



Succession Planning: Best Practices for Managing Organizational Risk

Penny Wheeler, M.D., was barely into her tenure as CEO of Allina Health and fresh from a transition period earlier this year with retiring CEO Kenneth Paulus when the topic turned to who might replace her.

“At the first board meeting in March 2015, people were asking me about succession planning,” Wheeler says. The board of the Minneapolis-based health care system takes very seriously its duty to hire, fire or replace its CEO, she says, and trustees “expect early on, as they did in Ken’s tenure, that succession planning would be done The board really sees it as an ongoing activity and one of the most important ones that they do.”

While succession planning at a new CEO’s inaugural board meeting may seem aggressive, it’s never too soon for an or-

ganization to begin the process. A board-led succession plan should continually be in place and updated as needed, no matter how well the current top executive is working out or how long that person figures to stay put, says Joe Mazzenga, vice president of Furst Group, a health care executive search and consulting firm.

Properly developed succession plans allow an organization to appropriately develop current employees with executive potential, alter the desired strong points of a future CEO to match evolving business strategies, and simply to avoid being caught off guard by a sudden vacancy.

While Paulus’ departure was not sudden, having a succession plan that articulated the skills and experience his successor would need to implement the system’s strategy provided the board with clarity during the search process. The

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board placed high priority on understanding both clinical care and how to engage physicians, as the focus of business shifts to creating and proving value.

Wheeler says trustees sought someone “who could set a clear strategy and vision, make sure that we were moving toward a transformative place in health care where clinical care processes and their redesign were going to be more important.” Wheeler’s prior role as Allina’s chief clinical officer made her a particularly good fit. Not only did she have the experience needed to lead clinical redesign, but she was a home-grown candidate.

As a physician, Wheeler says her strengths were in understanding clinical processes and how those could improve care and decrease cost. She knew she had to improve operational and financial acumen, and learn how to develop her leadership team. The board and Paulus walked her through her developmental needs, giving her broader responsibilities to see how she handled operational duties, with the results pivotal in determining her viability as a candidate for the future.

Sometimes the skills are not in-house. At St. Luke’s Hospital, Chesterfield, Mo., the board decided its bench was not ready to run the organization and referenced its succession plan to look outside the system when its CEO of 15 years, Gary Olson, gave

advance notice of intent to retire, says the board’s chair, Gene Toombs. The consensus on competencies: a person of high integrity, characterized by a record of thoughtfully consulting with others, and a track record of CEO experience. The choice: Christine Candio, immediate past chairman of the American College of Healthcare Executives and formerly CEO of Inova Alexandria (Va.) Hospital and senior vice president of Inova Health System, Falls Church, Va.

Once the new CEO is chosen, the board should have a good idea of how the transition plays out, and what, if any, continuing role the ex-CEO will have. His or her knowledge and practical information are valuable, but that has to be weighed against clarity of authority. Ben Breier had moved into four different executive roles of varying responsibility during a 10-year span at Kindred Healthcare, a Louisville, Ky.-based provider of post-acute services, before succeeding retiring CEO Paul Diaz in March 2015. Breier’s progression, as president of two different divisions and then chief operating officer, “allowed me to develop these deep and meaningful relationships with people from the front-line staff all the way to our management team and, I think importantly, with our board members.”

As Diaz approached retirement, “it was always Paul’s and the

ALLINA HEALTH: Desired CEO Experience Changes With Business Needs

Allina Health CEO Penny Wheeler, M.D., has a long view of the succession question. She started on the governing board end, having been appointed to the Allina system board in 2002 as one of two physicians added to supply an understanding of clinical care. It was just as Richard Pettingill was coming aboard as CEO, replacing an interim exec appointed after the upheaval caused by having to divest its health plan division, Medica, by order of the Minnesota state’s attorney general.

The situation called for someone with demonstrated leadership and a reputation for integrity, who could stabilize the organization. “We thought we needed somebody from outside at that time, because the organization was thought to be on shaky ground and in a crisis mode,” says Wheeler. Part of planning and selection is about timing, “not only the skills that you have, but the right skills at the right time.”

Pettingill, she says, put Allina back on solid footing, consolidating governance, merging 11 corporate locations into one headquarters to work better together, and establishing a robust electronic health record system at a time when few others were going that far.

When in sound shape, the health system focused on having CEO successors at the ready. Three years into his tenure, Pettingill recruited Kenneth Paulus as COO, with the aim of cultivating him as the CEO successor. When Paulus assumed the top spot in 2009, the board wanted him to identify his replacement, taking into consideration where Allina was headed next.

