



Trustee Services

Competency-Based Succession Planning

Building a board with the right skills, diversity, and culture

Even before the Enron scandal, which featured directors who didn't understand the company's complex financial transactions, and before the Sarbanes-Oxley Act required publicly owned corporations to disclose whether their boards include directors with financial expertise, it should have been self-evident that relevant knowledge and experience are prerequisites for effective governance.

Until recently, though, many governing boards, including those at community hospitals and health systems, approached the nominating process without a great detail of precision or planning. Community hospital boards filled vacancies from the same social and business circles as current members.

Without question, many visionary, dedicated, and accomplished individuals have joined boards through this pathway over the years. However, as the expectations for governance accountability and effectiveness have increased, the limits of traditional, informal board recruitment are becoming apparent.

Some boards have found themselves rich in directors with certain backgrounds, such as finance or law, but short of individuals with needed backgrounds in healthcare, audit,

As the expectations for governance accountability and effectiveness have increased, the limits of traditional, informal board recruitment are becoming apparent.



quality, advocacy, or community health. Diversity—or rather the lack of it—also has been a problem. The “good old boy network” plentifully produced older white males but has a harder time unearthing mid-career individuals, women, and ethnic minorities. Health systems that populate parent board seats with “representatives” from local boards can find these directors protect back-home interests and fail to appreciate their fiduciary responsibility to the system as a whole. Some physician directors have a hard time recognizing they are system fiduciaries and not medical staff representatives.

Boards may elect new members based on limited information. A lack of careful vetting sometimes produces new directors who, despite good intentions, simply lack sufficient training, experience or time to master the high-level, complex issues they are asked to address. Asked to candidly assess their boards, it’s common to hear the board chair or CEO observe, “We have some great people, but we have other trustees who don’t add a lot to discussions.”

Succession Planning Process

Ironically, hospitals and health systems have formal skills requirements and hiring practices for every other job, from the lowest-level technician to the CEO and medical staff, but not for their highest position: the board. The same rigor that goes into choosing managers and clinicians certainly ought to be applied to governance.

An explicit, competency-based succession planning process is the best guarantee a board has for recruiting and developing directors who bring a range of needed professional skills,

The same rigor that goes into choosing managers and clinicians certainly ought to be applied to governance.



backgrounds, and diversity that is reflective of the community served. These 10 elements are integral to a competency-based succession planning process:

1. **Committee responsibility.** The board delegates specific responsibility for succession planning to a committee, such as the Governance and Nominating Committee or the Executive Committee.
2. **Competency-based criteria.** The governance committee develops and recommends to the board competency-based criteria to be used as a guideline for recruiting and electing board members. Competency criteria may be grouped into two categories:
 - “Universal competencies” that all directors should possess, such as commitment to the mission, leadership skills, communications, and teamwork abilities; personal integrity; strategic and critical thinking skills; and a demonstrated understanding of the difference between governance and management.
 - “Essential collective competencies” that one or more members bring to help the board execute its responsibilities effectively. Common collective competencies include backgrounds in executive leadership, business management, healthcare, investments, audit, clinical care and quality improvement, law, and community health needs.

The board delegates specific responsibility for succession planning to a committee, such as the Governance and Nominating Committee or the Executive Committee.

3. **Skills matrix and “gap” analysis.** At least annually, the governance committee should identify near and long-term recruitment needs by analyzing a matrix that displays the board’s competencies, current members who fill each competency, and “gaps” based anticipated vacancies and emerging subject area needs.
4. **Continuously updated pipeline.** The committee should maintain a running list of prospective members and their backgrounds. All board members should be invited to submit suggestions. The board and committee chairs and the CEO should connect with various community leaders to identify prospective board members, including those who might broaden the board’s diversity and not be identified traditional recruitment channels.
5. **“Short list” interviews.** Focusing on “gaps,” the committee should agree on a “short list” of prospective directors to be interviewed. Usually, the chair of the board and/or governance committee interviews prospective directors. The interviews should include an explanation of a board member’s responsibilities, a discussion of the prospect’s background, and a candid exploration of the prospect’s interest and ability to devote the time required for board work.
6. **Recommendation.** The committee should finalize a recommended slate of candidates for election to fill board vacancies.

