Letter from the National Center for Healthcare Leadership
by Gail L. Warden and Marie E. Sinioris


Commentaries on Best Practices in Succession Planning
Succession Planning Should Go Beyond CEO Level
by David J. Fine
Future Healthcare Leaders Will Benefit from Non-healthcare Experience
by Joseph Hogan
Succession Planning Should Be Thoughtful and Strategic
by Stephen C. Reynolds

Bill Nelson on Leadership Development, Clinical Excellence, and a Community of Caring

Interview with the 2005 National Healthcare Leadership Award Recipient
WE PROUDLY PAY TRIBUTE TO

BILL NELSON

FOR RECEIVING THE FIRST
NATIONAL HEALTHCARE
LEADERSHIP AWARD,
AND FOR BEING A
GREAT LEADER,
HUMANITARIAN,
EDUCATOR, FRIEND,
AND GENTLEMAN
IN EVERY RESPECT.
Leading the Way

Amerinet congratulates William H. Nelson

Our Board of Directors and team of employees extend our appreciation to Bill for his dedication and commitment to excellence in health care leadership. The NCHL's National Healthcare Leadership Award recognizes Bill's vision and valuable contributions to our industry.

Amerinet is proud of our 20-year partnership with Intermountain Health Care — leading the way to deliver quality, cost-effective health care.

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SALUTES

WILLIAM H. NELSON
INTERMOUNTAIN HEALTH CARE

★ Responsive leader and role model for future leaders

★ Dedicated to innovation and improvements in health care

★ Committed to the community

Congratulations on the 2005 NCHL National Healthcare Leadership Award.
Letter from the National Center for Healthcare Leadership

Dear Reader,

We are proud to present the Bulletin of the National Center for Healthcare Leadership that shares with you both the latest research on best practices in succession planning to achieve organizational excellence while also honoring Bill Nelson, president and CEO of Intermountain Healthcare, as the first recipient of the National Healthcare Leadership Award.

The white paper clearly links a well-developed succession plan to a high-achieving organization. Best-practice succession management is deeply rooted in an organization’s strategy and business priorities, as is the development of future leaders. Talent is not managed in silos; rather, best-practice organizations manage their talent pool on an organization-wide basis to expose them to a large number of opportunities while giving their organizations greater flexibility for developing its future leaders.

Not coincidentally, Intermountain Healthcare—a venerated institution for its many years of sustained excellence—abides by these same principles in the development of its leadership. Bill told the Bulletin that, “When we have to make company-wide decisions, we pull together task forces and populate them with our future leaders so they can look across the entire system and appreciate how every area—physicians, nurses, other geographies, and the health plan—are affected by the decisions we are making.”

In the commentary on best practices in succession planning, our guest authors address the need for talent development and succession planning beyond the CEO’s position to nurture talent in every area of the organization. They share the experiences of several leading organizations with best practices in succession planning to achieve organizational excellence. These principles are at the heart of NCHL’s mission to be an industry-wide catalyst to assure that high quality, relevant, and accountable health care leadership is available to meet the needs of 21st century healthcare. We hope you enjoy the Bulletin.

Gail L. Warden
President Emeritus
Henry Ford Health System
Chair
National Center for Healthcare Leadership

Marie E. Sinioris
President and CEO
National Center for Healthcare Leadership
Congratulations

BILL NELSON
INTERMOUNTAIN HEALTH CARE

Your outstanding leadership
provides a model for health systems
throughout the country.

The quality of leadership has a clear and direct relationship to the quality of care provided by healthcare organizations.1 Yet a number of barriers challenge the recruitment, development, and retention of healthcare leaders: many young people are not attracted to careers in healthcare management; there is an acute shortage of candidates for senior-level positions in the field; and executive responsibilities in many healthcare organizations are becoming increasingly complex as a result of ongoing consolidation of functions and operations.2 Indeed, some studies project the pool of leadership talent in the healthcare industry to drop by some 15 percent over the next few years. At the same time, many of today’s senior leaders are nearing retirement. Despite this crucial shortage of leadership talent, few healthcare organizations have any kind of succession planning in place. Roughly three-fourths of hospitals lack such a plan, as compared with a third of for-profit companies outside of the healthcare field.3

Having a well-developed succession plan is a key feature of high-achieving organizations.4 A recent study of most-admired organizations conducted by the Hay Group found that talent management and leadership development distinguish such organizations from their peers.5 And a 2000 survey revealed that returns to shareholders were 22 percent higher for companies that excelled in talent management as compared with those that did not.6

There is growing recognition today across a wide range of industries of the critical role of succession planning in the success of high-performance organizations. Box 1 summarizes the key factors driving this new awareness. While these factors are motivating interest in succession planning among multiple industries, most echo those highlighted at the National Summit on the Future of Education and Practice in Health Management Policy.7

Box 1. Factors Driving Growing Interest in Succession Planning

- Anticipated executive attrition
- Relevant workforce demographics
- Pace of organizational and competitive change
- Desire for increased involvement/accountability on the part of boards
- Increased emphasis on ensuring diversity in executive ranks
- Reduced employee loyalty to organizations
- Failure rate of outside hires
- Competition for talent
- Research into how future executives learn and develop
- Rigidity/inadequacy of traditional succession planning tools

Given the importance of and challenges to leadership in the healthcare industry, the National Center for Healthcare Leadership (NCHL) took on the task of identifying evidence-based best practices in talent management, leadership development, and succession planning both within and outside of the healthcare field. The results of that effort are summarized here. We reviewed best practices at two levels: (1) the senior executive level and (2) organization-wide. The former, traditionally equated with succession planning, encompasses the CEO position and a small number of additional senior positions, such as chief operating officer, chief financial officer, and heads of major operating groups. Organization-wide succession planning, sometimes referred to as “succession management,” involves processes aimed at identifying and developing future senior leaders, including management of “talent pools,” creation and cultivation of pipelines of leadership talent, and early identification of potential future leaders. It should be noted that succession planning typically has tended to focus on the identification and development of internal talent. As discussed below, however, best-practice organizations increasingly are
attending to integrate external recruitment and internal
development, with the ultimate aim of acquiring the greatest
quality and depth of leadership talent.