“Dick was a healer — he healed and put in some successful infrastructure,” Wheeler says. “I think Ken was a mover. He saw that we had to broaden the continuum, so he increased our primary care base and wanted to make sure that we had that primary relationship solid for our future.” Paulus developed the system’s integrator role, with components as varied as fitness businesses and long-term care, and he began to think about collaborating with competing systems.

Wheeler describes herself as an architect — now that the organization has all these components, they have to work together “in a way that singularly focuses on our goal of creating value for patients and community members.”

The board’s approach to succession was influenced by the experience of three other health systems in the Twin Cities area that saw their CEOs leave without a succession plan, requiring their respective board chairmen to take over for a period of months or years, Wheeler says. Explaining one motive for Paulus’ singling her out, at the board’s direction, as his immediate successor in 2011, she says, “Our board chair did not want to become the managing CEO.”



ST. LUKE'S HOSPITAL: Recruiting From the Outside Brings a Fresh Perspective

St. Luke's Hospital had it good. Its CEO, Gary Olson, had made a name for himself since coming to the Chesterfield, Mo., facility 36 years earlier, the last 15 in the top executive role. Approaching age 65, he was "in very good health, very athletic and very energetic," says board Chairman Gene Toombs, and the board had no issues about performance.

Then Olson announced that he wanted to retire.

"He wanted to set the stage, so there are no surprises," Toombs recalled. "All of us tried desperately to talk him out of it — I think we delayed it about six months to a year." The hospital had a succession plan in place, he says, and reviewed it periodically, which called first to see if there were any internal candidates. The hospital had a very able chief financial officer who was still relatively new to the organization. Aside from that option, "we could take a chance on a couple, but they probably were not ready."

A search firm found 10 outside candidates, half of whom were brought in for interviews before a search committee comprising two board members, a staff person and several physicians. That narrowed the choice to two, "both eminently qualified," for more interviews and, eventually, a board decision to hire Christine Candio, who has done "an outstanding job so far."

Olson was cooperative, says Toombs, not wanting to stay longer, but volunteering to stay until the board could find the right successor, and participating to some extent in the search. "We had him spend some time with the candidates. He met and had lunch with the five finalists, he was asked his view, and he was candid — he rated them frankly just as the board did, so we were lucky there. But he was not going to be the guy who said, 'This is the one.'"

"It was difficult and we still miss him, of course, but I think [Candio] has brought in a new perspective and a new breath of fresh air, which is good," he says. "We didn't need to make major changes, the hospital is on track, our strategic plan is viable, it's in place, we're following it."

board's hope that it could be an internal succession, and that it could be something that was managed in a methodical and transparent way," says Breier.

Besides giving Breier operating responsibility for the company in 2012, the board insisted on regular, "fairly intensive" performance reviews, including a psychological profile. "All of these tools were used, I think, to ensure from the board's perspective my readiness to move into the CEO role. As I think back on the experiences and the process, you can see there was a very purposeful approach taken to my development."

After Breier took helm, Diaz moved into a newly created role as executive vice chairman, designed specifically for his transition on a year-to-year basis. He still meets weekly with Breier to talk business, and "I still count on Paul as being my closest and most trusted adviser," Breier says.

CEO succession decisions are ultimately board decisions, but succession planning needs to be an ongoing organizational activity. Boards and their executive teams need to do a better job of creating an expectation and accountability that all leaders at the highest level either have an identified successor or are developing one or more, so the organization doesn't have a shortage of new leaders when the time comes, says Mazzenga. This is not something to delegate to the human resources department: "It has to start at the top and it has to come from the top, and the expectation of the significance of the succession process within the organization needs to be an executive

and board imperative."

Any process should include incentives for the current CEO and other top management to seek out and groom people with high potential to attain a top executive post in due time, says Sherrie Barch, Furst Group president. Building bonus structures into compensation for evaluating and facilitating the maturation of key leadership prospects is a way to get the CEO to buy in and, in so doing, reduce risk to the organization's objectives and goals that a lack of leadership might generate, she says.

One important element of developing talent is identifying gaps in experience or expertise among candidates and working to bridge them, says Barch. The CEO and other top executives not only should identify someone to mentor, but also advocate for their prospect's progression — to make sure that he or she is exposed to working with the board, is knowledgeable about strategy and has the full set of skills to move up.

Hand in hand is the need for boards "to continually look at their bench strength: What is the caliber of, the capacity of, the bench?" Mazzenga asks. A transparent process allows current leaders to sit down with high-potential candidates and ask if they want to develop additional skills for a top position. That evaluation process should be concurrent with consensus-building among board members around the critical skills, competencies and characteristics of a CEO looking ahead, "recognizing that they may present a different set of skills vs. [those of] the current leader," Mazzenga notes. "That is not an indictment of the current CEO; it just may be that the needs of organizations change over time."



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