

Perceptions of Hospital CEOs about the Effects of CEO Turnover

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Abstract. Empirical evidence is scarce on chief executive officer (CEO) turnover in U.S. hospitals, with potentially serious implications for many of these organizations. This study, based on a nationwide survey of CEOs at non-federal general surgical and medical community hospitals conducted in the spring of 2004, reports the perceptions of hospital CEOs regarding the circumstances and impact of CEO turnover on U.S. hospitals. In the opinion of the respondents, the impact includes competitors taking advantage of turnover by luring employees and physicians away from the target hospital, significantly increasing the likelihood of other senior executives leaving the hospital, and many of the important strategic activities being delayed or cancelled altogether. Interestingly, the perceptions of CEOs regarding the effects of turnover do not seem to differ regardless of voluntary or involuntary circumstances of turnover. However, there is a notable bias in emphasizing the perceived negative implications of respondents' own departures and allegedly positive effects of their predecessors' departures.

Key words: CEO, competition, executive, hospital, turnover

Change at the top occurs rather frequently in U.S. hospitals. According to the American College of Healthcare Executives (ACHE), CEO turnover from 1996 to 2002 fluctuated between 14%–18% per year (Staff Reporter 2003). Reilly (2003) reported turnover rates that ranged from 13%–18% between 1983 and 1999. Studies examining the effects of CEO turnover provide valuable information to stakeholders, including CEOs, boards, medical staff, executive

search firms, and academics (Dwore and Murray 1989; 1996).

Previously, Weil and Timmerberg (1990) examined hospital CEO turnover in the context of predictors and determinants of change, while Molinari, Hendryx, and Goodstein (1997) looked at the impact of changes in CEO-board relations on a hospital's financial performance. Apparently, a board forcing a CEO to leave has only minor impact on the number, type, and composition of board committees (Farrell and Whidbee 2002). The effect of CEO departure on R&D, advertising, capital expenditures, and accruals have been studied only in organizations where poor economic performance preceded the CEOs departure, but not in settings where the CEO retired as a matter of routine succession (Murphy and Zimmerman 1993). No studies have been done to understand the breadth or intensity of the effects of CEO turnover. For example, cost-cutting efforts, development of new services, or purchase of capital equipment can be delayed or cancelled if the CEO departs. Disruptive effects may also include delays in strategic planning, market repositioning, or development of fiscal plans.

This study examines the perceptions of CEOs regarding the impact of turnover on activities, structure, and performance of hospitals and actions taken by competitors in response to CEO turnover.

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The study further explores whether there are underlying differences in the way CEOs perceive the impact of their own departure as compared to the effects of their predecessors' departures.

Methods

Using the methodology developed and employed by ACHE in previous studies, and based on the number of CEO turnovers in the past five years, the 4,700 U.S. non-federal general surgical and medical short term hospitals were divided into categories of low turnover and high turnover hospitals (*low* = 0–1 CEO turnovers; *high* = 2–5 CEO turnovers). A structured questionnaire consisting of 25 open- and close-ended questions was mailed in February 2005 to a random sample of 1,202 low-turnover hospitals and to all 916 high-turnover hospitals, with a combined total of 2,118 hospitals. The questionnaire was accompanied by a cover letter and a postage paid preaddressed envelope. Approximately three weeks after the first mailing, another copy of the survey accompanied by a modified cover letter and another postage paid preaddressed envelope was mailed to those CEOs who did not respond to the first mailing.

The survey questions addressed a broad range of issues. This report focuses only on the impact of the respondents' departures from their previous hospitals and their predecessors' departures from their current hospitals. A copy of the full survey may be obtained from the lead author.

Results

Completed surveys were returned by 805 hospital CEOs, yielding an overall response rate of 38%. Slightly more than half (389 out of 760) had been CEOs at other hospitals prior to being in their current positions. The rest had either been promoted internally, had been CEOs in non-hospital settings, or had never been CEOs in any setting. The average tenure of those who were previously hospital CEOs was about 5.5 ± 4.4 years (median 4.5).

About two-thirds ($n = 266$) of the respondents indicated that they departed voluntarily from their previous hospitals, while one-third ($n = 110$) left involuntarily. The percentage of involuntary departures increased when asked about the circumstances of their predecessor's departure from the respondent's current hospital. Almost half (389 out of 805) of the respondents indicated that their predecessors left voluntarily, while 47% reported that the departures were involuntary.

