Star Divisions Program 2005 - 2006

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GPDV GENERAL PRACTICE DIVISIONS VICTORIA

5. Board Relationship with CEO

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Version 2 December 2005

Quality Improvement Council

Star Divisions

5. BOARD RELATIONSHIP WITH CEO

5.1 Board and CEO responsibilities

This Help Sheet provides an overview of the respective responsibilities of the Board and the CEO and of those responsibilities which are shared. It includes advice about remedies when the board and CEO seem to be heading in different directions.

The Help Sheet is one of a series produced by ourcommunity, a Victorian based organisation which provides training and resources in leadership and management to not for profit organisations.

An extensive range of resources can be downloaded from their website at www.ourcommunity.com.au

Help Sheet

ourcommunity.com.au

Boards, Committees & Governance Centre: *Build a Better Board; Be a Better Board Member; Find a Board Position*

Department for Victorian Communities

Click on the link below for:

Who Does What?
Board and staff relationships

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5. BOARD RELATIONSHIP WITH CEO

5.2 Role of the CEO.

CEO positions descriptions have some very common features. This Help Sheet sets out the key functions of any CEO.

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Click on the link below for:

The CEO and the Board

(Insert Division Logo)

5. BOARD RELATIONSHIP WITH THE CEO

5.3 Sample Policy -Board & CEO Linkage

The Boards' sole connection with the operations of the division will be through a Chief Executive Officer.

1. BOARD - CEO DELEGATION

The Board delegates to the CEO responsibility for implementation of its Strategic Plan and CEO Limitations policies. The Board allows the CEO to use any reasonable interpretation of these policies to achieve the intended results.

Accordingly

1. The Board will develop a Strategic Plan that makes clear its instructions and priorities to the CEO for the achievement of results or outcomes. The CEO will develop a business plan as an operational response to the Board's Strategic Plan.

2. The Board will develop CEO limitations policies that provide the framework within which the CEO is expected to work, offering boundaries of prudence and ethics.

3. All Board authority delegated to staff is delegated through the CEO to whom in turn all staff are accountable.

    (a) The Board will never give instructions to persons who report directly or indirectly to the CEO.

    (b) The Board will refrain from evaluating, either formally or informally, any staff other than the CEO.

4. As long as the CEO uses any reasonable interpretation of the board's strategic plan and CEO limitations policies s/he is authorized to establish all further policies, make all decisions, take all actions, establish all practices, and develop all activities.

5. The Board may change its strategic plan and CEO limitations policies, thereby shifting the boundary between Board and CEO domains. By doing so, the Board changes the latitude of choice given to the CEO, but as long as any particular delegation is in place, the Board will respect and support the CEOs choices.

6. Only decisions of the Board acting as a body are binding on the CEO.

7. The CEO is not restricted from using the expert knowledge of individual Board members.

8. The board will view the CEOs performance as the same as the division's performance so that achievement of the board's strategic plan and non-violation of CEO limitation's policies will be viewed as successful CEO performance.

2. MONITORING CEO PERFORMANCE

The Board's evaluation of the CEOs performance will be rigorously assessed against agreed CEO outputs, that is, achievement of the board's strategic planning outcomes and certain agreed operational planning criteria, and non-violation of CEO limitations policies and other such criteria as identified in the employment contract.

1. The purpose of monitoring the CEO's performance is to determine the extent to which the board's policies are being met. Data that does not do this will not be considered to be monitoring data.

2. The board will acquire monitoring data by one or more of three methods: (a) by internal report, in which the CEO discloses compliance information to the board, (b) by external report, in which an external, disinterested third party selected by the board assesses compliance with board policies, and (c) by direct board inspection, in which a designated member or members of the board assess compliance with the appropriate policy criteria.

3. In every case, the standard for compliance shall be any reasonable CEO interpretation of the board policy being monitored.

4. There will be established an agreed-upon time when the CEO and the Chairperson (or designated committee) meet annually to carry out a formal appraisal based on the criteria agreed and set at the beginning of the monitoring period. The format and process for this meeting will be negotiated and agreed upon between the CEO and the Chairperson or committee.

5. All policies that instruct the CEO will be monitored at a frequency and by a method chosen by the board. The board may monitor any policy at any time by any method, but will ordinarily depend on a routine schedule, such as the example below.

