Succession Planning and Leadership Development: Critical Business Strategies for Healthcare Organizations

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E X E C U T I V E   S U M M A R Y

- *As labor shortages intensify, succession planning and leadership development have become strategic initiatives requiring rigorous consideration. Traditional methods of replacing personnel will not accommodate the vacancies expected to plague healthcare organizations.*
- *Managers should focus on identifying potential gaps of key personnel and adapting programs to accommodate organizational need.*
- *Attention should be placed on capturing the intellectual capital existent in the organization and developing diverse groups of leadership candidates.*

Over the last few years, most healthcare facilities have become intensely aware of the need to develop managerial talent from within their organizations. A recent study ranked the top 10 issues of highest concern for human resource departments. Leadership development was listed as the second highest concern and succession planning the sixth.[1] Major corporate initiatives should outline extensive employee recruitment, retention, leadership development, and succession planning programs to increase organizational performance and accountability.[2] Although finding and retaining the next tier of qualified healthcare leaders is a critical key to organizational success, the efforts are futile if the development of these leaders is ignored and they are inadequately prepared for their new roles. Neglecting the resolution of skill gaps can disrupt the leadership transition for even the most aspiring management candidate.[3]

To avoid these issues, it is imperative that healthcare managers appropriately survey their talent roster and plan for continuity of their leadership.[4] Scanning the environment for the next generation of leaders is prudent for any organization and developing an effective succession program is a key to corporate longevity. However, with the current war for talent and the looming shortage of healthcare workers, it is more than just practical for healthcare organizations; it is an issue of survival.

Statement of the Problem

Healthcare organizations are not placing enough emphasis on cultivating the next generation of leaders that will be required to sustain competitive advantage and business continuity. The

healthcare environment has historically promoted employees into leadership roles without thoroughly evaluating the true capabilities of these individuals. Possessing a technical skill often times has been the basic reason for promotion. However, technical skill does not always translate into leadership ability. Many of these talented individuals drown in their new roles largely due to the lack of leadership training.

Conversely, many internally qualified employees are overlooked for promotional opportunities because top level administrators are often unaware of the encompassing organizational talent. Externally recruited leaders are often hired to fill the management vacancies. This sometimes causes aspiring leadership candidates to become disgruntled and eventually leave the organization.

Demands on the recruitment and retention of skilled healthcare professionals are increasing and more emphasis is being placed on leadership development and succession planning. As the war for talent continues to intensify, healthcare facilities are being forced to evaluate ways to scan the organizational environment for the next generation of leaders and to develop succession planning programs that assure the continuity of long term corporate success.[5]

Organizational Significance

Succession planning and leadership development pertain to the strategic development of healthcare organizations. When making long and short term goals, healthcare organizations must carefully calculate who will champion their initiatives.[6] Selecting the appropriate individuals for leadership positions is paramount to organizational success. Erroneously placing the wrong person in a leadership role can result in devastating problems which are subject to strong public scrutiny.[7] These problems can range from lack of employee morale to financial destruction.[3]

The demand for qualified and skilled leaders far outweighs the supply. Other industries outside of healthcare will also be intensifying their efforts to attract new leaders. This creates a mobile workforce that can find multiple positions in multiple industries. This mobile workforce makes it even more challenging to retain the talented individuals in healthcare leadership roles.[8] However, despite the challenge, the effort must be made in order for healthcare organizations to succeed in this consumer driven market. By combining sound succession planning procedures and effective leadership development activities, healthcare facilities can create a long-term process that will provide them with boundless leadership talent. This strategic initiative is necessary to diminish the ill effects of a shrinking workforce.[3]

Succession Planning Versus the Traditional Replacement Method

Succession planning is defined as: Any process that is designed to ensure a continued pool of qualified candidates, thereby providing provisions to continue effective organizational performance.[9] Among the first studies to emerge on the topic of succession planning were those conducted by Henri Fayol. This twentieth century management guru attempted to alert corporate leaders to the importance of assuring the stability of their workforce. His theories surrounding succession planning indicated that failure to prepare the workforce of tomorrow would lead to filling leadership vacancies improperly. The need to have a body present in the vacant position has often times been a motivator for hiring unqualified individuals. Fayol advised companies to resist this urge and encouraged them to think beyond their present workforce needs.[10]

Regardless of Fayol's efforts, succession planning has not historically been a priority for most organizations.[11] The issue of building layers of qualified leadership candidates has not been given the focused attention or dedicated resources required to prepare organizations for long-term success.[12] Traditionally, the replacement method was used to fill vacancies in leadership. This consisted of pre-selecting substitutes for key positions. A brief training period may have been implemented to provide the future replacement with information pertaining to the job they might need to fill. Emphasis was placed only on replacement as an answer to vacancies created by a tragedy, such as death or a decision to leave for another position.[8]

