High-Performance Succession Planning

Changing times require fresh thinking when hospitals choose new leaders

By Vic Buzachero

One thing that we all know is certain is change. Hospitals and health systems are adapting delivery models and strategies to remain viable for their communities. As more and more baby boomers retire, health care is undergoing a major demographic shift that is reshaping insurance coverage, reimbursement, C-suite recruiting and workforce staffing. In addition, technological advances aided by automation are redefining patient care.

These forces are creating uncertainty in health care for the foreseeable future. To address this, new approaches to succession planning are required of leaders and governing bodies. Together, they must develop a deliberate plan that serves their organization's needs for years to come.

Every organization creates an annual capital plan to deploy resources to critical areas and ensure financial viability. Similarly, a board of trustees can use a mix of historical approaches to succession planning and new techniques for bench strength development. The result can be a deliberate succession plan to successfully execute strategy and minimize risk.

Historical approaches

Traditional succession planning has historically been used by boards of trustees to identify new leaders to replace the existing C-suite. Generally, this "next-up" approach has minimized gaps in leadership and prepared the organization for orderly transitions during a personnel change.

Mission-driven health care organizations with strong cultures have accomplished next-up succession planning by deliberately developing their executives for new roles. This plan ensured the organization remained focused on its mission to the community, where it also may have substantial economic impact as one of the largest employers.

The most reliable approaches to next-up succession planning have included the following elements:

Inventory of talent resources: A list of leaders with a summary of their personal and professional attributes, work experience, time in their career and current job, age, and skill sets.

Readiness assessment: An evaluation of each leader's stage of development in current and future roles, which can be used for determining future potential. These assessments may indicate that an individual is well-placed in a current role or is ready to prepare for new roles with increasing responsibilities. An assessment called the "Nine-Box Matrix" can evaluate an individual's performance and potential.

Succession charts: These organizational charts depict replacements rather than chains of responsibility. The chart lists the most appropriate leaders to replace the incumbent. Descriptive attributes from the talent inventory provide relevant information about the incumbent and his or her replacements. The deeper the replacement details in the chart, the stronger the plan.

These approaches have readily enabled boards to see gaps in current and future talent needs and determine what relevant experience is required for the pool of next-up individuals.

More and more organizations, however, are finding these approaches inadequate in the face of health care's transformation. Next-up replacement approaches rely on the assumption that the future is a continuation of the past. But the executive skills of the past may not successfully address ongoing transformation.

The historical approaches have four shortcomings that hinder the acquisition of new skill sets for the C-suite:

• Perception and subjective assessments of individual qualifications are not based upon the measurable outcomes of the leaders in the organization. Rather, they are based upon competencies and leadership skills evaluated during an annual performance review. In general, annual reviews focus on how the executive performs and not the executive's accomplishments.

• Next-up replacement approaches lack context or a situational awareness of the organization's current needs, skills or future challenges. This deficiency arises as an organization focuses on replacement of the incumbent rather than where the organization is headed in the future and what it needs.

• Next-up approaches tend to be vertical in scope and view talent within the silos of functional areas. When one views only the function or the operations, one cannot view the entire pool of talented individuals, regardless of where they report. It is

rare to see someone who is not within a function on the replacement chart of the C-suite leader of that function.

• Next-up approaches depend on developing individual C-suite leaders within their own chain of accountability but without the lens of the board of trustees. Rarely do individuals in the C-suite recognize their role in developing leaders for the entire system. They see that as the role of the CEO, who has delegated to each of them only the development of talent within their respective area. Therefore, they focus on their own needs.

Bench strength development

An optimal approach to leadership talent readiness must include bench strength development. This allows the organization to excel regardless of the changing environment. Organizations cannot address uncertainty if they are unprepared.

An ideal first step in bench strength development is an annual review of talent. The purpose of this review is to assure the mission and culture will be achieved by leveraging the organization's strengths and by addressing its weaknesses — all in relation to the changing environment.

The review should assess strategic competency and enterprise risk. It should also employ big data analytics for the task of leadership development. Both are new approaches for the board to consider as it carries out its plans for talent assessment and leadership succession.

Assess strategic competency and risk: To assure an organization is on track — similar to an assessment for a strategic plan — a strategic competency assessment evaluates the organization's strengths, emerging expertise and development opportunities.

The strategic competency assess-

ment is a foundation that determines where to deploy leadership and what new skills leaders need to develop. It also provides a filter to determine which top talent may be leveraged to elevate organizational performance and mitigate risks. Conversely, it shows which over-leveraged talent may have a negative impact on mission, performance and culture.

The assessment should be augmented with an enterprise risk assessment of organizational challenges. The enterprise risk assessment identifies situations and elements of the organization that can compromise the present and future of the organization. The assessment balances magnitude of potential loss with probability of occurrence.

The risk assessment has a dual focus on risks with action/performance, services or functions, and risks of assets, market strategy or tactics. As these risks are assessed and identified, mitigation plans are prepared. Critical to each plan will be the assignment of leaders accountable to address the risk. It is therefore imperative for the board to address these challenges with top leaders.

