



NATIONAL ASSOCIATION OF
Community Health Centers

Important Content Note:

This technical assistance resource was developed prior to the August 2017 release of the Health Center Compliance Manual by the Health Resources and Services Administration's (HRSA) Bureau of Primary Health Care (BPHC). The BPHC Compliance Manual, issued August 2017, indicates where PINS, PALs and other program guidance are now superseded or subsumed by the BPHC Compliance Manual.

See:

<https://bphc.hrsa.gov/programrequirements/pdf/healthcentercompliancemanual.pdf>



GOV

Information Bulletin #8

Updated January 2016

Note that in all Information Bulletins:

The term **“health center”** refers to public or private nonprofit entities that: (1) receive grants under Section 330 of the Public Health Service Act (Section 330), including Sections 330(e), 330(f), 330(g) and 330(h) (collectively “Health Center Program Grantees”); and (2) entities that have been determined by the Department of Health and Human Services (DHHS) to meet the Section 330-Related Requirements to receive funding without actually receiving a grant (“health center look-alikes”).

The term **“Section 330-Related Requirements”** refers to requirements set forth in:

- Health Center Program Statute: [Section 330 of the Public Health Service Act \(42 U.S.C. §254b\)](#),
- Program Regulations: [42 CFR Part 51c](#) and [42 CFR Parts 56.201-56.604](#)
- Health Center Program Requirements: <http://www.bphc.hrsa.gov/programrequirements/index.html>

The term **“Grant Requirements”** refers to Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: 2 CFR Part 200, as adopted by DHHS at 45 CFR Part 75.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is published with the understanding that the publisher is not engaged in rendering legal, financial or other professional service. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

This publication was supported by Cooperative Agreement No. U30CS16089 from the Health Resources and Services Administration, Bureau of Primary Health Care (HRSA/BPHC). Its contents are solely the responsibility of the authors and do not necessarily represent the official views of HRSA/BPHC.

Succession Planning for the Future of Your Health Center’s Leadership

Imagine this scenario – you are the Chief Financial Officer (CFO) of a health center that is finally stabilizing financially, thanks to the hard work of the senior management team and the clinicians. Over the weekend you receive a call from the husband of the Chief Executive Officer (CEO), who tells you that the CEO has had a massive heart attack and is in the hospital with an uncertain prognosis. You panic – she has been the CEO for twenty years and no one on the current management team could ever fill those shoes. Further, the Chief Operating Officer (COO) position has been vacant for several months and the search to fill several vacancies on the board has just begun.

Hopefully, this dramatic scenario is unfamiliar; however, are less sudden changes in your health center anticipated in the near future? Ask yourselves some questions such as:

- ◆ Is anyone in senior management planning to retire in the near future? What are you doing about filling that position? Do you have an up-and-coming clinic manager whom you would like to keep, but you are worried he or she might jump ship and work elsewhere?
- ◆ Is your head of pediatrics, who helped expand services at different sites over the last ten years, relocating?

Filling a gap in leadership in the health center is more than just replacing a leader; it should be part of the strategic planning process of the health center. In order for the health center to remain healthy organizationally, its

leadership should be engaged in a dynamic succession planning process that takes into account the talents of the existing workforce, anticipates the eventual departure of each of its leaders, and capitalizes on the health center's greatest assets – its people. Health center Human Resources (HR) directors already know that there is a shortage of talent, making it hard to recruit for some professional positions. The board and management should also appreciate how quickly the landscape can change.

This information bulletin reviews the “why, how, when, and what” of succession planning – planning for the future of a health center's leadership. Through succession planning, a sequence of personnel moves can be made in advance of actual need.

This information bulletin:

- ◆ Describes key elements to be included in every succession plan
- ◆ Presents practical and legal considerations in designing and implementing the plan

Readers may find Governance Series Information Bulletin #2 — *Hiring Your Health Center's Chief Executive Officer* — a useful resource. This document is posted on MyNACHC on the NACHC website at <http://www.nachc.com/>.

For health centers, a succession plan should cover all levels of key management (the “C Suite”) and key clinical positions, as well as board member vacancies . . .