Despite regulations against age discrimination, individuals that were identified as potential candidates for promotional

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opportunities were typically expected to be younger than those they would succeed. This eliminated many qualified and eager candidates.[5] Interestingly, the replacement method has not been linked to leadership development. Many healthcare organizations treat staffing contingencies and leadership development as two totally separate and unique concerns. In reality, the two are vitally interconnected.[13]

The replacement method has been utilized for decades with a relative degree of success because:

1. Organizations were more stable and there were fewer changes in job responsibilities or titles.
2. Technical changes were not as rapid and were more easily anticipated.
3. There were more middle managers available for replacement training.
4. The human resource department employed larger numbers of staff that were dedicated solely to personnel development.
5. Typical career ladders were rigidly determined and employees rarely tried to deviate from the normal promotional routes.[8]

The typical replacement method has known some level of organizational success. However, the healthcare environment is rapidly changing and new alternatives to staffing contingencies and leadership development must be considered.[8] Developing authentic succession planning programs is increasingly important. Although the traditional replacement method and succession planning procedures overlap, there are some major differences between the two. In times of unexpected situations, there is a true need to sustain organization control quickly. This need has been demonstrated by unfortunate and rare accidents like the 1996 plane crash that killed over thirty top level executives including United States Secretary of Commerce, Ron Brown. Incidents like this require quick action. This type of loss creates a need for replacement processes as an aspect of risk management.

Succession planning is different from replacement planning because it focuses on forecasting organizational needs. It is not based upon reactions to an unforeseen event. It is based upon proactively securing the human resources needed to ensure the continuity and prosperity of the organization. Talent is observed and cultivated from within the organization. Each individual is groomed for their future roles through calculated development activities. This is why succession planning has been compared to a relay race. In fact, some refer to

the process as relay planning. Each individual in the race is equally qualified and prepared to carry the baton to the finish line. Succession planning deals with passing on responsibility rather than merely filling a vacancy.[9]

The business environment in healthcare organizations is more unstable today because of change in hierarchical frameworks and the increase in competitive forces. Healthcare managers must think more strategically in terms of their talent roster.[8] An organizations' ability to master the abundant labor challenges forthcoming may make the difference between overall organization success and failure.[7] Some of the organizational changes that make the traditional replacement method obsolete for today's organizations include:

1. Skilled employees have many choices. Promotion does not necessarily mean upward mobility.
2. Technology is changing faster than ever before.[8]
3. Downsizing has eliminated layers of middle managers that would have been suitable candidates for leadership mentoring.[7]
4. Decentralization of human resource functions has created a fragmented organization effort.
5. Upper level executives are met by increased demands. This makes it difficult to dedicate the time and effort required to develop the next level of leaders.[8]
6. Executives have a multitude of choices when it comes to career opportunities and employee loyalty is relic of the past.[9]
7. Trends such as outsourcing, automation, and global competition have increased the labor crisis in service sectors such as healthcare.[15]

Cultivating Leaders

Long term business success depends on competitively retaining intellectual capital across the organization; the foundation of effective succession planning programs.[9] Even though studies indicate leaders cultivated and promoted internally produce significantly better organizational performance than their externally recruited counterparts, little emphasis has been placed on leadership grooming.[16] Making this issue even more significant are the research projects that indicate companies which place a heavy emphasis on leadership development experience considerably higher financial returns than companies that do not.[17]

Many executives continue to believe successful leaders must be born with their skill. They repeatedly attempt to recruit company saviors from outside the organization.

These externally recruited leaders often do not understand the organizational culture and many times fail in their executive roles.[18] Often times the recruit fails because they were only skilled in one particular area of healthcare. A transfer of this skill is not guaranteed in the new environment and expertise in only one area may not be sufficient.[13]

The quest for a corporate savior causes companies to overlook talented individuals already within the organization. These talented individuals often have successfully maneuvered through years of company politics and the organizational culture. With the appropriate training, cultivating leaders from within an organization can provide the most effective leadership candidates.[16] This training should encompass both an efficient succession plan and subsequent leadership development activities.[13] Companies should attempt to use internal employees who are knowledgeable in their particular field. This utilizes the leadership candidates that have practical application skills and provides a sense of connectivity with employees across the organization.[18]

Potential Labor Crisis

Unfortunately, healthcare organizations continue to underestimate their skilled workforce.[19] This is a dangerous business strategy in lieu of the changes in the workforce. Decades of the past have provided sufficient labor pools without fail and the workforce of today is much more limited. The legacy of organizational cutbacks in the 1990s has diminished the traditional in-house executive candidacy pools. The number of middle managers typically suitable for executive mentorship and promotion has decreased dramatically. Organizational cutbacks are partially responsible for these decreases, but the aging population is poised to create even larger labor shortages. The number of retiring executives will drastically increase in the next few years causing a further labor crisis in upper management.[9]

