



**LEADERSHIP CONTINUITY AND ORGANIZATIONAL
PERFORMANCE IN HOSPITAL SYSTEMS**
FROM EMERGENCY TRANSITION TO LEADERSHIP PIPELINE:
An Evolution in the Leadership Succession Planning and Development



**A resource from Integrated Healthcare Strategies,
a division of Gallagher Benefit Services, Inc.**

Succession planning is a critical tool for ensuring lasting organizational improvement. However, the biggest challenge for most organizations is how to effect a well-designed change of leadership without disrupting the organizational continuity.

Great hospital systems have great leadership in **three spheres**:



Leadership **instability** and **discontinuity** drives weak performance.

Leader **stability** and **continuity** can drive strong performance; but boards must first find develop, and retain high performing executive leaders to achieve board driven organizational continuity of leadership into the next decade.

- What is the **cost** of leadership discontinuity?
- What is the **value** of leadership continuity? (It is more than the flip side of discontinuity!)
- What are the **synergies and leverage** from continuity of leadership that yield tangible value to the enterprise?
- How **vulnerable** is your organization to unexpected departures?
- Do you have a five-year "**future view**" of your potential needs?
- How would you rate your **bench strength**?
- Have you considered the **financial and disruptive implications** of hiring from the outside vs. developing from the within?
- Where is this on your list of **organizational priorities**?



STRATEGIC PLANNING FOR LEADERSHIP CONTINUITY

With the rapidly changing demographics in the workplace, especially balancing millennials and the aging baby boomer segment, hospital and health systems are increasingly experiencing a battle for talent in their leadership roles. Organizations that are able to respond proactively by developing and implementing effective leadership succession plans will be better positioned to remain competitive and at high performance in their marketplace.

BOARDS AND LEADERSHIP SUCCESSION PLANNING

What would you do if your Chief Executive Officer (CEO) or other key executive were to retire or unexpectedly leave your organization? Would you be prepared to successfully fill these managerial vacancies? If these questions leave you feeling some doubt, it is likely that your hospital system would benefit from formally establishing or enhancing your leadership succession practices.

WHAT IS LEADERSHIP SUCCESSION PLANNING

Although there are many definitions, research has failed to provide one that clearly distinguishes leadership succession planning from more generic strategic planning processes. In order to delineate this distinction, we are approaching and defining leadership succession planning as the following:

Succession planning is defined as “a dynamic, ongoing process of systematically identifying, assessing, and developing leadership talent; and assessing, developing, and recognizing ‘key contributors’ to meet future organizational strategic and operational needs” (Kimball, 2005: as cited in Nink, Boyer, & Fogg, 2006, p. 34). Also, it is explained as a systematic process of developing individuals to fill organizational key roles (Harrison, Mckinnon, & Terry, 2006). Moreover, “succession planning is a proactive attempt to ensure that leadership in an organization will be continuous by identifying how these positions will be filled as both planned and unplanned departures occur” (Schmalzried & Fallen, 2007, p. 169).

Leadership succession planning should consist of a form of succession planning focused on replacing key leadership position(s), characterized by an ongoing process of systematically: (a) identifying, assessing, and developing/recruiting organizational leadership, and (b) identifying and assessing individual, organizational, and cultural variables likely to affect leadership succession and continuity.

Critical to this definition and related approaches is the idea that leadership succession planning represents only one of many board and management strategies directed at developing and ensuring continuity within a successful hospital system.



PRINCIPLES FOR SUCCESSION DESIGN

Recently the American Management Association found in a survey of large companies that half have lost so many talented people, many companies felt their ability to compete had been severely damaged.

The Conference Board reported that in a survey of Fortune 1,000 companies only 8 percent of the executives surveyed rated their firm's overall leadership capacities as excellent.

The American College of Healthcare Executives observes that the reality of hospitals today is that a number of key executives and talented professionals are coming up for retirement. Organizations have realigned and resized themselves to a point where the talent pool that would have been ready to step up into key roles are either not ready now, or not ready for another five years or will never be ready as they have reached their potential; some have even left the organization.. ...It will be a talent crisis.

To handle this crisis hospitals need to integrate succession planning with their strategic business plans and view it as a long-term, continuous process. To begin the process, boards, CEOs, and CHROs leaders should begin to consider the following design principles and practices to assess the status of their leadership succession planning.

The following seven principles can help boards build a strong leadership culture to ensure the success of their healthcare system.



PRINCIPLES FOR SUCCESSION DESIGN

1 The purpose, goals, and extent of the leadership succession plan or program must be clearly defined and communicated throughout the hospital system.