THE PROCESS BEGINS NOW

Let's start with understanding why such a small percentage of businesses, in general, and health centers in particular, place any importance on succession planning. It might seem that the senior managers and the board are too busy or it might appear to be too difficult a project to undertake when it is not a priority, especially given the fast-paced ever-changing health care environment in which health centers operate. Maybe the board or the incumbent refuses to discuss the issue. But the real reason for not initiating the process is inertia on the part of personnel at all levels of the organization. It is much easier to tackle the daily task of delivering care and related services than it is to undertake to plan and determine the center's needs and available talent over the next five years. However, if the plan is not a formal one, but only thrown together in response to a vacancy, then the health center will miss out on the chance of nurturing future leaders.

The only way to overcome obstacles is to make the development and implementation of a succession plan a health center priority – as important to the organization as its strategic plan and in fact, a part of and complementary to that plan. Succession planning is not simply filling the CEO's position when it becomes vacant. Rather, successful succession planning requires commitment at the top of the organization. For health centers, a succession plan should cover all levels of key management (the “C Suite”) and key clinical positions, as well as board member vacancies, in order to maximize the long-term strengths of the organization, along with incentivizing productive employees to stay.

ELEMENTS OF A SUCCESSION PLAN

Successful succession planning involves eight rigorous steps, each of which is discussed in more detail below.

1. Develop a strategic plan.
2. Establish or modify criteria and job descriptions for the various leadership positions, which may change as the organization's goals (as expressed in the strategic plan) evolve.
3. Conduct an internal review and assess the current leadership.
4. Plan what to do if there is a sudden vacancy.
5. Conduct an external review of candidates.
6. Develop a selection process.
7. Create access to and opportunities for training in leadership skills.
8. Institutionalize the plan.

Step 1. Develop a Strategic Plan

As noted above, successful succession planning should be part of the strategic planning process. In the course of conducting the strategic planning process and providing for annual updates, the board and senior executives/clinicians establish a vision for the health center for one, three and five years into the future. That vision will drive an examination of the type of individuals who will be needed to guide the health center in the future. In developing a strategic plan, the board and senior executives/clinicians typically answer several key questions that could impact and inform the health center's current and future leadership needs:

Where are we now?

- ◆ What are the internal and external strengths, weaknesses, opportunities and threats of the center (SWOT)?
- ◆ Are the demographics, age, income levels, and health care needs in the community changing?
- ◆ How satisfied are our patients?
- ◆ How satisfied are our staff?
- ◆ What are our current clinical and financial performance measures?
- ◆ What resources are available to the health center in the community?
- ◆ What is the role of managed care, quality initiatives, or government funding?

Where do we want to be?

- ◆ Do we want to expand facilities at a particular location?
- ◆ Do we want to change the center's scope of services?
- ◆ Do we want enhanced patient-generated revenue?

What will we do to get there?

- ◆ What does the health center have to do in the next year, three years, or five years to fill those gaps and meet those challenges?
- ◆ Identify needed action steps.
- ◆ Identify who will be responsible for each step.
- ◆ Develop a time line for completing the steps.

Once the board has answered these questions and formulated a strategic plan that incorporates these goals, then it is time to move on to the next step in the process.

For more information, see Information Bulletin #9 in the Governance series — *The Board's Role in Strategic and Capital Planning*

Step 2. Establish Criteria and Job Descriptions for Various Leadership Positions

After grappling with the strategic plan:

- ◆ The board should examine what leadership skills or core competencies are needed to achieve the objectives.
- ◆ The Executive Committee (with input from the CEO) should modify the CEO's job description, if necessary, for review and approval by the board.
- ◆ For other key management positions, including clinical, the CEO (with input from the rest of the executive team) should establish the criteria for any new job description as needed and revise the current job descriptions as necessary.

This process forces the board and management to, in effect, implement the strategic plan through its human capital by determining what qualifications and attributes are necessary in the health center's leadership to assure the strategic goals are achieved. The job descriptions should be objective, not tailored to a particular person.

