The Governance Institute's E-Briefings

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Welcome to The Governance Institute's E-Briefings!

This newsletter is designed to inform you about new research and expert opinions in the area of hospital and health system governance, as well as to update you on services and events at The Governance Institute. Please note that you are receiving this newsletter because you are a Governance Institute member or expressed interest at one of our conferences.

In this issue:

News, Articles, and Updates

The ACA Medicaid Expansion: Coverage, Financing, and Care Opportunities

By Barbara Lyons and Robin Rudowitz, Kaiser Family Foundation

A central goal of the Patient Protection and Affordable Care Act (ACA) is to significantly reduce the number of uninsured by providing a continuum of affordable coverage options through Medicaid and new health insurance exchanges. Following the June 2012 Supreme Court decision, implementation of the law is moving forward, but states can decide whether to adopt the Medicaid expansion. These decisions will have substantial consequences for health coverage for the low-income population and for the hospital systems that care for them. With less than a year to go before implementation of the coverage expansions in January 2014, the healthcare community is gearing up. As major players in the nation's healthcare system, hospitals and health systems have a large stake in the opportunities presented and outcome of these efforts. This article describes three key considerations for healthcare executives.

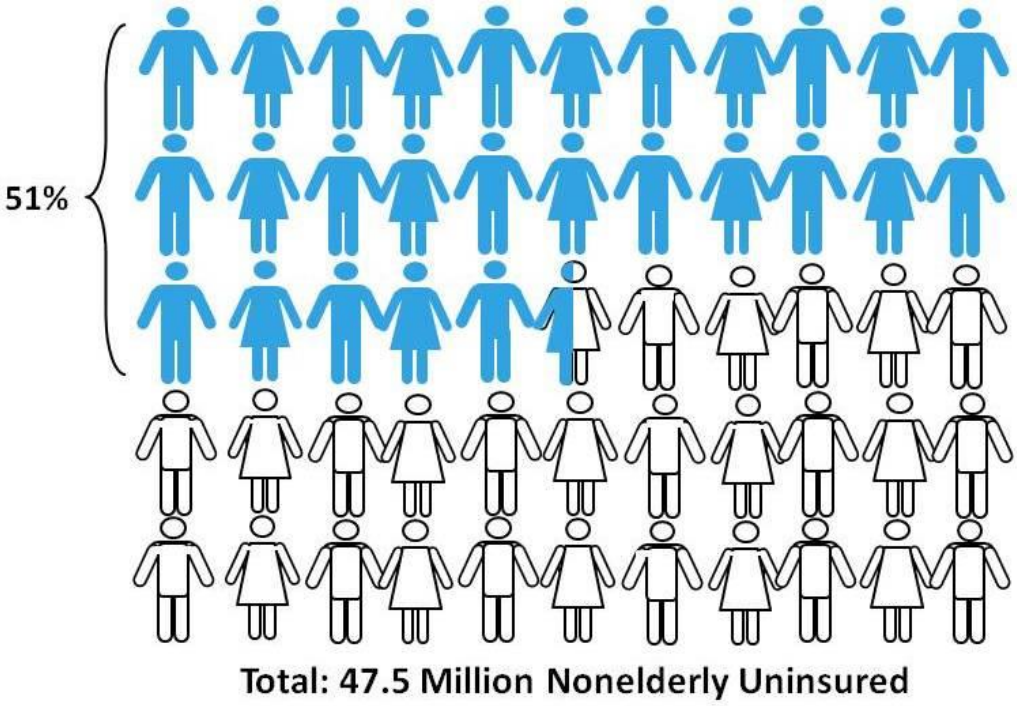
1. Getting into Gear on Coverage: The Medicaid Expansion Will Have a Substantial Effect on Coverage, Particularly for Low-Income Adults.

The Medicaid expansion would make millions of uninsured adults newly eligible for the program by expanding eligibility to a minimum floor of 138 percent of the federal poverty level (FPL) ($15,856 for an individual in 2013). Over half of today's uninsured have incomes below the new Medicaid eligibility limit (**see Figure 1**). Today, adults with incomes at these levels have a high uninsured rate with over four in 10 (42 percent) lacking coverage. This high uninsured rate reflects longstanding gaps in Medicaid coverage for adults. Today, parent eligibility is very limited in many states, with nearly two-thirds of states limiting eligibility to parents below the poverty level, and most states do not cover other low-income adults regardless of how low their income is. These gaps in coverage can translate to uncompensated hospital care when patients require treatment, pressure on hospital emergency rooms, and fragmented follow-up care for discharged patients.