Our review of best practices is followed by a discussion of how
these practices can be implemented by healthcare organizations.
This discussion addresses overall implementation guidelines, the
importance of organizational and cultural support, and special
issues and requirements in healthcare settings. Best practices and
benchmark information for this white paper were culled from
organizations in several fields, with an emphasis on the importance
of introducing approaches consistent with the mission and special
requirements of healthcare organizations. We also note that many
of these practices are being employed by a broad range of health-
care organizations; what is needed is a more comprehensive
approach across all organizations and all healthcare disciplines.

METHODS

The best-practices information reviewed in this paper were
identified through:

• A review of the literature describing the results of relevant
research and the experience of those organizations that are
well regarded by recognized experts in the field for their
ability to build leadership capability.

• Interviews also were conducted with executives of several
well-regarded organizations, inside and outside healthcare, to
identify approaches to succession planning and leadership
development likely to be effective in producing leadership
capability. These are referred to throughout this paper as
benchmark organizations.8

In addition, participants in a 2005 CEO Roundtable convened
by NCHL helped shape the discussion of special issues and
requirements in applying best practices employed in other
fields to the healthcare sector. Key executives in NCHL’s net-
work familiar with succession planning and talent management
practices also contributed to the final draft of the white paper.

BEST PRACTICES IN SENIOR EXECUTIVE
SUCCESSION PLANNING

Evidence-based best practices in senior executive succession
planning include:

• Board review of organization-wide succession planning

• Profiling of future position requirements

• More rigorous candidate assessment

Board Review of Organization-wide Succession
Planning

In his recent article on what he terms “the succession crisis,”
Charan suggests that “something is seriously amiss in the busi-
ness of developing and hiring CEOs. Too many top leaders fail in
office; too many succession pipelines are bone dry.”9 Charan
also describes how many boards are unprepared to play either
a fiduciary or a catalytic role in succession planning at the senior
executive level. As a result of the increased awareness of the
importance of succession planning discussed earlier, however,
CEOs and their boards in a number of industries are becoming
more engaged in managing this crucial process.10

In the current environment, certain clear trends are emerging.
First, boards are less willing to cede succession planning deci-
sions to the incumbent CEO. They are reasserting their fiduciary
role and demanding greater involvement in succession decisions;
this involvement includes taking steps to get to know key
internal candidates so as to be able to make informed decisions.
Second, boards are broadening their focus beyond the CEO
position, in part because of the importance of other positions
and in part because of a desire to evaluate more objectively
the strength of the senior management team.

Best practice boards are organizing themselves for increased
involvement in succession planning and are devoting increased
time to the task. In many best-practice organizations, the
board’s traditional compensation committees are being refash-
ioned as compensation and leadership development committees
with primary responsibility for succession planning within the
board. Succession planning discussions are conducted regularly,
even when no apparent executive transition is forthcoming.
These discussions typically address the following topics:

• Short- and longer-term candidates for targeted senior exec-
utive positions.

• Key candidates’ strengths, experience, development needs,
and required areas of capability for a senior executive role,
as well as development plans for those candidates and
retention issues.

• Gaps and vulnerabilities in succession for targeted positions.

• Contingency plans for responding to a vacancy in the
absence of qualified internal candidates, such as conducting
an external search, naming an interim CEO, or asking a
board member to step in temporarily.

As a result of the success of some companies in maintaining a
continuous supply of leaders in the pipeline, boards of best-
practice organizations ask management for periodic updates
on its broader succession planning and talent development
efforts. These updates are often provided by the committee
charged with succession planning.

Profiling of Future Position Requirements

Organizations undergo continual change that alters the
requirements for success in a senior executive job. As a result,
best-practice organizations identify the skills, experience, and

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Profiling of Future Position Requirements

Organizations undergo continual change that alters the
requirements for success in a senior executive job. As a result,
best-practice organizations identify the skills, experience, and
personal attributes critical to success in light of future-oriented strategies and business priorities. Such profiles often include specific skill sets (for example, mergers and acquisitions) and experience (for example, experience in certain markets or leadership of a major business/organizational turnaround). The profiles serve several purposes. One important benefit is enabling development planning for top internal candidates (for example, giving them new job assignments to provide required experience, as discussed further below).

**More Rigorous Candidate Assessment**

As suggested above, boards no longer take the opinion of the CEO (or, in the case of an executive search, an external search consultant) at face value. Beyond their efforts to get to know internal candidates better, they work with senior management to delve into candidates’ experience, accomplishments, and personal attributes. At some best-practice companies, board members participate directly in conducting reference checks on external candidates. Some organizations, such as General Electric, retain consultants to identify potential external candidates who can be compared with internal candidates for benchmarking purposes.

**BEST PRACTICES IN ORGANIZATION-WIDE SUCCESSION MANAGEMENT**

Leading-edge organizations increasingly are using a variety of best practices for organization-wide succession management. Companies do not employ all of those best practices at all levels of the organization. Rather, they select a mutually reinforcing set of succession planning practices and rigorously pursue the implementation of those practices on an ongoing basis. This latter point is especially critical in building the ability and will to participate in the process on the part of incumbent executives and managers throughout the organization.

There is greater consensus on best practices in succession planning and talent development at lower levels of the organization as compared with the senior executive level. While many of these best practices originated in the for-profit sector, most have been introduced in a broad range of healthcare organizations. These best practices in organization-wide succession planning include:

- Linkage to organizational strategy and business priorities
- Multilayer succession planning and talent development
- Streamlined succession planning reviews and follow-up processes
- Rigorous, repeated assessment of potential
- Integrated use of a leadership competency model
- Emphasis on on-the-job experience and highly customized employee development
- Talent pool management
- Active involvement of senior management
- Dialogue with potential future leaders
- Tight linkage between succession planning and external recruiting
- Executive “on-boarding”
- Tight linkage between succession planning and compensation
- Establishment and tracking of metrics

Table 1 compares traditional approaches with their best-practice counterparts.

