

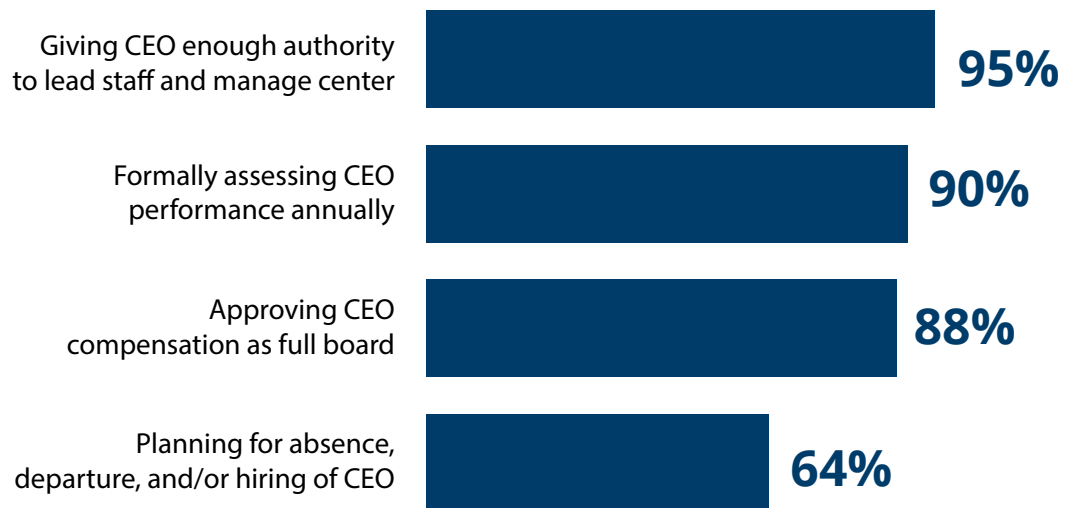
Understanding & Overcoming Barriers to CEO Succession Planning

Roughly 90% of health center board members and Chief Executive Officers (CEOs)¹ who responded to the most recent *Health Center Board Practices and Needs Assessment* are satisfied with their board’s performance related to CEO support and supervision. But only 64% are satisfied with CEO succession planning, which is a common challenge for nonprofit boards (See Figure 1).

CEO succession planning is an important board role and required for health centers under the Centers for Medicare & Medicaid Services (CMS) *Emergency Preparedness Rule*. This short resource identifies some obstacles to CEO succession planning and offers suggestions for overcoming them.

Figure 1: Satisfaction with Health Center Board Performance in CEO Support & Supervision

% of Respondents: Satisfied & Extremely Satisfied



Source: *Health Center Board Practices & Needs Assessment 2023 (NACHC)*

¹ The CEO is also called the “Project Director” in the *Health Center Program Compliance Manual*.

WHAT IS A CEO SUCCESSION PLAN?

A *CEO succession plan* is a risk management strategy to support continuity during an executive leadership transition. A CEO succession plan helps the board and senior management be better prepared to navigate a change in leadership. There are two complementary parts of a CEO succession plan:

1. A **CEO succession policy** outlines the principles, procedures, roles, and responsibilities that the board will follow when the chief executive eventually decides to leave the position. It provides the board with guidelines for managing the transition from one CEO to the next.
2. A **CEO backup (emergency) plan** outlines how the center will ensure coverage of essential executive functions during the absence of the CEO. It provides a process for the board to address planned and unplanned absences, and it outlines considerations for an interim or acting CEO.



Hiring a new CEO without a succession plan.

– Board member commenting on the greatest board challenges over last two years



During a difficult CEO transition period, the board was confronted with making decisions for which they were not well prepared and caused some factionalism.

– CEO commenting on the greatest board challenges over last two years

WHY IS CEO SUCCESSION PLANNING SO HARD?

There are many reasons why CEO succession planning can be challenging including:

- **Because it's misunderstood.** A succession plan is not about picking the next CEO. It's about creating a roadmap for an executive leadership transition when the time comes.
- **Because it's personal,** which is difficult because health center leadership is based on a partnership between the CEO and the board. Planning for the departure of one of those partners (the CEO) puts a greater burden on the other partner (the board).
- **Because it's about change,** which is difficult for many people and organizations.

CEO Succession Planning: A Toolkit for Health Center Boards by the National Association of Community Health Centers (NACHC) contains samples of both a CEO succession policy and CEO backup plan that centers can download and customize for their own needs.

What are the obstacles to CEO Succession Planning? How can we overcome them?

