

## Chapter 7: CEO Oversight and Partnership

### Executive Summary

Finding and maintaining a strong Chief Executive Officer (CEO) for the health center is one of the most important roles a board plays. The organization's CEO has tremendous responsibilities in management and operations, leadership, and development of the health center. A strong CEO maintains strong working relationships with the community that the health center serves, staff, and the board.

Once hired, the board's role in evaluating, compensating, supporting, and recognizing excellent service by the CEO (when appropriate) is essential for a productive relationship that results in safeguarding the health center's mission and achieving its vision and goals. It is good practice for a board to undertake CEO succession planning so that it has a plan in place when action is needed to find the next CEO.

While the CEO is the only health center employee who is selected, evaluated, and, if necessary, dismissed by the board, it is inevitable that the board and senior staff of the health center will interact; what is important is having parameters in place for this interaction that respects the roles and authority of the board and CEO and proactively addresses common challenges in board-staff interaction.

This section covers the following topics:

- A. Roles and Responsibilities Related to CEO Oversight and Partnership
- B. The Health Center Program and CEO Oversight
- C. Selecting and Hiring the Health Center CEO
- D. Establishing Goals and Evaluating CEO Performance
- E. CEO Compensation
- F. CEO Succession Planning
- G. Pillars of Board-CEO Partnership
- H. Board and Staff Interaction

### Tips for Using this Section

#### *Using This Chapter as a Board*

If your board is reviewing and discussing this chapter as a group, consider the following discussion questions:

- Does our board ensure the CEO has performance goals that are connected to the strategic plan?
- Does the board periodically evaluate the CEO's performance? What practices do we want to maintain, stop, or start related to CEO evaluation?
- Does the board approve the CEO's compensation?
- Has the board developed and approved an emergency CEO succession plan and a CEO succession policy?
- Do we have an effective partnership with the CEO?
- Does the board understand the parameters that are important to follow related to interaction with staff?

*Using This Chapter as an Individual*

If you are reviewing this chapter on your own, consider the following questions:

- What did I learn from this chapter?
- What did I learn from this chapter that may be helpful to the board I serve on or support?
- Would additional information be helpful and, if so, on what topics?

**A. Roles and Responsibilities Related to CEO Oversight and Partnership**

The CEO, who may be called the Executive Director or “Project Director,” is the only employee who is selected by the board.<sup>54</sup> The board is responsible for selecting the CEO and, if necessary, terminating the CEO. The board should work with the CEO to establish annual performance goals and provides a routine evaluation of CEO performance. It is also good governance practice for the board to approve the compensation of the CEO – and the Internal Revenue Service (IRS) asks specific questions about the process for determining such compensation on the Form 990 (discussed below) – as well as to undertake CEO succession planning.

Ideally, the board and CEO have a strong partnership as neither can do its job effectively without the support of the other. Markers of a strong board-CEO relationship include mutual trust and respect, shared understanding of roles, clear communication, and mutual accountability.

The CEO is responsible for hiring and oversight of the health center’s staff. Senior staff members often attend board meetings and/or are designated by the CEO to serve as the staff liaison for a board committee. It is important that both board and staff understand parameters for appropriate board-staff communication.

**B. The Health Center Program and CEO Oversight**

The Health Resources and Services Administration (HRSA) Health Center Program Compliance Manual (Compliance Manual) includes some requirements related to CEO oversight in [Chapter 11: Key Management Staff](#) and [Chapter 19: Board Authority](#); excerpts from the Compliance Manual that discuss how a health center would demonstrate compliance with these requirements are included below for ease of reference.<sup>55</sup>

Excerpt from Health Center Program Compliance Manual, [Chapter 11: Key Management Staff](#). Please note the footnotes in this excerpt are from and link directly to the Compliance Manual.

**Demonstrating Compliance**

*A health center would demonstrate compliance with these requirements by fulfilling all of the following:*

- a. The health center has determined the makeup of and distribution of functions among its key management staff<sup>2</sup> and the percentage of time dedicated to the Health Center Program project for each position, as necessary to carry out the HRSA-approved scope of project.
- b. The health center has documented the training and experience qualifications, as well as the duties or functions, for each key management staff position (for example, in position descriptions).