The CEO Position

- ◆ Break down leadership qualities into elements that will be critical to job performance, such as: the ability to create and sustain a vision; team building; solving complex problems; possessing a steady and calm temperament; and being able to communicate effectively.
- ◆ Relate the job description to organizational goals. For example: If financial viability is a key factor, the health center might look for a CEO who has the ability to take difficult positions in the face of opposition, while instilling loyalty in the team and motivating people to think creatively about the future. If the service area is undergoing gentrification, then the health center might need a leader skilled in coalition building.
- ◆ Develop and/or modify the job description to serve as the cornerstone for the performance measures that will be the basis for evaluating every member of the management team.

CMO and Senior Management Positions

- ◆ Analyze key qualities essential for job performance as it relates to organizational goals. For example, if the health center has had quality issues in the clinical areas, then a CMO with a background in quality improvement may be a priority.

Step 3. Conduct an Internal Review and Assess the Current Leadership

The Board of Directors

As key members of the health center's leadership team, the board should conduct an internal review of itself. The board (with assistance from management) should:

- ◆ Start by making sure that its composition meets **Section 330-Related Requirements**. These Requirements include:
 - The majority of board members must be actual patients of the health center's services – individuals who are current registered patients of the health center and have accessed the center, at a minimum, in the last 24 months to receive at least one or more in-scope service(s) that generated a health center visit(s).
 - As a group, the consumer/patient members of the board must reasonably represent the individuals served by the health center in terms of race, ethnicity, and gender.
 - No more than half (two-thirds for migrant health centers) of the non-consumer members may derive more than 10% of their annual income from the health care industry.
 - The non-consumer board members must be representative of the community served by the health center and should possess a broad range of skills and expertise, such as financial, legal, business, labor relations, health, social services, and/or government. (NOTE: any board member (consumer or non-consumer) may be considered in having expertise in any of these areas.) Further, no more than one-half of the non-consumer/patient members of the board may derive more than ten percent (10%) of their annual income from the health care industry.
- ◆ Make sure there is periodic rotation of at least a few new individuals to serve on the board. NOTE: Federal rules do not require health centers to institute term limits; however, such limits may be advisable in order to assure that membership of the board reflects changing demographics and changing priorities, while maintaining a balance through the service of at least some longer-standing members who have an appreciation and knowledge of the health center's history.
- ◆ Look at whether the board members have the diversity of interests, commitment, and talent to assist the health center in meeting the goals of the strategic plan.
- ◆ Seek out or recruit interested consumers and other talented people from the community.
- ◆ Assess whether the board runs effectively or whether factions divide the board and keep it from moving forward. Working with the CEO and senior staff, develop a board member "job description."

The CEO and Key Management (the "C Suite")

Once the strategic plan is in place for the year, the evaluation of the CEO and senior management job descriptions should flow from the question of what future leadership skills are needed to achieve strategic plan objectives. The board and the CEO should evaluate the CEO's strengths and weaknesses in connection with or similar to the annual performance evaluation process, so that the CEO's qualities can be a yardstick for the qualities sought in the next CEO (and weaknesses can be a measurement of what to avoid in the future).

To determine what the health center's leadership needs are today and tomorrow (versus yesterday), the health center's leaders need to engage in a formal process:

- ◆ List the strengths and weaknesses of the existing leadership along with the core competencies required of the future leaders.
- ◆ Analyze whether the current members of the team possess those core competencies or whether they can get to that point through training, education, and mentoring.
- ◆ Include annual performance measures as an addendum to the job description for all members of the management team.

Since one of the health center's key resources is its human capital, senior management team members and other staff members, including clinical employees, should be evaluated in terms of their potential to become the CEO or another member of senior staff. Such planning, which examines how to match (or develop) skill sets in existing personnel to meet future needs, instills loyalty in employees along with the personal growth that comes from principled mentoring. Furthermore, diversity can be built into the health center's workforce by systematically charting paths for all managers, including women and minorities.

In going through the process, never assume that someone is too old or too young, too inexperienced or too overly qualified. Ideally, a health center should have a database that provides usable information, such as the number of people who will retire in the next five years. Information from that database guides the succession plan.