The Medicaid expansion would significantly increase eligibility for parents and other adults in many states, making millions of adults newly eligible for the program and eliminate much of the complexity that exists today in enrolling people in coverage. However, the Supreme Court ruling on the ACA effectively made implementation of the Medicaid expansion a state choice. If all states implement the Medicaid expansion, Medicaid enrollment could increase by 21.3 million.[1] The Medicaid expansion, together with other provisions in the ACA, could cut the number of uninsured in half.

[1] John Holahan, Matthew Buettgens, Caitlin Carroll, and Stan Dorn, *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis,* Kaiser Commission on Medicaid and the Uninsured, November 2012, www.kff.org/medicaid/8384.cfm.

Figure 1: Half of Today's Uninsured Have Incomes below the New Medicaid Limit (138% FPL)



NOTE: 138% FPL = $15,856 for an individual & $26,951 for a family of three in 2013.
SOURCE: KCMU/Urban analysis of CPS data.

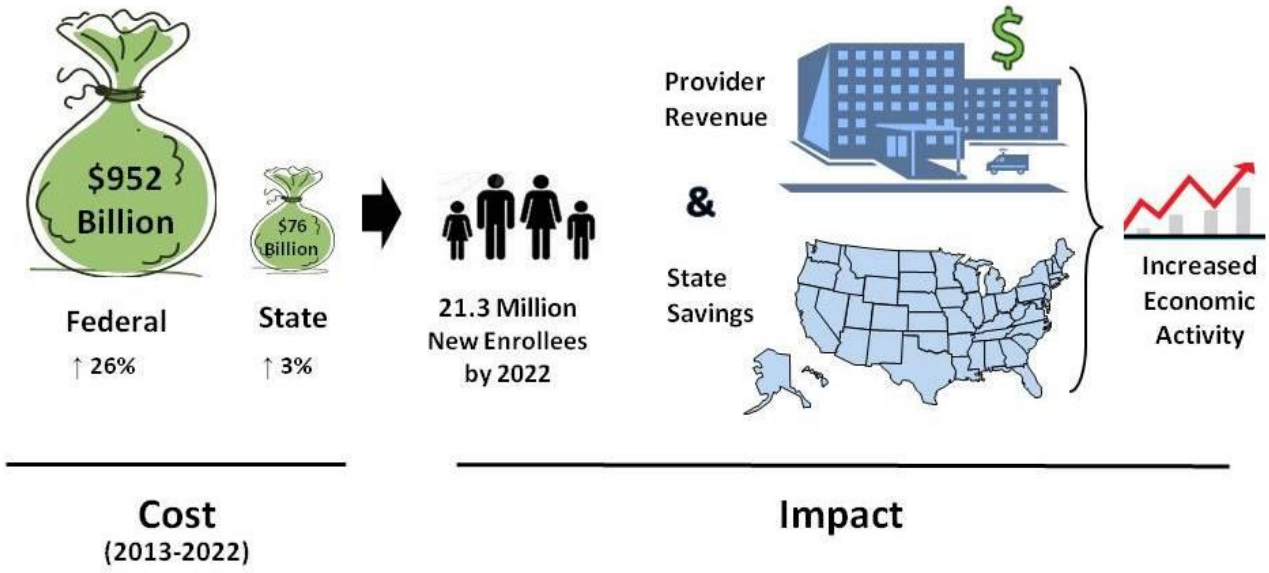
Many governors made decisions about the Medicaid expansion in the context of their proposed state budgets for FY 2014 and state legislatures are weighing in many states. While the situation remains fluid, just over half of the uninsured with incomes below the Medicaid expansion level reside in states where the governor has announced public support for implementing the expansion. If states do not implement the expansion, poor adults in these states will be left without affordable coverage options and will continue to face the health and financial consequences of being uninsured. Hospitals will continue to shoulder the burden of caring for patients with no coverage for their hospital stay.

2. Navigating New Financing: The Medicaid Expansion Has Substantial Implications for Hospital/Health System Financing and Timing Matters.

The ACA Medicaid expansion is largely funded by the federal government. The federal government provides 100 percent federal financing for those newly eligible for Medicaid from 2014 through 2016. Timing matters. The 100 percent financing is available on January 1, 2014, and ends December 31, 2016. The federal contribution phases down after the first three years, but remains at 90 percent for 2020 and beyond. A report prepared by the Urban Institute for the Kaiser Commission on Medicaid and the Uninsured estimates that if all states expanded Medicaid, the total cost of the expansion would be about $1 trillion over the 2013–2022 period with the federal government paying $952 billion (93 percent) and the states paying $76 billion (**see Figure 2**).[2] In other words, nationally, for every dollar states spend to expand coverage, the federal government contributes $12. States' costs are related to the small share for those newly eligible and increased participation among those currently eligible for coverage (reimbursed at the traditional Medicaid match rate).