<sup>54</sup> Project Director is a title that appears in the HRSA Health Center Program Compliance Manual (see [Chapter 11: Key Management Staff](#)).

<sup>55</sup> See Chapter 19: Board Authority and Chapter 11: Key Management Staff of the HRSA Health Center Program Compliance Manual at <https://bphc.hrsa.gov/programrequirements/compliancemanual/chapter-19.html#titletop> and <https://bphc.hrsa.gov/programrequirements/compliancemanual/chapter-11.html#titletop> for more information.

- c. The health center has implemented, as necessary, a process for filling vacant key management staff positions (for example, vacancy announcements have been published and reflect the identified qualifications).
- d. The health center's Project Director/CEO is directly employed by the health center,<sup>3</sup> reports to the health center's governing board<sup>2</sup> and is responsible for overseeing other key management staff in carrying out the day-to-day activities necessary to fulfill the HRSA-approved scope of project.
- e. If there has been a post-award change in the Project Director/CEO position,<sup>3</sup> the health center requests and receives prior approval from HRSA.

Excerpt from Health Center Program Compliance Manual, [Chapter 19: Board Authority](#). Please note the footnotes in this excerpt are from and link directly to the Compliance Manual.

The most relevant parts of this excerpt as they apply to the board's CEO oversight role are bolded below; this emphasis was added by NACHC.

#### Demonstrating Compliance

*A health center would demonstrate compliance with these requirements by fulfilling all of the following:*

- a. The health center's organizational structure, articles of incorporation, bylaws, and other relevant documents ensure the health center governing board maintains the authority for oversight of the Health Center Program project, specifically:
  - o The organizational structure and documents do not allow for any other individual, entity or committee (including, but not limited to, an executive committee authorized by the board) to reserve approval authority or have veto power over the health center board with regard to the required authorities and functions;<sup>11</sup>
  - o In cases where a health center collaborates with other entities in fulfilling the health center's HRSA-approved scope of project, such collaboration or agreements with the other entities do not restrict or infringe upon the health center board's required authorities and functions; and
  - o For public agencies with a co-applicant board;<sup>12</sup> the health center has a co-applicant agreement that delegates the required authorities and functions to the co-applicant board and delineates the roles and responsibilities of the public agency and the co-applicant in carrying out the Health Center Program project.
- b. **The health center's articles of incorporation, bylaws, or other relevant documents outline the following required authorities and responsibilities of the governing board:**
  - o Holding monthly meetings;
  - o **Approving the selection (and termination or dismissal, as appropriate) of the health center's Project Director/CEO;**
  - o Approving the annual Health Center Program project budget and applications;
  - o Approving health center services and the location and hours of operation of health center sites;
  - o Evaluating the performance of the health center;
  - o Establishing or adopting policy<sup>13</sup> related to the operations of the health center; and
  - o Assuring the health center operates in compliance with applicable Federal, State, and local laws and regulations.

- c. The health center’s board minutes and other relevant documents confirm that the board exercises, without restriction, the following authorities and functions:
- Holding monthly meetings where a quorum is present to ensure the board has the ability to exercise its required authorities and functions;
  - **Approving the selection, evaluation and, if necessary, the dismissal or termination of the Project Director/CEO from the Health Center Program project;**
  - Approving applications related to the Health Center Program project, including approving the annual budget, which outlines the proposed uses of both Health Center Program award and non-Federal resources and revenue;
  - Approving the Health Center Program project’s sites, hours of operation and services, including decisions to subaward or contract for a substantial portion of the health center’s services;
  - Monitoring the financial status of the health center, including reviewing the results of the annual audit, and ensuring appropriate follow-up actions are taken;
  - Conducting long-range/strategic planning at least once every three years, which at a minimum addresses financial management and capital expenditure needs; and
  - Evaluating the performance of the health center based on quality assurance/quality improvement assessments and other information received from health center management,<sup>14</sup> and ensuring appropriate follow-up actions are taken regarding:
    - Achievement of project objectives;
    - Service utilization patterns;
    - Quality of care;
    - Efficiency and effectiveness of the center; and
    - Patient satisfaction, including addressing any patient grievances.
- d. The health center board has adopted, evaluated at least once every three years, and, as needed, approved updates to policies in the following areas: Sliding Fee Discount Program, Quality Improvement/Assurance, and Billing and Collections.<sup>15</sup>
- e. The health center board has adopted, evaluated at least once every three years, and, as needed, approved updates to policies that support financial management and accounting systems and personnel policies. However, in cases where a public agency is the recipient of the Health Center Program Federal award or designation and has established a co-applicant structure, the public agency may establish and retain the authority to adopt and approve policies that support financial management and accounting systems and personnel policies.

