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Health Care Boards Seek a New Kind of CEO

Amanda Gerut, August 27, 2012

All companies have spent the past few years dealing with economic challenges. But in the health care industry, which is supposedly recession-proof, a combination of legislative change, consolidation and aging CEOs has driven boards to conclude that the executives in the corner office may not be qualified to lead their companies in the next decade.

A recent survey of health care CEOs shows a large majority would be happy to stay with their companies for the next half decade while they navigate the Affordable Care Act and the poky economic recovery. Yet consultants and recruiters who specialize in the health care industry say that boards with a gimlet focus on their companies' future strategic direction are making changes at the top.

"The biggest challenge for sitting health care CEOs and their boards in succession planning is the narrowness of the current health care talent pool, given how rapidly the environment has shifted," says Sarah Ladd Eames, a managing director with Russell Reynolds Associates' health services and global life sciences practices.

At many health care companies today, the internal talent simply doesn't match up with the experience successful CEOs will need going forward. Therefore, boards and CEOs are likely to hire executives for roles two or three levels below the CEO so they can be groomed to take on the top job one day, says Eames in an e-mail response to questions. And they are looking beyond their own sector, at executives in industries that have gone through shifts similar to those that health care companies face: technology, the digitally revamped consumer products industry and other highly regulated sectors, she says.

Yet some health care CEOs may not realize that their jobs have evolved beyond their skills. Search firm Witt/Kieffer's survey of 200 public, private and non-profit company CEOs found that 42% believed they were more than five years away from retirement, and 24% said they planned to retire in four or five years. The vast majority of CEOs, 83%, say they're not ready to retire because they want to help solve the challenges their companies will face in the coming years. And half say their companies don't have anyone ready internally to fill the CEO position.

Tom Quinn, a vice president in Witt/Kieffer's Boston office, says the fact that so many CEOs want to stay in their jobs is good news for boards with chief executives who are performing well and can lead the company in the future. But for boards that aren't happy, the CEO's desire to stay in the position can make succession discussions more difficult.

It can also make it hard for the board to encourage the CEO to develop bench strength. "[CEOs from] health plans in general have lagged behind in working with the board on formal succession planning," observes Quinn.

Despite CEOs' enthusiasm for their jobs, many boards are showing them the door. According to search firm Challenger, Gray & Christmas, CEO turnover among health care companies has increased from 2011 to 2012 and is driving up overall CEO turnover figures this year. Challenger data report 140 health care CEO changes in 2012 so far, including 13 in July alone, compared with 109 in 2011 at this point. Turnover in health care in 2010 was even higher than last year, with 201 total CEO departures, the firm reported.

The Health Care Learning Curve

Several factors are having an impact on succession planning and CEO turnover at health care companies, says Sanjay Saxena, a partner in Booz & Co.'s North American health practice. First, the industry is highly regulated, which always adds complexity to business operations. Second, the industry has traditionally been so broad in scope that executives in one health care subsector have a steep learning curve if they move to another.

But in recent years, health care M&A activity has blurred the lines between those subsectors. As a result, many companies now need a CEO with experience in more than one specialty. For example, in May, DaVita, a kidney care provider, bought HealthCare Partners, which operates medical groups. Insurer UnitedHealth Group bought a physician group called Monarch HealthCare last year. Another insurer, WellPoint, bought AmeriGroup in July after acquiring 1-800 Contacts, which sells lenses to retail customers, and CareMore, which provides care to senior citizens.

All those acquisitions are changing the industry's structure and dynamics, says Saxena. "It's not surprising that you see the need for a different kind of CEO than one who perhaps has spent their entire career in a particular sector," he says. "When organizations change what they do, so too do the kinds of talent that you need from the leadership team, and in particular the chief executive."

Finally, health care organizations have suffered, fairly or not, from poor reputations. They don't rank highly in terms of public trust, so they often have trouble attracting the top-tier talent that technology and consumer products companies do, says Saxena.

"When you piece all that together, what you see in the industry… is that CEOs tend to be outsiders as opposed to internal succession candidates," he says. "You're seeing a lot of health care organizations looking at bringing in people who have come from different subsectors of the industry altogether and moving them into either CEO positions or making plans to eventually bring them into the CEO position."

Poised for Growth

On top of everything else, the health care industry is about to grow even larger, and CEOs need to be able to handle—and capitalize upon—the coming growth. The U.S. Bureau of Labor Statistics shows that the industry has been expanding. The bureau predicts that from 2010 to 2020, the health care industry will represent 28% of all the new jobs created in the U.S. A grayer population, longer life expectancies, and innovation in treatments and technology will all contribute to that growth.

Even boards that think their CEOs are a good bet for the future face risks. Wayne Cascio, a professor of management at the University of Colorado Denver and the Robert H. Reynolds Chair in global leadership, says that given the industry's high CEO turnover, health care board directors have reason to worry that their chief executive will be lured away by a rival.

"Other firms in the health care industry are looking to replace their departing CEOs, and frequently they will cannibalize or poach those from competitor firms," Cascio says. "In many ways, it's impossible to see that coming, unless the CEO sends signals that he or she is looking elsewhere."