Policy	**Method**	**Frequency**	**Date**
Financial Condition	Internal	6 monthly	July/January
Budgeting and Financial Planning	Internal	Annually	July
Fundraising	Internal	Annually	July
Reserves	Internal	Quarterly	Oct/Jan/Apr/Jul
Investments	Internal/External	Quarterly	Oct/Jan/Apr/Jul
Remuneration and Benefits	Internal	Annually	December
Protection of Assets	Internal	Six Monthly	July/January
Communication and support to board	Direct Inspection	Annually	December
Emergency CEO Succession	Internal	Annually	December
Treatment of Staff	Internal	Annually	December
Treatment of Consumers	Internal/External	Six Monthly	July/January
Public Affairs; Property	Internal	Annually	July
Management/Physical Resources	Internal	Annually	July

Note: all reports supplemented by monthly CEO reports.

6. If at any time the board engages an outside evaluator to conduct an assessment of the CEO's performance, the process is the same as for other approaches, based on the achievement of ends and non-violation of limitations policies.

3. OVERREACHING CEO LIMITATIONS

The CEO shall not cause or allow any practice, activity, organisational circumstance, or decision which is in any way unethical, unlawful, and imprudent or which violates any Board policy or expressed Board values, or commonly held business or professional ethics.

4. FINANCIAL CONDITION

With respect to the actual and ongoing financial condition and activities, the CEO shall not cause or allow the development of financial jeopardy or material deviation of actual expenditures from board priorities as defined in the board's strategic plan. Accordingly the CEO shall not:

1. Cause the division to incur unauthorised indebtedness.

2. Use any organisational funds other than for the furtherance of its purposes and priorities as adopted by the board in its strategic plan.

3. Allow ordinary operating expenses to become undischarged debts beyond a two month period from due date.

4. Use restricted or 'tagged' contributions for any purposes other than those designated.

5. Allow any one person alone to have complete authority over any of the division's financial transactions.

6. Fail to pay staff on time.

7. Make any non-budget purchase or commitment of greater than $XXX.

8. Allow tax payments or other government ordered payments to be overdue or inaccurately filed.

9. Violate generally accepted accounting practices.

10. Acquire, encumber or dispose of land or buildings.

11. Violate the Reserves policy.

12. Neglect to ensure that there are limitations on expenditure and adequate controls on the use of credit cards by card holding staff.

13. Fail to take all reasonable steps to secure monies owed to the division.

14. Enter into binding non-operational contracts as defined in the Business Plan.

15. Invest uncommitted company money on the speculative money market.

5. BUDGETING /FINANCIAL PLANNING

Financial planning for any financial year or the remaining part of any financial year shall not deviate materially from the Board's Strategic Plan priorities, risk financial jeopardy, or fail to be derived from a multi-year plan. Accordingly, the CEO shall not allow budgeting that:

1. Contains too little information to enable credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.

2. Plans the expenditure in any financial year of more funds than are conservatively projected to be received in that period.

3. Reduces the current assets at any time below all current liabilities and identified risks plus 20% at any time, unless guaranteed funding will be available within one month of dropping below the reserve.

6. FUNDRAISING

With respect to the division's fundraising programs, the CEO shall ensure that the level of exposure to risk is kept to a minimum. Accordingly the CEO shall not pursue or in any other way support any fundraising activity or process which:

Could in any way be considered unethical or illegal or imprudent.

In any way involves any person, either as a staff member or as an agent of an outside organisation, when that person is known to have been associated with or has been convicted for any form of embezzlement.

Could result in the division's good name being compromised, brought into ill repute or associated in any way with another organisation or individual of ill repute.

Involves the division in using company money to match a similar investment by an outside agency or use financial reserves or current account to float a fundraising venture without prior approval.

Permits any one person to have complete authority over the financial transactions involved in any fundraising venture.

7. RESERVES

The CEO shall ensure that the Reserve Fund is maintained at the board's agreed level: Therefore the CEO shall not

1. Fail to maintain the cash reserves at an amount of more than one month's expected operating costs at any time, unless guaranteed funding will be available within one month of dropping below the reserve.

