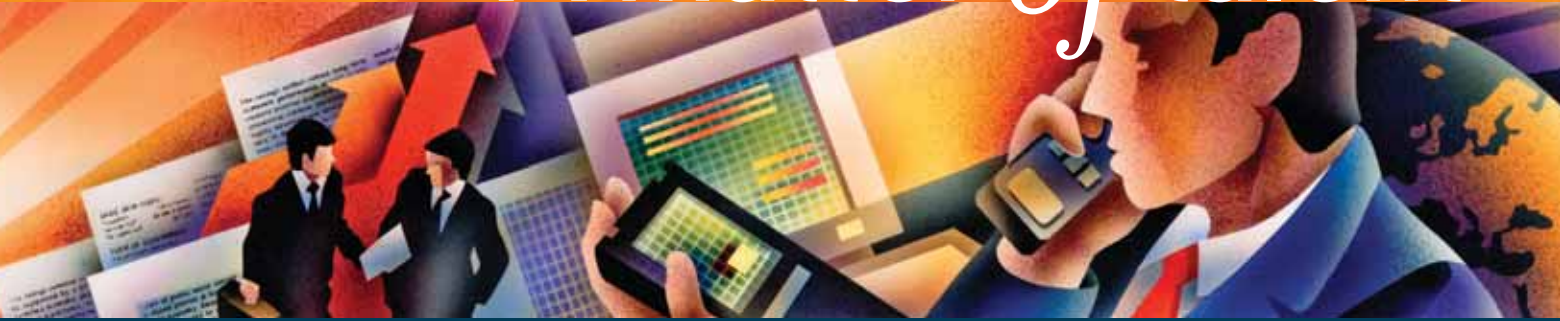


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# A matter *of* talent



IDENTIFYING AND DEVELOPING THE NEXT GENERATION  
OF SENIOR FINANCIAL EXECUTIVE TOP TALENT



The days when a CFO was merely a reservoir of financial statistics and stood aloof from the day-to-day operation of a healthcare organization are long gone. CFOs today are key members of the executive team who are heavily engaged in the overall management process both operationally and strategically, providing oversight to long-term organizational development and future planning.

“The CFO is not there to look historically and report, ‘Here are the results. See you next quarter,’” says Richard J. Alexander, partner in the executive search firm of Christian and Timbers, Lawrenceville, N.J. “He or she is expected to be forward-thinking and not only present financial results, but also explain what they mean and how they fit in with the organization’s next 12-month plan or three-year strategy.”

CFOs still deal with the technical side—with capitation, cost, and reimbursement issues—and where that places their organizations in terms of the business, he continues. But CFOs also provide perspective on where the industry is heading and how these issues affect their organizations going forward. “In a nutshell, there’s not a healthcare CEO out there who can run a good-size organization without a top-notch CFO,” says Alexander.

### **Making Succession Planning a Priority**

Loss of a CFO to retirement, career change, death, or disability can be devastating to a hospital or healthcare system. Replacing a CFO is costly—an organization can spend hundreds of thousands of dollars to find a new CFO or other top executive. The process

also can be time-consuming and disruptive. While searching for a suitable replacement, contract negotiations may halt, financing plans and bond ratings may be jeopardized, and strategic planning and new program initiatives most likely will stall.

A prolonged search for a CFO could suggest the organization is not stable, which could potentially compromise its position in the marketplace and erode the confidence of employees, other executives, and the community, according to Michael F. Doody, senior vice president for national executive search firm Witt/Kieffer.<sup>a</sup>

Yet very few hospitals and healthcare systems have formalized plans to ease the transition to a new top-level executive. In a 2004 report by the American College of Healthcare Executives, only 21 percent of 722 freestanding hospitals surveyed—representing 44 percent of all freestanding hospitals in the United States—had succession plans to guide the process of replacing their executives, compared with an estimated 64 percent of other types of organizations in the private sector. The report also found only 15 percent of the hospitals surveyed had identified a successor to their current CEO.<sup>b</sup>

A new survey, whose findings will be released by ACHE in the next few months, is painting a similar picture. Roughly 80 percent of hospitals and healthcare systems are not participating routinely in the succession planning process, says Andrew N. Garman, PsyD, associate professor at Rush University, Chicago, and an author of the studies.

