



WHEN YOUR PLAN B SHOULD BE YOUR PLAN A:

# THE CASE FOR EXTERNAL INTERIM MANAGERS IN HEALTHCARE

There has been a lot of discussion about the use of an interim CEO and other members of the C-suite in hospitals.

However, not as much has been said about the use of an interim department manager or director. Like an interim executive in the C-suite, the use of an interim resource in middle management in healthcare is a very subjective matter, depending on the situation driving the need. If a department is experiencing symptoms of poor management decisions by one or several leaders over a period of time, resulting in increased costs, high turnover, or poor employee engagement, or it has had a leader in a role for years who is leaving and there is no successor in sight, the use of an interim manager is always an option. Whether or not such an option is exercised lies in the eye of the beholder.

As a C-suite executive is typically more visible than a person in middle management, and much closer to a board due to organizational hierarchy, the decision to use an interim at the executive level is often not difficult.



After all, from a board's perspective, there is a need for someone at the top of the organizational chart, or "tip of the spear," to hold accountable. In middle management, where managers are in the trenches of departmental operations, there is less visibility from above and more specialization to duties, even licensure requirements. The need for an external interim may not seem as apparent. However, to be certain, it may be most appropriate to ascertain what the return on investment (ROI) is for an interim at any level. As with many things in healthcare, applying business principles such as ROI to hospitals may not be as simple as it seems.

There would likely be more research articles on the topic if it were. Instead, "research" on ROI for interim management is relatively limited and consists mostly of assertions by companies offering interim executives, claiming that there is a "strong ROI" and other benefits derived from the use of an interim. However, these statements are typically subjective and are more often marketing messages rather than cited research findings. Looking deeper into the organizational chart, at the director and manager-level roles, there is even less research available as organizations often slide peers over to assume additional duties when an incumbent manager or director leaves a position. While such a move seems efficient, it could cost an organization dearly.

Money is a finite resource in any organization, especially a hospital, and the use of an interim manager or director should be scrutinized in order for an informed decision to be made. Typically, though, when the opportunity arises to consider an interim manager, time is a more pressing issue since there may be a management void. Rather than fully assessing the pros and cons, hasty decisions are commonly made regarding the use of an interim manager, often based on general assumptions that an outside interim manager is too expensive to consider, especially in middle management. However, such a decision process does not allow for the creation of realistic expectations for performance, outcomes, timeframes, benefits, or costs. Rather, for the sake of time and often convenience, the decision is made with little or nothing of substance to support it.



In a science-based industry such as healthcare, making decisions with a lack of validated research can be viewed as counterintuitive.

Instead, hospital leaders need to lay out the logic so an organization can have a plan in place to make the decision to implement an interim manager that is quick and justified, and most importantly, the right fit for an organization.

A common reason for an organization to justify not needing to use an external interim resource is because there is an internal succession plan in place. However, this “Plan A” is only as strong as the preparation of those who will advance when an incumbent leaves a role. Succession plans, by their nature, focus primarily on who will assume a new role when a person leaves. To be truly effective, the benefit lies in why a particular person was identified. While a lot of leaders may sleep well at night knowing there is someone available to fill a void at any given time, this could very well be a false sense of security; more security can be garnered from knowing why that person was selected, giving merit to the fact that the person is vetted and ready for the new role. Unfortunately, identifying the right person does not happen as often as one might think or hope. Specifically, in healthcare, when an internal resource is moved over into an interim or permanent leadership position as a result of a vacancy, fewer than 17% of these internal successors have been adequately prepared for that role.<sup>1</sup> Furthermore, the odds are not in their favor, as research shows that 50% to 70% of people fail within 18 months of taking on a new role, according to a 2020 article published in [Forbes](#).<sup>2</sup>



As roughly half of the hospitals in the U.S. have no succession plan, and one-third to one-half of leaders leave involuntarily; it can be assumed that most hospitals are not as prepared as they should be for a succession of leaders, regardless of these leaders' levels in the organization.

Perhaps interim management, often considered a "Plan B," should be the true "Plan A." As part of its *Closer Look Series*, Stanford University recently published an article titled [Firing and Hiring the CEO: What Does CEO Turnover Data Tell Us About Succession Planning?](#)<sup>3</sup> The research suggests "boards usually appoint an interim leader because they fired the incumbent — not because the incumbent unexpectedly resigned." The primary reason for involuntary termination is financial, but poor financial performance can be a symptom of a lot of other problems. Poor financial performance is usually the "straw that broke the camel's back," a manifestation of other issues such as employee engagement, turnover, and operational inefficiencies. In such cases, when pondering the use of an interim, one question can be asked: How well can an outsider tackle these issues?

Perhaps a better question may be, is the next person in line the best person to tackle these issues?



For the latter question, statistics resoundingly say no.