[2] John Holahan, Matthew Buettgens, Caitlin Carroll, and Stan Dorn, *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis,* Kaiser Commission on Medicaid and the Uninsured, November 2012, www.kff.org/medicaid/8384.cfm.

Figure 2: Cost and Coverage Implications of the Medicaid Expansion



SOURCE: KCMU/Urban Institute. *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis*. November 2012.

Increased participation in Medicaid is likely to occur due to new requirements to simplify and streamline the enrollment process and to coordinate eligibility with the newly established health insurance exchanges that are in place even if a state chooses not to implement the ACA Medicaid expansion.

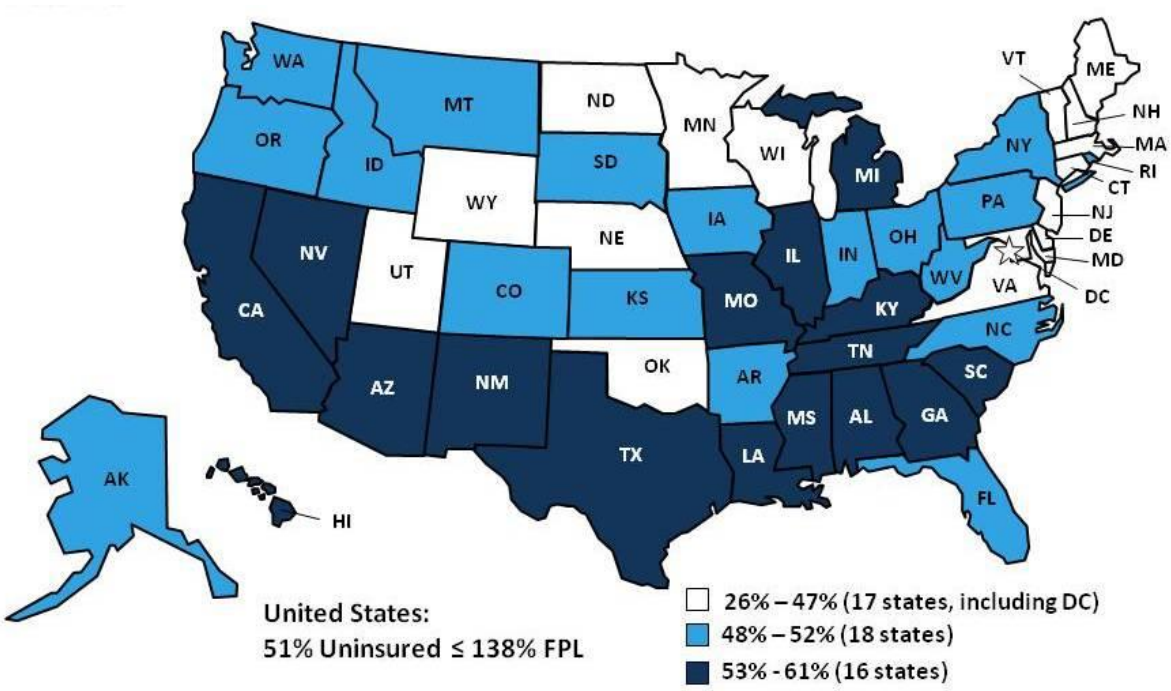
But the state costs due to coverage expansion tell only part of the story. States are also likely to see savings or offsets to costs from the Medicaid coverage expansion from a variety of sources, including reduced state spending for uncompensated care; transitioning current Medicaid coverage for specific groups to "newly eligible" coverage at the higher match rates; moving current Medicaid coverage to individuals with incomes above 138 percent FPL to coverage in the exchange; and reduced spending for programs to serve indigent populations (such as state-funded mental health or substance abuse programs). Importantly, states are also likely to see revenue from broader economic effects of the Medicaid expansion such as increased jobs, income, and state tax revenues at the state level within the healthcare sector and beyond, due to the large increase of federal funds tied to the expansion.

Hospitals and other provider groups are also likely to benefit from the Medicaid expansion due to increased revenues to hospitals tied to new coverage. The Urban analysis estimates an increase of nearly $300 billion over the 2013–2022 period—a 23 percent increase in Medicaid reimbursement for hospitals.[3] A recent analysis shows these new revenues are likely to offset other reductions to providers under the ACA such as Medicare and Medicaid cuts to disproportionate share hospital (DSH) payments.[4] The ACA cuts to DSH payments will go forward even if states do not implement the Medicaid expansion. In these states, hospitals will not see increased revenues from the expansion to offset these cuts and could face budgetary strains.