<sup>a</sup> Doody, Michael F., “Leaders on Call: Developing a Succession Plan,” HealthLeaders.com, Jan. 15, 2003.

<sup>b</sup> *CEO Succession Planning in U.S. Hospitals: Final Report*, American College of Healthcare Executives, May 2004.

According to J. Larry Tyler, president of Tyler and Company, Atlanta, and coauthor of the ACHE surveys, no study has looked specifically at succession planning for healthcare CFOs. Nevertheless, it's clear that health care is not in the forefront when it comes to succession planning for its financial executives.

What typically happens is that a healthcare organization waits until an executive has announced he or she is leaving and then wonders what to do next: Do we have anyone here who can take over? Do we need to go to a headhunter firm and find someone from the outside who is unfamiliar with our culture and our organization? Then top management and the board rush to fill the position, explains Myron D. Fottler, PhD, professor of health services administration, College of Health and Public Affairs, University of Central Florida, Tampa.

It's easy to understand why hospitals and healthcare systems do not get involved in succession planning for their CFOs and other executives. A succession plan, which defines how an organization will transfer leadership and responsibilities by identifying and preparing executives to assume future roles, is difficult to develop.

"Planning for new, key leaders is unmanageable, ill-defined, and filled with variables, uncertainties, and unknowns. It's hard to get your hands around such a plan," notes Doody.

Succession planning tends to be vague and contain loopholes because circumstances change over time. A succession plan may make sense one year but not the next.

Succession planning also is a sensitive issue for many executives. "The person in the position often doesn't want to engage in succession planning or to groom a successor because the success of a subordinate might be a threat," says professor Fottler.

Executives also may be reluctant to invest time, effort, and money in grooming a successor who may end up leaving the organization anyway, Fottler adds.

The biggest reason why succession planning is low on the priority list for healthcare organizations is the lack of resources. "The business model doesn't allow for any fat, so by their very nature, healthcare organizations have a small number of people available for succession," says Alexander.

Possible candidates for succession, therefore, have little opportunity to be groomed. "Financial people are expected to make sure the operations in the finance department are working, that invoices are going out, bills are being paid, and financial statements are being prepared in a highly accurate and timely way," notes Jeffrey K. Frerichs, vice president with Witt/Kieffer, New York.

"They need to make sure that the organization is doing the best it can with vendors, that the financial records and operations are so efficient and accurate on a day-to-day basis that audits just fall into place," he says. "To do all of that requires the very highly dependable people on whom CFOs rely to keep their heads down. So they don't generally get the chance to be exposed to the more global aspects of operating an

organization or a system. The difficulty with succession planning is the need for people in specific jobs to do their specific jobs.”

Yet the benefits of having an effective succession plan are clear. First and foremost, succession planning simplifies and smoothes transitions during difficult times. The most often cited example from the private sector is McDonald’s Corporation, which was able to name a new CEO six hours after its top executive died suddenly in April 2004. A few weeks later, the replacement CEO was diagnosed with cancer, and the board again was able to make an orderly replacement.

Succession planning ensures continuity of leadership, eliminates potential surprises, provides a roadmap for boards of directors, solidifies interactions with physicians, and creates confidence in the environment. A well-defined succession plan fosters the view among employees and staff that the organization is stable and fair, and it emphasizes that the organization is focused on survival, valuation, and profitability.<sup>c</sup>

While only a minority of healthcare organizations currently engages in succession planning, there is growing awareness that the process is part of the responsibility of the board and senior leadership. A driving force is the expected shortage of leadership talent.

