

## **NRHA Policy Paper: Rural Hospital CEO Turnover**

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### **I. Introduction**

Rural hospital closures across the United States have become a growing public concern. The 2016 iVantage “Rural Relevance – Vulnerability Value” study demonstrated that = 673 additional facilities are vulnerable and could close, representing more than one-third of rural hospitals in the United States.<sup>1</sup> The American Hospital Association summarized current conditions in this manner: “Many rural hospitals, especially those with very limited resources, become overburdened as challenges intensify, accumulate and compound each other.”<sup>2</sup> This creates a snowball effect that leads to a lack of capital, which reduces investment in new infrastructure and results in lowered standards of care or hospital closures. Growing behind the crisis of health care provider and nursing shortages is the shortage of qualified leaders to oversee their operations.

Executive leadership is critical to the success of any organization — particularly for hospitals and health systems facing new regulatory and financial challenges. The need for strong and steady leadership has never been greater, yet turnover rates for top executives in America’s hospitals are high. CEO turnover rates average 18 to 20 percent per year, with turnover rates as high as 30 percent in some states, according to a report by the American College of Healthcare Executives. The complications of unstable leadership can have a significant short- and long-term impact on a hospital, quality of care and the broader community.<sup>5</sup>

“Leadership is the single highest predictor of rural hospital success, and today’s CEOs in many of these communities are leaving their positions too often,” says NRHA CEO Alan Morgan. “With CEO turnover rates exceeding 20 percent in many communities, this means that one in five CEOs are leaving their positions regularly.”<sup>4</sup>

Morgan adds that along with other pressures inherent in today’s changing health care environment, these same hospitals can be at further risk of closing. Compounding the issue is the ever-changing health care delivery models that make it hard for small rural hospitals to properly maintain qualified staff who can navigate all the variables required to be successful. With health care rapidly evolving, hospitals and health systems are exploring different paths to transform their organizations. With these needed changes for survival come the need for strong, knowledgeable leadership.

Taking matters one step further, rural facilities also need an educated, well-informed, and engaged board of directors. Boards are typically unpaid positions at nonprofit hospitals, and requiring continuing education is often a reason to not join or maintain memberships on rural boards. Other factors that may be relevant to a rural hospital



CEO's strained relationships with the hospital's board include cultural misalignment, burnout, and non-competitive compensation.

Factors associated with turnover in this position nationally include organizational restructuring, movement of CEOs to different positions within health systems, and CEO retirements.<sup>5</sup>

## II. Contributing Factors

The struggle of the rural hospital is real. "Hospitals and health systems continue to evolve to meet the changing needs of the health care environment," says Deborah J. Bowen, FACHE, CAE, ACHE's president and CEO. "Organizational restructuring, the movement of CEOs to different positions within health systems, and the fact that many CEOs are reaching retirement age all contribute to this high level of turnover in hospital CEO positions. Succession planning for C-suite positions, along with a focus on developing the next generation of leaders, is key to organizational success."<sup>6</sup>

Succession planning in rural areas is made even more difficult by the size of the organization. Rural facilities require their employees to "wear multiple hats", sometimes even the CEO. Attempts of succession planning to train a replacement are limited by workforce numbers. As rural hospitals move towards requiring a master's degree or 7 to 10 years of experience, the pool becomes even more limited.

Yaffe & Company designed a study to help the Kansas Hospital Education and Research Foundation identify the top reasons for hospital CEO turnover in Kansas, and the survey findings uncovered the following causes:<sup>7,8,9</sup>

- *Challenges with helping board members understand their roles.* The Bureau of Labor and Statistics defines a chief executive officer (CEO) as a professional who determines and formulates policies and provides overall direction of companies or private and public sector organizations within guidelines set up by a board of directors or similar governing body. CEOs are involved in the planning, direction, and coordination of day-to-day operations at the highest level of management with the help of assistant executives and staff managers. The role of a hospital board of directors is to serve as the governing body of the hospital. The board is responsible for oversight of the hospital but should not be involved in the day-to-day operations.

