession planning "is one of the biggest stumbling blocks for many who would otherwise be perceived as great CEOs."

For health system CEOs, chief human resource officers (CHROs) and boards, the stakes for developing the right leaders for the future are rising further as the industry has grown in complexity compared to 10 or even 5 years ago. Health systems are now multibillion dollar organizations — larger, more complex and geographically dispersed than the organizations today's leaders grew up in. No longer focused solely on operating hospitals, health system leaders must reorient their organizations around digital and value-based care and build more adaptable, learning-oriented cultures that enable innovation and change. Health system CEOs also face greater oversight from their boards. The complexities of serving as a CEO have multiplied.

Some CEOs fear that succession planning will make them a lame duck in the eyes of the organization. But when started early in a CEO's tenure, the focus of succession planning is developing a strong leadership pipeline for all senior positions, rather than filling a specific role. CEOs are closest to the opportunities and challenges facing the business and are in the best position to prepare the organization for the shifting skill sets.

Start early: one or two years before retirement is not enough time

Waiting too long to begin succession planning increases the risk that high-potential insiders will leave to pursue other options and that the likely internal candidates won't have enough time to address development gaps.

Mark Thompson, the former CEO of [The New York Times Company who handed the reins to successor Meredith Levien](#) in September of 2020, said CEOs should begin succession planning early in their tenure. "I think the right day for a CEO to think about their own succession planning is the day they start the job. It's not in five or seven years. Many CEOs will put this off because they can't ever imagine a world after they're gone. But if I'm a decent CEO, I don't want to just roll the dice. I should try and help make sure that we de-risk this a little bit."

As CEO, you can serve as a catalyst for encouraging the board to begin thinking about succession earlier than they otherwise might, which should be well before a transition is anticipated. And, by making C-suite succession an established process — rather than a response to an imminent transition — it can reduce the chances that the board will have to look externally for a successor.

Creating a normal cadence around executive development and long-term C-suite succession planning is more likely to produce multiple strong internal candidates who are ready when a transition is near. It enables organizations to cast a wide net, looking beyond the most-likely successors and include high-potential, seemingly long-shot possibilities who could become the right person given their development trajectory and the circumstances. Finally, starting early allows the board to have more interactions with potential candidates over time, so they can observe patterns of performance and behavior and gain deeper insights into candidates' succession-readiness.

Plan for multiple scenarios

The most effective succession plans traditionally have considered several time-based scenarios for CEO succession:

- » Emergency successions because of illness or unexpected departures of CEOs
- » Accelerated transitions that occur sooner than anticipated
- » Long-term, orderly successions that follow at least three to five years of planning

Given the pace of change today, however, it is also important to plan for multiple strategic scenarios that could change the skill sets needed in the next CEO. For example, a change in business strategy may mean that a potential successor who seemed “ready-now” may no longer be a good fit for the future direction.

To surface potential scenarios, the CEO and board can consider questions such as: What are the most critical strategic opportunities and challenges facing the system? How much change is required? What are our aspirations for the organization going forward? What critical leadership and managerial competencies would help the next CEO succeed? Once the potential scenarios are defined, the CEO and board can align on the variations of the CEO profile that would best match the different contexts.

Focus on leadership development

CEOs are in the best position to make sure their boards have the insight they need about the senior talent coming up through the organization. They should work closely with the CHRO to create assessment and development plans for potential internal candidates based on a forward-looking lens. CEOs also should keep the board informed about developmental moves meant to accelerate candidates’ succession-readiness, such as assignments providing specific operational experience and/or exposure to external stakeholders.

Provide potential successors opportunities to grow

One of the most important contributions you as CEO can make to the process is to give potential successors the room to grow and develop the skills they will need for the CEO role. This can be one of the hardest steps emotionally for CEOs, but it is in the final stages of development that potential successors may need to gain experiences that only the CEO can facilitate, such as greater engagement with the board or external stakeholders, and it is up to the CEO to allow these to happen.

When it's time, step back from the process

The CEO's participation in the process diminishes as a transition nears, and the process turns toward the board's selection of finalist candidates and/or an external search. This period can be very challenging personally and professionally for sitting CEOs. Advocates by nature, CEOs need to remind themselves not to push too hard for a particular candidate or solution, which can backfire with directors. CEOs also should be prepared for the possibility that the board may want to accelerate or decelerate the pace of the transition depending on their comfort with candidates' succession-readiness. During this period, CHROs can play a valuable role in helping facilitate assessments and the search process and guiding the CEO when it's time to step back.



CEO succession represents a critical turning point for organizations when tremendous value can be created or destroyed. CEOs are a critical player in ensuring succession planning produces a strong internal successor who will build on their legacy and lead the business to new heights.



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