2. Use the reserve for any purposes other than those approved by the Board.

8. REMUNERATION AND BENEFITS

With respect to employment, compensation and benefits to employees, consultants, contract workers and volunteers, the CEO shall not in any way jeopardise division's financial integrity or good name in the community. Therefore the CEO shall not:

1. Change their own remuneration or benefits.

2. Fail to have regard for the employee's skills and experience, negotiated salary scales and the market conditions for such skills and experience when establishing employee remuneration and benefits.

3. Create obligations that cannot be met over the projected period of the individual's term of employment or over a period for which revenues can realistically be projected.

4. Cause unfunded liabilities to occur or in any way commit the division to benefits that incur unpredictable future costs.

9. PROTECTION OF ASSETS

The CEO shall not allow the division's assets to be unprotected, inadequately maintained or unnecessarily risked. Therefore the CEO shall not:

Permit any unauthorised person to handle cash.

Deposit funds in institutions where they are exposed to above average risk.

Allow the assets to be insured for less than necessary for prudent risk management.

Allow employees to drive the division's or rental vehicles if their driving record causes the vehicle insurance to be cancelled.

Allow intellectual property, information or files to be used for purposes other than in (the division's best interests

Allow insurances to terminate without informing the board.

Unnecessarily expose the division, its Board and staff to claims of liability.

Subject plant and equipment to improper wear and tear or insufficient maintenance.

COMMUNICATION AND SUPPORT TO THE BOARD

The CEO will ensure that the board is informed and supported in its work. Accordingly the CEO shall:

1. Submit data in a timely, accurate and understandable fashion addressing the various issues to be monitored by the board.

2. Inform the board of significant trends, implications of board decisions, issues arising from policy matters or changes in the basic assumptions upon which the board's policies are based.

3. Inform the board when for any reason there is actual or anticipated non-compliance with a board policy.

4. Inform the board of all matters having real or potential legal implications for the division.

5. Marshal for the board as many staff and external points of view, issues and opinions as needed for fully informed board choices.

6. Inform the board of such occasions when it violates one of its own policies, particularly when this relates to the CEO's ability to carry out their responsibilities.

7. Ensure that there are effective communication channels relevant to the board's tasks.

8. Deal with the board as a whole except when responding to individual requests for information or requests from board committees or working parties.

10. CEO EMERGENCY SUCCESSION

In order to protect the division from sudden or unexpected loss of its CEO's services, the CEO shall ensure that there is at least one person who is capable of assuming the CEO role and tasks and who is familiar with board issues and priorities.

11. TREATMENT OF STAFF

With respect to the employment and treatment of staff and program volunteers the CEO shall ensure that all conditions are fair, safe and dignified. Accordingly the CEO shall:

1. Ensure that all employees and volunteers enjoy the right to personal dignity, safety, ethical position-related dissent and to an approved and fair internal grievance process.

2. Operate in accordance with written personnel policies that make clear rules for staff and protect against unfair practices such as preferential treatment for personal reasons.

3. Avoid discrimination against any staff member or volunteer for expressing an ethical dissent.

4. Ensure that all staff are provided with a workplace free from harassment.

5. Comply with all relevant workplace and employment legislation.

6. Observe the right of any staff member to join a relevant professional association or union or to have access to the services of that union as these relate to the workplace and related conditions.

7. Keep the board fully informed about impending disputes and grievances that may lead to termination of employment or action against the board.

8. Enable staff to bring a grievance to the board when (a) a board policy has been violated to their detriment or (b) a board policy does not adequately protect his or her human rights. The channel for such a grievance is via the Chairperson.

9. Ensure that all staff members are acquainted with their rights under this policy and the grievance policy.

TREATMENT OF MEMBERS AND CONSUMERS

With respect to interactions with members and consumers or those applying to be members, the CEO shall ensure that all conditions, procedures, or decisions are safe, dignified, not unnecessarily intrusive, and provide appropriate confidentiality or privacy. Accordingly, the CEO shall:

1. Use application forms that elicit only information for which there is a clear necessity.

2. Use methods of collecting, reviewing, transmitting, or storing member information that protect against improper access to the material elicited.

3. Maintain facilities that provide a reasonable level of privacy.

4. Make the division's member mailing list available only for board agreed purposes.

5. Establish with members and consumers a clear understanding of what may be expected and what may not be expected from the services offered.

