

A Change At The Helm

Best Practices In Leadership Transition Planning

In his new book, Jack Welch, the legendary former CEO of General Electric, describes the transition process he put in place to select his successor. Having been through a tough and highly-politicized succession process himself, Welch wanted to do things differently. He started working with his board on leadership transition planning seven full years before his retirement date – in fact, over one-third of Welch's twenty-year tenure as CEO was spent on transition planning including the development and evaluation of potential successors. According to Welch, "Picking your successor is hard. Your bet is about what's ahead, not what's behind."¹

Choosing the next CEO is undoubtedly the most important decision a hospital or health system board of directors ever has to make. It is also undoubtedly one of the most difficult. Like Jack Welch, most CEOs and board members have no experience to draw upon other than the succession processes that brought them to leadership positions in their own companies.

Health system boards typically do not spend enough time planning for a change in leadership because board members and CEOs find it to be a difficult subject to broach. As a result, they do not address leadership transition until the CEO's retirement is imminent, when they are forced to promote an internal candidate or undertake a search without thinking through the ramifications

on the executive team, medical staff, financial supporters, or other stakeholders.

But leadership transition is much larger than a candidate search and selection process. It is an opportunity to create a deliberate, well-communicated, and well-understood transition plan that is welcomed by all of the organization's internal and external constituencies. It is also an opportunity to deliver a positive message about the organization's future direction. Boards and CEOs who want to accomplish a successful transition in leadership can learn from the best practices of health care systems around the country.

CEO Succession – a Complex Problem

There are many issues that arise as a chief executive officer prepares to announce his or her retirement, particularly after a long tenure with one organization. These are some issues that should be addressed in any well-developed leadership transition plan:

- ▲ Timing of the CEO's retirement and whether retirement will entail departure from the organization altogether or transition to some other advisory role.
- ▲ The selection process to be employed and whether it will consider internal candidates, an external search, or a combination of both.

▲ Personal anxiety among senior executives about their own continued employment and future roles within the organization.

▲ The significant concerns of stakeholders over the future direction of the organization under new leadership.

▲ Disruption or cessation of affiliation discussions with other potential partners.

The board of Memorial Hermann Healthcare System in Houston, Texas, has focused on leadership transition since its longtime CEO, Dan Wilford, told them of his plans to retire later this year. As Wilford and the board chairman began discussing the transition, they soon realized they would need to move quickly to have a successor in place in time for an adequate overlap period. They also realized there were some important matters the board needed to consider before they could announce Wilford's retirement and begin the search for a successor.

According to Wilford, "I've been CEO for eighteen years, so none of our board members have had any experience with CEO succession in a healthcare organization. This is a decision the board cannot delegate, and if it doesn't manage the process well, it sends a negative message to the organization and the public. But I'm confident the board will make the right decision if it follows the right

¹ Jack: *Straight From the Gut*, Jack Welch with John A. Byrne, copyright © 2001

process. This will send a positive message to our medical staff and employees that the unique culture of Memorial Hermann will be preserved under new leadership.”

Boards that identify their own unique issues up front, then develop detailed leadership transition plans to deal with those issues, will find that the time spent in planning will pay dividends in the search and selection process and assure a smooth transfer of duties to the incoming CEO.

The Leadership Transition Plan – Roadmap to a Smooth Transition

The leadership transition plan transforms the change in leadership from a one-time event into a process that boards can follow to deal with their organization’s unique issues and prepare for a smooth transfer of leadership. The leadership transition plan typically includes these elements:

- ◆ *Goals to be achieved* – What outcomes will tell the board it’s done the job well? Is it enough to choose a great successor? Is it also important to retain executives while the transition occurs? Are there strategic initiatives underway that need to continue without disruption during the change in leadership?
- ◆ *A timetable for executing the LTP* – When does the CEO want to retire? Is it desirable for the departing CEO to have an overlap period with the successor? When does the search need to begin, and how long will it take?
- ◆ *A search and selection process* – Are there internal candidates for the CEO position? Will an external, national search be conducted? How will internal and external candidates be evaluated? What search firm will best meet the organization’s needs and time frame?

