



EFFECTIVE CEO TRANSITIONS

ACCELERATING THE DRIVE TO SUSTAINABLE CHANGE

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Each year, nearly 20 percent of the Chief Executive Officers (CEOs) at American hospitals resign and, according to Black Book Rankings, the majority of turnover is involuntary. CEO turnover in healthcare is more pronounced than in other industries. In fact, the Conference Board reports that average corporate CEO tenure is 8.1 years while many recent studies have reported that healthcare CEO tenure is less than half of that, or 3.5 years. CEO churn occurs for many reasons – a result of changing market dynamics, increased financial pressure, more demanding boards, and impatient investors.

In some organizations, CEO turnover seems to be part of the fabric of the institution. An ACHE study reports that 57 percent of hospitals have had more than two CEOs in the past five years; amazingly 25 percent had three or more!

Poorly executed CEO transitions can have dramatic ripple effects throughout the organization and are at the heart of the CEO turnover problem.

As a recent Becker report outlined, when a new CEO is hired, almost half of the current senior team – CFO, COO and CIO – are replaced within a year; stunningly, nearly 90 percent of CMOs are as well. Competitors are also likely to take advantage of the instability by recruiting a hospitals' physicians, marketing to their patients, and recruiting away other key employees.

Forbes revealed that only 55 percent of CEOs came from within an organization and the statistics are similar in the healthcare industry, with the ACHE reporting that 57 percent of CEOs are internal candidates. Hospital board members fret about the lack of quality candidates inside an organization, the depth of organization management, and the inadequacy of succession planning and talent management. They often turn to outsiders because they expect action and don't believe the internal candidates can move a hospital far or fast enough.

These statistics tell us three things:

1. **Getting a CEO transition right – picking the right person and having that person achieve notable and meaningful success – is critical to an organization.**
2. **The ripple effects of a poor selection will be profound.**
3. **CEOs have a limited amount of time to show results before boards become restless and an organization dynamic starts to change.**

Industry experts such as Thomas C. Dolan, the former CEO of the American College of Healthcare Executives, has stated in Healthcare Executive magazine that “four years is an inadequate amount of time (for a CEO) to create and sustain permanent change within an organization”. **We respectfully disagree.** While four years would be nice, the window for CEO success is limited to one, perhaps two years, depending on the state of the organization when he or she “takes charge.”

Further, our research and experience in leading and advising both public and private sector organizational settings has shown five main themes are critical to any new CEO:

Focus on a Few Core Themes – Many executives make the mistake of splitting their efforts and having an excessive number of initiatives; all this does is divide their time away from where it should be focused –the truly big ideas that will transform fundamental change. As part of our work, we've found it critical that leaders pick no more than four big ideas that will make a difference. Once these visionary notions propagate down into the organization and transform into specific action plans at the tactical level, the organization will have dozens of specific plans that tie to these few core objectives. We often counsel, “Do more ON less.”

Define the End State – Set a clear and distinct end state for where you are headed; this should be a goal that is easily understood throughout the organization and obviously one that is critical to its long-term success. Think through how you want the organization to change in two to five years. Consider how your tenure will impact the organization's core at the end of a defined time.

Quickly Assess Your Core Team – While we find the industry executive turnover that normally accompanies a new CEO alarming and likely unnecessary, it is important to quickly assess one's team to determine their appetite for change and ability to support the transformation, and equally quickly to engage them in shaping your plan and their role in it.

Ensure alignment and if you are not sure it exists, then change out your key players.

Get Traction Early – Early success is key and small wins have a disproportionately positive impact on an organization, especially early in the change cycle. Early wins will suffocate the energy of the non-believers and those recalcitrant to change. Momentum builds on its own and reinforces success. So, be sure to include some early visible wins in your game plan.

Repeat Your Message – Don't overestimate the importance of regular communication on the entire strategic effort, in a variety of mediums best suited to the varied demographics of your audience. While the electronic media can predominate, regular face-to-face contact is essential, especially in hospital and other organizations dedicated to the human endeavor. Even with the new CEO's implied mandate, achieving change is difficult. Consider "skip echelon" communication – where you purposely go two or three levels down from your direct reports, in small face to face sessions, to deliver the message directly; if this intimidates your direct reports, you might need to change your top team.