### C. Selecting and Hiring the Health Center CEO

The CEO is the only health center employee selected by the board; the CEO – in turn – is responsible for selecting the other members of the staff. Selecting the CEO has a significant impact on the success of the health center. A board has the opportunity to shape the health center’s future by selecting the best candidate to lead the organization. There are various reasons a board may need to search for and select a new CEO – including retirement, resignation, termination, and death, among others. Ideally a board has an Emergency Succession Plan and a CEO Succession Policy in place (discussed later in this chapter) which it can look to in order to provide guidance on steps to take during a CEO search process.

In the case of a sudden event – which may include death or termination – a board will likely implement its emergency CEO succession plan and name an interim leader while it determines how to proceed with a CEO search. In this and other circumstances, a board may also first wish to conduct an organizational assessment to assess the overall sustainability of the organization. Such an assessment often focuses on the health center’s business model and

strategy, leadership, resources, and culture and can inform what is needed in the next leader. NACHC's "Essential Guides to Sustainability, Succession, and Transition Planning" has guidance on conducting this type of assessment.<sup>56</sup>

#### Understanding the Type of Transition

An assessment can help a board understand the health center's situation. There are four classic transition types:

1. Sustained success – The organization is well led and performing well. The board needs to resist the temptation to find someone "just like" the departing executive. High-performing executives are often times hard to follow. The board will want to ensure that the job is doable for the successor. That does not mean changing the job, but rather empowering the new leader to delegate.
2. Underperforming – The organization is performing poorly or is about to go into decline. The challenge here is to properly diagnose the issues and make sure that they are addressed during the transition. There is also a challenge to align the chief executive job duties with the real leadership needs of the organization. Finally, the board will want to guard against "hiding" the situation from candidates. Transparency is the best policy.
3. Turnaround – The organization is in active decline. The board's challenge is to stabilize the organization first. This is ideally be done before launching the search. This is a time to promote or hire strong interim leadership to help turn the organization around, and focus on improving staff morale.
4. Long tenured executive – The organization is facing the departure of the founder or a long tenured executive. It is vital that the committee reassess the job and empower the new CEO to delegate some of the executive's accumulated responsibilities. Finally, the board will need to break out of the business-as-usual mentality and reimagine the board-executive relationship with a new executive in place.

Source: Adapted from NACHC's "Essential Guides to Sustainability, Succession, and Transition Planning" written for Transition Guides (prior to merging with Raffa) on behalf of NACHC available on <http://mylearning.nachc.com/>.

When starting a CEO search, typically a board will consider:

- CEO role expectations based on the health center's most urgent priorities and goals and/or findings of an organizational assessment.
- Essential kinds of experience.
- The personal style needed to fit the health center's mission and culture.
- Whether or not to consider individuals from within the organization, along with external candidates.
- Whether to hire a search firm or conduct the search themselves. Many health centers retain professional search firms who can assist them with the CEO search process. A major benefit of a search firm is its ability to proactively identify candidates – including those who may not actively be looking for a new role.
- Who will serve on the search task force.
- How to assure the board is kept informed of the process.