[3] John Holahan, Matthew Buettgens, Caitlin Carroll, and Stan Dorn, *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis,* Kaiser Commission on Medicaid and the Uninsured, November 2012, www.kff.org/medicaid/8384.cfm.

[4] Stan Dorn, Matthew Buettgens, John Holahan, and Caitlin Carroll, *The Financial Benefit to Hospitals from State Expansion of Medicaid,* March 2013, www.rwjf.org/en/research-publications/find-rwjf-research/2013/03/the-financial-benefit-to-hospitals-from-state-expansion-of-medic.html?cid=xem_259medicaidB&cid.

Figure 3: Share of Nonelderly Uninsured ≤138% FPL by State, 2010–2011



SOURCE: Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on the Census Bureau's March 2011 and 2012 Current Population Survey (CPS: Annual Social and Economic Supplements).

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3. Opening Doors for Care Delivery: The Medicaid Expansion Can Result in Improved Access to Care and Better Coordination of Care for Patients.

A large body of research shows that Medicaid increases access to care. Children and adults enrolled in Medicaid have much better access to care than the uninsured. On key measures of access to preventive and primary care, Medicaid enrollees fare as well as people with private health insurance. Medicaid's limits on cost-sharing help to ensure that cost is not an obstacle to obtaining care and Medicaid beneficiaries are far less likely to face high financial burdens for healthcare than low-income people with private insurance.[5] A recent study of the Oregon program shows that Medicaid increased the likelihood of using outpatient care, inpatient services and prescription drugs, and recommended preventive care. Medicaid increases the probability of individuals having a usual source of care and Medicaid is associated with improvements in measures of self-reported physical and mental health.[6,7] Research has found that expansions of Medicaid to children and pregnant women have led to improved child health and birth outcomes.[8] Research has also found that Medicaid expansion for adults were associated with significant reduction in mortality.[9]

[5] *Medicaid: A Primer*, Kaiser Commission on Medicaid and the Uninsured, June 2010, www.kff.org/medicaid/7334.cfm.

[6] Amy Finkelstein, Sarah Taubman, Bill Wright, Mira Bernstein, Jonathan Gruber, Joseph P. Newhouse, Heidi Allen, Katherine Baicker, and the Oregon Health Study Group, *The Oregon Health Insurance Experiment: Evidence from the First Year*, The National Bureau of Economic Research Working Paper No. 17190, July 2011, www.nber.org/papers/w17190.

[7] This study is based on a randomized control trial (the gold standard for study methodology), which avoids many of the problems with causation and confounding in observational studies.

[8] Susan Marquis and Stephen Long, "The Role of Public Insurance and the Public Delivery System in Improving Birth Outcomes for Low-Income Pregnant Women," *Medical Care, Vol.* 40, No. 11, November 2002.

[9] Benjamin D. Sommers, Katherine Baicker, and Arnold M. Epstein, "Mortality and Access to Care among Adults after State Medicaid Expansions," *The New England Journal of Medicine*, September 2012.

For most states that do not implement the Medicaid expansion, there will continue to be large gaps in coverage for low-income individuals because individuals with income below poverty are not able to access subsidies to purchase coverage in the new health insurance exchanges. Without access to any new affordable coverage options, these individuals will continue to face the consequences of being uninsured. These impacts will vary substantially across the country. In 16 states located largely in the South and West, over half of the uninsured have incomes below the Medicaid expansion level (**see Figure 3**). Hospitals will be challenged to move ahead with new delivery and system improvements that hinge on expanded coverage and related financing to offset hospital reimbursement declines that were also included in the ACA.

With the ACA coverage expansions scheduled to go into effect on January 1, 2014, the healthcare landscape is entering an intensely dynamic period. Hospitals and health systems have a lot at stake as states deliberate whether to move forward on the ACA Medicaid expansion. The Medicaid expansion presents a new opportunity to increase the number of patients for whom hospitals are paid, provide a vehicle for assuring stable coverage for the low-income population (many of whom have significant and costly healthcare needs), and facilitate the transformation of the nation's healthcare system. Hospital leaders have a key role to play in the discussion.

The Governance Institute thanks Barbara Lyons, senior vice president, Kaiser Family Foundation, and director, Kaiser Commission on Medicaid and the Uninsured, and Robin Rudowitz, associate director, Kaiser Commission on Medicaid and the Uninsured, for contributing this article. They can be reached at blyons@kff.org and robinr@kff.org.