In general, these best practices emphasize:

- Rigorous and repeated assessment of high-potential future leaders and efforts to retain them.
- “Stretch” job assignments for these individuals, designed explicitly to create new skills and perspectives.
- Highly customized and flexible professional development plans emphasizing on-the-job experience supplemented by other forms of development.
- Extensive involvement of various levels of senior management to help overcome organizational barriers to the career advancement of future leaders.
- Tight linkage among succession planning, candidate assessment, and development planning for future leaders.

**Linkage to Organizational Strategy and Business Priorities**

Best-practice succession management is rooted in the organization’s strategy and business priorities. Thus, elements of the succession planning process are reevaluated and updated to align with major shifts in strategy or priorities, such as growth, new business, penetration of new markets, or a significantly new organizational structure. Generally speaking, achieving this linkage involves translating strategy into leadership/talent requirements in one or more of three areas.

First, the numbers or types of positions to be required at some point in the future. Organizations cannot predict what these needs will be, but they can identify positions that are critical to the success of the enterprise in light of its strategy and/or are typically difficult to fill given the complexity of the position or the range of skill and experience required. A second area is determining which leadership skills and experiences will increasingly be required, such as driving cultural transformation to enhance quality and patient safety, identifying and managing strategic alliances/joint ventures, or interacting with external regulators. Another consideration is the new leadership abilities required by a new strategy or organizational structure,
such as managing innovation or exercising the skills in influence, persuasion, and collaboration required to lead within a matrix structure.

This linkage may be built explicitly into the succession planning review process as a discussion item or the result of an analysis by a centralized succession planning group. For example, one large, diversified organization identified a need to attract and develop an additional 500 leaders to manage new business ventures and deal with anticipated executive attrition. At a large teaching facility, three strategic goals drove employee capability evaluation before strategies were developed, as “plans run on people.”

Multilayer Succession Planning and Talent Development

As noted above, best-practice organizations tend to extend talent identification and development to lower organizational levels. Best-practice organizations such as Eli Lilly and Colgate-
Palmolive subscribe to the leadership pipeline notion that, over time, an organization’s senior leadership capability will be strengthened by a “pipeline” of potential future leaders at lower organizational levels who have been identified and are being consciously developed with the goal of maximizing their career and leadership potential.13

A key notion is that, since it is difficult if not impossible to envision the senior executive positions that are going to be required by the organization in the future, it is better to develop a pipeline of strong, multifaceted leaders who can be successful in multiple potential roles than to develop people for specific future positions. And since it is difficult to plan the careers of large numbers of future leaders with any precision, it is better to determine the key development and experience needs of those identified as future leaders and then match them to jobs across the enterprise as those positions open up.

Some best-practice organizations institute assessment processes designed to identify potential future leaders early in their careers. In fact, leadership evaluation and identification can begin in an employee’s first year with the company. Other organizations use a talent identification system to track and develop high potential employees and optimize their growth in the system.

### Streamlined Succession Planning Reviews and Follow-up Processes

Common to most best-practice organizations is regular conduct of organization-wide succession planning reviews. The review generally progresses from lower to higher levels of the organization. The results of the review trigger the creation of an action plan focused on accelerating the growth of future leaders; dealing with retention issues; and taking steps to address key succession planning gaps, for example, through external search. In addition, best-practice organizations typically conduct scheduled follow-up reviews to monitor the implementation of these action plans.

In one healthcare organization with long experience in succession planning, there has been an effort to streamline the review process with the goal of focusing management discussion during review sessions on key succession planning needs, key candidates, talent gaps, retention issues, and so forth.14

### Rigorous, Repeated Assessment of Potential

The emphasis on on-the-job development discussed earlier has stimulated a focus on rigorous assessment of future leaders. Best-practice organizations do not accept direct managers’ evaluations of leadership potential at face value; rather, they establish assessment processes intended to verify and expand on those evaluations.

In addition to traditional techniques, such as assessment interviews and testing by assessment experts or attendance at an assessment center, best-practice organizations use various means to obtain multiple points of view on candidates from others who have observed them in work-related situations and understand the requirements of senior-level jobs within the organization. One tool used by many best-practice organizations is the performance/potential matrix, with a performance rating on one axis and perceived potential for career growth on the other. In the course of succession planning reviews, managers are asked to use this tool to rate people within their organizations; these ratings are then discussed with the senior leaders of each organization.

For example, one benchmark healthcare organization employs a simple grid to set the stage for in-depth discussion of people by members of the senior management group. The grid is a tool to help differentiate future leaders from solid performers, and potentially...
solid performers miscast in their current jobs from others who may not be a fit for the organization. Members of the senior leadership team have also received extensive training on how to conduct intensive, probing discussions during succession planning meetings.

Other assessment processes go further. One major retailer orchestrates team discussions of a candidate nominated as having high potential both to confirm this rating and to stimulate the individual’s development. Using a tool based on leadership competency and other factors predictive of executive success, a group of higher-level managers evaluates the candidate in comparison with others at the same organizational level.15

Integrated Use of a Leadership Competency Model

Best-practice organizations typically use a baseline leadership competency model as part of the succession planning process. An example is NCHL’s Health Leadership Competency Model, shown in figure 1. NCHL focused its landmark competency research on best-practice organizations within and outside of healthcare and created this validated set of the competencies required for exceptional performance in leading healthcare organizations across selected provider sectors; across career stages; and across the disciplines of administration, nursing, and medicine. Behavioral event interviewing was used to identify the characteristics of outstanding performers in their role or job as compared with their more typical counterparts.16 In addition, NCHL incorporated into its research the recommendations of seven top futurists who helped identify the competencies required to meet the challenges facing healthcare in the future.

Leadership competency models, if endorsed and reinforced by the organization’s senior management, perform several important functions. They:

- Provide managers with a common language for discussing an individual’s strengths, development needs, and career potential.
- Help managers draw the crucial distinction between an individual’s current performance and his/her leadership capabilities with regard to positions of increased scope and responsibility.
- Define leadership expectations for leaders throughout the organization.
- Make it possible to integrate activities that support leadership development and organizational performance.