Typically, a board will form a CEO Search Task Force (sometimes called a CEO Transition Task Force). This Task Force often consists of approximately five board members and takes the lead in preparing the position/job description,

<sup>56</sup> NACHC's "Essential Guides to Sustainability, Succession, and Transition Planning" available on (<http://mylearning.nachc.com/>).

interviewing candidates, and ultimately recommending a final candidate to the board for consideration and approval. Input from the board members not on the Task Force and key staff leaders is also sought along the way. For example, staff are typically consulted regarding the type of competencies needed in a CEO and the Senior Leadership Team often participates in interviews with final candidates – providing the board with feedback. It is not recommended that staff formally serve on the search committee.

Prior to hiring a candidate to serve as CEO, the CEO Search Task Force typically ensures reference checking occurs and consider a background check if permitted by state law. Robust reference checking may include talking with several former supervisors and, if the person has previously served as a CEO, member(s) of the board of directors of that organization. Sometimes this may also entail conversations with direct reports and colleagues. If the candidate has previously worked at another health center, talking with that center can be helpful. A formal background check – conducted in accordance with the health center’s personnel policies and state law – is also a good practice. Such background checks are typically conducted by a third-party organization, and usually involve review of a number of databases - local, state, and federal criminal history, and credit reports. Other typical checks include verification of prior employment and/or verification of education and/or licensing credentials. Many states are tightening up on pre-employment background checks. Be sure to check with your legal counsel to ensure the scope of background checks is permitted in your state.<sup>57</sup>

Once selected, a contract or employment agreement with the CEO establishes parameters for such items as compensation, benefits, evaluation, among others. More information and resources are available on CEO search in a resource called “*Essential Guides to Sustainability, Succession and Transition Planning*” which contains additional details on organizational assessments, CEO succession planning, and the CEO hiring process.<sup>58</sup>

When it is in the best interests of the organization, the board should, by contract, have the authority to replace the current CEO and select a more qualified executive. This is never an easy task and must be approached with sensitivity and planning. It is important to note that the board must approve the termination or dismissal of a CEO.

Finally, it is important for a board to keep in mind Chapter 11: Key Management Staff of the Health Center Program Compliance Manual, Demonstrating Compliance, e requires that “If there has been a post-award change in the Project Director/CEO position,<sup>2</sup>the health center requests and receives prior approval from HRSA.”<sup>59</sup>

#### D. Establishing Goals and Evaluating CEO Performance<sup>60</sup>

It is considered a good practice for the board and CEO to agree on performance goals annually that are connected to the strategic plan. Often a CEO will prepare suggested goals, discuss them with the board chair or a designated committee, and the goals will be approved by the board.

Additionally, conducting a routine evaluation of the CEO is an important way to inform the CEO whether they are meeting or exceeding the board’s expectations. Generally, it is considered effective practice for the CEO evaluation to take place annually. To be fair and consistent, it is important to base the performance assessment on the:

- CEO’s job description – Each responsibility described in the CEO’s job description can be formulated into a question for the CEO evaluation form so that the CEO’s performance of those responsibilities can be assessed.

<sup>57</sup> This discussion on reference checks and background checks is adapted from NACHC’s “Essential Guides to Sustainability, Succession, and Transition Planning” (<http://mylearning.nachc.com/>).

<sup>58</sup> NACHC’s “Essential Guides to Sustainability, Succession, and Transition Planning” available on (<http://mylearning.nachc.com/>).

<sup>59</sup> See Chapter 11: Key Management Staff of the HRSA Health Center Program Compliance Manual at <https://bphc.hrsa.gov/programrequirements/compliancemanual/chapter-11.html#titletop>.

<sup>60</sup> Some of the information in this section is adapted from a resource previously published by NACHC titled, “Evaluation of the Health Center’s Chief Executive Officer,” and written by Marcie H. Zakheim, Esq. with Feldesman Tucker Leifer Fidell.