Approaches to Succession Planning

There are a variety of approaches that can be utilized to successfully implement a succession planning program. The approach of choice depends on the strategic plan of the organization. The top 6 approaches to succession planning are as follows:

1. Top down approach—led by top level corporate executives.[9]
2. Market driven approach—based on immediate market needs and requirements.[9]
3. Career planning approach—individual employees are identified for their skills and abilities.[9]
4. Futuring approach—externally scanning the environment for looming changes and matching internal talent with subsequent labor need.[9]
5. Rifle approach—focused on solving specific problems for a particular time.[9]
6. Bottom-up approach—led by employees and allows for more than one direction of promotion.[20]

Challenges of Implementation

Although succession planning is vital for long term organizational success, most organizations do not know where to begin in terms of implementing a program. Issues surrounding successful leadership development are abundant. There are problems associated with transitioning from the traditional replacement method to a new succession process. Furthermore, there is often controversy emerging whether leaders are born with the required skills or if the skills can be attained. Many upper level administrators feel it is futile to attempt to develop leaders because the necessary skills can not be taught. It is even more difficult for organizations to accurately identify the appropriate skills required to be a successful leader.

Mastering these problems is extremely important when implementing an efficient succession planning and leadership development program. As the healthcare environment continues to change, sensible healthcare organizations will look beyond their current tier of leadership. A healthy supply of healthcare leaders will be required.[19] Successful organizations will create succession planning systems which will continuously provide qualified leadership candidates.[5] Considering the replacement of key personnel only as a means to prepare for an unexpected death, for example, will simply not be sufficient. There are other reasons for replacing executive leaders than just an untimely demise. Some executives

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Executive support is vital in the succession planning process. Prudent executives will not view their positions as permanent. They will recognize that the long term success of the company depends not only on their accomplishments, but also on those of the successor.[11] Current leaders must emphasize the need to develop future talent at all levels of the organization. The current executive should be involved in the development of the succession program so that it meets the organizational mission and vision. Economic demands are daunting as public expectations for effective successors are amplified. Strategically developing the next generation of leaders is no longer considered above and beyond normal business performance.[9]

When developing a succession planning program, each member of the administrative team will need to focus on the skills required by future leaders. These skills must be determined by considering the ever-changing business dynamics in healthcare.[12] For example, it has been determined that new healthcare managers typically experience weaknesses in the areas of finance and leadership. Training in these particular areas should be implemented and potential leadership candidates must be shown how these common weaknesses on the business side affect the patient-care side. It is important to make the correlation between the two sides because in a service oriented industry such as healthcare, many employees and managers are driven primarily by the patient-care side. The correlation between the business side and the patient-care side is imperative if leadership candidates are going to be held accountable for both overall business results and quality of care outcomes.[22]

Furthermore, existing executives must painstakingly apply sound deployment practices. Deployment is a process dedicated to assuring the right leaders are being placed in the right positions in order to effectively meet strategic planning initiatives. This process ensures each potential leadership candidate makes the largest organizational impact possible.[17] To make the deployment process successful, the qualities of successful leaders must be fully understood and the organization must be capable of identifying these suitable characteristics.

It is extremely important that organizations realize the cultivation of leaders is the responsibility of each existing healthcare manager.[7] Leadership candidates must be considered from outside the existing senior ranks and recruited from other levels within the organization. It is not suitable to only consider those that are in lower to mid level management roles as future upper level executives. The search for internal talent must extend beyond the typical levels. Once talent has been identified, it must be nurtured and developed based upon organizational need.[23]

Developing a sound succession planning program is essential to organizational success regardless of the size of the organization. Although many larger healthcare organizations may have some succession planning processes in place, small organizations are often guilty of overlooking the subject entirely. It is easy to understand how this can happen. Building effective programs can be quite an intensive undertaking. The implementation of the rules, procedures, and techniques requires much time and effort. Time is something many executives simply do not have. The task of cultivating the next generation of leaders is often an additional duty rather than a primary performance indicator. When done appropriately, the succession plan should include key positions beyond those of upper management. Again, this requires much time and effort. The task of developing this type of program is typically given to the human resource department. These individuals are not always trained academically for the issues surrounding extensive succession planning and should not be forced to own the outcomes. These individuals may be adequate at coordinating basic duties and ensuring that development efforts are not merely tossed aside in lieu of more pressing issues, but a responsibility of this magnitude should not be placed solely on the human resources department. The responsibility of assuring an adequate pool of executive candidates should fall upon upper level management.

Although initial efforts of developing a succession planning program target upper level administrators, attempts should be made to phase into other levels within the organization. In fact, some experts agree bottom-up succession planning is far more effective than top-down methods. The bottom-up method would not place top level administrators as the first priority. The focus would be on the identification of all key positions, not just those in the upper administrative levels.[9]

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Since most succession planning programs are based on the top-down method, there is little evidence to indicate the bottom-up method is truly more effective.