As baby boomers begin to retire, there will be many more leadership vacancies than the emerging job ranks can fill, particularly in the healthcare industry. “With everything being equal, health care is not the sector for top talent coming out of MBA and other schools,” says

Albert Bianco, PhD, corporate director of organizational development at Toledo, Ohio-based ProMedica Health System, which includes 10 hospitals, physician office practices, senior services centers, and other facilities. “More and more, healthcare organizations are going to be fighting over a smaller talent pool.”

Thus, the more pieces an organization can put in place to be a magnet for external talent, and, more important, to keep and promote the talent that is there, the better off it will be, he says.

To develop and maintain an effective succession plan, an organization needs to commit time, resources, and accountability to the process. In particular, an organization needs to identify and train prospective successors and engage in mentoring and coaching.

### Assessing Team Bench Strength

So it is never caught flat-footed when a top executive leaves, experts agree that a healthcare organization ought to encourage or require every person in a high-level management position, financial or otherwise, to groom his or her successor. And the first step is to identify a potential successor.

Obviously, the CFO will know the financial people with whom he or she works within the organization. But the most likely successor may not be in the finance department, says Fottler, with the University of Central Florida. The search for bench talent depends on the organization. If the organization is small, there most likely will be only two or three people who may be considered promising candidates for the CFO position, and the CFO will be well acquainted with them. If an

<sup>c</sup> *CEO Succession Planning in U.S. Hospitals: Final Report...*

organization is a system with several hospitals, nursing homes, clinics, or other facilities, the CFO will not necessarily know all of the people who may be qualified to become successor, and he or she may need to look for executive talent outside of the normal chain of command.

Individuals who have the greatest potential to be groomed as successors to their CFOs clearly must have financial skills. But prospective candidates must not only be knowledgeable about the finances of their specific operating units, they also must be able to understand and manage the financial aspects of the entire organization. Consequently, these individuals should have knowledge of the principles and realities of hospital finance and economics: understanding how payment works for the inpatient side—whether it is on a per diem or case method or, though rare these days, on a capitated basis—as well as in relation to outpatient and long-term care services. Candidates for CFO should be knowledgeable about the revenue basis and the cost profile of the organization.

“Possible successors should be real experts in the financial composition, profile, and anatomy of their organization and how it spends its money and allocates its resources,” says Frerichs of Witt/Kieffer. “They have to be experts at hospital financial statements, balance sheets, and the accrual basis of accounting. They have to be technically expert as it relates to the hospital industry.”

Because the CFO is involved with other executives, the board, and the outside community in the development of policy decisions and strategies, potential successors also must have strong interpersonal skills, he says.

“The green eye shade and quill pen stereotype of the accountant is what modern CFOs cannot be,” says Frerichs. “They have to be real healthcare executives who are comprehensive in the quality and scope of their interactions with management colleagues, medical staff leaders, and members of the governing body. So they have to be deft and elegant in how they work and communicate with a range of people and how they make complex concepts understandable.”

To identify the next generation of financial leaders, Tyler suggests that a CFO develop, in conjunction with his or her COO, CEO, and board chair, a list of criteria that outlines the organization’s CFO of the future. Such a profile would describe the direction the organization will be taking over the next five to 10 years and determine the types of skills the CFO will need to help steer the course. If, for example, an organization is planning to enter into joint venture arrangements, the CFO will need to have negotiation skills. (See “Characteristics of the CFO of the Future” on page 8 for a list of criteria that may be used to generate a profile of the CFO of the future.)

Some organizations are beginning to apply what they call competency models to assess future leaders. Bianco describes some of the competencies that ProMedica Health System considers to be critical to leadership below.

**Leading change.** “You must not only be comfortable with change, but also embrace it. An executive should be a role model for managing change, because change is going to be accelerating at an even more significant pace.”

**Focus on results.** “A person can be the most wonderful manager in the world, but if you don’t get results, you won’t succeed.”

**Managing priorities.** “You have to have a level of focus and delegation skills.”

**Interpersonal capabilities.** “You won’t be able to sustain performance if you beat people over the head with a mallet. You have to have a toolbox with a lot of different interpersonal tools.”