- Pre-established CEO individual performance goals – As noted above, on an annual basis, the CEO and board can establish individual performance goals for the CEO that address any concerns about performance or priorities of the board for the coming year. These goals and priorities are ideally linked to the health center’s multi-year strategic plan and annual operating plan. Specifically, the performance goals may include areas such as:
  - Implementing a particular program, project, or initiative defined in a strategic or operational plan
  - Effective leadership and management style
  - Negotiating skills
  - Ability to motivate others
  - Willingness to delegate responsibilities
  - Ability to understand and navigate the changing health care landscape
  - Time management skills
  - Communication skills

Typically, the evaluation process is led by the board officers but may also be led by a committee that seeks input from all board members via an evaluation tool; this is often done through an online survey platform. The CEO is often asked to complete a self-evaluation so that the board can compare the CEO’s perspective on their own performance to the board’s evaluation. Often, the chair or officers compile the findings and discuss them with the board. Items with a wide variation in point of view can be discussed and adjusted. Finally, the board approves the evaluation and it is shared with the CEO both in writing as well as verbally. Appendix 12 contains a sample evaluation tool.

When merited by good performance, it is important to recognize the CEO’s accomplishments and to be attentive to supporting the CEO’s professional development. Allocating resources for professional development and/or executive coaching for the CEO is common.

#### E. CEO Compensation

The health center’s board is responsible for recruiting and retaining the best CEO to lead the center. In a competitive market, compensation plays a major role. However, most health centers are tax-exempt organizations and must consider the principles of “reasonable compensation” and “intermediate sanctions,” which are defined below:

- Reasonable compensation is the prevailing rate of compensation paid to comparably qualified and experienced individuals performing similar functions for similar organizations in the community. Health centers must find information on comparable compensation packages, inclusive of salary and all benefits.
- Intermediate sanctions is the provision in tax law that gives the Internal Revenue Service the authority to impose tax penalties (ultimately the organization could lose its tax exemption status) on individuals who receive unreasonably high compensation and those who knowingly approve such compensation.

Board members should be aware of these requirements when considering CEO compensation.

NACHC produces an annual salary and benefit report that can serve as a tool for boards regarding comparable salary data. Additionally, looking at the IRS Form 990 of other comparable nonprofit organizations can serve as a resource – including health care delivery nonprofits – which can be found online through an organization called Candid (formerly GuideStar). The board should approve the CEO’s compensation.

#### F. CEO Succession Planning

Succession planning is the process of ensuring effective organizational leadership over time. It is considered good practice for boards to undertake. This process is often misunderstood and it is important to clarify that a CEO Succession Plan is not about naming a successor but, rather, it addresses both emergency and planned CEO succession, and outlines guidelines and steps to take when action is needed to find the next chief executive.<sup>61</sup>

Good practices include:

- **Proactively broach CEO succession** – Planning for CEO Succession is a board responsibility. Whether a CEO has been in place for 6 months or 30 years, it is important to have plans in place to help ensure organizational sustainability, mitigate risk, and increase the likelihood of well managed transitions.
- **Develop a plan for emergency succession** – It is considered a good governance and good risk mitigation strategy for the board to have plans in place for CEO succession that address emergency succession.<sup>62</sup> It is advisable for a board to work with the CEO to establish how the CEO’s responsibilities will be taken care of during a CEO absence. A formal plan will typically address both a short-term absence – in which another staff member may fill the role – as well as longer-term absences which may be filled internally or by an external interim CEO. Such plans typically include the CEO’s job description, a communications plan, and address compensation and oversight of the interim CEO.
- **Develop a CEO succession policy** – This policy addresses steps that would be taken in the event a board needed to fill a CEO vacancy. Such a policy typically addresses the formation of a Transition (or CEO Search) Task Force, processes that would be followed (e.g., possible retention of a search firm), commitment to find diverse candidates, among other items.<sup>63</sup>

#### Extended CEO Transitions

For boards of health centers that have founding or long-term CEOs who are passionate about the health center movement and mission, executive transition can be both emotional and challenging. Some organizations use an **Extended CEO Transition**, which involves overlap of the exiting and incoming chief executives and a prolonged role for the exiting leader. There are various considerations when employing this model. Research by the Building Movement Project notes that the motivation for such transitions must be to promote overall organizational sustainability.<sup>64</sup> In addition to a successor typically being internal, additional research points to various processes and conditions that needed to be in place for this model to be successful including:

- both the founder and successor needing to let go of their “egos;”
- the founder or long-term CEO must have the ability and desire to remain engaged;

<sup>61</sup> See the “Essential Guides to Sustainability, Succession and Transition Planning” (<http://mylearning.nachc.com/>) for an overview of CEO Succession Planning practices.