- ◆ *Definition of a future role for the departing CEO* – Will the current CEO be available to support the board or the new CEO after retirement? Does he or she have an interest in a formal ongoing role? What kind of role is appropriate?

- ◆ *A Transition plan for the CEO’s responsibilities* – Will an internal successor assume some of the CEO’s duties prior to his or her departure? How will key internal and external introductions be made? How will a newly-hired CEO be apprised of key internal operating systems and processes?

- ◆ *Transition, succession, and recruitment plans for senior executives* – Are changes to the organization structure needed to assure a smooth transition? Are any senior executives nearing retirement? Are there rising stars who need development? Who is at risk for recruitment by other health systems? Will the organization be able to fill openings in the executive ranks while the leadership transition is underway?

- ◆ *Retention planning for key executives* – Are there some senior executives who would be especially difficult to replace in the next one or two years? Are there a few executives whose support will be critical to the new CEO’s success? Does it make sense to offer financial incentives to retain key executives?

- ◆ *CEO employment agreement extension or modification* – Are the dates and definitions within the employment agreement consistent with the CEO’s plans? Are documents for nonqualified retirement plans and other benefits consistent? How will the CEO’s ongoing part-time employment impact retirement benefits?

- ◆ *Communication Plan* – What constituent groups need to be informed

of the transition, and when? Who needs to be told first? What overarching message does the board want to deliver through its communications?

Memorial Hermann’s board appointed a leadership transition committee, headed by its past board chair, to develop a leadership transition plan with the CEO’s input. Wilford tells us, “There’s more to this than just selecting a search firm. I felt good about working confidentially with a small group to have a plan in place before we announced my retirement.”

Setting Goals and Developing a Timeline

Memorial Hermann started by setting goals for the transition process. They wanted to enable an orderly, deliberate, and thoughtful transition in leadership; retain the current senior executive team with positive attitudes toward the transition; retire Dan Wilford in a dignified and positive manner; and minimize disruption in current activity while maintaining momentum. Many organizations embarking on a change in leadership will choose similar objectives.

Achieving the goals requires continuous effort and supervision by the board or committee throughout the transition. The leadership transition plan is a dynamic document that is shaped and modified as the transition progresses to meet the goals laid out in the beginning.

Memorial Hermann’s timeline spans about twelve months from the adoption of the leadership transition plan to Wilford’s retirement date. According to Ken Ackerman, President of Clark/Bardes Consulting – Healthcare Group, “Memorial Hermann’s plan is being executed very quickly because of the diligence and involvement of its leadership transition committee. Many organizations will need more time to develop a plan and execute it well.”

Conducting a Search

The search for a new CEO occupies center stage in any leadership transition plan. Having a well-thought-out transition plan in place is great preparation for conducting an effective search. And it sends a positive message to candidates about the relationship they can expect to have with the board.

One leading national healthcare search consultant tells us, "A board that has already devoted time, resources, and deliberation to executive transition planning is a board that is focused on the future and appreciates the significant role that a new CEO will play in taking the organization forward. This is a real selling point with potential candidates.

"Having a leadership transition plan also suggests that the board is proactive and intentional about management development and building executive competencies. This typically reflects a high performance, learning organization. And if there are internal candidates, the transition plan helps the board deal with them sensitively and professionally.

"Finally, the departure of a CEO can cause panic and insecurity throughout the organization, which can be disruptive in the early stage of a search. Having a leadership transition plan in place and communicating with constituents throughout the search allows for a more effective, graceful, and professional process."

Contract Issues and a Future Role for the Departing CEO

Contract issues are very important to an incoming CEO, who will typically want to negotiate cash compensation and benefits before accepting a new position. But they also take on a new importance to a CEO approaching the end of a career, particularly if the contract has not been updated recently. Retirement arrangements that were negotiated in good faith in the past may not have kept up with tax laws.

Changes in health status, marital status, or other factors can cause an individual to accelerate or delay a planned retirement date. The financial health of the organization and the intricacies of IRS regulations applicable to tax-exempt employers may make it difficult to make adjustments late in the game.