Best-practice organizations also integrate their competency models with such activities as performance management, staffing, training and development, and external recruiting and selection. For example, one large healthcare system has developed an integrated leadership development approach to link recruitment and selection, assessment of talent, development planning, and leadership succession and continuity. Another benchmark healthcare organization uses its value-based competency model not only to evaluate the career potential of existing employees, but also as part of the hiring process to ensure that new employees fit with the organization’s desired values and competencies.

An integrated, systems approach to link organizational strategy, governance, and competency-based human resource practices is illustrated in figure 2.

Figure 2. NCHL Leadership Development System

A Systems Approach to Leadership Development and Organizational Competence

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Emphasis on On-the-Job Experience and Highly Customized Employee Development

As noted above, best-practice organizations orchestrate job experiences designed to develop the skills and perspective required for success in senior executive positions. Three approaches can be taken to this end:

- New, “stretch” assignments, such as a cross-functional, line-to-staff/staff-to-line, or startup/turnaround assignment.
- Expansion of the scope of the individual’s current job, for example, by increasing the span of control or adding responsibility for more functions/groups.
- Involving the individual in other significant on-the-job activities, such as participation in/leadership of a major cross-organization initiative, especially one that is highly visible to senior management.

For example, one integrated healthcare system has instituted an “experience management” process designed to match designated individuals with specific developmental jobs and other assignments to prepare for future leadership roles. In addition, best practice organizations formulate highly customized development plans for designated future leaders to help them acquire and/or demonstrate new skills, experience, and capabilities. These plans can encompass training and education, feedback and coaching/mentoring, external involvement (e.g., trade/industry associations, leadership roles in the community), and self-directed development (e.g., reading computer-based training, site/customer visits). Best practice organizations often make external executive coaches available to their highest-potential managers, and provide transition coaching for high-potential individuals when they begin new, stretch assignments to help them develop the required skills quickly.

Talent Pool Management

As suggested above, instead of using static replacement lists focused on candidates for specific positions, best-practice organizations build and manage talent pools throughout the organization. This approach permits greater flexibility in developing future leaders, helps guard against the loss of key talent, and allows organizations to operate more opportunistically in matching position openings with the needs of high-potential candidates.

A number of best-practice organizations designate a “corporate resource group” of extremely high-potential individuals. Assuming continued performance and career growth, members of the group are viewed as candidates for very senior-level corporate positions, and their careers are managed accordingly. Reassignments of individuals within the pool must be approved at the corporate (as opposed to functional or operating group) level so that new job assignments will be consistent with long-term career plans. In addition to such senior-level corporate resource groups, some best-practice organizations establish analogous talent pools for key functions or even a set of “mission-critical” positions.

Membership in talent pools is far from static. The performance and development of pool members are closely monitored, with the individuals being added to or dropped from the pool over time. Conversely, individuals can elect to be taken out of the pool as their career and personal goals change. Increasingly, senior executives from relevant parts of the organization join with human resource professionals and career planners not only to monitor pool members’ progress, but also to seek ways of facilitating their development.

One common practice in talent pool management is to monitor the composition of the pool from a diversity perspective. This approach is consistent with two major goals of best-practice organizations: (1) ensuring an organization and leadership group that mirror the customer/user population, and (2) ensuring that talent is drawn as broadly as possible from throughout the organization. Several of the benchmark healthcare organizations make diversity a major priority of succession planning.

Active Involvement of Senior Management

CEOs and other very senior executives in best-practice organizations participate in succession planning reviews, examine lists of future leaders at lower levels of the organization, meet with high-potential individuals, and ensure that such individuals are seriously considered for key developmental assignments. For example, the Human Resource Council at Dow Chemical, which consists of the CEO and a handful of key senior executives, spends five days each year (beyond normal attendance at succession planning reviews) in off-site meetings discussing top future candidates, reviewing those individuals’ development plans, and directing development assignments.

Such direct, personal involvement on the part of senior executives clearly conveys the importance of succession planning and models expected executive behavior. It also enables senior management to intervene when necessary and orchestrate the movement of leadership talent across organizational boundaries. For example, at Colgate-Palmolive, the CEO, chief operating officer, and head of human resources are alerted within 24 hours if any high-potential employee across the entire corporation resigns so they can take steps to retain the individual.

Dialogue with Potential Future Leaders

Research has shown that the expectation of future career progress is a key determinant of a high-potential individual’s decision to remain with an organization. As a result, at best-practice organi-
Cerner Corporation and our 6,500 associates are proud to support the National Center for Healthcare Leadership’s 2005 Healthcare Leadership Award and congratulate Bill Nelson, CEO, Intermountain Health Care, on receiving this inaugural award.

Educational and Advertorial Supplement to Modern Healthcare

Tight Linkage Between Succession Planning and External Recruiting

While best-practice organizations are committed to the development of internal candidates for senior-level positions, they also take steps to link succession planning and internal development with external recruiting. Such external searches are often undertaken in response to talent gaps or vulnerabilities or new skill sets required by business strategies, as identified during succession planning reviews. They may also be carried out to add to the organization’s pool of potential future leaders.

The linkage between internal and external development at best-practice organizations takes several forms:

- Using the same leadership competency model to evaluate internal and external candidates.
- Requiring external search firms to assess candidates using the organization’s leadership competency model.
- Using behaviorally based interviewing, again tied to the leadership competency model.

In addition to these techniques, best-practice organizations may retain a search firm to identify external candidates for senior-level positions, even when the company has qualified internal candidates. As noted earlier, doing so helps ensure that the organization’s internal candidates compare favorably with talent available externally.

Executive “On-Boarding”

Given the expense and the potential for failure involved in filling leadership positions, best-practice organizations are increasingly devoting resources to help assimilate executives—both those new to the company and those taking on new assignments in different parts of the organization—into their new roles and/or organizations. Dow Chemical, General Electric, and Bank of America, for example, all provide executive assimilation support.

Tight Linkage Between Succession Planning and Compensation

For years, succession planning and compensation (e.g., merit increases, incentive compensation, stock options) have tended
to be viewed as discrete activities. By contrast, best-practice organizations attempt to link the two so as to ensure the retention of potential future leaders. While still requiring high levels of performance, these organizations carefully monitor the compensation of high-potential individuals to ensure that both their performance and their potential are rewarded. As a general rule, best-practice companies also make incentive compensation and stock option plans available to designated future leaders at lower levels of the organization for both motivational and retention purposes. For example, one organization points out that “we try to develop everyone, but if you’re high performing, you get the stock options, you get the bonuses, and you get the raises.”