Interviews with prospective directors should include an explanation of a board member’s responsibilities, a discussion of the prospect’s background, and a candid exploration of the prospect’s interest and ability to devote the time required.

7. **Performance-based reelection.** Directors who are eligible for election to an additional term should not be automatically reappointed. They should be asked to confirm their interest in reelection and undergo a clearly defined, performance-based reelection process. The governance committee should review a performance profile that summarizes the director's attendance record, participation in education and community events, noteworthy contributions, and evaluations from committee chairs and the board chair.
8. **Board leaders.** The governance committee should also ensure there is a line of succession for future board chairs and committee chairs.
9. **Term limits.** Reasonable term limits, such as a maximum of three or four consecutive three-year terms, encourage the board to keep its pipeline fueled with prospective new members and board leaders. Although term limits have the disadvantage of forcing retirement of some highly productive directors, their advantage is encouraging a continuing flow of fresh thinking, objectivity, and community connectedness into the work of the board.
10. **Self-renewal.** Like all governance elements, the succession planning process should be evaluated as part of ongoing board self-assessment. The governance committee should update its competency-based recruitment criteria every one or two years to ensure currency.

Directors who are eligible for election to an additional term should not be automatically reappointed.

Reasonable term limits, such as a maximum of three or four consecutive three-year terms, encourage the board to keep its pipeline fueled with prospective new members and board leaders.



Competencies + Diversity + Culture

Professional skills and experience by themselves do not ensure governance effectiveness. Two other components are needed: diversity and culture.

Diversity. When coupled with subject matter competencies, a diversity of backgrounds enhances a board's credibility with its community and brings different life experiences and ways of thinking to group interactions. Many boards believe that the addition of women and ethnic minorities to the board table makes them better as deliberative and decision-making bodies. Diversity doesn't happen by itself. Boards need to broaden their connections with organizations and individuals who can connect them to women, minorities, and rising stars in business, academia, and community life.

Culture. The final ingredient to realizing the full value of board members' individual competencies is the board's culture. Does the board's culture, its way of doing things, allow directors to make their voice felt? Does the board chair encourage members to engage and raise challenging questions? Will new directors find their questions and insights welcome or resisted by the current leadership?

It's also important to choose directors who are a good fit with a board's core values. Most boards value collegiality. Thus, while challenging conventional wisdom can be a good thing, boards with a collegial culture should recruit directors who don't personalize criticism and know to frame tough questions in a non-confrontational manner. Similarly, Catholic hospital boards need directors who are bring "hard

When coupled with subject matter competencies, a diversity of backgrounds enhances a board's credibility with its community and brings different life experiences and ways of thinking to group interactions.

It's also important to choose directors who are a good fit with a board's core values.



skills such as finance and business but aren't tone deaf to the mission. The interview and conversations with executives and directors of organizations where the prospect has served are good ways to assess an individual's cultural fit with the board.

Power of Succession Planning

As it evaluates potential new directors, the governance committee should consider all three components—professional competence, diversity, and cultural fit—to find and nominate individuals who will blend into a strong working team.

Composition can be transformational. This year's class of new directors will be the board's leaders in the future.

Organizations that need governance to be more visionary, strategic, accountable, and action-oriented rather than risk averse can look to succession planning to establish a foundation for long-term change. They can look for new directors among executives from other industries that have undergone transformational change, such as banking and airlines. Systems that want to move from representational governance to system thinking can seek members who understand complex systems.

Succession planning, like board orientation and education, is a good governance practice that pays long-run dividends.

Barry S. Bader is the Publisher of the *Great Boards* newsletter and the President of Bader & Associates, governance consultants.

*Composition
can be a trans-
formational
strategy.*

Great Boards
*The Online Governance
Newsletter*
www.GreatBoards.org

Published by :
Bader & Associates
10050 East Calle de Cielo
Scottsdale, Arizona 85258

Phone: 480-614-0422
GreatBoards@gmail.com