Early in the development stage, a board-level steering committee should be organized to establish the purpose, goals, and extent of the leadership succession endeavor, as leadership succession planning is likely to impact the greater organization. Members should reach consensus on the reason for a leadership succession program and communicate its intent to the executive leadership who would then explain the process to their workforce and medical staff. A realistic plan should take into consideration the resources, structure, history, culture, and business needs of the organization. Specific performance objectives should be listed, as they will later serve to evaluate the success of the program.

2 The leadership succession plan must be hardwired to the overall strategic business plan.

You should attempt to link the plan to the overall strategic business plan for sustainability, development, and growth. Both short-term and long-term leadership needs should be considered. For instance, your leadership succession plan should have enough depth to (a) allow filling vacancies in the event of business development or expansion and (b) allow replacement of lost potential in the event of higher than expected turnover rates. Of course, a close look at the state of the current economy and business health should occur in tandem with succession planning.

3 Top-executive involvement and commitment must be ensured and encouraged.

When developing your leadership succession plan, it is critical to involve senior personnel in its design and implementation. Highly committed top-executives must demonstrate support and commitment by ensuring that the program receives sufficient staffing and resources from human resources. In addition, support from the top should help ensure that the program (a) operates effectively; (b) is being used correctly; and (c) maintains its integrity and fairness when assessing and promoting employees for leadership positions. The CHRO typically coordinates the process and provides guidance, but the responsibility lies within each leader to assist in the individual development of their people.

4 The organization must invest in a system for assessing current and future leadership needs.

A systematic approach is needed to assess or estimate current and future leadership needs. Critical leadership positions must be identified and for each of these positions, an analysis should be conducted to determine (a) turnover rates per position, and (b) workforce eligibility for retirement within the next 5-15 years. These numbers, calculated on an annual or bi-annual basis, are used to estimate and update leadership succession needs per position.



PRINCIPLES FOR SUCCESSION DESIGN

5 There must be a system for identifying, assessing, and developing leadership potential.

Critical to the leadership succession planning process is the development of a systematic approach for identifying and assessing leadership potential within your current workforce. Briefly described, this system should consist of identifying current and future skills requirements, responsibilities, and competencies for each critical leadership position or leadership bundle (i.e., strategic business unit). Second, a process is needed to assess the potential of the current workforce and third, a process is needed to monitor development/progress of high-leadership potential candidates. Finally, training and developmental needs of candidates must be defined and maintained in a searchable database.

6 There must be a system for information sharing.

To ensure that the leadership succession and/or development programs are in line with strategic business needs, a system for communicating goals, plans, and needed information is required. It is suggested that development plans be reviewed with individuals every six months or at least on an annual basis. Additionally, an annual talent review of high potentials across the organization should be conducted by the executive team.

7 There should be a well designed philosophy, culture and system for ongoing performance management.

To strengthen the effectiveness of performance management, the board should support incentive compensation plans that enhance the organization's capacity to attract, retain and guide the leadership team.



PRACTICES TO SUCCESSFULLY IMPLEMENT LEADERSHIP SUCCESSION PLAN

To operationalize the seven principles, effective boards also invest in five essential practices:

1 Determine current and future leader performance criteria (i.e., knowledge, skills, and ability requirements).

In order to identify and develop high-leadership potential employees, the hospital system needs to determine leader program selection criteria. The use of “Competency Modeling” techniques can help you identify the competencies and/or skills that correlate with leadership performance and organizational effectiveness. It should be noted, however, that the final set of criteria for leader program selection will be partially dictated by your market, organization type, as well as its history, structure, and culture.

2 Assess current and future leadership potential.

To assess current and future leadership potential, it is recommended that your organization use valid and reliable psychometric/measurement instruments and realistic performance standards to identify leadership talent early (e.g., during selection). The use of standardized test batteries and/or assessment centers represents such examples. Second, the information gathered through the use of Competency Modeling techniques should be used to design or update your leader performance appraisal systems, as performance appraisal plays an important role in determining how well a high-leadership potential employee fares over time. Third, discernable gaps in performance should be recorded and fed back to each high-leadership potential employee to encourage continuous performance enhancement.

3 Provide infrastructure and processes to support your leader development.

To enhance and protect your leadership capital, you must ensure an adequate and balanced provision of leadership development opportunities and training. A good starting point is to utilize the practices already developed and implemented in your organization. These might include:

- Coaching or mentoring
- 360-degree feedback
- Job shadowing
- Networking
- Job assignment / rotation / enrichment
- Action-learning
- Regular classroom teaching
- E-learning
- Role playing or case analysis

Leader developmental activities should focus on developing three skill areas: technical, conceptual, and interpersonal. Technical training activities consist of providing leaders with necessary knowledge and/or skills to perform specific tasks or jobs to predetermined standards using new technology and procedures. Conceptual training and activities focus on teaching leaders how to think in a more self-reflective, abstract and/or critical manner (e.g., strategic decision-making, problem-solving). Interpersonal training focuses on helping leaders develop a set of skills and attitudes to better deal with the social and organizational environment (e.g., social awareness, conflict management, etc.).