**Character.** “If we bring in someone who does not have values that are aligned with ours, then why would we expect anything but derailment with that individual?”

**Matrix management.** “In a hospital system such as ours, very seldom does one person make a decision. Often, a decision must be championed by other individuals. So matrix management, which makes sure everyone is on board, is something a senior executive at ProMedica has to be good at.”

## Succession Planning Practices

Succession plans need to be customized according to the needs and goals of the organization. However, succession plans do have common elements. Highly effective succession plans include at least three basic content elements:

**An emergency plan.** This plan is used should an executive become immediately incapacitated or die. Publicly traded companies must have this sort of plan in place.

**The “standard plan.”** This planning process is used when an executive leaves for another job. No particular departure is considered—the succession plan simply provides the steps to be taken in the event this occurs.

**Anticipatory planning.** This type of planning occurs when an executive indicates a plan to retire or gives you a specific departure date.

Within this general framework, succession plans also should:

- Address leadership levels beyond the CEO
- Be developmental, providing for education, experiential activities and exposure for key staff who could assume leadership positions
- Include a communication process
- Address compensation
- Address leadership competencies

Ideally, the process of succession planning is:

- Driven by the board, with the CEO’s involvement
- Driven by strategy and goals
- Part of regular board activities
- An ongoing and continuous process
- Documented

Also, develop a list of questions that the plan needs to address. Ensure that there is a champion of the process. Usually, the champion is the board chair. Consider using an outside party whose job will primarily be coordinating and facilitating the succession planning process, as well as serving as a neutral commentator. Having an outsider broker the plan can help with the touchy situations inherent in succession planning. This person’s role is to ensure that all significant issues have been adequately addressed so that unspoken issues do not sabotage the plan later.

## Training Prospective Successors

After identifying two or even three candidates, if possible, the next step in succession planning is to ask, what is the difference between these individuals and the CFO of the future? What are the gaps in each person’s background, education, training, and skills, and what needs to be done to fill them?

Grooming a successor from within the organization has advantages, such as an acceptance and a wish to continue and foster the organization’s strategic vision as well as a commitment to maintain cohesion. Fortunately, there are many avenues for obtaining continuing executive education for future CFOs. Often, individuals seek certification and educational programs from HFMA and other professional associations or business colleges and universities. Some organizations even provide specific education in-house.

At ProMedica Health System, leadership has established an internal university that provides educational programs for supervisors, managers, and directors as well as for senior

executives. The organization's so-called 100- and 200-level curricula are baseline educational programs for middle managers. In the 300-level curriculum, which is most directly related to top-level succession planning, ProMedica addresses the traits that, if not honed, will most often lead to failure among executives: building and maintaining relationships, interpersonal competency, and project effectiveness.

The 300-level curriculum, which is strategic in nature, focuses on such topics as negotiation skills and project management. While the organization's staff serves as faculty for the first two levels of education, outside experts and consultants lead the courses at the 300 level. "By design, the 300 level is more externally focused and includes additional perspectives so we don't get a silo mentality," says Bianco, who heads the program.

At the least, a healthcare organization and its CFO can begin to groom successors by introducing them to the roles they will assume. One of the key ones for a CFO is strong interaction with the board of directors. Successors who have no experience with the board should begin attending board meetings or serving as staff to a subcommittee or the full board, says Tyler.

Successors should be included in the full array of CFO duties, responsibilities, and interactions. Successors and their CFOs will need to work in tandem collaboration, Frerichs says, because once succession is triggered or about to be triggered, the organization has to trust, have confidence in, respect, and be happy about the replacement.

Successors also need to participate in projects intended to stretch their capabilities outside their normal job descriptions and to test their leadership skills. These projects are not fly-by-night exercises; they are created by the senior executives as part of the strategic plan, and they are designed to provide options and answers to the issues the organization is facing, says Bianco.