<sup>62</sup> Sample plans that address Emergency and Planned Succession can be found in the “Essential Guides to Sustainability, Succession and Transition Planning” (<http://mylearning.nachc.com/>).

<sup>63</sup> Sample plans that address Emergency and Planned Succession can be found in the “Essential Guides to Sustainability, Succession and Transition Planning” (<http://mylearning.nachc.com/>).

<sup>64</sup> Frances Kunreuther and Stephanie Clohesy, “The Long Goodbye: Advice, How-Tos and Cautionary Tales for Extended Leadership Exits,” Building Movement Project (2016) available at <http://www.buildingmovement.org/>.



- the board must see a clear value from continued involvement of the outgoing leader and define a role that aligns with their interest and capabilities;
- the long-term CEO must want the successor to succeed; and
- the successor must be willing to engage in an extended transition.<sup>65</sup>

The board should be a critical player in designing and overseeing such a transition. It is ideal that the board work closely with the exiting executive and the incoming executive to design the transition arrangement.<sup>66</sup>

See “CEO Succession and Transition: A Case Study on Extended CEO Transition at East Boston Neighborhood Health Center” and “Extended CEO Transitions & the Board’s Role” from NACHC (<http://mylearning.nachc.com/>) for additional details and guidance on this type of transition.

#### G. Pillars of Board-CEO Partnership

The success of the CEO and board are interdependent upon one another. They function as a team with separate, yet complementary roles and responsibilities. Board members bring the community’s voice into the boardroom, provide oversight, and are concerned with the “big picture” strategic issues. The CEO manages the health center.

Pillars of an effective board-CEO partnership include:<sup>67</sup>

- Role clarity – It is important for the board and CEO to have the same understanding of their respective roles. Role descriptions for the board and CEO, along with periodic training, can help.
- Shared expectations and accountability – Ideally both the CEO and board have goals that are linked to the strategic plan. Additionally, it is good practice for a board to ensure processes are in place to assess both CEO performance as well as board performance (see Chapter 10 of the *Governance Guide* for more information on board self-assessments).
- Trust and respect – It is important for the board and CEO to work on building trust, develop agreed upon expectations, and have an understanding that disagreements will be handled constructively.
- Open communication – It is important to ensure transparency in communication, and to be clear about priorities and concerns to avoid surprises.
- Ability to navigate difficult moments – Difficult moments will arise. Ensuring the board and CEO leverage existing agreements regarding expectations and follow board policies when navigating difficult situations can help.

#### H. Board and Staff Interaction

The CEO is the only employee selected by and reporting to the board; however, the board will interact with other staff members, especially other members of the senior leadership team (e.g., Chief Financial Officer, Chief Medical Officer, etc.) at board and committee meetings. It is important for both the board and staff to understand parameters for such interaction.

<sup>65</sup> Jari Tuomala, Donald Yeh & Katie Smith Milway, “Making Founder Successions Work,” *Stanford Social Innovation Review* (Spring 2018).

<sup>66</sup> Kunreuther and Clohesy, “The Long Goodbye.”

<sup>67</sup> Adapted from “Top 10 Principles and Practices of Great Boards, *Great Boards*; BoardSource: *The Source: Twelve Principles of Governance That Power Exceptional Boards*; and Melanie Lockwood Herman and Erin Gloeckner, “Let’s Work Together: The Sweet Sounds of a Board-CEO Partnership” (available at [www.nonprofitrisk.org](http://www.nonprofitrisk.org)).

For example, it is important that staff know not to approach board members with grievances – but rather to follow the organization’s grievance policy. Additionally, board members should know that if they are approached by a staff member in this capacity, it is important to suggest the person follow the center’s grievance policy rather than to get involved directly. It can also be helpful to have an understanding that any extensive request from the board or a board committee should be made to the CEO directly – rather than to staff – so that the CEO can prioritize this with their team based on other responsibilities.

When in doubt, the board chair and CEO can help both board and staff respectfully navigate these dynamics.