

A B O V E B O A R D



LEADERSHIP

Managing an Abrupt Executive Departure

By Elizabeth S. Roop

Whether driven by tragedy or scandal, hospitals can be left reeling when C-level executives depart unexpectedly. How effectively the facility recovers is dictated by the actions of trustees and the remaining executive team over the next 48 hours—and in many cases whether they have an established succession plan to help guide the rapid-fire decisions that must be made.

The sudden loss of an executive “is huge and, if improperly planned for, it’s nothing short of devastating for an organization,” says James E. Orlikoff, president of Chicago-based governance consulting firm Orlikoff & Associates Inc. “I’ve seen organizations that have experienced abrupt departures completely destabilize, while others operate without even a hiccup. The difference is governance and oversight.”

The reason behind the departure can affect how quickly a facility recovers. However, the greatest determinant is often a board that has already thought through the actions that must be taken should an executive vanish and incorporated these actions into a succession plan that is ready to implement at a moment’s notice.

“If it’s a very salacious departure, a board without a plan is a recipe for disaster,” Orlikoff says. “A good plan will moderate the most extremely negative departures, whereas the opposite is also true.”

No Time to Grieve

For WellStar Health System, Marietta,

Ga., its succession plan was tested by the most tragic circumstance: the sudden death of President and CEO Robert Lipson, M.D., in a Friday evening traffic accident.

Within hours of learning of Lipson’s death, WellStar’s board of trustees convened a special meeting at which the chief financial officer, whom Lipson had been grooming as his replacement, was appointed interim CEO. The first critical decisions were also made that would guide the facility through the grief and turmoil that was certain to follow.

“It was very helpful to have an interim role determined the day of Dr. Lipson’s death,” says David Anderson, executive vice president of human resources and organizational learning and chief compliance officer. “This enabled the strategic and operational plans to continue uninterrupted and allowed the WellStar board of trustees to focus on the president and CEO selection process.... Having a succession plan in place enabled the decision to be made smoothly and on a timely basis.”

In addition to enabling the immediate appointment of an interim CEO, WellStar’s succession plan helped guide the board through a number of difficult, yet critical, decisions that could not be delayed. One of the first was asking the executive vice president of human resources to draft a CEO position description that was aligned with the board’s direction and to make recommendations to the selection committee on how to handle the hiring process.

These were then vetted and presented to the full board for approval, and then communicated to the system’s team members and the community.

“Upon selection of the search firm, all executive staff were removed from the search and selection process,” Anderson says. “We did not want this process to adversely impact their current roles.”

WellStar’s marketing, public relations and internal communications departments were also called in to manage how news of Lipson’s death was disseminated externally. In particular, the board was sensitive to the need for Lipson’s family and WellStar’s team to be notified of his death before it was announced publicly.

“It was extremely critical to reassure all team members and our community that there would not be any interruption of services,” Anderson says. “Our goal was to communicate that the search process would identify candidates possessing competencies that would continue Dr. Lipson’s legacy of striving to deliver world-class health care. We were transparent during the entire process.”

When It Works

WellStar Health System is an excellent example of how a succession plan can keep an organization on an even keel even in the wake of tragedy. The loss of a beloved leader, who had been steering the ship for five years, could easily have left WellStar mired in chaos as the internal and external stakeholders worked through their grief.

But the presence of a strong succession plan, including an individual hand-picked and already being groomed to succeed Lipson, alleviated some of the stress involved in dealing with critical decisions in a time of high emotions. Though the plan wasn’t specifically designed to deal with the sudden death

ABOVE BOARD

or departure of an executive, it nonetheless provided a guide for the board.

“The board knew exactly what it needed to do and never missed a beat,” says C.J. Bolster, vice president and managing director of The Hay Group’s health care consulting practice. “At the CEO level, if you’re thinking about your first action when something happens, you’re too late. All boards have to be prepared for what would happen with an unexpected departure.”

Bolster notes that succession planning isn’t a one-time activity. To be truly effective, boards must revisit the plan at least annually, updating it as necessary to accommodate any internal or external changes that impact organization leadership.

He also recommends making the succession planning process very transparent. This includes communicating the plan to the entire leadership team so there are no surprises when it becomes necessary to activate it.

“It is something that needs to be continuously revisited because the right person yesterday might not be the right person today,” Bolster says.

Succession planning is a disciplined process that involves both determining future leaders and establishing necessary budgets and capital allocations. It can be an uncomfortable process that involves exploring sensitive issues, but it must be done to ensure that an organization remains stable and maintains its focus on its mission.

Bolster notes that succession planning is more prevalent today than it was five years ago, due in large part to the ongoing transformation of health system boards “from ‘good old boy’ networks and CEOs managing the board. That doesn’t happen anymore,” he says.