4 Systematically identify and monitor applicant pool availability.

Once you have identified a number of high-leadership potential employees, it is important that you ‘cultivate’ and consistently monitor their progress and state of mind (e.g., overall satisfaction, organizational commitment, turnover intentions, etc.). In its simplest form, leadership succession planning is an ongoing conversation and feedback between the leader and the high potential employee regarding their progress against their plan. Failure to support development and career progression may result in high attrition rates and a reduction of your leadership talent pool. As such, close monitoring and support is critical. An additional proactive strategy is to ensure your HR team simultaneously develops an external network to recruit talented individuals and build/augment future leadership capital. This network can be a strategic advantage in times when you have a shortage of leadership talent.

5 Link and align your program to current HRM practices.

Finally, it is important that your leadership development plan be reinforced by Human Resource Management (HRM) systems and practices, such as, selection, performance management, career planning, promotion, and rewards. By carefully integrating your leadership succession plan with other talent enhancement systems, you will (a) facilitate the building of a strong leadership development culture; (b) clearly signal the importance and legitimacy of your leadership development and succession plan; and (c) increase the reputation of your organization as a proactive and “Learning Organization.”



SELF ASSESSMENT OF YOUR CURRENT SUCCESSION SITUATION

THREAT ANALYSIS

Succession planning requires a strategic perspective. What are the strengths, weaknesses, opportunities, and threats that may impact your organization's leadership? What are competitors doing to you? Will the organization be growing, contracting, acquiring, divesting, etc.? What will government likely legislate that will impact you?

Monitor the social, legal, economic, and political environments to determine how they might influence succession planning in your organization.

Consider the organization's demographics. Are there individuals that could be retiring in the foreseeable future? What does your talent pool look like for those positions? What is happening with the organization's culture? How is change going to impact the organization?

CREATE A LEADER SUCCESSION PLAN

Leader succession planning requires planning. Does your organization have a well-developed process for employee and leadership planning efforts? How are individuals in the pipeline assessed for their readiness to advance to the next level?

Succession planning needs to be conducted with consideration for its impact on the organization's strategic leadership needs.

Define and target key positions where the company's next leaders could come from and go to.

KNOW YOUR POSITION REQUIREMENTS

Effective succession planning requires clarity on the technical and behavioral requirements necessary for success in the targeted leader positions. All positions should be evaluated to identify the essential competencies necessary for success in key positions and their feeder positions. These requirements should be used to assess new hires, promotions, and developmental assignments.

DEFINING CAREER PATHS

Once positions are evaluated, establishing career paths and the ability to describe the requirements for pursuing the path becomes easier. Creating effective career paths requires two components, knowing the requirements for the next level and creating clear definition of how to develop the necessary skills.



SELF ASSESSMENT OF YOUR CURRENT SUCCESSION SITUATION

LINK SUCCESSION PLANNING WITH CAREER DEVELOPMENT

Succession plans should be linked to career planning and development. One study reflected the positive impact of having corporate career counselors on not only focusing development efforts, but also on improving retention and employee satisfaction.

ASSESSING LEADERSHIP TALENT

The ability to assess and determine leader successor readiness can range from subjective to objective. Are successors assessed against clearly defined criteria or are individuals shuffled from High Potential (HiPo) to Low Potential (LoPo) status and back again depending on favoritism, the leadership philosophy of the moment, or some other wind of fate?

Multi-rater assessment can be very time consuming and demoralizing, and some say it can negatively impact the bottom line. Most people don't like feedback that challenges their own self-image, hence a demoralizing impact if hit with overwhelming data. Using a position-specific approach to identifying and assessing essential competencies cannot only minimize the impact of both issues, but add value to understanding development needs in key competencies.

Would position-specific multi-rater assessment be a useful tool for helping team members gain feedback into areas necessary for improvement? Will the information be used for just developmental purposes?

Always use a competitive hiring process when positions are vacated so they're filled with the best available talent.

REGULAR PERFORMANCE DISCUSSIONS

Do you have regular performance discussions with significant, verifiable examples of how team members have demonstrated the performance expectations? Managers should conduct regular discussions with team members and provide coaching on how to ensure ongoing development and readiness. Team members should have primary responsibility for gathering and documenting verifiable examples.