As an example, when Bob Carlisle, CFO of Parkview Health System in Fort Wayne, Ind., developed a succession plan for his position as part of an overall organizational succession planning effort two years ago, he wanted to be sure his chosen successor had treasury management responsibilities, including experience with bond issues, swaps, and other investment programs. Therefore, he included the successor in meetings with investment bankers.

"Learning by doing is the only way, in my view, to develop a number two person into a number one. The training cannot be theoretical," says Witt/Kieffer's Frerichs. With this in mind, a successor to the CFO should participate at both the operational and strategic levels. He or she should be exposed to and have an opportunity to work with physicians, nursing leadership, and other professionals as well as external constituencies, including payers, regulators, and elected officials.

"A candidate for the top financial spot in an organization should understand what's going on in the day-to-day provision of care by managers and be involved in discussions that talk about strategy and long-term planning and business development for the organization," Frerichs adds.

Characteristics of the CFO of the Future	
Characteristic	Skills and traits
<b>Overall viewpoint</b>	Forward-looking
<b>Management focus</b>	Manages change, revenue cycle, and forecasting
<b>View of the financing function</b>	Focus on the balance sheet and understanding how to finance the future of the system and technology
<b>View of operations</b>	Focus on operations strategy/goals, financial implications, and profitable ventures
<b>View of cost containment</b>	Focus on the revenue cycle
<b>Involvement in IT</b>	Works with IT in a customer capacity
<b>Relationships with physicians</b>	Partners with physicians and understands clinical programs, challenges, and opportunities
<b>Relationships with third-party payers</b>	Meets with third-party payers and investors to determine plans

Adapted from: *A Matter of Talent: HFMA Helps You Recruit, Train, and Retain Talented Healthcare Professionals*, Healthcare Financial Management Association, May 2006.

## Mentoring and Coaching

Often the best strategy is to cultivate talent in-house. “In-house people understand the iterations, the historical context, and the longevity of a company and its business cycles, which is something that you can’t duplicate outside,” explains Gayle Mattson, executive vice president and global leader of the board and CEO practice and corporate director of DHR International, Stamford, Conn.

Yet generally speaking, says Tyler, there is not a tradition of mentoring among CFOs. “CFOs tend to be work-focused and results-oriented,” he says. “They don’t tend to be big socializers or big-picture people. So mentoring is a bit of a strange animal to them.” Both formal and

## Are You Positioning Yourself for Succession Consideration?

Advancing in leadership can be one of most difficult challenges faced during a career. Business experts note that often the very workplace skills and attributes that have served individuals to this point—high dependence from the organization on the executive’s specialist expertise, an individualistic approach that differentiates the executive from peers, and an inclination to challenge the organizational status quo—can be the very qualities that end up holding them back. What does it take to reach the next level in leadership?

The following are just a few tips senior executives should apply to best position themselves for advancement, according to “Winning Your Next Promotion,” BNET ([www.bnet.com](http://www.bnet.com)).

- **Model the organization’s culture.** Observe those who have been promoted and ask yourself if you’re mirroring similar attitudes and behaviors.
- **Embrace transition and change.** To win the next promotion, you need to show that you’re prepared to keep people motivated and learn from new experience and not demonstrate resentment or obstinacy. Remaining flexible and actively seeking ways of making (sometimes difficult) things happen, keeping people motivated, and learning from the new experience are all-important characteristics of those in the top team.
- **Stand out from the rest.** Increase your profile in your industry or profession by publishing articles in trade or professional magazines, speaking at conferences, or volunteering for leadership positions in your industry’s professional associations. Also beneficial is high activity in the local community through politics or charitable endeavors.
- **Know yourself.** Good interpersonal relationships begin with a high level of personal authenticity. Devote personal development time to really know yourself well, understand your values, and create a clear picture of what you want. With this knowledge in place, good communication and an easy manner will follow naturally and authoritatively because it will genuinely reflect who you are.
- **Be a team player.** Focus on the need to communicate and network effectively while cementing relationships with those who will sponsor and support you as you move along your career path.

information mentoring programs nevertheless are considered to be essential for producing the next generation of trained leaders.