Lack of governance and discipline. This is often the last thing that one wants to address, feeling that innovation by its nature is somehow divorced from the kind of formal processes that are implied by a discussion of governance. In fact, it's probably the most important thing to achieve. In this case, governance does not equate to bureaucracy; rather it helps create focus, replacing ad hoc, misguided innovation with

But beyond these proven keys to success comes more practical questions: **How do I make progress and what are the main challenges to overcome?**

SHOW'EM YOU MEAN BUSINESS

As our colleague Dr. Robert H. (Bob) Miles, former chair of an innovative program for new CEOs at Harvard Business School and a former Galloway Chairman states,

"New CEO's face many challenges the moment they are appointed. They must quickly develop a plan for taking charge and for launching the next major phase in their company's success. They are immediately confronted by a transformation challenge that not only requires a re-examination of the company's business realities and corporate strategies, but also a re-shaping of its management process and culture, a fundamental realignment of its business and functions and a re-engagement of all of its managers and employees."

Miles's research identified in a multitude of industries, six-core "inhibitors" to successful change that an **effective CEO transition** must overcome.

Cautious Management Culture: Executives, even some on the senior team, will keep their heads down, protect their business, and try to avoid big mistakes by sticking to the “tried and true.” Caution is typical as there is normally little reward for those with the initiative to speak out with bold, new ideas. There is preoccupation with incremental improvements as opposed to breakthrough results.

Business-as-Usual Management Process: Day-to-day processes and meetings, as well as overtaxed management bandwidth means there is little room for anything new or different. Executives are therefore stuck waiting for the perfect new business model.

Initiative Gridlock: Frequently, too many separate initiatives are being thrown at the organization and its people at the same time. Uncoordinated functional initiatives, layered one on top of another, can create task overload across the whole hospital.

Recalcitrant Executives: Some executives remain unconvinced and uncommitted to the organization’s transformation agenda. Executives avoid conflict while exhibiting an unwillingness to re-allocate their resources to support the transformative agenda. Turnover at the senior level can be seriously disruptive, but a protracted tolerance of nonaligned leaders throughout the organization must be solved.

“The idea of a honeymoon period for a new CEO is an idea for romantics. Time is ticking from the first day, whether you are a new CEO from the outside or promoted from within. Even a CEO who inherits a stable and financially well performing organization, has an implied obligation to articulate the organization’s next vision, priorities and future path. Failure to do so quickly, will ensure the CEO loses credibility internally, with the Board and forfeits its window to achieve impact.”

Disengaged Employees: The lack of understanding surrounding the need for transformation prohibits employees from grasping the new strategy and transformative agenda. Employees are not certain they will be rewarded for new expected behaviors and therefore do not feel safe sharing their best ideas.

Loss of Focus during Execution: Just when the change effort seems to be working, the process hits a slump often caused by the desire to relax immediately following the launch of new initiatives or by the daily emergencies that crop up in any business. The belief that things are progressing well blinds executives to take their foot off the gas.

New CEOs not only need to engage and overcome these inhibitors ... **they need to do it fast**. Leaving even one of them unattended may derail an otherwise successful new CEO transition.

Experience tells us that after the first 100 days the window on initiating effective change begins to close. As time passes, the entrenched status quo, the existing protocols and pecking order begin to calcify an organization’s desire for change. Those that would normally embrace change expect to see action and when they don’t, become ineffective. The change agent can lose that key asset. Moreover, those who are prone to resist or remain uncommitted to the organization’s transformation agenda gain more clout.

Our process has identified six “accelerators” that will speed the transition and overcome the inhibitors:

Mandatory Participation with “Safe Passage”: This process involves clarifying how and when individuals at all levels will be involved, establishing the ground rules for transparent, structured dialogue and decision-making, and finally employing a third party to get difficult issues and objective data on the table. It compels all members of the executive team to confront reality, be comfortable with necessary “crucial conversations” and play an active role in the later Launch Phase.

The “No-Slack” Launch: The CEO transition must be compressed in time, preferable over three to four months while striving for high-visibility early wins, or “quick starts.” This streamlined launch overlays on top of the regular management process.

Deliberately Compressed Agenda: Perhaps as much as any part of the solution, this step requires discipline and management courage; focus your entire organization on **no more than four major initiatives**. Each initiative requires two, but no more than three, areas of focus with well-articulated metrics to define success. The process requires executives to determine what to stop doing and focus on **doing more on fewer initiatives**. No more 100-point plans.