Establishment and Tracking of Metrics

Best-practice organizations commonly have metrics that are used to focus attention on key succession planning priorities, such as retention of high-potential individuals, the strength of the succession “bench,” the accuracy of succession plans, or success in external recruiting, as well as to trigger continuous improvement of the succession planning process. The metrics employed vary among organizations; examples are shown in table 2.

Even practitioners in the field express some discomfort with the use of such metrics, for two reasons. First, it is difficult to ensure that the measures are calculated altogether objectively. Second, it has always been difficult to gauge cause and effect in the arena of succession planning and leadership development. For example, will having a particular ratio of future leaders to positions at a certain organizational level today ensure the necessary level of leadership strength in the future? Nonetheless, given the results-oriented nature of most companies, best-practice organizations routinely establish and track succession planning metrics, even if the use of such measures is imperfect.

ORGANIZATIONAL AND CULTURAL SUPPORT

Beyond the best practices detailed thus far, organizational and cultural support is crucial to effective succession planning. First and foremost, as with other organizational processes, succession planning is unlikely to be effective without the direct, visible support and involvement of senior leaders. Succession planning and leadership development are, by definition, long-term, future-oriented activities that tend to compete with a focus on short-term results; only the ongoing support and commitment of senior executives can enable the organization to achieve the optimum balance between the two.

In addition, certain cultural factors are vital to the successful implementation of best practices in succession planning. These factors include:

- A feedback-rich environment that encourages learning and development on the part of everyone in the organization.
- A willingness to take risks on people.
- The ability to share talent across organizational lines.
- An environment in which managers handle confidential information with discretion.
- The ability to breed a “talent mindset” throughout the organization, based on two fundamental beliefs:

<table>
<thead>
<tr>
<th>Metric</th>
<th>What Is Measured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of positions filled internally vs. through external recruiting</td>
<td>Strength of the succession “bench”</td>
</tr>
<tr>
<td>Time to fill open positions (at certain levels and above)</td>
<td>Strength of the succession “bench”</td>
</tr>
<tr>
<td>Retention of high-potential individuals/ future leaders</td>
<td>Effectiveness of career planning and retention efforts</td>
</tr>
<tr>
<td>Ethnic/gender diversity in promotions</td>
<td>Success of leadership diversity efforts</td>
</tr>
<tr>
<td>Leadership pipeline measures</td>
<td>Strength of the leadership pipeline</td>
</tr>
<tr>
<td>• Ratio of “ready-now” candidates to “mission-critical” positions</td>
<td></td>
</tr>
<tr>
<td>• Ratio of incumbents to future leaders by level (e.g., 1:3 for the director level)</td>
<td></td>
</tr>
<tr>
<td>Key positions/promotions filled by succession plan candidates</td>
<td>Accuracy of candidate assessment and succession plans</td>
</tr>
<tr>
<td>Success rate of external hires within the first 24 months</td>
<td>Effectiveness of external recruiting and assimilation</td>
</tr>
</tbody>
</table>
That in today’s competitive environment, organizations win because of leadership and talent; that is, overall talent, including leadership, is the ultimate source of competitive advantage.

That attracting, developing, and retaining talent is a fundamental expectation of management at any organizational level.

Feedback-rich environments encourage learning and development on the part of everyone in the organization, especially future leaders. At Bristol-Myers Squibb, open and candid feedback is a prerequisite for effective succession planning and leadership development. One benchmark organization, a large teaching hospital, believes that the litmus test is the quality of the dialogue among the senior leadership team about the talent in the organization. The nature of the discussion is key.

The best-practice approach of using “stretch” assignments to develop skills and perspective among potential leaders, discussed above, entails risk to both the individual and the organization. Best-practice organizations work to diminish that risk, but are also prepared to take it. This approach also demands that organizations find ways to overcome the natural tendency of managers to hoard talent. This is an area in which direct senior executive involvement becomes particularly important.

SPECIAL ISSUES AND REQUIREMENTS IN HEALTHCARE

As noted previously, results of NCHL’s research indicate that virtually all of the best practices described in this paper are being implemented to some extent by healthcare organizations. According to healthcare leaders, however, certain challenges and requirements need to be addressed to enable widespread implementation of these practices within the industry. The following issues were noted by those interviewed for this study and by attendees at the recent CEO Roundtable convened by NCHL:

Hierarchical and Siloed Organizations

Implementation of on-the-job and assignment-based development, especially with regard to cross-functional career moves, can be constrained by:

• Self-governance procedures among physician and nursing leaders.
• Labor-management agreements in some institutions.
• A traditional emphasis on degrees, certification, experience, and reputation as opposed to leadership and management capability.
• Institutional charters that mandate a specific background for the CEO position.

Strong Functional Allegiances and Cultural Attitudes

• A strong technical identification (a “guild mentality”) that can create greater allegiance to the profession (e.g., medicine or nursing) than to the healthcare organization.
• A tendency for senior leaders to advocate for their discipline as opposed to seeing themselves as members of an integrated management team.
• Provider attitudes toward those pursuing a leadership career track.

Development of Physician Leaders

• Limited mobility due, for instance, to professional affiliations, or medical school or research ties.
• Early training and socialization that do not emphasize collaboration, consensus decision making, and a team leadership approach.
• The fact that physician recruitment can involve absorbing an entire team and important revenue stream, as well as impact institutional prestige.

Organization’s Scale, Scope, and Complexity

• The size of some healthcare organizations (such as small, freestanding hospitals), may limit the range of developmental assignments available.
• Significantly differing business and organization models (e.g., academic health centers, community hospitals, and multi-site/multi-business organizations), may inhibit the creation of new models of career development for leaders.
• Employment relationships with various constituencies, for example, groups that work on an employed, volunteer, or contractual basis add complexity.