Of course, the decision to use an interim manager is situational; the circumstances often drive the need depending on whether the incumbent voluntarily left the role or was involuntarily terminated. As mentioned earlier, though, research on the return on investment (or RoIM, "return on interim management") is limited domestically. However, that is not the case in Europe, where interim management was introduced in the 1970s and has been studied as recently as the past decade to determine its effectiveness. Specifically, a 2017 European study of "Interim Leadership Personalities" by the [Helmut Schmidt University](#)<sup>4</sup> showed that 86% of the time, the added value of interim management exceeded the costs incurred many times over 1.0, or breakeven. Separately, in an evaluation of 700 assignments conducted in 2014 and 2015, [Ludwig Heuse GmbH](#),<sup>5</sup> a consulting firm in Germany, came to the conclusion that the RoIM was less than breakeven in only 3% of the cases. 87% of the assignments recovered more than double the costs, and 20% more than ten times. The overall RoIM average was 11.9. We must ask ourselves, though, do these studies translate to the US healthcare system? Even if there is not a direct 1:1 correlation and the US healthcare experienced only 20% of the productivity the European study identified; the RoIM would still be more than two to one. 10% of the productivity would still more than break even.

# During trying times, when leadership changes abruptly, external interim successors have proven to be more effective in getting organizations back on track.

Just as interim management is circumstantial, regardless of the level in an organization, so are the financial outcomes. As stated in the previously-cited Stanford research, interim management is most effective during unplanned leadership transitions. Supporting this conclusion is a 2014 research article in the [Journal of Management and Governance](#), which states, “interim leaders produce a more positive financial performance in cases where the predecessor left abruptly.”<sup>6</sup> In healthcare, involuntary transitions are not uncommon, which is often when interim leaders are contracted in the C-Suite. The journal findings continue, “In comparing financial outcomes between voluntary and involuntary departures of permanent leaders, involuntary departures are often a result of poor financial outcomes under the leader, which take time to address. In cases of voluntary departure, financial performance is not as often a factor.” According to the article’s conclusion, interim leaders perform well under abrupt transitions. Specifically, it states, “we do not observe poor performance when boards hire interim successors following instances of forced departure.” Lastly, it concludes, “our results indicate that many interim appointments should not be viewed as value decreasing endeavors, and future research on post-succession financial performance should consider the circumstances surrounding the turnover of the predecessor.” Although this research is primarily for executive leaders, the same argument may be applied to interim versus permanent leaders in middle-level management positions. After all, expectations for success apply to leadership at all levels, not solely the C-Suite.

According to their 2022 research article [“The Interim Manager – A Catalyst For Organizational Learning,”](#) the authors concluded that “the relationship between interim management and organizational learning has several practical implications. As we have seen, the reasons for hiring interim management can be many, with different weights and focus for the managerial intervention. From the literature review, it is possible to distinguish three types of interventions where each type has its specific implication on organizational learning: hiring interim management as an external expert, a change agent, and a formal manager. Depending on the nature of the particular interim assignment, different challenges will apply for the organization to make use of the interim management in their organizational learning cycle.”

**Each type of interim intervention brings a different benefit to organizational learning, but a benefit nonetheless, that may otherwise not have occurred with the absence of an interim manager.**



Specifically, “The external expert role puts focus on knowledge creation and highlights the challenges of using and preserving the newfound knowledge brought to the organization by interim management.

The role of a change agent can be used to facilitate cultural change and demands an understanding of the circumstances related to the limited time frame; to take advantage of the initial momentum and continuously arrange for the long-lasting continuity of the interim manager's efforts. Finally, the need for a formal manager intervention points to the risk of letting tough decisions and strong measures overshadow the need for dialogue and shared mental models to lead the collective actions." In other words, the introduction of a new, modern management perspective can lead to increased staff engagement. Increased staff engagement leads to reduced attrition. Otherwise left unchecked, attrition is the "Achilles heel" of a hospital's financial performance. In U.S. hospitals, this has been the case over the past several years.

According to the [2022 NSI National Health Care Retention & RN Staffing Report](#), "In the last five years, the average hospital turned over 100.5% of its workforce."<sup>7</sup> While the COVID-19 pandemic contributed significantly to attrition, this trend started more than two years prior to the pandemic, reflecting a deeper problem, a lack of effective management that only worsened over time. While attrition rates are alarming, it is the impact on a hospital's finances that call for leadership to make changes in managers. The [average cost of turnover](#) for a bedside Registered Nurse (RN) is more than \$46,000, costing the average hospital between \$5.2 million and \$9 million per year. With each percentage point increase or decrease in the RN turnover rate, hospitals will lose or save \$262,300 per year.<sup>8</sup> For the first time in the 22-year history of the *National Healthcare Retention & RN Staffing Report*, the RN turnover rate outpaced the overall hospital turnover rate. But, RNs are not alone, which means management over a variety of departments within a hospital need to be on alert:

## Turnover Rates

	Staff RN	27.1%
	Certified Nursing Assistant (CNA)	35.5%
	Physician Assistant (PA)	10.7%
	Physical Therapist	13.6%
	Medical Technologist	20.9%
	Pharmacist	10%
	Radiologic Technologist	17.5%
	Patient Care Tech (PCT)	38.1%

Another study published in 2019 in the [\*International Journal of Business and Administrative Studies\*](#),<sup>9</sup> titled “Knowledge Acquisition – Sharing Based on Interim Manager Experiences” concludes that knowledge gained from an external interim manager brings value to the organization.