Conclusion

Virtually every healthcare organization will feel the need to widen their pool of qualified leadership candidates. Regardless of size or market dominance, most organizations are headed into a talent war. The victor of the war for talent will emerge with flexible strategies designed to address the following areas:

1. Organizational procedures that focus on future labor needs.
2. Sound retention policies intended to identify potential leadership candidates earlier.
3. Flexible work environments designed to maintain aging workers with high potential.
4. Increase organizational awareness of succession planning programs and potential career opportunities.
5. Integration of human resource departments with upper level administrators.

Addressing these issues will provide solid groundwork for developing practical succession planning and leadership development procedures. Attention should be placed on capturing the intellectual capital existent in the organization and developing diverse groups of leadership candidates. Organizations continue to be driven to cultivate individuals with specialized skills and solid managerial competencies.[9] Early identification and development of these high potential employees is vital to business success in all healthcare organizations.

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Home-Study Test

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Carefully read the following multiple choice questions. Mark your answers on the answer sheet found on page 24 and mail or fax the answer sheet to:

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Questions

Instructions: Choose the answer that is most correct.

1. **In the top 10 issues of highest concerns for human resource departments, where does leadership rank?**
   a. First
   b. Second
   c. Fourth
   d. Sixth

2. **Where did succession planning rank in the top 10 issues of highest concerns for human resource departments?**
   a. First
   b. Second
   c. Fourth
   d. Sixth

3. **Which of the following initiatives will help major corporations increase organizational performance and accountability?**
   a. Leadership development
   b. Employee recruitment and retention
   c. Succession planning
   d. All of the above

4. **In today's healthcare environment, developing an effective succession program is a key to:**
   a. Corporate longevity
   b. Product development
   c. Equipment acquisitions
   d. None of the above

5. **Historically, possessing a technical skill has been the basic reason for promotion in the healthcare environment.**
   a. True
   b. False

6. **What problems might be associated with erroneously placing the wrong person in a leadership role?**
   a. Financial destruction
   b. Lack of employee morale
   c. Both a and b
   d. None of the above

7. **Any process that is designed to ensure a continued pool of qualified candidates is defined as:**
   a. Employee satisfaction
   b. Succession planning
   c. Replacement method
   d. All of the above

8. Any process consisting of pre-selecting substitutes to fill vacancies in leadership positions is defined as:
   a. Replacement method
   b. Succession planning
   c. Both a and b
   d. None of the above

9. Staffing contingencies and leadership development are two concerns that many healthcare organizations treat as separate and unique concerns.
   a. True
   b. False

10. Factors that contributed to the success of the replacement method in previous decades include:
    a. More middle managers available for training
    b. Organizations were more stable
    c. Technical changes were not as rapid
    d. All of the above

11. Succession planning is different from replacement planning because it focuses on:
    a. An unforeseen event
    b. Forecasting organizational needs
    c. Filling a vacancy
    d. None of the above

12. What has caused the business environment in healthcare organizations to be more unstable today?
    a. Changes in hierarchical framework
    b. Increases in competitive forces
    c. Both a and b
    d. None of the above

13. What is the foundation of effective succession planning?
    a. Externally recruited leaders
    b. Competitively retaining intellectual capital
    c. Outsourcing
    d. All of the above

14. Research projects indicate that companies which place a heavy emphasis on leadership development experience:
    a. Higher financial return
    b. Change in organizational culture
    c. Both a and b
    d. None of the above

15. With the appropriate training, cultivating leaders from within an organization can provide the most:
    a. Satisfied employees
    b. Effective leadership candidates
    c. Increase in organizational politics
    d. Skilled workforce

16. Factors that contribute to the potential labor crisis in healthcare organizations include:
    a. A decrease in the number of middle managers
    b. The aging population
    c. The number of retiring executives
    d. All of the above

17. The top approaches to succession planning include a:
    a. Career planning approach
    b. Market driven approach
    c. Top down approach
    d. All of the above

18. Which of the following describes an approach to succession planning that focuses on solving specific problems for a particular time?
    a. Futuring approach
    b. Bottom-up approach
    c. Rifle approach
    d. Market driven approach

19. What is the process dedicated to assuring the right leaders are being placed in the right positions in order to effectively meet strategic planning initiatives?
    a. Development
    b. Deployment
    c. Deregulation
    d. None of the above

20. Who should be responsible for the cultivation of leaders within the healthcare organization?
    a. Human resource department
    b. Education department
    c. Existing healthcare manager
    d. None of the above

21. Only those who are in lower to mid level management roles should be considered as future upper level executives.
    a. True
    b. False