When queried about their previous institutions, 57% (213 out of 375) of the respondents indicated that they were "completely," "very," or "quite" knowledgeable about the changes that took place at their former hospitals after they left. Limited to these CEOs, questions were asked regarding the degree of competition in the previous hospital's market place, as well as the behavior or response of competitor hospitals to CEO turnover. A majority of the respondents felt their past (65%) and current (61%) markets were highly (quite, very, or extremely) competitive, while only a small number (7%) considered them to be not or minimally competitive.

One of the potential effects of CEO turnover is competitors attempting to take advantage of the situation. In table 1, we list the four most common competitor actions following the departure of respondents and their predecessors. In the opinion of the respondents, competitors often marketed heavily following a CEO turnover and attempted to recruit target hospitals' key employees and physicians. Less frequently, competitors opened clinics in their markets.

Table 2 summarizes the perceived effects of CEO turnover on respondents' current or previous hospitals. One-third to nearly half of the respondents indicated that many important activities were postponed or halted after their departures. Cost cutting, service closures, and staff reductions were commonly initiated after CEO departure. Reportedly, community outreach, physician recruitment, development of new services, and strategic planning were most often postponed or halted following a turnover. We evaluated whether the circumstances of CEO departure differently affected their current or previous hospitals. For each activity in table 2, we compared the impact of voluntary departure to that of involuntary departure. For example, initiation of construction projects at respondents' previous hospitals after voluntary turnover was compared to that after involuntary turnover. In both sets of analyses (i.e. previous hospitals and current hospitals), no statistically significant differences were noted. Similar analyses were carried out to examine the effects of voluntary and involuntary turnover on competitor behavior. Again, no statistically significant differences were observed.

Table 3 shows the CEOs' estimations of change in organizational performance following a turnover. The respondents were asked whether financial per-

TABLE 1. CEOs' Assessments of Competitor Actions Following CEO Turnover

Competitors' Actions	Impact of your departure from the previous hospital					Impact of your predecessor's departure from the current hospital					<i>p</i> *
	Yes		No		Total	Yes		No		Total	
	<i>n</i>	%	<i>n</i>	%		<i>n</i>	%	<i>n</i>	%		
Opened clinics in your market	35	21	132	79	167	95	13	642	87	737	.0073
Recruited your physicians	78	43	103	57	181	167	23	573	77	740	.0000
Marketed heavily in your service area	87	50	86	50	173	283	36	455	64	738	.0039
Recruited your key employees	75	44	94	56	169	176	24	551	76	727	.0000

* *p* values relate to differences in row proportions.

formance, quality of care, mix of services, and employee morale were positively or negatively affected by CEO turnover at their former and current hospitals. It was interesting, but not unexpected, that the CEOs reported many more negative effects at the hospitals they left and many more positive effects at their current hospitals. For example, 85% and 78% of respondents correspondingly indicated that their departures had negative effects on employee morale and hospital culture. In contrast, 71% and 78% reported positive effects on employee morale and hospital culture after their predecessors departed from their current hospitals.

The respondents were also asked about the number of CEOs their current hospitals had in the past five years. While 43% of hospitals had one CEO in the past five years and 33% of hospitals had two CEOs in the past five years, 25% of hospitals had three or more CEOs in just five years. The survey also sought to determine if there were problems filling vacant CEO positions. As shown in figure 1, just over 40% of positions were filled in less than three months, while another 27% were filled in three to six months. However, one-fourth of the hospitals took six months to a year to replace the departing CEO, while about 5% took longer than a year.

Turnover of CEOs was also found to affect the stability of other executive positions. Table 4 shows that those closest to the CEO were most likely to leave following the CEO's departure. More than three-fourths of assistant and associate administrators or vice-presidents left within a year of the CEO's departure. Likewise, the same percentage of chief medical officers turned over in this time. More than half of chief operating officers and 42% of chief financial officers left following their

CEO's departure. Other positions, such as the chief nursing officer and chief human resource officer, appeared more shielded, with turnover rates at 26% and 37%, respectively. Chief information officers were the least affected, with a turnover rate of only 14%.

Our survey also investigated whether the CEO turnover caused the hospital to merge or affiliate with another hospital or system. As shown in table 5, CEO turnover appeared to have little effect on mergers and affiliations. A very small percentage of hospitals actually reported these activities in the past five years and less than half of them suggested that these were caused by CEO turnover.