Specifically, it states:

*“Intellectual capital is one of the most important organizational resources, so Knowledge Management (KM) belongs to everyday activities in business life. An especially critical step of KM is knowledge acquisition and sharing, which makes up for knowledge gaps to achieve a higher level of organizational performance. Organizational practice turns to solutions more and more, which acquire the necessary knowledge with the help of external sources. A possible solution is employing interim managers who have gained extensive knowledge by solving the problems of different organizations. As a knowledge manager, the interim manager brings new knowledge into the organization, develops, transfers, uses, and preserves it. In our qualitative research, using the logic of our own model, we tried to identify the phases in which KM and the activity of the interim manager are connected. A structured in-depth interview was used to collect information that was evaluated using the NVivo program. The result shows that, in most cases, managerial and professional knowledge is also transferred, and the interim managers are valuable to enterprises for their tacit knowledge.”*



The primary reason hospitals consider the use of an interim manager only as a backup plan to an existing resource is the perception that an interim manager is costly, too costly to be considered by an organization, especially in middle management. The salary of an interim manager may be greater than that of a permanent manager; however, because the interim manager is a contractor, there are fewer benefits costs to be paid. Specifically, as contractors, interim managers are not eligible for employee benefits such as Paid Time Off, hiring bonuses, health/dental/vision insurance, retirement funding/matching, or unemployment. This means that while the upfront cost of bringing on an interim manager may be perceived as higher, there are often cost savings when looking at the engagement as a whole. According to a recent Philips' article, [\*“How to Avoid the Fallout After a Change in Nurse Leadership”\*](#),<sup>10</sup> there are numerous opportunities for cost savings during a transition. Often, in the absence of proper management, lack of oversight of key performance indicators or increasing costs on a unit or department can be a financial burden.

However, Philips states, “according to conservative estimates, the cost of [replacing staff nurses](#) varies from \$92,000 for a medical-surgical nurse to \$145,000 for a specialty-trained nurse (ICU, ED).”<sup>11</sup> The Philips article concludes, “the cost to replace a nurse manager is reported to be 75-125% of their annual salary, and the cost to keep the wrong manager is even more challenging to calculate. While hiring the right person is costly, hiring the wrong person has significant costs and potential downstream negative effects on the organization that may last for years. Assuring the best candidate is hired is critical for the long-term success of the unit and delivery of patient care.” External interim management allows for a deliberate hiring process, not one driven by haste.

In other words, in terms of addressing culture and engagement of staff, management matters and interim management matters even more, especially in trying times.



As healthcare leaders deal with high attrition rates and poor financial performances, particularly as a result of people serving in middle management roles, making the best decision possible about how to proceed is imperative. Just like any other decision in a science-based industry such as healthcare, validated research driving the decision is critical. While each situation is different, research shows that the use of external interim managers in times of poor financial performance, high attrition contributing to poor financial performance, or even in favorable times when there is no practical, qualifications-based succession plan generates a positive benefit to the organization.

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2. <https://www.forbes.com/sites/forbescoachescouncil/2020/03/13/why-most-new-executives-fail-and-four-things-companies-can-do-about-it/?sh=7cd126337673>
3. Larcker, David F. and Tayan, Brian and Watts, Edward, Firing and Hiring the CEO: What Does CEO Turnover Data Tell Us About Succession Planning? (April 7, 2022). Rock Center for Corporate Governance at Stanford University.
4. Helmut Schmidt University: “Interim Leadership Personalities” – Study 2017.
5. “Interim Management in Germany,” studies by Ludwig Heuse GmbH, 2014 and 2015.
6. <https://link.springer.com/article/10.1007/s10997-012-9253-2>
7. [https://www.nsinursingsolutions.com/Documents/Library/NSI\\_National\\_Health\\_Care\\_Retention\\_Report.pdf](https://www.nsinursingsolutions.com/Documents/Library/NSI_National_Health_Care_Retention_Report.pdf)
8. <https://www.dailypay.com/resource-center/blog/employee-turnover-rates-in-the-healthcare-industry/>
9. <http://kkgpublications.com/wp-content/uploads/2019/12/ijbas.5.10003-5.pdf>
10. <https://www.usa.philips.com/healthcare/consulting/articles/article/interim-leadership-benefits>
11. J Nurs Manag. 2018 Mar;26(2):238-243. doi: 10.1111/jonm.12512. Epub 2017 Dec 12.

**Common practices of sliding internal resources to fill management voids are not research-supported, justified, nor is it as effective as leaders need to be during times of transition.**

Evidence-based research supports making “*Plan B*,” external interim management, the new “*Plan A*.”

To learn how Thaxton can be your “*Plan A*,” visit [ThaxtonLeadership.com](https://ThaxtonLeadership.com) or call (503) 922-2331.