Need for a Consultant

The internal review of your current workforce and the matching of talent to strategic goals might best be managed by an external consultant or facilitator who can dispassionately evaluate the health center employees' strengths and weaknesses, and match them to the core competencies that have been developed through the strategic planning process. That person could, for example:

- ◆ Help a senior staff that may be unable or unwilling to conduct its own self-assessment, as well as evaluate those employees with whom the senior staff might be too close to conduct an objective evaluation.
- ◆ Help keep the board and senior management focused on the goal of identifying future managers through mentoring, thus ensuring the creation and perpetuation of a talent pool.
- ◆ Provide advice on performance measures for the various positions.
- ◆ Develop a recruitment protocol for the board members to use in connection with board member and CEO recruitment, along with a list of options for executive recruitment that helps the board and CEO address the occasional crisis, while allowing them to stay focused on the short- and long-term goals of the strategic plan and succession plan.

Whether the internal review is accomplished by a consultant or by the senior staff, this is the part of the process that identifies those employees who have the capacity either now or in the future to move into leadership positions.

Step 4. Plan What to Do If There Is a Sudden Vacancy

It is more than likely that the health center will need to fill a position before the succession plan has been fully implemented due to the departure of a manager for another job or because of illness or, worse, a sudden death.

- ◆ Consider at the outset of drafting the plan whether to fill openings as they occur with interim leaders – either the one who has previously been slotted (or informally “eyed”) for the job or the departing person’s immediate subordinate. The main advantage to assigning an interim leader is that it promotes continuity in governance and/or operations and lessens the panic that might accompany a sudden departure. However, the person may not have the full skill set to step in, in which case parts of the job could be assigned to other members of the senior staff
- ◆ With respect to executive positions, consider whether to have an employment agreement for the interim leader to establish key expectations regarding job performance and what the future holds.
- ◆ Decide whether to allow or even encourage the interim person to apply for the permanent position. Alternatively, the interim or transitional person could be designated to assist in finding the successor.

When compensating the interim leader for added duties, it should generally be through the award of a bonus, not an increase in base salary. An increase in base salary could be viewed as evidence of a permanent position or lead to unreasonable expectations on the part of the interim leader in this regard.

Step 5. Conduct an External Review of Candidates

Succession planning does not necessarily mean that the health center will select only from among internal candidates. Under certain circumstances, centers may have to look outside the health center to find the appropriate candidate. For example, suppose there is a vacancy in leadership and the board or CEO does not have an internal candidate of the caliber that is sought. The strategic goals may indicate that the health center needs a change agent in this position, someone to shake things up. Alternatively, you may simply want to evaluate both internal and external candidates.

At this point, your strategic plan will guide whether to:

1. Transition an internal candidate into a new position over the course of one or two years, or
2. Hire an external person as soon as possible to accomplish a turnaround.

In some cases, where your vacancy came unexpectedly, choosing an outsider on a temporary basis is the only viable way to fill the position. It is important, however, not to imply a preference either for internal or external candidates if you want to seek external candidates. If external candidates are to be sought, decide how to find them – through a recruitment agency, through professional journals, through the newspaper, or prescreen potential candidates who are already known.

Step 6. Develop a Selection Process

An outline of the key elements of the selection process for leadership successors should be developed as part of the health center's succession plan. This should be formalized preferably in the form of a policy or a procedure, with the details to be tailored to the particular position. Certainly for the senior executive positions such as CEO, COO (if the health center has one), CFO, and Chief Medical Officer, the policy should call for the formation of a search committee. This approach may also be useful for other positions, if feasible.

- ◆ Identify upfront who will perform the preliminary review of resumes, as well as what would be a manageable number of qualified candidates to interview from the resumes submitted.
- ◆ Ask each candidate to come in for a series of structured interviews. Questions should be designed by the search committee, the board, the CEO, and/or the HR director, as applicable, and should be appropriately related to the job description. Each person could then be rated on a scale of one to five for each quality named.
- ◆ Once the candidates have been narrowed, the search committee may want to take extra steps to get to know the candidates by scheduling social events or by giving each candidate a real life problem or hypothetical to solve. Executive or board member candidates could be asked to run a board meeting, committee meeting or staff meeting, as appropriate.