According to the Yaffee study, many rural hospital CEOs have difficulties working with their board of directors because 1) the board does not understand their role and tries to get too involved in the day-to-day operations of the hospital, 2) board members do not understand the challenges rural hospitals are facing, and/or 3) board members are not educated about rural health challenges.<sup>7,8,9</sup> Boards that



become too involved in operations run the risk of creating a relationship of distrust with their administrative team. Boards need to maintain confidence in their appointed leaders so they can focus on strategy and policy rather than operations. Often board members are appointed by local elected entities without proper training and onboarding. These issues result in the board of directors blaming the hospital CEO for the financial situation of the hospital, often resulting in the firing of the hospital CEO.

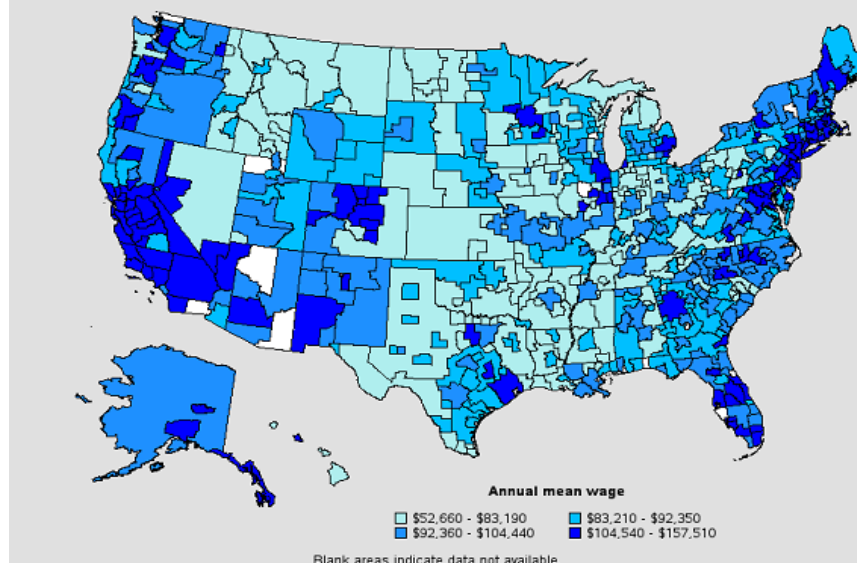
- *Regulatory and reimbursement environment is becoming more challenging.* According to the American Hospital Association, Medicare and Medicaid comprised 56 percent of rural hospitals' net revenue for 2017 – “yet overall hospitals receive payment of only 87 cents for every dollar spent caring for Medicare and Medicaid patients.” When a shift in federal policy occurs, hospitals that rely on government (Medicare and Medicaid) payers are at greater risk. The Affordable Care Act (ACA) mandated annual payment cuts that have totaled 8.95 percent from 2010 to 2020 and will continue to increase on an annual basis.

In addition, Medicare sequestration has reduced payments to all hospitals by 2 percent, including CAHs, which saw a reduction in payment from 101 percent to 99 percent of allowable costs.<sup>2</sup> Hospitals in states that did not expand Medicaid under the ACA are seeing negative impacts with higher uncompensated care, resulting in a higher number of hospital closures in those states.

Often a board will look at financial performance as the sole responsibility of the CEO, while there are many factors outside the control of the CEO, administrative team, or physicians. Reimbursement changes are often brought forth by state and federal entities without proper input by those who will be impacted directly. From value-based payment to other alternative payment models, hospitals are faced with increasing reductions to reimbursements and incentives that are counter-intuitive to the success of rural health systems. Decreases in inpatient and ancillary services are directly correlated to the performance of the CEO, while in fact they are the direct result of a successful population health movement. Boards need to be educated properly on the evolving rural health care market so they can properly evaluate the performance of their CEO.

- *Inability to maintain competitive compensation for rural hospital CEOs.* Hospital administrators are a vital part of the health care industry and will always be needed. Hospital CEOs in highly populous cities tend to receive greater pay than those in rural areas, as larger hospitals can afford to pay higher salaries. While a larger hospital may have several levels of administrative positions to support a hospital administrator, a rural health care administrator often must be a jack of all trades and be proficient in all aspects of health care administration. This results in more work for less pay, making it hard to compete with urban counterparts.