Board Structure and the Background and Skills of Board Members

Many healthcare boards may be too large for effective decision making, especially in areas requiring skill and tact, such as succession planning for CEO and senior executive positions. Especially in smaller, community hospitals, board members may lack experience in succession planning or a deep understanding of the requirements of executive-level positions.

CONCLUSION

The challenges to the implementation of best practices in succession planning and leadership development described above dictate the need for resources, creativity, customization, and persistence. Given the wide variety of healthcare organizations,
it is also necessary to first define the fundamental principles that underlie various best practices and then tailor the implementation of each practice to the particular organization. Box 2 provides additional considerations before moving forward.

Box 2. Considerations before Moving Forward with Succession Planning Efforts

- Undertake efforts to upgrade board with regard to their skills in succession planning and leadership development, as well as to educate board members so they will better understand their role in both senior-level and organization-wide succession planning.
- Work to reconceptualize the relationship with the physician community so that doctors see themselves not as individual contractors but as partners in organizational success.
- Communicate and collaborate with union management on an ongoing basis to build confidence that enhanced leadership capability will strengthen the organization for all.
- Introduce processes for early identification of those providers with leadership interest and potential, as well as cultivating that interest.
- Find ways to link the results of succession planning and leadership development to outcomes associated with patient care and the quality of healthcare.
- Work to create new and visible models of career development and leadership success, models that both break the traditional mold and challenge conventional wisdom and practice.
- Conduct research into how the best practices described in this paper, many of which have emanated from large, multi-unit organizations, can best be implemented in smaller, single-unit healthcare organizations.

Finally, introducing any best practice-based approach will require consistency and persistence: consistency in implementing applicable practices broadly throughout the organization, and the persistence required to overcome organizational resistance and fully integrate the new practices. Only in this way will it be possible to truly build leadership capability for the long term.

Thank you to all those who participated in the research and contributed to this paper with their insights and best practices. This white paper is intended to guide the implementation and effective deployment of best practice throughout an organization. Our goal is to stimulate further thought and ongoing dialogue on succession planning and talent management that will move the entire field forward. Thanks also to members of the NCHL Advisory Council on Research and Evaluation who reviewed this paper and provided thoughtful comment.

REFERENCES

8. Information for this paper was obtained from executives participating in the NCHL CEO Roundtable, Chicago, IL on April 25, 2005 and interviews with executives from the following organizations: Baptist Health Care, Boston Scientific, Brigham and Women’s Hospital, GE Healthcare, Henry Ford Health System, Kaiser Foundation Health Plan and Hospitals, Northwestern Memorial Healthcare, Partners HealthCare, St. Luke’s Episcopal Health System, University of Michigan Global Business Partnership, and Witt/Kieffer


20 NCHL CEO Roundtable and interviews.


23 NCHL CEO Roundtable and interviews.


Abbott salutes Bill Nelson for his outstanding professional and personal commitment to developing our next generation of Healthcare leaders.
Baptist Memorial Health Care congratulates NCHL’s National Healthcare Leadership Award recipient Bill Nelson and Intermountain Health Care.

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BAPTIST
Memphis, Tenn.
Succession Planning Should Go Beyond CEO Level
by David J. Fine

For many years, healthcare enterprises have sponsored educational programming focused on organizational development (OD). In large hospitals and health systems, these are typically produced using in-house capabilities coupled with external resources, while smaller business units may be limited to the occasional outside consultant or attendance at third-party conferences. OD is a “first cousin” to the well-understood notion of staff development, which typically takes as its focus specific job skills and continuing education required for professional re-credentialing. OD will emphasize the knowledge and attitude sets that advance the capabilities of both individuals and the organization as a whole. Often the OD efforts focus on the broad midsection of organizational life—the middle manager.

The accompanying paper highlights an increasingly important facet of OD. Leadership development at the top end of the hospital or health system employee hierarchy recognizes the practical reality that potential “high flyers” in the executive ranks must be carefully nurtured through continuing education, progressive career experiences, cohorting, and continuous evaluation using multiple tools. The earlier in a career the “high flyer” can be identified the better—particularly since job assignments of sufficient breadth and depth can be offered to develop and test the executive’s readiness for “C Suite” roles such as chief nursing officer, chief operating officer, chief information officer, or chief executive officer.

Healthcare organizational focus on succession planning has evolved somewhat later than counterparts in other sectors of the economy. Arguably, this trend parallels the evolution of larger chains in both the not-for-profit and investor-owned segments of the industry. In such circumstances, chief executives and boards find themselves increasingly focused on the “bench strength” available to support future growth and improvement in the firm.

Succession planning is often initially targeted on the CEO at the system or service unit level. In fact, the prudent healthcare organization will do well to cast the net a bit wider and will find opportunities to leverage succession planning as an OD function by cohorting executives with different clinical and administrative backgrounds. Such a class of “high flyers” can enjoy advanced career educational experiences of various kinds, as well as internal assignments designed to test managerial acumen. This writer has conscripted three teams of executives to participate in the six-month Advanced Leadership Development Program sponsored by the National Center for Healthcare Leadership at the University of Michigan Business School. I have found many of the participants to be promotable. Of equal importance has been the ability of such programming to identify executives who have topped out.

A harsh, Darwinian reality of succession planning is the fact that not all who begin the race to achieve penultimate or ultimate promotions can finish. Some of those who become sidelined can find happiness and success within their current organization, and others will come to recognize the need to find it elsewhere. Hospitals and health systems should take notice of the planned turnover at large corporations with substantial commitment to succession planning. Often the board’s selection of a new CEO from among a carefully groomed pool of internal candidates begets multiple departures of highly prepared executives to CEO jobs in other firms. Although this represents a loss, often one with considerable invested equity of time and money, it simultaneously reflects an inevitable end game in natural selection that has the desirable corollary benefit of allowing the newly selected CEO to select his/her own team.
Although I could not represent my own efforts at succession planning to be as carefully crafted as the examples cited in the accompanying paper, I expect to make good use of the content as I refine my approach in the context of my current assignment.