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Toward a Streamlined Corporate Structure

By Michael W. Peregrine, Esq., McDermott Will & Emery, LLP

This is the third article in a series examining the role of the board following the wave of industry consolidation.

Does your corporate diagram contain more lines than a city road map? Do you have more corporate subsidiaries than IBM? Do you need an Olympic-sized pool of director candidates to fill all the boards in your system? If the answer to these questions is "yes," it may be time to streamline the corporate structure of your health system.

One of the fundamental obligations of the governing board is to periodically review the effectiveness of the organization's corporate structure. In this regard, the expectation is that the board will evaluate whether the organizational means by which the system carries out the overall mission is efficient from economic, operational, and governance perspectives—and if not, that the board will make appropriate changes. In other words, the board should not automatically consider the corporate structure to be sacrosanct, especially if it is ill-suited to respond to the organizational challenges of the post-Affordable Care Act competitive environment.

The traditional parent/subsidiary corporate governance structure, so popular in the non-profit health sector for so long, may be reaching the end of its useful life. This is in part due to the fact that many of the reasons prompting such a structure (e.g., concerns with veil-piercing, rate review, confiscatory regulation, certificate of need jurisdiction) are no longer as prominent a set of concerns to the health system as they once were. This is also due to the significant administrative, governance, regulatory compliance, and personnel costs and inefficiencies directly attributed to managing a large, multi-entity corporate system.

The rapid consolidation of the non-profit health sector and the increasing size of health systems is similarly raising questions about the continued feasibility of locating individual hospitals in separate corporations. There also are increasing

concerns about whether the cost and efficiency associated with the maintenance of large, multi-corporate systems can be reconciled with the benefits associated with such structures. This is coupled with a greater need for more streamlined decision-making processes and unified compliance procedures. Complex parent–affiliate structures increase the risk of confusion and "governance gaps" between the roles and authorities of parent and affiliate boards. There also is significant competition for qualified volunteer directors, and risks associated with overloading existing board members with multiple committee responsibilities.

So, there is great sense in placing corporate streamlining on the board agenda. Even if the ultimate analysis produces a status quo result, the exercise will likely have been worth the effort because it will make board members much more familiar with the reasons supporting the current structure. That's a valuable result in and of itself—knowing the history behind the organizational chart better positions the board to make structural decisions in the future. But there is also the possibility that the evaluation process will result in meaningful change, such as a reduction in the number of affiliated corporations; the elimination of duplicative programs, services, and board levels; savings in terms of both administrative cost and in board-level/meeting activity; and a greater appreciation for the roles and functions of individual corporations (e.g., why they were formed, what purpose they serve, whether they can accommodate additional activities). These are realistic goals of a board-level corporate streamlining process.

A corporate streamlining initiative typically involves at least a seven-part process:

- **Part one:** An identification at the senior leadership level of the most significant structure-related problems that require resolution (how would leadership measure "project success" in reference to these identified problems?).
- **Part two:** A "history lesson"; i.e., a review of the rationale behind the creation of the current corporate structure and its component parts (how did things get to where they are today as a whole, and why were certain individual organizations created?).
- **Part three:** A review of the system's governance structure, with special focus on the relationship of the parent corporation to the subsidiaries, the decision-making authority of boards and management at each level, the utility of certain committees, and the application of administrative services across the system.
- **Part four:** The identification of specific issues, organizational documents, laws, statutes, judicial decisions/administrative rulings, title restrictions, contractual/venture barriers, tax requirements, accounting provisions, political considerations, etc. that must be taken into consideration by leadership in evaluating streamlining options.
- **Part five:** An analysis of whether certain affiliates are needed to achieve the mission goals and objectives of the system (i.e., have individual affiliates achieved—or are they achieving—the purposes for which they were created?). This may involve some difficult evaluation and decision making at the leadership level.
- **Part six:** The evaluation of specific streamlining opportunities, pursued in large part by comparing the opportunities to be achieved by eliminating (either directly or through combination with another affiliate) individual corporations, against the potential legal/tax/accounting and political barriers with doing so.
- **Part seven:** The process by necessary approvals for individual streamlining initiatives are received—either at the local board level, with courts or regulators, with venture partners or financial institutions, and/or with political bodies.

The streamlining process should be realistic in terms of achievable goals—it's not always possible to "turn back the clock" and consolidate a family of affiliated corporations and venture investments into one, large, focused corporate enterprise (but that's not necessarily a bad idea!). Yet, leadership should anticipate the kinds of head-banging limitations that sometimes pop up to frustrate the grandest of streamlining visions (e.g., bond covenants that restrict the consolidation of some entities, favorable accounting treatment or tax status jeopardized by a merger or consolidation of an affiliate, a real estate restriction triggered by liquidating a company, judicial approval required to change the purpose of a particular non-profit, a semi-independent affiliate board that is unwilling to approve streamlining plans, and worse). They're to be expected, so it's best to just plan for them.