SELF ASSESSMENT OF YOUR CURRENT SUCCESSION SITUATION

TRAINING AND DEVELOPMENT

Training time is expensive. Yet, combining training programs and development assignments and experiences that focus on developing specific skills can help shorten the learning curve necessary for success.

Are training programs linked to development plans requiring that the team member effectively use the skills over time? Are verifiable examples gathered, reviewed, and refined with ongoing coaching?

DEFINING SPECIFIC LEARNING EXPECTATIONS

Are development assignments undertaken just for “punching a ticket” or are there specific learning expectations and expected skill development? Specific learning expectations should be clearly defined and measured for each developmental assignment. In other words, did the team member learn new skills and refine existing skills necessary for the next step, or did they just punch a ticket?

MANAGEMENT INPUT ON READINESS

Are managers asked to provide verifiable input on readiness of potential successors based on demonstration of competencies?

Are all managers permitted extensive input in the succession planning for their departments?

REPLACEMENT CHARTING

Use replacement charts (whether automated or paper) for employee/succession planning. The spreadsheet maps each executive with their likely dates for retirement and any comments shared about their participation in career development programs.

TRACKING PEOPLE AND REQUIREMENTS

A human resource information system (HRIS) is a helpful tool used to track talent in support of succession planning.

None of these assessment steps need to be made overly complex and most can be integrated across existing human resource systems.



ACTIONS TO EVALUATE IMPLEMENTATION SUCCESS

action one. Assess leadership succession plan and ROI.

Once you have implemented your leadership succession plan, it is important that you assess how well it is working by systematically examining whether the program has achieved its pre-planned goals, objectives, and leadership development targets. This evaluative process is better known as Program Evaluation.

Program Evaluation requires significant time, financial resources, and expertise. For this reason, the scope of your evaluation should consider available resources. If you can't adequately resource and support this activity, consideration should be given to hiring an external consultant with the necessary expertise. The evaluation should include either qualitative (e.g., program satisfaction, leadership readiness) and quantitative (e.g., retention or drop-out rates) evaluation criteria or success indicators.

action two. Share results with workforce and other stakeholders.

Once your leadership succession program has been evaluated, it is important that the data be shared with stakeholders. A detailed report discussing the status of the leadership program should be available for your board and existing managers. The report should convey enough information to signal to all employees that the leadership succession program (a) is supported by the board and top executives; (b) is designed to ensure leadership continuity; (c) is designed to support organizational success; and (d) represents a real opportunity for advancement within the organization. In addition, a business communication could be provided to other groups of interest affiliated with your organization (e.g., recruitment agencies). The sharing of this information should serve to enhance the image of your organization and secure future leadership potential.

CONCLUSION

Overall, having a leadership succession plan is a great start, but it is important to ask yourself how well it is meeting your healthcare system's needs. As with any business plan, your leadership succession plan should be continually evolving and evaluated by the board and CEO in order to meet changing needs.

MORAL

If your organization is not focused on selecting, developing, and retaining top talent through a disciplined process such as succession planning, organizational leadership and key talent will be subject to the fickle finger of fate. Fate is usually not kind to those who do not plan.

The Governance & Leadership practice of Integrated Healthcare Strategies uses proven, state-of-the-art governance design, educational programs, and tools to help boards use their time and talents more effectively. Our team of consultants have extensive experience in the assessment of executive leadership and board performance and in the development of strategies and systems to continuously enhance the governance of complex healthcare and hospital systems.

For more than 40 years, Integrated Healthcare Strategies (Gallagher Integrated), a division of Gallagher Benefit Services, Inc., has provided consultative services and people-based solutions to clients across the healthcare spectrum, including community and children's hospitals, academic medical centers, health networks, clinics, and assisted-care providers. Our Gallagher Integrated consultants and nationally recognized thought-leaders help organizations achieve their business goals, by ensuring top talent is attracted, retained and engaged, while measuring and maximizing human and organizational performance. With tailored solutions that extend well beyond single services, Gallagher Integrated offers the knowledge, guidance, and insights that organizations need to not only survive the rapidly changing healthcare environment, but to succeed in it.



JAMES A. RICE, PH.D., FACHE

Managing Director and Practice Leader
Governance and Leadership

**Integrated Healthcare Strategies
a division of Gallagher Benefit Services, Inc.**

901 Marquette Avenue South, Suite 1900
Minneapolis, Minnesota 55402
612-703-4687



KATHY HALL

Managing Director & Senior Advisor

**Gallagher MSA Search
a division of Gallagher Benefit Services, Inc.**

801 West 47th Street, Suite 300
Kansas City, MO 64112
888-513-0158

www.IntegratedHealthcareStrategies.com

For additional information about how to enhance the effectiveness of health sector governing boards, contact us at: contact@ihstrategies.com