Committed and Capable Change Leaders: All senior executives play an important part in leading elements of the transition. They are required to commit to both performance improvement and behavioral change. Those executives who are not aligned with the transformative process need to first, be given an opportunity to become engaged, and failing to do that, should be dealt with swiftly and visibly.

Top-to-Bottom Employee Buy-In: Deploy a rapid, high-engagement, all-employee cascade which goes beyond communication campaigns and town hall meetings. Require line managers to take charge of aligning performance management to individual commitments.

Anticipation of Post-Launch “Slumps”: Plan for the predictable setbacks, slumps, overconfidence and post-launch blues; executives must conduct quarterly leadership checkpoints and mini-cascades. By setting appropriate expectations and exhibiting visible leadership behavior, post-launch slumps can be avoided.

Armed with the basic transition tenants and the inhibitors and accelerators to change, the new CEO is well prepared to lead a rapid conversion of her/his organization. Galloway’s Accelerated Healthcare Transformation, or AHT, methodology was specifically developed to provide this kind of assistance to new CEOs.

THE CEO TRANSITION SOLUTION

The CEO Transition Solution can stand alone or be part of a larger organizational transformational process. Regardless of approach, the compressed **Launch Phase** is designed to last no more than 3-4 months, and can be executed usually in half that time.

The Launch Phase begins by reviewing the key elements of the hospital’s external and internal environments as well as the results of an initial round of executive team confidential interviews. The latter is used to gauge the scale of the required changes, identify major improvements needed in the organization design, and assess the functioning of the leadership team. Given the earlier statistics on senior leadership turnover, this is clearly an important step. Then, preliminary versions of the company’s new performance aspirations, strategic vision and intent, business success model and values are developed, before being reviewed and refined in the initial meeting of the Senior Leadership Team. This is also the time to identify and put into play some **“Quick Starts” that can generate early returns** to reinforce the transformation effort, even before its plans are cemented.

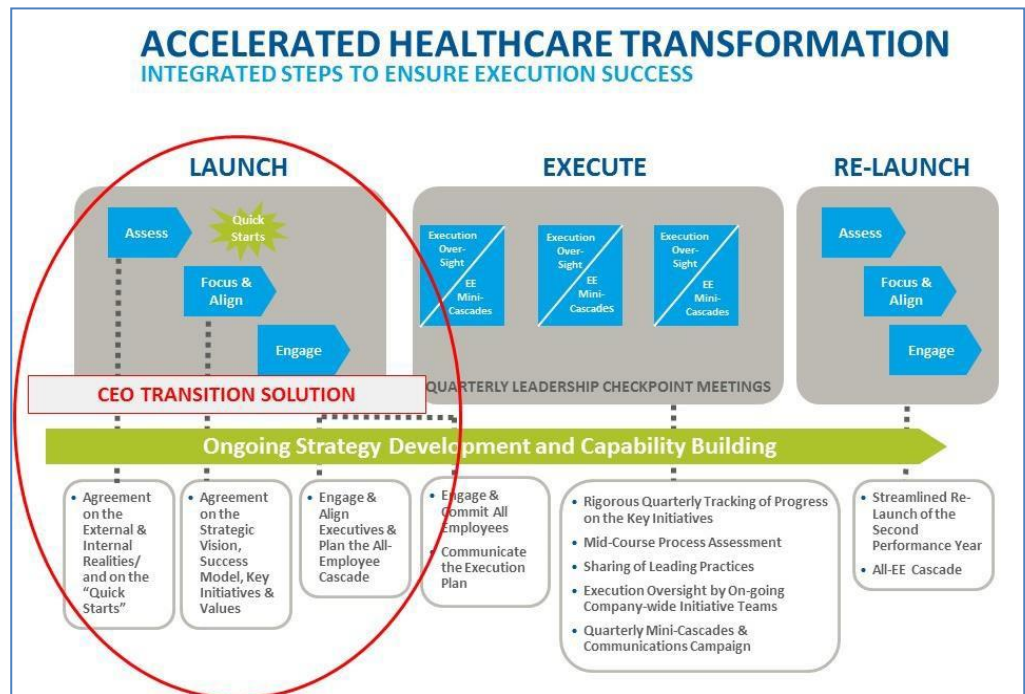
What follows is a series of meticulously designed meetings of the Senior Executive Team led by the new CEO and guided by the consultant with a defined point of view and structured to successively refine and ultimately finalize the new core tenants of the company’s new direction, including agreement on Business

Realities, Strategic Vision and Intent, Business Success Model, Values and Culture, Organization Design, and Transformation or Strategic Initiatives - each with specific Areas of Focus, Outcome Metrics and Action Programs. Proprietary templates and procedures are utilized to guide this process. Structured Dialogue is established to ensure that the process is rigorous and that all executive leaders are engaged and ultimately aligned.