Obstacle	Reframe the issue	Explore these questions	Check your good governance practices
<p><i>We don't want to upset anyone.</i> Boards worry about upsetting the current CEO by even talking about succession planning. This may stem from misunderstanding what the process entails. They may fear it unintentionally signals dissatisfaction with the CEO or suggests it's time for the CEO to move on or retire. They may not be able to imagine anyone else in that position.</p> <p>CEOs worry about unsettling the board, staff, and community. They may fear that raising it unintentionally signals that they're contemplating leaving.</p>	<ul style="list-style-type: none"> • Create understanding that a succession plan is not about picking the next CEO but rather about creating a roadmap for an absence and an executive leadership transition when the time comes. • Recognize that this isn't about any one individual but rather for the good of the health center, the center's mission, and the patients and community it serves. • A CEO transition is inevitable, at some point, for every organization. CEO succession planning is a risk management tool to support the center's long-term stability. • Having a plan for leadership continuity is a strategic function. The CEO can and should be part of this process, especially providing input on the CEO backup plan. 	<ul style="list-style-type: none"> • How can a succession plan help strengthen our board and our center? • What are the risks of not having a succession plan? 	<ul style="list-style-type: none"> ✓ Make sure the board has access to an up-to-date version of the CEO's position description. ✓ Use the annual CEO performance review to help the board better understand the leadership functions of the CEO to inform both the CEO succession policy and the CEO backup plan.
<p><i>When it does occur, a CEO search is a high-stakes and time-consuming task for the board.</i> Under normal circumstances, an outgoing CEO plays a limited role in an <i>executive search</i>. That leaves this important task to the board. Having a written CEO succession policy in place about how search will be conducted can make the executive search process much smoother and more effective when the time comes.</p>	<ul style="list-style-type: none"> • A CEO succession plan developed in advance—and with input from the CEO—is better than one created hastily in a moment of crisis. • A succession plan is just that, a plan. It is a starting point for action, and it can (and should) be adjusted to the circumstances when the time comes. 	<ul style="list-style-type: none"> • How will the board handle a CEO search and transition when the time comes? • What will our community and center look like in 10 years? What kind of leadership expertise will a CEO need in those circumstances? 	<ul style="list-style-type: none"> ✓ Develop a culture that prioritizes strategic and important conversations.

Obstacle	Reframe the issue	Explore these questions	Check your good governance practices
<p><i>It's too sensitive to discuss in a group setting.</i> Group dynamics can make it difficult to have an open, honest discussion about personnel matters. Not all board chairs are adept at facilitating delicate discussions.</p>	<ul style="list-style-type: none"> • Transparency is important, as is confidentiality. Handle CEO succession planning with respect for the CEO and with attention to your center's needs and circumstances. • CEO succession planning conversations could start with a small group of board members, often the chair and other officers. Then, engage the full board which must approve the final CEO succession policy and CEO backup plan. • Except under extenuating circumstances, CEO succession plans should not be done without the knowledge of and input from the current CEO. 	<ul style="list-style-type: none"> • Who should be involved in creating a CEO succession plan? • How does our board handle discussions about sensitive issues? 	<ul style="list-style-type: none"> ✓ Use executive sessions (closed sessions) to discuss CEO succession planning. Remind all attendees of the importance of confidentiality. ✓ Develop a culture that values robust and respectful discussion about difficult issues.
<p><i>We don't have time to do this right now.</i> Governing and managing a health center is time consuming. Boards may hesitate to take on additional projects above and beyond monthly board meetings and committee work. CEOs are often focused on more immediate operational issues.</p>	<ul style="list-style-type: none"> • Waiting until it becomes an urgent issue makes it harder to manage a CEO absence or a CEO departure effectively when the time comes. Not having a CEO succession plan risks making it a more complicated situation later. • A CEO succession plan does not have to be perfect. It's more important to draft a working plan, document the thinking of current leaders (board and CEO), and have it ready to go when the need arises. 	<ul style="list-style-type: none"> • How often should we review and update our CEO succession plan? • Who has the expertise and experience to help us with CEO succession planning? 	<ul style="list-style-type: none"> ✓ Review board policies and procedures, including committee charters, to make sure this function is assigned to an appropriate officer and/or committee. ✓ Put the CEO succession plan on the board calendar or work plan for periodic review.