In the context of succession planning, mentoring establishes a relationship between a prospective successor and an experienced individual who is not a supervisor, says Vickie Austin, founder of CHOICES Worldwide, a business, executive, and career coaching firm in Wheaton, Ill. “In the classic sense of mentoring, the mentor is someone who is not a direct report. Often, the mentor is not even in the same department or the same organization,” she says, recalling a mentoring relationship between a pharmacist and a nurse that led to thousands of dollars of savings to a hospital. “He or she may not even be in the same industry. The mentor is an experienced person that someone seeks as sage counsel.”

The mentor provides educational experiences a successor could not get from a supervisor, such as a wider scope of experience, perspective, and skills, which may be used to gain a more well-rounded view of the organization and new insights into problem solving.

Although there are many types of mentoring models, two core elements are standard: structure and benchmarking. For an organization to benefit, a mentoring program should be formalized to the point of an almost contractual agreement so protégés, who are responsible for maintaining their relationships with mentors, know how to maximize their learning and growth opportunities. Mentoring programs should make use of a neutral party or a personality profile instrument to match

protégés and mentors, provide training for both mentors and protégés so each understands what is expected of them, and have a distinct beginning, middle, and end, says Austin.

ProMedica Health System’s mentoring program links mentors and protégés once a month for a six-month period, because, as Bianco explains, a mentoring relationship that lasts longer than six months will tend to die a slow death. The healthcare system has created a mentoring talent pool of its top executives by asking each executive to identify his or her top three specific strengths. Individuals who are interested in mentoring then make a connection with the executive mentor who most closely matches their needs.

Another option is coaching, which may be formal or informal. Following an executive coaching model, an organization may hire an external coach who will act as a neutral party to support a successor in his or her own leadership development. “Coaching is

### Training from HFMA

HFMA offers a variety of resources designed to meet the financial manager’s educational needs.

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- **Certification.** Pursuing HFMA’s rigorous certification processes and specialty exams can lead to designation as a certified healthcare financial professional (CHFP) or fellow of HFMA (FHFMA).
- **CFO Forum.** This special interest group addresses issues of greatest importance to CFOs, such as accounting standards, financial reporting, taxation issues, and legislative and regulatory developments. Focus is on peer-to-peer interaction and allowing participants to exchange in-depth, job-specific tools and methods.

a commitment on the part of an organization to take strong leaders and help them get stronger,” says Austin.

On an informal basis, an executive may engage in coaching as part of the grooming of his or her successor. Carlisle, with Parkview Health System, for example, coaches his successor about how to handle various situations. “I don’t give specific examples, but talk more in generalities—‘This is a typical or difficult type of situation’—and present ways of handling problems,” he says.

In both mentoring and coaching, the objective of the “teachers” is to give their “students” a

backstage look at how they navigate through not only the rapids but also the still waters that surround their jobs.

## Role of the CFO

Succession planning is most effective when it has a top-down direction from the CEO and board, and it covers all members of the executive team. Even in the absence of a formal organizationwide succession plan, however, a CFO can still get the ball rolling.

The CFO may begin a dialogue with both the CEO and the board that asks: Are we prepared if I leave this position, and if not, what do we have to do to become prepared? Initial steps toward succession planning are less threatening if they are taken by the CFO, says Fottler. “This is best done by the CFO having a conversation with the CEO and asking whether the board or a subunit of the board also ought to be involved,” he says.

But why would CFOs even want to take those first steps? To help the organization, potential successors, and themselves, says Tyler.

“Succession planning helps the organization by creating a cadre of people who are getting experience in different parts of the organization, and it prepares an individual for success in a higher position,” he says.

On a personal level, succession planning helps to position the CFO as a person who helps people advance, and can make it easier for the CFO to be promoted. “If you expect to be promoted, you want it to be effortless and seamless when you move on,” says Tyler. “It is easier to promote someone if there is a potential successor already in the organization.”

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