An area for further exploration by the National Center for Healthcare Leadership would be the use of succession strategies for the purpose of identifying members of a management team who should be considered for external placement. Improving the bench strength of a hospital or health system mandates the occasional clearance of management talent that shows too little promise in a particular organizational context. As often as not, timely interventions in circumstances of this kind can avoid personal burnouts and enterprise failures. At the same time, like a root-bound container plant, strategic repotting for an executive who will not make the mark in a particular setting can be the best medicine for success in another venue.

David Fine is president and chief executive officer of St. Luke’s Episcopal Health System in Houston. He is a founding director and current Board vice chair of the National Center for Healthcare Leadership.

Future Healthcare Leaders Will Benefit from Non-healthcare Experience
by Joseph Hogan

Can there be a more difficult role in American business then leadership of a healthcare institution? The range of issues from financial to ethical to legal, as well as professional management of staff and colleagues in many different disciplines, is of such staggering complexity in American healthcare institutions that it is hard to see what the characteristics of the ideal healthcare leader should be. The white paper raises a number of interesting questions around this idea and proposes a number of important and not-so-obvious suggestions.

First, I think it is important to emphasize that leadership in healthcare institutions has been traditionally grown within the institution. While this does give the advantage of having the emerging candidates possess an in-depth understanding of the financial, professional, and personal dynamics of an institution, it also means emerging leadership often comes up through a very rigid disciplinary structure. The white paper rightly points out that this approach toward disciplinary and functional leadership is probably not the ideal way to develop the leadership of American healthcare institutions for the 21st century.

Second, the white paper raises an important and often overlooked point: external candidates who have come in through other backgrounds, including non-healthcare-related backgrounds, may possess important skills to lead a healthcare institution. This is not to imply one can lead an American healthcare institution with no understanding of healthcare at the ethical, moral, clinical, legal, or financial levels. It does, however, raise the question as to whether or not a rigid healthcare-based and disciplinary background is the right way to train the visionary leaders of the future. It may well be that healthcare leaders of the future will need to have experience in healthcare but also benefit from extensive experience outside of the immediate healthcare environment. A bit of “hybrid vigor” works well in just about every discipline, including creating leaders of the future. From the reference standpoint of General Electric—whose excellence in creating leaders of all levels is widely recognized—this idea of multiple experiences has served us well. I would propose the approach to both breaking down boundaries of disciplinary training to find a more broadly based healthcare leader of the future and looking outside the boundaries of one’s own institution, or even outside the boundaries of healthcare, may be the right way to create tomorrow’s healthcare leaders.

In summary, the white paper does a tremendous service for all of us who care so passionately about healthcare and its need for leadership in the future. We are all well advised to read this paper multiple times and reflect on its advice and cautions.

Joe Hogan is senior vice president and chief executive officer of GE Healthcare.

Succession Planning Should Be Thoughtful and Strategic
by Stephen C. Reynolds

The National Center for Healthcare Leadership (NCHL) commissioned this study of best practices related to succession planning in response to a clarion call for help from healthcare executives...
who are seeking proven tactics that will prepare leaders for the future. Unfortunately, it was revealed that most healthcare organizations have invested minimally in the critical process of planning for leadership development and change. The NCHL demonstrates forward thinking by focusing on solutions to this shortcoming rather than the usual response of non-productive blaming of educational or professional organizations, many of which have limited resources or conflicting priorities.

Lessons learned from world-class corporations like General Electric and Johnson & Johnson offer models for succession that are easily understood and credible benchmarks that should inspire replication or modification in a multitude of healthcare organizations. Boards of directors and CEOs interested in the future vitality and viability of their entities will benefit from an organized and strategic plan for leadership change at both the board and executive levels.

This publication provides a thoughtful prescription for leadership development and change. The leadership competency model described offers a number of helpful hints that have immediate relevance in the workplace, such as the development of a common language for discussing strengths and potential. The logical example of orchestrating various job experiences for success is simple yet profound. Another basic tenet of leadership is the active involvement of senior leaders in succession planning, which has often fallen into the trap of delegation or abdication.

When the CEO asserts responsibility for these matters and is encouraged by the board, leadership development becomes an essential component of strategic planning.

As a result of this study and the NCHL Advanced Leadership Development Program at the University of Michigan, Baptist Memorial Health Care Corporation refined its decade-old succession planning for board members and the leadership team.

*Steve Reynolds is president and CEO of Baptist Memorial Health Care Corporation in Memphis.*
INTERMOUNTAIN HEALTHCARE IS RECOGNIZED AS A NATIONAL HEALTHCARE LEADER. AND SO IS BILL NELSON, ITS CEO.

Bill Nelson
CEO, Intermountain Healthcare

THE INTERMOUNTAIN HEALTHCARE BOARD OF TRUSTEES CONGRATULATES BILL NELSON ON RECEIVING THE NATIONAL HEALTHCARE LEADERSHIP AWARD.

The National Center for Healthcare Leadership has named Intermountain’s Bill Nelson as the first recipient of the National Healthcare Leadership Award. The award recognizes his leadership role at Intermountain and in the industry, his skills at coalition and team building, and his commitment to providing quality and affordable healthcare — all things that we’ve recognized for a long time. Congratulations, Bill!

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Bill Nelson on Leadership Development, Clinical Excellence, and a Community of Caring

NCHL is proud to present the 2005 National Healthcare Leadership Award to William H. Nelson, president and CEO of Intermountain Healthcare. His career embodies the goal of NCHL to improve the health of the public through leadership and improved organizational performance. He is recognized for his commitment to building teams within his organization and identifying and developing future industry leaders. We salute Bill and thank him for his inspiration to future healthcare leaders.

Even before Bill Nelson understood the value of teamwork, he was attracted to it. As a young staff auditor working in the Los Angeles office of Ernst and Ernst (now Ernst and Young) in 1972, he became interested in the auditing firm’s newly formed healthcare practice because of its visionary leaders. “I joined the team,” Nelson says, “not because I had a vision of working in healthcare, but because I respected Tom Testman and Norm Pasas as leaders. It was always about the team getting together and figuring things out. Tom and Norm were never people who thought they knew everything. They were people who said the team is what’s important.” As Bill has moved through his nearly 30-year career at Intermountain, mentoring, accountability, and governance oversight have been added to the leadership principles that support Intermountain’s mission to improve clinical outcomes for its patients and to make healthcare affordable.