The deliverable at the end of this step is a simple, but comprehensive set of CEO-led constructs that prioritize the focus of the enterprise for transformation. Only after this plan has been refined and vetted by the top two to three levels of management is the plan cascaded down through the organization to all employees to set the stage for full execution.

To accomplish this last pre-execution task, the **CEO Transition Solution** methodology incorporates a streamlined, high-engagement, all-employee cascading methodology to rapidly create clear line-of-sight accountability between the new company-wide initiatives and the job-level objectives of all managers and employees.

The **CEO Transition Solution** was designed over the past three decades to enable a leadership team to rapidly and sequentially overcome the typical barriers that often derail CEO transformation attempts. CEO Transition is the early portion of a larger AHT transformation process. The AHT process has been designed to quickly focus and engage the full organization and then thoroughly follow through for implementation (as shown in the figure above). By design, AHT moves from Launch Phase so that the entire organization can quickly get into Execution and accelerate the process of learning from performing.



Typical First-Year Performance Outcomes

By focusing on no more than four strategic initiatives using the compressed CEO Transition Solution/AHT roadmap, executive leaders have been able to routinely generate breakthrough results by the end of the first full performance year.

Proven: Typically, CEO's will find a substantial financial improvement in addition to organizational alignment. A full AHT transformation will historically yield a five- point improvement to the bottom line.

Fast: In just a few months, results will be noticeable; the early achievement of break-through performance on the key initiatives reinforces the transformation process and re-energizes the work- force for the remainder of the effort.

Leader Led: While the consultants remain in support, this process is clearly CEO lead, allowing the organization to see the CEO leading from the front. Successful corporate transformations keep the responsibility for leading the transformation squarely in the hands of the business leaders.

In contrast to traditional consulting approaches, The CEO Transition Solution relies on a seasoned business advisor with a robust process architecture to **coach the leadership team** over the predictable obstacles to and through the essential steps for a successful hospital and executive transformation. Thus, the beginning of the transformation effort becomes leader-led, not consultant-led, and the intervention becomes a permanent part of the company's management process and culture.

MEET OUR EXPERTS



Boe Young is the Chief Operating Officer and Executive Vice President with Galloway and has personally led new CEO/senior executive transitions in five private and public-sector organizations. He was the founding leader of the Army's 75th Innovation Command, designed to accelerate private sector innovation and technology into the military. He also was the senior army representative for the Defense Innovation Board, the DoD's leading institution for driving disruptive innovation inside the DoD. He has commanded a battalion in combat, has two master's Degrees, including an MBA from

Goizueta Business School at Emory University, and over 25 years of senior executive profit and loss experience. He was a Major General in the US Army Reserve where he commanded the Army's largest organization for training senior executives and their teams to perform in a cohesive, synchronized and effective manner and served as the Reserve's senior human resource executive for over 200,000 individuals. He has worked with leading healthcare organizations on organization restructuring, strategy implementation, governance, performance improvement, efficiency and executive leadership.



The AHT-- Accelerated Healthcare Transformation™ and many aspects of the CEO Taking Charge solution presented here are founded on the Accelerated Corporate Transformation (ACT) process developed by **Dr. Robert H. Miles**. The AHT process is the ACT process customized for the healthcare industry and has been used at over a dozen major healthcare systems and hospitals, nationwide, with proven success. Dr. Miles, a Galloway Affiliate and former Chairman of Galloway Consulting, has served CEOs as the principal process architect in over 30 corporate transformations.

A summary of the major insights from his experiences, titled "Accelerating Corporate Transformations," appears as a feature article in the January/February 2010 issue of the Harvard Business Review. Dr. Miles also is the author of many books on corporate transformation and organizational effectiveness, including *Leading Corporate Transformation: Blueprint for Business Renewal* and *BIG Ideas to BIG Results*. At the Yale School of Management and Harvard Business School faculties for many years, he was also the Hopkins Distinguished University Professor and Dean of the Faculty at the Goizueta Business School at Emory University; he also served for over a decade as a faculty member at both the Stanford Executive Institute and at GE's Crotonville executive management education institute.