Increasingly, retiring CEOs are accepting part-time, transitional roles with their organizations so they can ease into retirement or continue to work for causes they have supported passionately throughout their careers. A post-retirement consulting role can even be a requirement under the terms of a deferred compensation plan. But defining a continuing role for a retired CEO can be a political quagmire for the board, and a political nightmare for the successor.

At Memorial Hermann, Dan Wilford plans to continue as a senior consultant on call after he steps down as CEO. Early in the transition planning process, the board conducted a review of Wilford's employment agreement and retirement benefits to make sure they were consistent with his post-retirement consulting plans. According to Wilford, "We found some drafting errors that could have delayed my retirement date or affected my retirement income down the road. Having these cleared up during the transition process will prevent any problems that might have occurred." Wilford's future consulting activities will be defined more clearly through discussions with the board and the new CEO, once one is chosen.

Like Memorial Hermann, organizations need to deal with contract issues for the incoming and outgoing CEOs as a part of the leadership transition planning process. An external consultant can be a facilitator in this process by bringing a broad industry perspective, suggesting strategies and alternatives, and finding a "win-win" solution that can be supported by all parties.

Retaining Executives During a Transition

As a CEO approaches retirement, the personal anxiety senior executives feel about a pending change in leadership can undermine the stability of the team long before a transition actually occurs. If an organization doesn't take steps to retain executives during this time of uncertainty, it may find itself dealing with openings in key positions or the loss of key contributors at a time when recruiting is especially difficult.

Executives know or can guess the incumbent CEO's age and will speculate about a retirement date even if they are unaware of his or her specific plans. And executives will wonder how the change in leadership will impact them personally. Some will choose their own retirement dates based on what they think the CEO will do; a few will prepare to leave if they are passed over for promotion; and some will try to control their own destinies by taking new positions in other health systems now, instead of waiting to see what happens.

When Legacy Health System in Portland, Oregon, began planning for then-CEO John King's retirement, executive retention was a high priority. According to King, "We anticipated a long transition process to allow time for the board to get to know and evaluate internal candidates. I knew executives would be getting calls from search firms, and other opportunities were bound to look especially attractive while our future plans remained unsettled. The board agreed we needed to put financial incentives in place to show a commitment to our executive team and win their support for the process, whatever its outcome."

Retention incentive plans like Legacy's can be effective tools to stabilize an executive team during a leadership transition. Such plans can be put in place before the CEO's retirement is announced, when the executive search



process is initiated, or shortly before the new CEO is introduced, depending on the needs of the organization and the potential threat.

To effectively retain executives, a retention incentive must be large enough to matter. Plans commonly deliver 50 to 100 percent of salary over a two- or three-year period. But the specific design of a retention incentive plan can differ greatly from one organization to the next. And the incentives can be uniform for all members of the executive team, or highly customized to reflect the varied ages and circumstances of the participants.

The retention plan structure should not be so ironclad that the incoming CEO is unable to choose his or her own team. Rather, it should stabilize the current team long enough for a new CEO to be selected and establish leadership. Once this is accomplished, the organization is better positioned to deal with recruiting challenges.

Communicating a Positive Message to Stakeholders

A change in leadership sends a message to stakeholders, but the message is

not always the one the board wants to convey. A poorly-communicated transition process might suggest the board was unprepared for a change; it might imply to executives that none of them are considered competent to take over the reigns; it might tell physicians that the board doesn't care what they think about leadership qualities; it might suggest to patients and the community that the organization is focusing on internal matters at the expense of service and quality.

However, a board that has a well-thought-out leadership transition plan can use the opportunity of a change in leadership to deliver a positive message to stakeholders about the organization's future.

On January 3, 2002, Memorial Hermann Healthcare System announced Dan Wilford's retirement and the start of a national search to select his successor. In its press release and meetings with constituents, the board made clear its commitment to maintaining the organization's financial strength and vibrancy during the change in leadership.

Wilford tells us, "We are off to an excellent start. The communications

sent to various audiences and the meetings we held with the Board, senior staff, and physicians have been very effective. As we now work with the executive search firm, I am confident the process we have in place will serve our organization extremely well."

