The CEO Authority Policy

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Establishing clear expectations and a pattern of frank communication between boards and CEOs sets the stage for a healthy and productive relationship between governance and the C-suite. As any experienced board member or CEO will confirm, this level of clarity and transparency usually does not transpire on its own. A combination of tools and governance practices underly this result. The board's CEO authority policy is an essential tool that assists the board and CEO in achieving a common understanding of the sometimes-gray line between chief executive and governance responsibilities.

The CEO authority policy is a board document that defines the financial and decision-making jurisdiction of the CEO. As with most situations, the conversation that occurs between board leaders and the CEO to develop the policy is as important as the final written document.

First Steps

For a newly appointed CEO, the creation of the CEO authority policy is an early priority. Even boards with CEOs who have been in office for a long period of time should attend to establishment of this policy. A thoughtful development of this essential policy can prevent serious future misunderstandings between boards and CEOs.

The board may wish to delegate the initial formation of this policy to either its executive committee or finance committee, with the full board ultimately approving the policy. Writing the policy should be a collaborative venture with the CEO and will initiate healthy dialog between the CEO and board leadership.

As a starting point, review the organization's bylaws for a description of board-reserved powers and delineation of the chief executive's role and overall authority.

Scope

When contemplating the content of this policy, think more broadly than only financial levels of authority. The policy should address each of these decisions:

- Capital expenditures
- Operating expenditures
- Debt
- Land and real estate acquisition and disposal
- Litigation settlements
- Contractual authority (including managed care contracts)
- Joint venture and legal partnership establishment and dissolution

The CEO authority policy may have different levels of authority for budgeted versus unbudgeted expenditures. Some boards also add a section that describes the protocol for reimbursement to the CEO for his or her professional development and travel expenditures (usually the CFO or General Counsel signs off on these expenditures, which are also commonly reviewed by the organization's audit firm during its annual audit).

As the policy discussion continues, consider a range of authority levels.

Key Board Takeaways

- Approach the development of a CEO authority policy as a collaborative effort between the board and CEO.
- Begin with a bylaws review.
- Broaden the policy beyond financial elements.
- Ensure that the final product is an effective policy that will contribute to mutual understanding of the governance and chief executive roles.

For example, some items will be fully delegated to the CEO and some matters will require action by the board. For other policy elements, fully delegated CEO authority works well accompanied by a requirement for an informational notification to the board (or a designated board committee such as the finance committee) prior to the action. Another alternative is CEO action followed by communication to the board (or board committee).

Too Little or Too Much Authority?

An obvious question revolves around how much authority a board should grant its CEO. Not surprisingly, the answer is "it depends." For an interim CEO or a rookie CEO, the board may wish to retain more authority—with the intention to ramp up authority levels over time as trust and credibility levels grow.

For an experienced CEO with an established relationship of trust, the board should grant maximum authority levels. For example, if a particular capital project or expenditure is included in the organization's board-approved budget, it is generally both inefficient and redundant for the board to require an additional review of the expenditure at another board meeting. The more authority granted to the CEO, the more board time will be reserved for strategic matters and generative governance. Like all board policies, the CEO authority policy should be reviewed periodically and updated accordingly.

One Caveat

When a board establishes a policy, it rightly expects compliance. However, CEOs and boards should recognize that in today's healthcare world, there are occasional situations when rapid action and decision making do not conform with policies that were created for the routine business environment. For example, in the early days of the pandemic, there were many CEOs who made on-the-spot crucial financial commitments (such as acquisition of scarce personal protective equipment) that were critical elements of patient and employee safety. With a trusting relationship and appropriate communication between the board and CEO, there will be an understanding that doing the right thing for patient care will always outweigh a written policy. Coloring outside of the policy lines should not be the norm, but when it happens, the board should resist a rigid approach and instead seek to understand the bigger picture.

Final Thoughts

A positive and productive CEO–board relationship is a precursor to a hospital or health system's overall success, including delivering on its mission. The CEO authority policy is an underappreciated communication device that ensures the board and CEO are in sync on decision-making expectations. This collaborative policy is a tool that can prevent unfortunate misunderstandings between chief executives and the governing body.

The Governance Institute thanks Kimberly A. Russel, FACHE, Chief Executive Officer of Russel Advisors and Governance Institute Advisor, for contributing this article. She can be reached at russelmha@yahoo.com.