Another particular downside of a corporate structure streamlining process is that the lawyers and the accountants need to be involved. This is unavoidable as the core of the board's analysis necessarily—and directly—involves an analysis of

applicable state corporate law, exempt organization tax law, and governance principles, and, oftentimes, issues relating to real estate title, bond restrictions, terms of key joint venture investments, the limitations of existing corporate governing documents, and restrictions imposed by judicial decisions and administrative proceedings, among other issues. These are all matters in which regulators like the state attorney general and the Internal Revenue Service and other third parties such as bond counsel may have a particular interest.

But, if leadership can "hang tough" through the frustrations, time, and expense of the process, the end result is almost always worth it. There are potentially significant cost savings, not only actual cash savings but also those associated with limiting the time, expense, and "wear and tear" of management and board members—that can accrue to an organization simply by reducing the number of corporate affiliates in the system. Streamlining can also result in leadership achieving a greater understanding of not only the role and purpose of the corporate structure, but also the role played by individual affiliates, and the legal, tax, accounting, and financial restrictions that relate to individual affiliates and the system as a whole. These benefits may result in more efficient and informed management and governance, and in greater organizational flexibility and freedom of movement in addressing further competitive opportunities.

The next article in this series will appear in the July E-Briefings and will focus on the process by which a governance (as opposed to corporate structure) streamlining process might proceed, and the benefits, as well as barriers, that often arise from pursuing such a process.

The Governance Institute thanks Michael W. Peregrine, Esq., partner, McDermott Will & Emery, LLP, for contributing this article. He can be reached at mperegrine@mwe.com.

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Why Engage an Interim Chief Executive Officer?

By Peter J. Betts, LFACHE, Peter J. Betts & Associates, Inc.

The most important responsibility of the hospital board is to select, guide, evaluate, and hold accountable its chief executive officer. Maintaining a current, written succession plan for the chief executive helps organizations avoid situations in which an interim CEO is necessary. However, despite the best planning efforts, surprises do occur and hospitals and health systems may find themselves with a sudden vacancy and no immediate/permanent replacement. When the CEO's chair becomes vacant unexpectedly, the board is faced with the difficult decision of how the organization will be led for up to a year during the search for a replacement. Internal and external stakeholders will look to the board to promptly deal with this critical need and be quick to judge, fairly or unfairly, the board's response. Selecting an experienced interim CEO will enhance the board's reputation and help ensure it has qualified advice during a precarious time.

The loss of a CEO, especially if unexpected or long tenured and well respected, is traumatic and thrusts the hospital or health system into a period of transition and instability. If the CEO resigned, he or she will have already mentally moved on to the next life chapter. On the other hand, if the organization is not performing well and the CEO is asked to leave, there are critical mission and cultural issues that must be dealt with quickly and effectively. If the CEO is to return following an extended absence due to medical or personal reasons, how is the temporary leadership vacancy to be addressed?

The departure of the CEO presents both opportunity as well as risk. The opportunity is to reevaluate where the organization is and identify the necessary steps to make sure it remains on the right path. There may be some highly charged decisions to be made such as staffing levels, renegotiation of physician and union contracts, competitor issues, and new revenue-generating

opportunities. While not every organization is in distress, all will benefit from an experienced, objective assessment resulting in a plan being implemented to improve finances, quality, satisfaction, employee relations, and governance. Risks include the loss of forward momentum, failing to achieve board goals, ongoing negotiations that could fall apart, defection of key physicians and staff due to a loss of confidence brought about by a lack of leadership, and competitor intrusions into the market.

The search for a new CEO generally takes months. The organization could be in danger if the board feels forced to make a poor selection when under pressure to act quickly. Placing an effective interim CEO allows sufficient time to methodically assess needs and make a selection based on a well thought out set of search criteria. The interim will ensure that forward momentum is maintained, the staff stabilized, and the decks cleared so as to be able to attract strong candidates for the long-term replacement.

Before the search process can begin, the board will need to review the CEO position description to be sure it accurately reflects responsibility, authority, relationships, talent, and experience the new CEO needs to meet and the goals to be achieved within the first 12 to 18 months. Generally, an executive search firm is selected to generate and screen candidates, but how to go about selecting a search firm, and what the contract should include are among the questions the interim can help to resolve.

