

Hiring an Interim CEO

By Gary M. Stein

The rate of hospital chief executive turnover continues to vex and challenge hospital trustees. It has remained stubbornly high for the past 10 year, averaging 16 percent since 1996, with little variability from year to year.

However, greater variance exists from state to state, with turnover as high as 23 percent in Hawaii and 21 percent in Virginia, and as low as 6 percent in Utah and 5 percent in Maine.

A change in leadership typically raises questions and insecurities among key stakeholders, such as physicians, employees, volunteers, community organizations, and others.

If not managed well, the CEO transition period can lead to the departure of key individuals and affect relationships for years to come. Therefore, hiring an experienced, competent interim CEO should be an integral part of any transition plan.

The board's most important responsibility is hiring, firing and maintaining a healthy working relationship with the organization's CEO, and often it is the responsibility most fraught with danger for the organization.

The quality of the process the board uses to make and execute such decisions will usually determine the leadership hiatus most hospitals experience during a CEO transition.

A thorough search process can take up to six months to complete. During this time, the organization could be "on hold" and begin to decline, or it could thrive and position itself to act quickly when the new CEO comes aboard. The direction an organization takes during a CEO transition often is determined by how well it manages stakeholder issues and concerns.

With more than one of every six CEOs being replaced each year, trustees are finding it more difficult to maintain the leadership needed to develop and sustain quality improvement programs, recruit and retain physicians and employees, improve profitability, and conduct fund raising.

That's why using experienced and knowledgeable advisors for the chief executive search and reviewing board structure and dynamics as part of the executive search process will improve the hospital's ability to attract and retain the right CEO and regain the needed momentum to develop and execute its key strategic plans.

Hiring an interim CEO allows the hospital to continue on its strategic path, if there is confidence in the path, or to begin evaluating the strategic assumptions and plans driving the hospital or health system, while providing leadership stability to a health care organization in transition.

The person filling this role should not only help the organization pursue its strategic direction but also work with the board, physician leaders and senior executives to create a foundation to support the success of the incoming CEO.

An interim CEO can also shore up key relationships during the transition and, as an outsider not previously part of the leadership team, can provide objective insight into these relationships for the board.

Maintaining these relationships until a new CEO is in place can help prevent key physicians or employees from defecting to the competition during the CEO transition process.

Selecting an interim CEO should be done quickly, but the selection can be as laden with potential pitfalls as the permanent CEO search.

Some of the pitfalls boards should be aware of include:

- Consulting companies that position their “generalists”—i.e., members of their consulting staff who have taken on general management responsibilities for other clients—as uniquely qualified for an interim CEO role.

These types of interim leaders, who try to be all things to all people, rarely meet the need.

- Turnaround companies that offer their “slash and burn” techniques as part of an interim CEO engagement. Some organizations may require drastic performance improvement efforts, but usually not as part of an interim CEO assignment.
- Individuals who are semiretired or between jobs and hoping to get the permanent CEO position. A good rule of thumb is not to allow the interim CEO to be considered for the permanent executive position.

This duality of interest can compromise the effectiveness of the interim CEO and reduce the opportunity for organizational improvement during this transition.

An interim CEO who has his or her eye on the permanent position may hold back, and not do anything aggressive or unpopular, even if the organization needs such actions to improve performance, in order to be in a more favorable position to get the CEO job.

- Appointing an existing senior executive to act as interim CEO. Even if the individual does not want the permanent job, relying on a currently employed executive, such as the chief operating officer or the chief financial officer, reduces the board's opportunity to get a fresh, outside expert who can offer new insights and approaches.

A leadership transition is often the result of the board's disappointment with the current chief executive. In this case, the CEO's team should not be relied upon to provide objective, expert guidance during a transition.

It is important for the board of directors to recognize the special nature of interim CEO engagements and find someone uniquely prepared to fill the role.

The right candidate is often an individual who: specializes in interim CEO assignments; has no desire to fill the permanent CEO position; has a track record of successfully completing interim CEO positions; and agrees with the board of directors about what needs to be accomplished by the organization during the transition period.

An effective interim chief executive also will be able to achieve some immediate improvements in hospital operations and revenue, while laying the groundwork for the incoming CEO's long-term success.

While a change in CEO leadership is a traumatic event for a hospital or health system and its stakeholders, a highly effective interim CEO can provide fresh ideas and begin to rejuvenate a moribund organization.

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