Annual mean wage of medical and health services managers, by area, May 2014



- *Difficult relationships between the CEO and the board.* As mentioned earlier, often the hospital CEO can have problems with their board of directors. Sometimes it might be an issue with just one or two individuals, but one bad relationship can result in intolerable circumstances for the CEO, causing them to walk away from the job. Local boards of directors may not understand the magnitude of changes to reimbursements such as sequestration, causing them to question how the CEO's leadership lead to a 2 percent decrease in reimbursement.
- *Geography and lack of community resources.* Rural communities lack the same resources as urban areas, such as quality shopping, healthy food options, quality education, a variety of community and athletic activities, peer support, etc. While many people who are not from a rural community think living small-town life might be a "change of pace," often folks cannot adjust and feel the need to return to an urban area. Sometimes it can simply be a lack of familiarity with "the way we do things here" that can be a barrier for the CEO.
- *Opportunity for professional growth and development.* As a CEO of a rural hospital there is no room for advancement. While one can access continuing education programs such as the Fellow of the American College of Healthcare Executives program, there are limited opportunities to go beyond the position, unless the hospital is part of a health system. Young administrators often want the opportunity for learning and growth that would enable them to succeed in leadership at a larger hospital.

### III. Outcomes



Rural hospitals have limited infrastructure, resources, and leadership compared to urban hospitals. Therefore, losing a rural hospital CEO can have a negative effect on the entire operation of a hospital. If there is a shakeup at the leadership level, the community questions the viability of the hospital. Personal experiences from rural hospital CEOs include:

- *Recruitment time is lengthy and expensive.* Losing a hospital administrator can be catastrophic to a small rural hospital, both operationally and financially. Since there is often not qualified staff at the hospital or in the community to take on a leadership role, recruiting is usually accomplished by contracting an outside resource to assist with the process. Recruiting firms can be expensive and often result in failure due to the incompatibility of prospective candidates. According to one rural hospital CEO, “We just hired a CNO at the cost of \$50,000 for a firm to recruit for because of the lack of qualified candidates in the state of North Dakota. To recruit a CEO would be higher. Our CNO position was open for almost a year while we were paying locum wages for an interim CNO.”<sup>10</sup>
- *Community partnerships and alliances can change.* It is very common for a leader to bring on his/her own team when hired. Sometimes this is immediate and sometimes it happens over time. When this leader is removed or leaves there is always uncertainty about what will happen next, who will remain, and who will be asked to leave or step down. This situation can cause stress throughout the staff and community. With each new administrator comes change.
- *Community becomes unsure of the stability of the hospital and leadership.* When a rural CEO is removed, there is more than likely talk around town of the struggles of the hospital. This is because if a rural hospital CEO is asked to leave or removed from his/her position, it is because the hospital is in financial distress or not doing well. Administrators are rarely asked to leave if the hospital they are running is doing well financially. This uncertainty can often cause feelings of distrust and lack of confidence in the ability of the hospital to provide adequate service among the public. According to one rural hospital CEO, changes within a small community can cause panic that can resonate to chaos, gossip, and potentially panic among health care providers who will leave the community.<sup>10</sup>

According to a study performed by Yaffee & Company, most hospitals do not go through and maintain a formal and documented succession planning process. The departure of a rural hospital CEO can cause cost cutting, service closures, and staff reductions, which are common after a CEO’s departure.<sup>7,8,9</sup> CEO turnover has affected growth and development activities, such as construction projects, the purchase of new equipment, and strategic planning. Often competing hospitals have 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.<sup>11,12,13</sup>





## IV. Solutions/Recommendations

Rural hospitals can implement procedures and processes that can help with preventing future CEO turnover. Potential solutions and recommendations for rural hospital board of directors include:

- *Focus on board leadership.* Board and committee chairs are critical to an organization's success, but often these leaders come from other industries and experiences. Having a board that is informed on health care finances, trends, and processes can help them provide informed support to the CEO. Implementing and/or mandating educational and training initiatives from an experienced, knowledgeable organization could be an option for board members upon being appointed and/or on an ongoing basis.
- *Improve the vetting process.* Create a CEO and board member profile that matches the needs of the hospital to improve board and CEO selection. A hospital board should know what kind of leader they need and what qualities they are looking for before starting a search. By knowing and recognizing the specific gaps and needs of the hospital and board, search committees would be better informed of what kind of leader/board member they need to hire/appoint.
- *Set clear expectations.* In many cases, CEOs are looking for compensation, clear expectations, and opportunities to grow the organization. "Provide a quality annual performance review and touchpoints throughout the year," suggests says Larry Unroe, Rural/Critical Access Practice Lead for Yaffe & Company and former CEO of Memorial Health System in Marietta, Ohio.<sup>5</sup> Utilization of third-party data and consultations are necessary to provide a buffer between the board and CEO, allowing for mediation when there are disagreements in compensation, philosophy, wage scales, etc. Erosion of trust between the CEO and the board of directors may happen quickly and has detrimental impacts on the health of the organization. The board of directors and the CEO need to be on the same page from the beginning.
- *Provide opportunities for growth.* CEOs, regardless of their tenure, need continuing opportunities for growth and education. Much like physicians need continuing education to stay on top of new and emerging methods of care, CEOs need time with their peers to discuss what others have found successful and what pitfalls they might encounter within their own organization. Boards should encourage CEO participation in community boards and organizations, as well as state hospital associations, regional health-related boards, and national organizations such as the American College of Healthcare Executives, the



Medical Group Management Association, and the National Rural Health Association.

- *Review the compensation process.* The board should have a formal compensation committee to ensure compensation is tied into a performance evaluation processes so the CEO knows what's expected. "Whether it's variable pay or merit pay, it's important to tie that into performance as a way to measure progress and success," Unroe says.<sup>5</sup> Utilizing third-party data, consultants, and other trusted sources will allow the board and the CEO to be more comfortable with the result.
- *Create a succession plan.* With a formal succession plan in place, it is easier to identify leaders who could step in on an interim basis or for the long term. "Whether you're dealing with planned or unplanned turnover, having a succession plan can help you navigate through that transition in leadership," says John Tolmie, Senior Vice President and Senior Consultant for Yaffe & Company and who served for 15 years as CEO of not-for-profit hospitals and health systems. Succession planning in rural leadership is becoming increasingly more difficult as the pool of potential leaders is shrinking. Finding individuals willing to take on the stresses and potential risk of such a high-profile position is difficult at face value. Finding an individual who is also willing to live in a rural and potentially remote location makes the search even harder. Growing leaders from within an organization can be promising, but rural areas often run into issues with nepotism that can erode the corporate culture and confidence in leadership.<sup>5</sup>
- *Utilize third-party data sources.* Remove any potential for either side to lose faith in the other when it comes to metrics or compensation. Bringing in a third party will allow both sides to put any negative energy onto that third party not onto each other.
- *Provide board support.* The board must either support the CEO or make a change in leadership. When a CEO is uncomfortable in their position or the support of their governing body, the organization will become stagnant. When the CEO does not feel they are supported, they will not be creative or forward-thinking, nor will they be willing to make decisions necessary to move the organization forward.
- *Encourage mentorship.* CEOs don't receive any outside advice on their leadership skills and might be receptive to suggestions from a coach or mentor to improve their leadership and overcome challenges. Rural CEO can equip themselves with a mentor for support and prevention of turnover and burnout. Outside resources (state hospital associations, American Hospital Association, National Rural Health Association) can prevent rural hospital CEO burnout and provide support through mentors and roundtables with other rural CEOs.



- *Provide board training.* While this may be viewed as an unnecessary expense or something an organization cannot afford in a given year, refusal to have an educated board that understands the CEO's struggle will only lead to increased friction. Just as the CEO needs to be equipped with the tools to do their job, it is also essential that the board is equipped with the tools and knowledge to perform their duty in the limited time commitment they are tasked with.