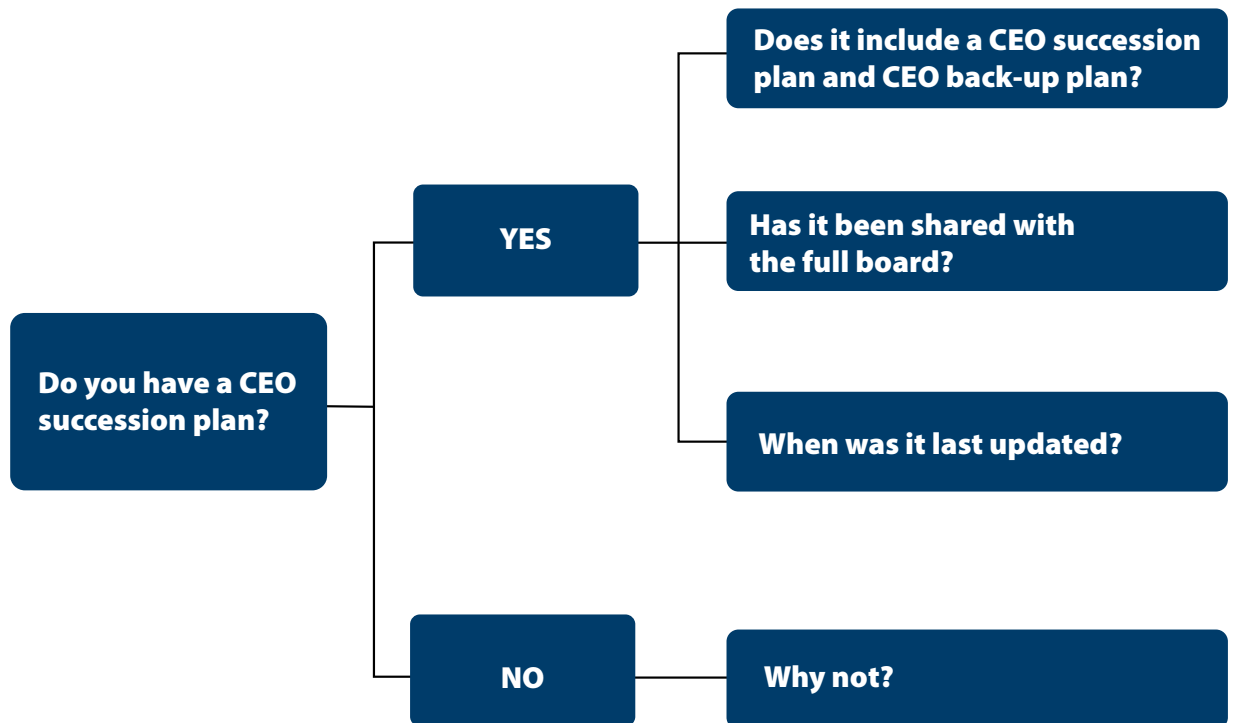
What should we do next?

Step 1. Determine where your center is on CEO succession planning. Use Figure 2 as a guide.

- If your center has a CEO succession plan, examine how well it reflects your current circumstances.
- If your center doesn't have such a plan, explore why not using some of the conversation prompts in this resource. Especially if the health center has not previously engaged in CEO succession planning, begin with a conversation between the board chair and CEO to develop a shared understanding of this task and process. A committee or task force may ultimately be identified to lead the process.

Step 2. Start or continue the conversation with care and compassion. Determine who should be involved, when, and how. Develop a reasonable and realistic timeline for creating or updating your CEO succession plan. Remember, what matters most is that you provide the leaders who will have to manage a CEO transition or navigate a planned or unplanned absence with some place to begin the journey. Gather and review relevant policies and procedures. Collect information and educate the board and CEO.

Figure 2. CEO Succession Planning Conversation Starter



Step 3. Remember, you don't have to start from scratch. NACHC's *CEO Succession Planning: A Toolkit for Health Center Boards* contains samples of both a CEO succession policy and a CEO backup plan that centers can download and customize for their own needs (Figure 3 contains a high-level overview of the steps involved).

Figure 3. Steps to Create a CEO Succession Plan

- 1** Organize the Project (consider assigning to a board committee or task force)
- 2** Update the Chief Executive's Job Description (if needed)
- 3** Use the *Chief Executive Succession Policy Template* from NACHC
- 4** Use the *Chief Executive Backup Plan Template and Attachments* from NACHC
- 5** Discuss the Backup Plan with the Backup designated to serve as interim CEO during planned or unplanned absences (be aware that if the plan identifies an internal interim to cover the CEO role, that individual's role may also need to be filled during the interim period)
- 6** Have the Board Review and Approve the Succession Policy and Backup Plan
- 7** Finalize and Set a Date for an Annual Update and Review
- 8** Make Sure the Designated Backup is Cross-Trained

Source: *CEO Succession Planning: A Toolkit for Health Center Boards* (NACHC © 2021)

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