What are Intermountain’s mission and vision?
The core of our mission is to provide excellence in healthcare services and do it affordably. Our focus is clinical excellence delivered with real caring and concern. To do this, we work on implementing best practices to reduce variation in clinical processes, which enables us to improve outcomes at a reduced cost. In everything we do, we ask, “Will this result in the best care for the patients? Will this improve clinical results?” We do this rigorously.

Intermountain’s culture of excellence is highly regarded in the industry. How did that originate?
Our board is clearly at the core of our success. The board has always been made up of community leaders whose only focus is to provide excellence to the communities we serve. Since our beginning in 1975, our board has demanded that we produce the best. They require that we improve clinical outcomes. They demand that the amount we charge patients is significantly lower than our competitors. They require that we be excellent. And, so important, they give us resources and support to accomplish these objectives.

Our first CEO, Scott Parker, and Dave Jeppson, our first COO, led the growth and evolution of our organization. They developed our mission statement, focusing on clinical excellence, and created the culture that, throughout our history, has led us to focus on continually improving our clinical programs, processes, and outcomes.

Intermountain’s awards and honors:
• “Bold 100” for strategic excellence in information technology (2005) CIO Magazine
• National Quality Award by the National Committee for Quality Health Care
• U.S. News and World Report
• Top Five Medical Centers in the Western United States – LDS Hospital (2003) Money
• America’s 10 Best Children’s Hospitals – Primary Children’s (2003)
• CIO Magazine
• Intermountain Healthcare Health Plans ranked No. 1 by Utah Department of Health (2003-2004)

Community:
In 2004, Intermountain directly provided more than $67 million in charity care to patients in more than 147,000 cases. Intermountain also supported 10 independent community clinics that cared for more than 185,000 patients in 2004.
How is accountability deployed through a diverse system like Intermountain?

It begins with teams of individuals who represent the breadth of our system, both geographically and clinically, who are concerned enough to commit the time and energy to define the clinical programs that we are going to work on, determine best practices, and develop a process that will accomplish best practices. When we implement a clinical process, we have nurses, physicians, and other clinicians who are knowledgeable in those processes on the development team. They have input into and ownership of the processes for which they will be ultimately held accountable. Our teams own their decisions.

Why does that matter?

It matters for two reasons. You need the input of all the people involved in implementing a decision so you have the widest possible breadth of knowledge and perspective before you make the decision. And if the people implementing a decision are part of making that decision and understand the rationale, then the implementation is dramatically better. They know the “gives and takes” and reasons for the decision, and they become owners of it. You can’t fool people on this. They know when their input isn’t being valued.

How does the board hold Intermountain’s leadership accountable?

Our board requires us to have clinical outcome goals as a major part of our annual goals. They monitor results and demand performance, which is tied to compensation. In our central operating group, made up of the top 19 leaders in our company, most of each individual’s compensation is based on overall corporate goals. For people who report to them, about half of their performance is based on these goals. So the board is tough in the best meaning of the word. They demand and expect excellence. And then they give us everything we need to accomplish it.

Can you give an example of improved clinical outcomes?

In our intensive care clinical program we implemented a series of processes to reduce the number of patients who are stricken with ventilator-acquired pneumonia. Previously, 14 percent of our patients would be stricken, but by implementing these best practice steps we reduced it to five percent. We aren’t in the business of basic research or new cures creation. Our objectives are to implement recognized best practices. And as we do it, we can demonstrate improved outcomes and reduced costs.

Intermountain’s culture is also linked closely to teamwork. Can you elaborate on that?

Intermountain is a complex organization with hospitals, employed and non-employed community physicians, and a health plan. Key to our success is our teams, the great individuals with the common purpose of improving healthcare in our communities. Teams are the legacy of my predecessor, Scott Parker. He believed that you can’t make the right decision unless you have the right perspective and input. I know I am not smart enough to make the best decision on my own. I need the perspectives of all the people who will be implementing our decisions.

How do you tie teamwork to leadership development?

One of the key things we have done at Intermountain is to identify our future leaders and then give them different experiences throughout the organization. When we have to make company-wide decisions, we pull together task forces and populate them with our future leaders so they can look across the entire system and appreciate how every area—physicians, nurses, other geographies, and the health plan—are affected by the decisions we are making. The members of our central operating group have specific responsibility to make sure that individuals within their groups are given a broad set of experiences, have access to different types of problems and problem solving, and can view decisions from the viewpoint of the entire organization.

Does mentoring play a role in Intermountain’s leadership development?

Mentoring has been a crucial part of Intermountain’s culture for as long as I remember. It played a critical role in my own development.
Can you elaborate on that?

For the nearly 25 years that Scott Parker and I worked together, there was never a formal time when he said I am going to mentor you. But I always knew I could go and talk to him, that he would be more than willing to share his perspective on issues and tough decisions. Our management team was together for nearly all that time and our meetings were wonderful mentoring session. I was there as CFO, but I could watch and see how decisions were made outside my realm of finance. I could see the critical elements in various decisions. And Scott was completely transparent in how he made his decisions.

How was your transition from CFO to CEO?

Scott went out of his way to make the transition successful. A full year before he retired he gave me the keys and allowed me to run the organization while he sat in the passenger seat and observed. He was always there to help, but I was driving. And the minute he retired, he retired. He never poked around, although he was always available when I needed him. Scott made sure I had the best chance possible to succeed. The change wasn’t abrupt. In effect, he let me ease into his role.

How do you work with HR?

HR reports directly to me, and succession planning, identifying future leaders, and hiring are a key foci of senior management. Our hiring process for top leaders is daunting. We spend considerable time meeting with potential hires to see if they have the same beliefs and attitudes that Intermountain has, to see if they are a fit with our team. We have several rounds of interviews, some meetings with 10 or 12 people at once. We have candidates describe incidents where they had to live the values and mission that we adhere to. For candidates this process can be overwhelming, but we believe it works.

Where does your inspiration come from?

So much of what I get is from my wife. I have learned huge amounts from her in terms of caring about people and serving people and helping people, unconditionally and unselfishly.

Our Congratulations to the

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Intermountain Health Care

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