6. Inform members of the policy, and provide a grievance process to those who believe they have not been accorded a reasonable interpretation of their rights under the policy.

12. PUBLIC AFFAIRS

The CEO shall not approve or in any way support any public affairs action or activity that in any way brings the division's name into ill repute. Therefore the CEO shall not make, or knowingly allow to be made, any statements to the press or any other public media or in any public forum that are derogatory or in any way damaging to the division.

13. PROPERTY MANAGEMENT AND PHYSICAL RESOURCES

The CEO shall ensure that all physical resources shall be appropriate for the division's purposes and will meet all regulatory standards where appropriate. Therefore the CEO shall ensure that the premises meet appropriate local and government standards and any other statutory or minimum code requirements.

5. BOARD RELATIONSHIP WITH CEO

5.4 CEO Recruitment

This Help Sheet describes a thorough and easy to follow 10 step approach to recruiting the right CEO for the division.

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Boards, Committees & Governance Centre: *Build a Better Board; Be a Better Board Member; Find a Board Position*

Victoria The Place To Be — Department for Victorian Communities — MAV Municipal Association of Victoria

Click on the link below for:

Recruiting a great CEO for your community group

5. BOARD RELATIONSHIP WITH THE CEO

5.5. CEO Selection Interview: Guide for the board

In general the questions asked should elicit information about key technical competencies but some questions of a different type should also be used.

The handbook *Excellence in Governance: A Guide for Divisions of General Practice* cautions boards that “ultimately, while competencies are important, there is a need for the views and philosophies of any CEO to be compatible with the culture of the organisation” (p. 42). It is those views and philosophies that the board need a chance to explore.

In the journal “Good Governance” No.18 of December 2000 Terry Kilmister argues that “self awareness and emotional maturity are key variables in effective leadership and questions should aim to build a confident assessment of these factors”.

The article provides a list of recommended questions for selecting the right CEO which include:

1. From what you have so far been able to learn about the division what do you see as the most important challenges we face?
2. If you were in our position and searching for the right individual to head this division why would you say that you were the best qualified for the position?
3. What do you feel has been your greatest career accomplishment to date and how has it equipped you for this position?
4. What has been the biggest disappointment in your career to date and what did you learn from it?
5. What are the strengths you would seek in other members of your team and how would these complement your own abilities?
6. Assume you have got the job, what would you do on Day One?
7. If those who you respect in your current work environment were asked their opinion of you, how would they be likely to describe you and your management ability?
8. Is there anything that you haven’t told us about that we might uncover when we check out your referees, or that we might hear from another source, but which could be relevant to our decision whether or not to appoint you?
9. What, in your experience is the most effective way for a CEO to deal with the media?
10. Given what you know about the requirements of this role, what resources will you need in order to achieve what is expected of you?
11. What do you think may the issues which could arise for a CEO in working for elected committees and boards?
12. How have you dealt with these issues in the past?

Our team at GPDV also recommend developing one or two brief hypotheticals based on your local situation. Hypothetical questions have two advantages. They don't favour differences in gender style in an interview situation and they provide an opportunity to tap views and philosophies of candidates when there is no right or wrong answer.

The Kilmister article also suggests questions which should be directed to referees after the interviewing process is complete. Some of these are

1. If you were a funder or sponsor putting $1million into this organisation given what you know about this candidate would you want him or her to be responsible for its effective use?
2. Does the candidate lead consistently in a way that inspires trust?
3. Does the candidate hold people accountable for their performance?
4. How much time does the candidate spend developing other leaders in the organisation?
5. Does the candidate energise others?
6. Does the candidate consistently demonstrate respect for followers?
7. How comfortable is the candidate sharing information, resources, praise and credit?

Another review article in Good Governance (No. 19) quotes Warren Bennis and James O'Toole from "Don't hire the wrong CEO" *Harvard Business Review, May – June 2000, pp 171-179*. These authors argue that what the board should be looking for is a "candidate who has broad (long term) perspective, a set of convictions about the division's strategic direction, a clearly thought out managerial philosophy and an understanding of how to galvanise the entire organisation….". They suggest that the best way to spot a true leader is by the presence of willing followers and referees are the people most likely to identify candidates who are recognised for this quality.