“Boards have come to realize that this isn’t a one-size-fits-all process,” he adds. “The circumstances in each place are so different [that] you have to design the process around who you are. You can’t pull it off a shelf and say, ‘Let’s do it this way.’”

Limits to Usefulness

Just as the circumstances leading to the activation of succession plans will vary significantly, so too will the role these tools play. In situations such as the one that unfolded at Condell Medical Center, Libertyville, Ill., prior to its merger with Advocate Health Care, Oak Brook, Ill., a succession plan would likely not have helped much in the immediate aftermath of the board’s termination of the CFO.

Shortly after Dennis Millirons, now president of MeritCare Medical Center in Fargo, N.D., took over as CEO of Condell, members of the financial staff

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approached him with concerns regarding the medical center’s financial statements. Following an investigation, it was determined that fraud had been committed.

Immediately upon termination of the CFO, Millirons contacted Tatum LLC to find an interim CFO with specific experience to help deal with issues related to the fraud, as well as to guide the organization’s finances until a permanent replacement could be found.

Though Condell did not have a succession plan in place at the time, it’s unlikely that any individual identified as the CFO’s successor could have stepped in at the outset.

“Had there been a CPA-qualified, sec-

ond-in-command controller or assistant vice president of finance, I likely would still have chosen, under this circumstance, to bring in someone from the outside until the investigation was over,” Millirons says. “Had the investigation shown that the second-in-command wasn’t complicit, it would have been easier to go to with that person when the time came to choose a CFO. As you can imagine, my concerns were high and I didn’t know who to trust.”

Within 24 hours, Millirons and the Condell board approved the appointment of Rick Mewhirter, a partner with Tatum, as the interim CFO. It was a position he ultimately held for two years as the facility dealt with the aftermath of the fraud.

Mewhirter says that the specific experience required of the interim CFO at Condell wouldn’t have been available in-house. In addition to mitigating any fallout with banks and bond agencies, he needed to work closely with auditors and the full executive team to keep the organization on course.

“If you look at it through the board’s eyes, they were stunned and shaken [because] of the confidence they had placed in the former CFO,” he says, adding that the situation was exacerbated by the fact that “the prior CFO had not groomed anyone to move up or be in a position of authority. They were sheltered from any key decision-making. They weren’t involved in any of the financial daily activities.”

Though the usefulness of a succession plan would have been limited in this situation, Millirons says that they are nonetheless important for any hospital or health system. In particular, a succession plan should be in place to ensure someone is prepared to step in to key positions, including CEO, CFO and chief clinical and nursing officer.

Succession plans, he notes, create depth within an organization. They also provide a sense of familiarity and comfort for the board.

“With Condell, we could have had some depth internally that we could have

relied on as we completed the investigation,” Millirons says. “We turned to Tatum to help us in place of that internal depth.... After the investigation was over, some depth in the finance department would have been useful.”

Asking the Hard Questions

According to Linda Klute, Tatum’s national health care practice leader, the success or failure of any succession plan rests on the ability of the executive team and board to work together to make the difficult decisions.

At Condell, “although they had to do a lot of thinking on the spot, they were in sync even though it was crisis management,” she says. “The team was able to address things on the fly. If you have a succession plan in place, but not the people working as a team, that would not have been possible.”

Governance consultant Orlikoff says a succession plan allows a board to speak with one voice and avoid the political posturing and discord that can quickly

take over when the unexpected happens. Most importantly, a succession plan “is squarely part of a board’s fiduciary responsibility,” he says.

“Many boards don’t want to do it, and CEOs don’t want boards to think about them not being there,” Orlikoff continues. “As a result, 50 percent don’t have plans that address abrupt departures. It’s unconscionable.”

Orlikoff notes that once the board gets past its initial discomfort with planning for managing an abrupt departure, the process itself is fairly straightforward. It can take as little as a few hours a year to develop and maintain a succession plan, by asking the following questions:

- Who would be the interim CEO and who is the best internal candidate? If there is no internal candidate, the CEO should be tasked with developing someone for the role.
- Will the individual be informed of their future in advance?
- Who will assume the successor’s

responsibilities?

- In the case of an interim position, how will the internal candidate’s compensation be managed?

- Will the interim candidate be considered for the permanent position? If not, should they be told this up front and what protections will they have?

- Is there a strong candidate for the permanent position?

- Will the search for a permanent executive be handled internally or will an outside firm be brought in? If an outside firm is used, will it be selected in advance?

“These aren’t earth-shaking questions, but if it’s done wrong it becomes a disaster,” Orlikoff says. “There is no one right answer. It depends upon the culture of the organization and the philosophy of the board. If you think it out [now], it becomes very easy when you’re facing disaster.” **T**

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