- ◆ Check references – don't skip that step and assume that references will be positive. Review previous performance evaluations (if an inside candidate is being considered for employment), verify primary sources for educational degrees, conduct appropriate background checks, and check government data bases to ensure that the individual has not be debarred or suspended from federal programs and/or excluded from federal health care programs such as Medicare and Medicaid. This should apply equally to clinicians and non-clinical staff/management.
- ◆ As a condition of employment (but not until an offer has been extended and accepted), you may want to require a physical examination, including a drug screen.

Both in the earlier rounds and in the final selection, the candidates who were not selected need to be informed. For internal candidates in particular, it is important to let them know about their potential future prospects in terms of other positions that may become vacant. Emphasize their strengths and the desire of the health center to keep them a member of the team.

Step 7. Create Access to and Opportunities for Training

Training should be a key element of any succession planning program because few individuals possess all the skills or qualities necessary to advance. For most people, training takes place on the job. Training and education of the workforce for higher positions also has the advantage of promoting workforce stability and ensuring that the organization's goals are matched with its resources. You cannot necessarily expect employees to self-identify as needing training for leadership, especially if they are two or three

rungs down from the top. However, if individuals are regularly encouraged, mentored, and trained into leadership positions, then the health center is likely to earn their loyalty while grooming tomorrow's leaders.

Employees cannot be expected to find appropriate training on their own because they may not know what skills are being sought for higher positions or they may be pre-occupied by the press of current job duties. The nature of the training could be as simple as establishing a mentor relationship or shadowing a person who is leaving the organization. Or training can be as complex as assigning the individual the responsibility for managing a program for a period of time or taking on a difficult project that is part of the strategic plan. Either should be under the supervision of an appropriate mentor (whether internal or external). For example:

- ◆ A primary care physician who has extensive experience as a clinician managing a hospital-based practice may need training on providing primary care in the health center clinic setting.
- ◆ A COO who has had only minimal exposure to the quality improvement process may need training on such process.

The nature of training depends on several factors, including: (1) whether the candidate is an insider who knows the organization or an outsider who does not; (2) the length of time available before the vacancy occurs; and (3) whether there is an interim in the position. Those successful executives and board members who have retired from health centers are a good source of mentors and trainers for board positions and CEOs.

Step 8. Institutionalize the Plan

It takes several years to build a succession plan; as such, health centers should:

- ◆ Create goals for the first year so that success can be seen in the near term as well as in the long term. At the end of the year (as the next round of strategic planning occurs), look back at the succession planning process to see what worked and what didn't, and then improve on it.
- ◆ Consider establishing a succession planning committee that would:
 1. Report to the board and management as part of the strategic planning process;
 2. Forecast future vacancies in leadership positions; and
 3. Identify potential candidates who are ready to fill key positions or who will, with coaching and mentoring, likely be ready within two, three or four years.

Ensure that health center employees know about the plan and gain commitments to mentoring and training, and consideration for internal promotions. If the plan is a secret, employees may be mistrustful of what the health center's commitment is to their personal advancement. Centers may also lose an employee who does not know he or she was being groomed for a management position.

OTHER CONSIDERATIONS FOR A SUCCESSFUL SUCCESSION PLAN

There are some practical problems to address before a particular succession is implemented.

- ◆ Figure out the role of the designated successor in the organization. When a successor is in the mentoring, transitional phase, it is important to assign him or her specific projects that are useful to the organization and do not encroach on another's domain.
- ◆ It will be incumbent on the board or CEO, as applicable, to explain to other members of the team the role of the designated successor and clearly describe the scope of responsibilities so as to avoid resentment on the part of those who are concerned about their turf. Unfortunately, the very qualities that make a successor a good leader might make it difficult for him or her to carry out an interim or subordinate role without ruffling feathers.
- ◆ Decide in advance or, in some cases, negotiate:
 1. How long will the transition be?
 2. What are the measurable performance objectives?
 3. What if the person does not perform satisfactorily?
 4. Will there be an employment contract for just the probationary period or will it extend to include the anticipated position to which the person is ascending and with what qualifications?
 5. If the new manager comes from the outside, will he or she receive relocation expenses?

LEGAL ISSUES

Even a successful and well-thoughtout succession plan is not free of legal issues – particularly as relates to workforce/employer rights and obligations.