Discussion

Given the heightened financial and political pressures endured by CEOs, high turnover in U.S. hospitals will almost certainly continue. Our research suggests that such turnover has specific effects in a hospital market. The responding CEOs indicated that competitor hospitals used CEO turnover to increase their own market shares by enhancing marketing, opening new clinics, and attracting key employees and physicians from the target hospital. These events were reasonably consistent at the current and previous hospitals, regardless of whether the CEO turnover was voluntary or involuntary. We would have predicted that involuntary turnover might have attracted more challenges from competitors and created more turbulence at the parent hospital than involuntary turnover. However, our findings suggest that there is little difference between the two groups. This may be a reflection on the wide variety of reasons, such as interpersonal relations and poor operations that can lead to voluntary or

TABLE 2. CEOs' Assessments of the Impact of CEO Turnover on Organizational Activities

Activities affected	Impact of departure from previous hospital					
	Initiated		Postponed or halted		Not affected	
	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
Construction projects	12	6	74****	37	115	57
Purchasing new equipment	9	5	72**	38	111	58
Community outreach	3	2	92****	49	91	49
Physician recruitment	16	8	87****	45	90	47
Developing new services	15	8	102****	56	66	36
Strategic planning	14	8	94****	52	72	40
Cost cutting	53	28	27 ^{NS}	15	106	57
Closing services	45	26	20 ^{NS}	11	109	63
Reducing clinical staff	42	24	11*	6	120	69
Reducing administrative staff	51	27	14*	8	121	65

Note. *p* values relate to differences in distribution of responses for previous versus current hospitals. NS = Not statistically significant. **p* < .05. ***p* < .001. ****p* < .0005. *****p* < .0000.

TABLE 3. CEOs' Assessment of the Impact of CEO Turnover with Respect to Organizational Performance

Activities affected	Impact of your departure from your previous hospital					
	Negative		Positive		No impact	
	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
Financial performance of the hospital	118*	57	13	6	76	37
Quality of care at the hospital	74*	37	5	3	121	61
Mix of services offered by the hospital	66*	33	6	3	131	65
Employee morale	178*	85	4	2	27	13
Medical staff relationships	153*	74	17	8	38	18
Hospital/Board relationships	116*	59	11	6	71	36
Community relations	146*	71	4	2	56	27
Hospital culture	159*	78	2	1	43	21

Note. *p* values relate to differences in distribution of responses for previous versus current hospitals. **p* < .0000.

involuntary departures, and the possibility that competitors may not know or care about the reason for turnover.

CEO turnover resulted in considerable disruptive effects on growth and developmental activities, such as construction projects, the purchase of new equipment, and strategic planning. Cost cutting and downsizing activities were also frequently undertaken, regardless of the circumstances of CEO turnover. For example, initiation of cost cutting activities was reported at 28% of previous and 37% of current hospitals. Positive effects at existing hospitals and negative effects at former hospitals were reported on

organizational performance, culture, and environment. Similarly, more than half to three-quarters of respondents reported positive effects at current hospitals and negative effects at previous hospitals on financial performance, employee morale, medical staff relations, and hospital culture.

The positive or negative pattern of respondents' assessment was clearly a function of whether they were reporting effects on their current hospital or previous hospital, revealing a demonstrable response bias. Overall, CEOs reported that their previous hospitals became vulnerable and experienced serious turbulence because of their departures. For example,

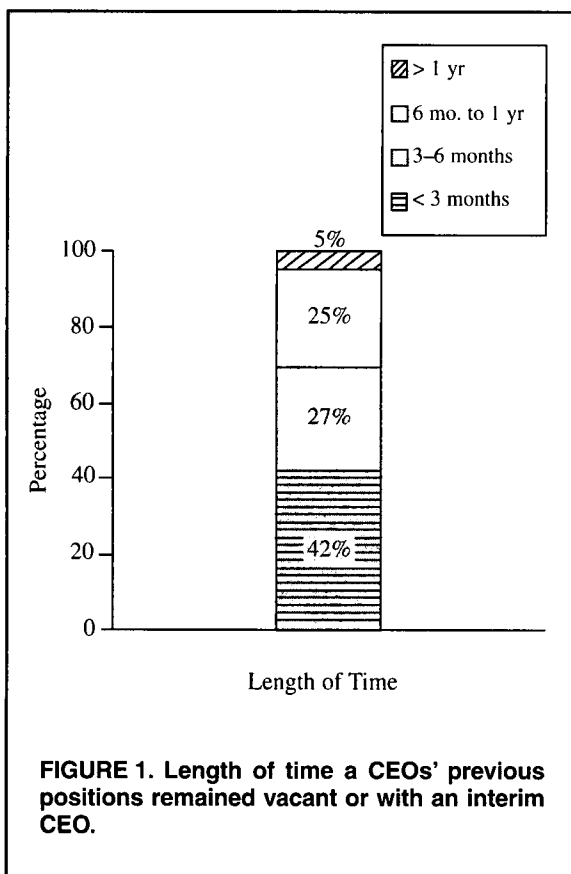
Total	Impact of predecessor's departure from current hospital						Total
	Initiated		Postponed or Halted		Not Affected		
	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	
201	119***	15	177	23	473	62	769
192	156****	20	186	24	428	56	770
186	186****	25	170	23	391	52	747
193	206****	27	190	25	373	49	769
183	321****	42	224	29	228	29	773
180	310****	40	230	30	236	30	776
186	285*	37	126	16	356	46	767
174	133*	18	122	16	504	66	759
173	106**	14	90	12	556	74	752
186	177 ^{NS}	23	97	13	486	64	760