Summary

A change at the helm of a hospital or health system is never easy. But by drawing on the best practices of organizations across the US, a board can effectively plan for a smooth transition that strengthens the organization and equips it well to face the challenges that lie ahead. If you would like to discuss an upcoming change in leadership for your organization, please contact any of these Clark/Bardes Consulting – Healthcare Group consultants:

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Under Estimating the Planning Time Required

The Most Common Mistake in Succession Planning

"A good succession plan needs to begin two to three years prior to implementation... It's the responsibility of every chief executive to be constantly thinking about continuity of management. A healthcare organization can be devastated if succession planning isn't addressed until a crisis arises."

HealthLeaders, March 2002

*Robert W. O'Leary, Chairman and CEO
Sagamore Group, San Diego, CA*

Leadership transitions can be a time of great opportunity or disaster for healthcare organizations. It seems clear that a graceful exit from the high-powered position of CEO can't be planned and executed overnight. However, we find that the most common mistake health care organizations make is to avoid or delay the transition planning process until it's too late.

While there are many reasons for this phenomena, we most commonly hear that the CEO, board of directors, and management team are "too busy", the CEO feels threatened by a potential replacement, or the CEO can't face leaving the organization he or she helped form.

"Some CEOs become very, very close to their organizations, which in many cases prevents them from retiring. They can't let go, and this is why so many organizations fail to do a good job of succession planning."

HealthLeaders, March 2002

Donald Wegmiller, Chairman

Clark/Bardes Consulting - Healthcare Group

Recognizing and understanding that leadership transition is a process, rather than an event, is a critical first step. The process goes well beyond the executive search to include anticipating the concerns of key executives and other stakeholders in the organization, preparing a structured communications plan, and maintaining confidentiality during the process. Properly developing and smoothly executing such a process takes time.

How Much Time?

Ideally, the transition process should begin two to three years prior to the target transition date, and may continue for a year or more beyond this date depending on the role of the departing CEO. On the back of this page is a Leadership Transition Timeline that summarizes the difference between a carefully crafted transition plan developed on a timely basis and the potential result of having no plan at all.

Leadership Transition Timeline - Plan vs. No Plan

Time Period	Two Years prior to retirement/transition	One year prior to retirement/transition	Six Months prior to retirement/transition	First post-transition year	Second post-transition year
Transition Plan	<ul style="list-style-type: none"> ◆ CEO discusses intention to retire or transition to Board Chair ◆ Leaders of Board deliberate ◆ Transition Committee formed ◆ Committee explores options <ul style="list-style-type: none"> - Internal candidates - External search - Executive Roles - Retirement Plans - Agreements 	<ul style="list-style-type: none"> ◆ Approved transition plan developed over previous year ◆ Transition responsibility matrix ◆ Engage search consultant ◆ Execute transition plan if internal selected ◆ If no internal selected, move to full search 	<ul style="list-style-type: none"> ◆ Communication message about: <ul style="list-style-type: none"> - Transition or retirement - Internal selection and transition - 'outside successor' ◆ Internal selected executive 'on board' or new external successor arrives 	<ul style="list-style-type: none"> ◆ Execute transition plan and responsibility matrix for either internal or externally selected successor ◆ Transitioning or retiring CEO with new role ◆ Other transition plans 	<ul style="list-style-type: none"> ◆ Continue to execute plan ◆ If transition, new CEO has assumed all roles and responsibilities ◆ Final communication ◆ Execute other transition plans at executive levels
No Plan	<ul style="list-style-type: none"> ◆ CEO does not announce intention ◆ Often described as 'difficult' period, awkward, speculative, rumor filled, miscommunication ◆ Executive anxiety ◆ Institutional 'drift' 	<ul style="list-style-type: none"> ◆ CEO announces at six months prior to retirement or transition ◆ Search consultants retained ◆ Possible internal candidates ◆ Lame duck issues for CEO since no new role decided 	<ul style="list-style-type: none"> ◆ Often described as rushed and without benefit of process ◆ Communication message limited to selection of successor ◆ More likely to result in retirement rather than transition ◆ New 'regime' installed with little transition time 	<ul style="list-style-type: none"> ◆ CEO transition unlikely ◆ CEO likely retires without role ◆ Confusion about transition or retired CEO role 	<ul style="list-style-type: none"> ◆ CEO transition unlikely ◆ CEO likely retires without role