Interim CEO Appointed from Within

Many boards select a board member, executive, or team from within the organization to provide interim leadership, raising the following issues:

- Naming a team to provide interim leadership means there is no single individual to hold accountable, which is why committees are notoriously inefficient and ineffective. There will be differing opinions and styles among the interim leadership team, causing power struggles as resolving differences will be difficult.
- Board members seldom have the experience or knowledge to lead an organization as complex as a hospital.
- Similarly, there is a great deal of difference between the role and responsibility of a CEO and that of a COO, CFO, or other executive. This is not the time for on-the-job training as this is a particularly trying time to place such responsibility on an inexperienced individual who will also need to continue to do their former full-time job, usually meaning neither job will be done well.
- The executive team is correctly focused inwards on daily operations and usually does not have the skills or experience needed to be focused outwards and envisioning the future.
- An internal interim will tend to avoid difficult, politically charged decisions and maintain their existing relationships, as they expect to be returned to their former role. The individual may be well respected in his or her present role but not have credibility as a CEO.
- In situations in which the organization itself is not healthy, the internal interim is a part of the status quo and may lack the essential objectivity to turn it around. Certain programs and services will need to be modified or closed, yet may be protected as "sacred cows."
- If the individual is a candidate for the permanent CEO position, they will consider this to be a trial period during which they seek to gain favor and avoid making needed, but unpopular decisions.
- An internal interim will discourage some qualified outside applicants from applying as they will be perceived as having the inside track, denying the board the consideration of some well-qualified candidates.
- There will be a difficult adjustment for the interim individual when he or she is returned to the ranks following the selection of the permanent CEO. All too often, this results in the loss of a valued executive due to disappointment at not being selected for the long-term position.

Professional Interim CEOs

Due to the challenges described above, a growing number of organizations are turning to professional interim CEOs to help them successfully navigate through this turbulent time. A "professional" interim is a well-seasoned hospital or health system CEO with significant interim and turnaround experience. Turnaround experience is essential if the organization is facing difficulty and if the board is looking for more than a "seat warmer" during the CEO search. These executives are not looking for something to do during retirement, nor are they seeking a permanent position as they have made a career choice to work with organizations in transition and crisis. Such an individual can:

- Bring a résumé demonstrating the ability to quickly assess an organization's needs, develop credibility, and earn the trust of all constituencies. Without a personal stake in existing programs and services or pre-existing relationships with staff, bringing an objective point of view enables difficult decisions to be made when needed. If the organization needs a cultural change, such as developing accountability, the professional's skill set enables the difficult transformation.
- Help the board to ensure that the organization's mission and vision are on point and the position description and criteria for the permanent CEO are appropriate, and assist in the selection of an executive recruiter and the negotiation of their contract.
- Stabilize the organization by supporting the board, staff, and community as they adjust to the loss of their CEO. If the permanent CEO is on an extended leave for personal or medical reasons, an interim demonstrates to all stakeholders that the board values its staff, as there will be a job for the CEO when the leave is concluded.
- Complete an objective assessment and present to the board a plan to make needed course adjustments. If a turnaround is needed, the professional interim can quickly proceed to stabilize the organization by addressing the root causes of the organization's failure to thrive, utilizing tools and systems that have proven successful in multiple similar situations. Turnarounds are intense, time-consuming efforts that are not generally done well by existing staff who usually do not have the objectivity, tools, and experience, are caught up in the whirlwind of daily operations, and cannot provide the intense sustained focus that is needed. A "slash and burn" methodology must be avoided as a balanced approach of managing expenses and building revenue is needed. A turnaround executive can serve as a "chief restructuring officer" working with the board and the executive team to accomplish a turnaround.
- Do any "heavy lifting" required to position the organization for success. While sensitive to the ramifications, the outside interim will not be constrained by concerns for promotion, retirement, or long-term relationships. Place the black hat on the interim "outsider" to position the organization to succeed as a well-positioned organization will attract stronger candidates by obviating the need for them to make difficult decisions, which may bring political baggage shortly after appointment.
- Mentor individuals promoted from within, or provide an onboarding process for the new CEO. Too often a newly hired CEO is left to his or her own devices, leading to frustrations, mistakes, and resignations. Providing a thorough orientation and support for a period of time shortens the learning curve enabling them to become effective and successful more quickly. This process is equally important for the individual promoted from within, as transitioning to the role of a CEO is a significant change process.