Draft a Clear Succession Planning Process

The succession planning process should be drafted with the advice of qualified counsel. The plan should:

- ◆ Identify definite goals, but give the health center latitude to adjust those goals as well as incorporate the vision and philosophy of the health center.
- ◆ Be clear that all non-discrimination rules and policies will continue to apply.
- ◆ Articulate a fair process – not one that leads to charges of favoritism or discrimination. For example, merely because the succession policy expresses a preference for or a commitment to consider internal candidates, it does not mean that position vacancies will not be posted or that others cannot apply.

Inform Employees of Their Potential for Advancement

A decision needs to be made as to whether employees who have been identified as potential rising stars should be told that they may be under consideration for executive positions. Long-term succession planning involves identifying individuals who are ready for increased responsibility within one year, two to three years and three to five years. There are advantages and disadvantages in informing workforce members of their potential for advancement within the health centers.

The advantage: It fosters employee loyalty and retention. If centers do not inform the rising stars or “ready pool” of their potential, they may leave, not realizing that they have prospects of advancement.

The disadvantage: It could create legally enforceable expectations of continued employment and promotion, such that an employee may rest on his or her laurels, or lock the senior management into a decision even if the strategic needs or goals change.

Under all circumstances, the plan should not promise or guarantee any kind of promotion or job security. The CEO (or HR Director, perhaps) should explain the parameters of the program – specifically that it represents the health center’s recognition of high-achieving employees who have the potential for promotion to a higher position. Health centers should communicate the criteria for being in the accelerated category, so promotion is not seen as subjective or discriminatory.

Establish Objective Job Descriptions

Job descriptions should be reviewed by counsel to make sure that they are comprised of objective and measurable requirements. While great deference is given to an employer, the criteria for satisfactory job performance and/or essential job elements should not include standards that could be viewed as a pretext for discriminatory action. The job description should address all key aspects of the job. It can be useful to attach specific annual goals and objectives to each job description.

Conduct a Uniform Recruitment Process

To avoid claims that the process was discriminatory, make sure to follow all of the steps in the established recruitment process. For the same reason, make sure the candidate meets all of the published prerequisites of the job. Centers do not want the succession plan to be criticized as a throwback to the days of word-of-mouth recruiting.

Negotiate the Contract

The same formalities that are followed for negotiating any contract should be followed with the CEO and senior-level positions.

- ◆ Draft a formal offer for an interim position that contains the basic terms of the hiring, such as:
 1. Length of time,
 2. Essential duties,
 3. Compensation,
 4. Expected achievements by the end of the transition period,
 5. Right to terminate with or without cause, and
 6. Conditions under which the interim position will be made permanent, if any.

The contract also can provide an option to extend the interim contract upon mutual agreement if the successor is not identified (and bonus compensation to the incumbent if he or she meets all the conditions or goals) or if the departing CEO or management team member does not leave when expected.

- ◆ Document negotiations, as well as any changes in the terms or conditions of employment or the terms of an interim position. If the candidate accepts some but not all provisions, consider getting legal input for determining what can be compromised in negotiations.
- ◆ Once the successor's interim commitment expires, if the board or CEO wishes to make the position "permanent" (subject to at-will employment) and if the interim is willing, consider whether a new contract of employment is needed with different terms appropriate to the position.
- ◆ Assure protection for the health center in the contract if the appointed successor leaves or does not meet expectations. If a recruiting firm is involved in the selection of a successor, there should be provisions in the contract with the firm that should protect the health center's investment in the event of a premature departure.

CONCLUSION

There are many elements of a succession plan and implementation must be continuous.

Remember:

- ◆ The succession plan goes hand in hand with the health center's strategic plan.
- ◆ Take the time to reevaluate and revise the plan or policy and process annually.
- ◆ After selecting a successor, review the policy to decide what did or did not work.
- ◆ Make appropriate changes to guide the process in the future.

This Information Bulletin was written for NACHC by:

Marcie H. Zakheim, Esq.
Feldesman Tucker Leifer Fidell LLP
Washington, D.C.

For information about these bulletins, contact:

Betsy Vieth at NACHC at bvieth@nachc.com



7501 Wisconsin Avenue, Suite 1100W

Bethesda, MD 20814

Telephone: 301-347-0400

Fax: 301/347-0459

Website: www.nachc.com