Certain organizations present opportunities for hospital support, such as American Hospital Association, National Rural Health Association, state hospital associations, and state offices of rural health. These organizations can help support rural hospital CEOs and the board of directors in a number of ways, including:

- Providing board education opportunities
- Providing hospital CEO education opportunities
- Facilitating a mentoring program
- Facilitating rural hospital CEO and board roundtables
- Developing executive programs for rural hospital CEOs

While there are no recommended policies to address rural hospital CEO turnover, there are a few structured programs that could encourage rural hospital boards of directors and administrators to become better educated and prepared for their roles, including:

- An accreditation process for rural hospital CEOs and/or board members, which would involve structured education designed to prepare them for their roles. There could potentially be tiers designed for beginning administrators/board members and more experienced ones. These programs could be hosted in conjunction with association meetings or completely on their own.
- A rural CEO/hospital board academy at the state or national level, which could be facilitated virtually or in real time by an experienced team. The academy could be offered annually or throughout the year and designed to educate and support participants throughout their tenure. There could also be a continuing support piece for alumni of the academy who could continue to meet annually.

## **V. Potential Policies and Initiatives**





While there is currently not a lot of information on this topic, it is obvious there is a need to address the problem of rural hospital CEO turnover. Several recommendations and potential policies and initiatives to alleviate this issue could include:

- *Increase federal research efforts.* Since there is not much information on this topic, a recommendation would be to allocate federal research dollars toward identifying models that do and do not work to support retention of rural hospital leadership, as well as models that would work to support rural hospital boards.
- *CEO and board education training.* This year, the state of Georgia began requiring hospital executives and board members at most of the state's rural hospitals to receive training on subjects like financial management and strategic planning to improve their decision-making and prevent their hospital's future decline. According to the article cited, nearly 60 rural Georgia hospitals must ensure their board members, CEOs, and chief financial officers complete at least eight hours of classes by the end of the next year or risk being fined and losing a valuable state tax credit.<sup>14</sup> These trainings could be hosted at the state or federal level with experienced instructors and potentially include a mentoring program. Rural facilities often rely on USDA financing to upgrade or build new facilities. While low-interest loans are a financial lifeline to many organizations, a lack of local leadership can still drive the organization into a risk of closure. Investment in rural leader development by the USDA could have a positive impact on keeping facilities out of the red and operating in the black. A national rural health leadership course and certification program could be developed in conjunction with the Federal Office of Rural Health Policy and other key stakeholders.

While we often hear that “if you have seen one rural hospital, you have seen one rural hospital,” there are many regulations and guidelines that we all must go through, such as CAH conditions of participation surveys or Life Safety NFPA regulations. Facilities typically employ individuals to monitor these areas, but it will be the CEO who is ultimately responsible when it fails. While nursing homes require both national and state exams for administrators, as referenced in “The Impact of Hospital CEO Turnovers in U.S. Hospitals,” 57 percent of respondents who had not been a CEO prior were promoted from within.<sup>11,12,13</sup> While promoting from within is good for the morale of the staff and in the eyes of the community, there is the risk of promoting someone without the basic knowledge of their day-to-day responsibilities beyond “management by walking around.”

Rural CEOs do not have natural mentorships and are often an hour or more away from their nearest colleague. Creating a formal education track will not only better prepare CEOs in rural hospitals, it will give them the tools to deal with regulatory items, implement changes more effectively, and communicate with their board of directors. Rural boards want to be better educated on rural health care delivery, but members frequently value their personal time more than time



spent learning about rural health care governance. Bringing outside education in to educate boards is not very feasible financially, and in some states such as North Dakota, there is a risk of getting out of compliance with state century code regarding spending on board-related education.

Similar to many issues facing rural hospitals and communities, many rural administrators and boards lack the resources and education to enable them to adapt and make the changes needed for survival. But there is hope: By recognizing the issue, the National Rural Health Association and partners can create and build the necessary resources to support our rural hospitals.



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