5. BOARD RELATIONSHIP WITH THE CEO

5.6. CEO Selection Interview Format

1. Introduction by chair of selection committee – welcome candidate, introduce interviewers, explain interview procedure – eg, three interviews today, then checking with referees, decision made next week, candidates notified mid to late next week.

2. Chair: Ask candidate to talk briefly about what led them to applying for this position.

3. Chair hands over to other members of selection committee who ask agreed specific questions (suggestions are given in 5.5 in this series, Selection interviews for CEO position). The questions should be generally the same for all candidates.

4. Chair to answer applicant's questions re the organisation and position, if any.

5. Chair to confirm permission to contact referees and explain again the next steps in the selection process.

Thank candidate for attending.

5. BOARD RELATIONSHIP WITH THE CEO

5.7 CEO Performance Appraisal

This is a guide to performance appraisal for a CEO, based on four steps: Role Clarity, Performance Planning, Performance Management and Performance Review Discussion. This version is annotated for a division starting the cycle.

1. Role Clarity

1. Written job description is current
2. Delegations/authorities are current
3. Key Result Areas (KRAs) or outcomes are clearly identified. May be KRAs or could be achievement of Strategic Plan outcomes.

*If starting the process, assess whether there is a clear job description, with current and adequate delegations and identify reasonable KRAs (a) for this first discussion or (b) for the year ahead.

Recommended areas for setting KRAs are:
- Support and Advice to the Board
- Achievement of Business & Strategic Planning and Program Development
- Relationships with External Stakeholders
- Staff Management
- Financial Management & Budgeting
- Satisfactory reports to DoHA and other funding providers
- Support to Members

2. Performance Planning

1. Board or a sub-committee identifies Key Performance Indicators (KPIs) with CEO and records them.
2. The record will describe the intervals at which the CEO will report to the board against the KPIs.

*If looking back, it will be reasonable to use the Strategic Plan as the basis for KPIs. If looking ahead, then the Strategic Plan is one option, another is to identify KPIs across a set of KRAs (see above).

Some examples of the kinds of topics and reporting schedules are:

- Financial: YTD and budget monthly to board, balance sheet report quarterly, annual assets management, risk assessment, etc.
- Staff Management: Annual, may include staff survey.
- External Stakeholders: Annual based on survey/focus groups/discussion with board sub committee
- Support to Members: annual through survey/focus groups/decreasing number of complaints etc
- Support to Board: Briefing reports satisfactory -assessed through board discussion with CEO

3. Performance Management

Reporting to the Board on KPIs against the agreed schedule monitored over the year.

4. Performance Review Discussion

1. CEO completes self assessment

2. Board or sub committee assesses CEO support for and working relationship with the board

3. CEO and Board agree on how input from key external stakeholders will be gathered/considered (if deemed appropriate).

4. CEO and Board agree on how input from staff will be collected (if thought appropriate).

* For the initial discussion, the CEO should complete the self-assessment, and discuss this with the board. They should then set the framework for the year ahead, and assessment at the end of the calendar or the financial year, whichever is agreed.

5. BOARD RELATIONSHIP WITH THE CEO

5.8 Checklist for CEO Self Assessment

This can be used to guide discussion for the initial appraisal, and can then be worked on in more detail to set the performance management framework for the year ahead.

- Support and Advice to the Board

  Working relationship with Chair and board. Quality of support to board

- Benchmarking

  Division systems and performance compared to other divisions
  e.g. individual feedback report from PHCRIS re results of annual survey of divisions

- Achievement of Business & Strategic Objectives

  Assessment against indicators in strategic plan and funding contracts

- Relationships with External Stakeholders

  Existence of formal and informal working relationships. Agreement on key stakeholders. Relationships assessed as positive by key stakeholders. Positive outcomes of collaborative activities with other agencies

- Staff Management

  Absence of industrial or morale problems; positive feedback from staff; staff retention.

- Financial Management & Budgeting

  Solvent; reports timely; reserves adequate; progress towards income targets

- Relationship with funding bodies

  Positive written feedback from DoHA or other funding bodies about division performance

- Support to Members

  As assessed in annual survey or focus groups

- Professional Development

  Activities completed and improvements in skills and knowledge. Goals for the coming year.