Total	Impact of your predecessor's departure from your current hospital						Total
	Negative		Positive		No impact		
	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	
207	68	9	471	60	244	31	783
200	35	4	402	51	348	44	785
203	29	4	374	48	376	48	779
209	107	14	531	71	109	15	747
208	113	14	557	71	113	14	783
198	77	10	533	69	167	21	777
206	88	18	485	63	201	26	774
204	77	10	566	73	135	17	778

they more frequently reported expansionary activities of competitor hospitals in their previous markets than their current hospital markets. A similar negative spin about the effects on the previous hospital and a positive spin on their incumbent situation emerged in CEO responses to other questions as well. For example, a high percentage of CEOs reported negative effects of their departures on community relations, medical staff relations, hospital culture, and employee morale at their previous hospitals. However, their assessment was quite the opposite for the hospitals where they took charge as the new CEO.

Essentially, the CEOs seemed to suggest that their predecessors' departures were positive things, while their own departures from their former hospitals were detrimental and resulted in organizational instability. These findings point to the need for empirical evidence of the impact of CEO turnover, rather than a reliance on the opinions of those in leadership positions.

Though most hospitals rapidly found replacements for their departing CEOs, our findings reveal that a small percentage of hospitals experience excessive turnover and face difficulties in recruitment and replacement. Evidently, 30% of hospitals took more



than six months to fill the CEO position and 5% took more than a year. In today's rapidly changing environment, this delay may damage a hospital's competitive position. Likewise, almost 30% of hospitals had three or more CEOs in the past five years. This revolving door type of leadership lacks continuity and certainly damages a hospital's ability to meet its mission and serve its community.

The survey also shows the effect of CEO turnover on other executive team members who generally provide shared leadership for a hospital. Our research demonstrates that those closest to the CEO are at the greatest risk for turnover. The frequency of this turnover was very high for associate and assistant administrators, chief medical officers, and chief operating officers. Clearly, hospitals need to understand the value of retaining members of the executive team when experiencing CEO turnover and act accordingly.

Overall, our research provides perceptual information regarding the impact of CEO turnover. Given the frequency of turnover, hospitals need to be prepared for such events and the impact of these events on the organization. This study provides valuable information about various aspects of such impact.

TABLE 4. Senior Executive Team at Current Hospital and the Influence of the Predecessor's Departure

Executive positions	Hospital with one or more officers	Officers who left after departure of predecessor CEO	
	<i>n</i>	<i>n</i>	%
Associate or assistant administrators or vice presidents	190	147	77
Chief nursing officer	223	58	26
Chief financial officer	210	88	42
Chief medical staff officer	64	49	77
Chief human resource officer	138	51	37
Chief operating officer	88	46	52
Chief information officer	57	8	14

TABLE 5. Activities in the Past Five Years Resulting from CEO Turnover

Events	Frequency							
	Happened in the past 5 years				Resulted from CEO turnover			
	Yes		No		Yes		No	
	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
Merged with another hospital	36	8	399	92	11	4	268	96
Became part of a non-for-profit system	48	11	392	89	13	5	266	95
Became part of an investor-owned system	34	8	400	92	7	3	263	97

Limitations

As with any survey research, this study is dependent on the recall and perceptions of the respondents. Therefore, the results must be seen as perceptual outcomes. An interesting extension of this work would be to evaluate the accuracy of these perceptions. Also, the impact of CEO turnover is likely to be a function of hospital characteristics, such as geographic location, ownership, and size of the hospital. Data limitations, such as lack of temporal context, did not allow an exploration of the relationship between hospital characteristics and the impact of CEO turnover, nor did it allow for empiric evidence of the impact of turnover on organizational performance. Further research should be focused in these areas.

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