What to Look Out For

The selection of an interim CEO needs to be done quickly to stabilize the organization and to provide the necessary time for the search for the permanent CEO. However, be aware:

- Some management firms offer interim executives who may lack seasoning in a CEO position contending with like issues and culture. They may offer a lot of "support" from the home office, but it comes with a price.
- If your organization is in distress, an interim CEO with turnaround experience is essential as this is not an on-the-job training opportunity.
- Your interim CEO should not be a candidate for the permanent position. (There have been success stories from organizations hiring their interim CEO after realizing that this person is indeed the best one for the job; however, for reasons described above it can be problematic if this person expects they will be considered for the permanent position.)
- Obtain an interim CEO from outside your organization so you can benefit from an objective, fresh perspective. Qualified interim CEOs are uniquely prepared for the position and not just "in the right place at the right time."
- If your CEO was terminated due to poor performance, do not rely upon a member of the existing team to provide change leadership during the turbulent interim period.
- Seek an interim CEO who can document a successful track record of interim achievements in multiple organizations.
- The interim period should not go on too long as the search for the permanent individual

needs to proceed with deliberate haste. If the organization needs a turnaround, cultural change, or other major work to better position it to attract strong candidates, negotiate reasonable timelines to help ensure things move crisply. Cultural change takes years and the interim can only lay the foundations. Continuing to build on these foundations needs to be goals for your new permanent CEO.

- Bringing in an interim can be costly, but experience shows that the tangible and intangible return on investment greatly exceeds the cost. A properly constructed engagement can help to ensure this outcome.

Succession Planning

Forward-thinking hospitals and health systems have vigorous succession planning/leadership development as a part of their culture to help ensure they can consider promoting one of several executives to CEO. These plans do not guarantee an internal candidate will be selected; to be ready the candidate must have both ability and experience.

Most boards obtain a financial audit yearly but prefer to rely on management reports in lieu of operational audits. Boards need to trust their CEO but should not be blind, so an objective organizational assessment, particularly at the time of a leadership change, will help the board ensure the internal executive they are considering for promotion has the necessary skills and leadership abilities. As succession/leadership development plans are usually created internally, an external assessment of the organization may reveal which internal candidate has the requisite skills to be selected, or help to determine if looking outside the organization is the best choice.

Should the board decide to engage an interim CEO, the board will need to come to a clear agreement on what is expected of the interim CEO within a specific timeframe, and communicate those expectations effectively. If the organization is in difficulty, it is advisable that the board probably wait until the organization is stabilized and on stronger footing (with the help of the interim CEO) before undertaking the search for a permanent CEO.

The Governance Institute thanks Peter J. Betts, LFACHE, president, Peter J. Betts & Associates, Inc., for contributing this article. He can be reached at peter@peterjbetts.com.

New Publications and Resources

Moving Forward: Building Authentic Population Management through Innovative Payer Relationships (White Paper, Winter 2013)

Bringing Hospitals Together to Provide High-Quality Care
(Case Study, April 2013)

***BoardRoom Press*, Volume 24, No. 2** (*BoardRoom Press,* April 2013)

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The Governance Institute Conferences

Chairperson, CEO, & Physician Leader Conference in June

On **June 2–4, 2013,** at **The Ritz-Carlton, Laguna Niguel,** CEOs, board chairs, and physician leaders will come together to discuss and learn about moving forward in today's challenging healthcare world. This conference will help strengthen the relationship between the board chair, CEO, and physician leaders; address governance and healthcare topics that are relevant, timely, and pressing; and provide an opportunity to exchange ideas with other board chairs, CEOs, and physician leaders. *This conference is only available to Governance Institute members.*

Presenters at this conference include:

- **Cory Booker:** Moving Forward Together: Challenging Discussion, Courageous Decisions
- **David A. Shore, Ph.D.:** Launching & Leading Change Initiatives: The Essential First Mile
- **Lisa Goldstein:** Moody's Outlook: Productive Discussions with Your Rating Agency
- **Kenneth Kaufman:** Moving Forward: Five Hard Things
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Governance Support Conference in Washington, D.C.

Join us for this year's **Governance Support Conference** at the **Fairmont Washington D.C., Georgetown** from **August 4–6, 2013**. This conference is designed especially for governance support professionals. It provides governance support professionals from around the world the opportunity to hear expert speakers, learn about new resources, and gain knowledge on current healthcare trends so they can better support their boards. This conference also presents the opportunity to network with peers and gain insights from those with a similar commitment to elevating board performance.

Presenters at this conference include:

- **Thomas A. Atchison, Ed.D.:** Healthcare through the Eyes of Governance Support Professionals
- **Brian J. Silverstein, M.D.:** The Change Paradox: Early Indicators of the Next Generation Model
- **Michael W. Peregrine, Esq.:** The Digital Information Exchange & Its Impact on Governance Support
- **Marian C. Jennings, M.B.A.:** Strategic Planning in a Time of Turmoil: Impact on Board Roles & Processes

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