Together, the strategic competency and risk assessments provide context for competitive advantage or needs to address.

Employ data analytics for leadership development: All talent is not created equal in skills and performance, nor is it developed to optimal levels. Performance variation among leaders accounts for many ills within organizations. When leaders have consistently high levels of performance, organizations excel. Leadership is the major variable that drives or determines performance.

New tools and techniques used by some companies have introduced the science of measurement to assess and rank leaders. One such assessment — a "talent assessment of leadership" — applies big data algorithms to the annual outcome data associated with each leader and arrays the leaders from highest to lowest performers. The annual data may include quality outcomes, financial results, employee turnover rates and patient satisfac-

The Transformation of Health Care

The health care sector has entered an era of uncertainty over the implications of legislation and regulations for health care providers. Payers throughout the market are reforming payment and reimbursement models to focus on value-based rather than longstanding fee-for-service models. The value trend is increasing organizational accountability for health care outcomes and driving down health care costs and expenses. A rapid shift in revenue mix, combined with increased attention to utilization patterns and associated expenditures, is accelerating the trend.

The following challenges complicate health care payment reform and are transforming how hospitals and health systems deliver care and service:

Going digital: The digitization of health care information and delivery is transforming care models, service and access at the same time the field is trying to minimize fragmentation and reduce costs. Capital requirements and human deployment are complex challenges. Return on investment for digitization has yet to be realized.

Consumer demands: Patients have new expectations for immediate access, customer service and pricing. The purchasing experiences they learned from other segments of our society are reshaping their loyalty in health care.

Demographic shifts: Changing demographics have a double-edged impact on the health care market. Baby boomers are aging out of commercial fee-for-service insurance coverage and into Medicare, which may not fully reimburse health care services compared with the costs to provide them. The skilled and seasoned boomers are also exiting the workforce at increasing rates. Their absence affects both care delivery staffing and the C-suite, where they may occupy up to half of the senior roles.

Convergence of industries: The sheer magnitude of resources devoted to health care is attracting new players and blurring the lines among existing organizations. These new players have expertise in managing multiple areas, including risk, retail access (e.g., CVS and Walmart), financing (e.g., Highmark), information technology, customer service and data analytics. — *Vic Buzachero*

Four Keys to Robust Discussions

As your organization uses its talent management tools to decide what is needed, where it is needed and who will address the needs, it must ensure the following outcomes from discussions:

• Transparency of talent performance throughout the organization.

• Deployment of underleveraged talent to the most critical areas to drive improved performance.

• Shared agreement about how to address overleveraged leaders to drive improved performance.

• Development of a deliberate bench strength development plan (as opposed to trusting each C-suite executive to address organizational talent development, for which they typically focus on the needs of their own functional areas).

— *Vic Buzachero*

tion levels, among other information.

The big data algorithms are mathematical formulas that use common elements of data weighted by importance. Calculations assess the performance of leaders to compare and rank them by their outcomes.

A tool such as this summarizes where the high-performing, most talented leaders cluster and where the low-performing leaders cluster. The higher-performing individuals comprise the talent pool to be redeployed to mission-critical positions, as identified in the strategic competency assessment. These high performers also make up the pool for future C-suite roles.
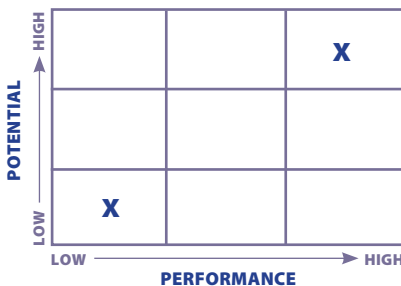
This analytical approach to assess and rank leaders results in objective intelligence that also can factor the degree of difficulty of the leader's role, among other variables. The approach can be used to address consistently low performers and develop those with mixed outcomes to drive

performance improvement.

Discussion planning

Executive committees and C-suite teams should assemble all the pieces before having robust dialogues about

The Nine-Box Matrix for Performance and Potential

An individual in the high-performance, high-potential box of the upper right corner of the matrix is considered top talent and groomed for larger roles. An individual in the low-performance, low-potential box is someone to be addressed.

bench strength performance that drives strategic results. Collectively, the tools discussed here paint a more comprehensive picture of the talent pool than was possible with historical approaches alone:

• Inventory of talent resources.

• Readiness assessment (the Nine-Box Matrix).

• Strategic competency assessment.

• Enterprise risk assessment.

• Talent assessment of leadership.

This comprehensive picture helps discussions at the board level evolve into a well-thought-out plan for leadership transitions. The plan should identify:

• Areas of critical need for strategy and risks.

• Which underleveraged leaders are an organization's top talent.

• Leadership assignments for critical areas.

• Overleveraged leaders and low-performing talent.

• Actions to address overleveraged leaders.

• Future leaders to develop.

• Retention plans for top talent.

As a board of trustees considers its "duty to care," this richer approach to succession planning can provide a path for leadership replacement that supports continuity of mission and culture. It can also establish a deliberate plan to address enterprise risks, execute strategic initiatives and assure strong leadership in uncertain times. **T**

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