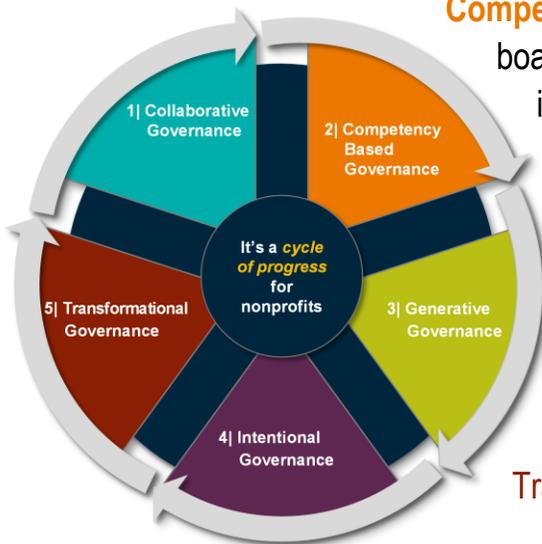


GOVERNANCE INNOVATION: a five-part series



2 | Competency Based Governance

**A resource from Integrated Healthcare Strategies,
a division of Gallagher Benefit Services, Inc.**



Competency Based Governance is one of the five new models of board work that is essential for health systems to successfully move into an era of population health and value based payments.

The five models are:

- Collaborative Governance
- Competency Based Governance
- Generative Governance
- Intentional Governance
- Transformational Governance

This is the second of a five-part series of white papers on new forms of governance for population health management by integrated health systems and accountable care organizations.

We encourage boards to circulate these white papers and engage in spirited conversations about how these models are being mastered in their board work, and what investments could advance them even further into the high performance governance domain.

This paper seeks to address these four questions:

- What is Competency Based Governance?
- Why is Competency Based Governance so important for health systems boards?
- How can boards overcome common obstacles to good Competency Based Governance?
- What are the three most important board actions to accomplish Competency Based Governance?



2 | Competency Based Governance

What Is Competency Based Governance?

Governance experts from many countries observe that “competence” is the integration of experience, knowledge, skills, attitudes, values, and beliefs. In the case of boards, which are the ultimate decision makers for most organizations, the competencies of directors are particularly important.¹

This paper shares practical insights into the knowledge, skills, and attitudes (competencies) needed for smart governance of health sector organizations as they move into the era of population health management and accountable care. Many of the insights provided are excerpted from the excellent monograph published by the AHA’s Center for Healthcare Governance, “**Competency Based Governance: A Foundation for Board and Organizational Effectiveness.**”²

The Blue Ribbon Panel on Trustee Core Competencies was convened by The Center for Healthcare Governance in 2008 to:

- Identify individual board member core competencies common to different types of boards that can be used to improve board and organizational performance; and
- Provide guidance and direction for the field in developing educational and other resources that can be used to apply these competencies to the work of hospital and health system governing boards

As our U.S. health sector is so critical to our society, many suggest that governing our health related organizations needs to borrow the best insights from all sectors, and from outside the U.S.

¹ In Australia, see: <http://www.effectivegovernance.com.au/how-competent-are-your-directors>

² See: <http://www.americangovernance.com/resources/reports/brp/2009/brp-2009.pdf>



BoardSense in New Zealand finds that there is a core set of competencies which every board member should possess, and the board should also include members with some additional specific competencies.³ The core competencies include:

1. General Competencies

- Ability to make informed business decisions
- Entrepreneurial
- Can see wider picture and perspective
- Integrity in personal and business dealings
- International experience
- A personal commitment to the Purpose, Vision and Values of the organization

2. Character Competencies

- Acts on morals and values
- Is willing to act on and remain accountable for board decisions
- Courage to pursue personal convictions
- Can be objective at all times about what is best for the organization
- A good sense of humor
- Has an independent mind and is inquisitive
- Ability to act as a team player
- Prepares well for board meetings – reads papers, seeks answers
- Committed to seeing the organization makes a difference

3. Communication Competencies

- Can articulate thoughts, opinions, rationales, and points in a clear, concise, and logical manner
- Is flexible and willing to change stances when necessary or appropriate
- Has the ability to listen, process, and understand key points

³ See: <http://www.boardsense.com/contact-us.html>



- Can interact with other board members in a group setting, both contributing to, and valuing the contributions of all members
- Ability to coach members of staff
- Ability to deal with the media – comfortable on public platforms
- Recognizes the motivations of stakeholders such as investors, members, customers, competitors, employees, regulators, and other groups, and communicates with them accordingly
- Has the ability to relate to a wide range of people and establish quality relationships
- Can influence and persuade others
- Adds value to the board dialogue
- Is able to focus at the governance level of issues
- Is able to disagree without being disagreeable
- Is competent and experienced in using the Internet and email
- Has a cultural awareness and an understanding and appreciation of different cultural needs

4. Knowledge Competencies

- Understands responsibilities as a director
- Aware of latest business and management practices
- Understands the roles, processes, and relationships of the board and its members
- Knows the key performance indicators of the company and its senior management
- Understands legal, accounting, and regulatory requirements affecting the company
- Keeps up to date developing knowledge and skills – reads widely
- Has a knowledge of own limitations and is prepared to ask for help
- Has governance experience

The above competencies should be present in every board member, and the following competencies should also be represented around the board table – not necessarily by every board member, but at least by some.



5. Strategic Competencies

- Can see strengths and weaknesses of the organization, and how decisions will impact them
- Ability to recognize opportunities and threats in each industry or industry segment
- Ability to recognize wider business and societal changes, particularly in the context of global markets
- Ensures strategies, budgets, and business plans are compatible with vision and strategy
- Aware of change and the need for change
- Understands the difference between governance and management issues

6. Analytical Competencies

- Can read and interpret financial reports
- Ability to think critically and challenge proposals
- Understand issues from different perspectives
- Asks for and uses information to make informed judgements/assessments

7. Sector Competencies

- Specific experience with the sector in which the organization operates
- Professional expertise in the sector in which the organization operates
- A deep understanding of the particular business model most effective in the sector
- It is good practice is to conduct an “annual competency assessment” prior to calling for nominations (or appointments) for director vacancies.⁴ Then, when calling for nominations, the competencies which the board sees itself short of can be included in the desirable characteristics of a nominee.

⁴ Ibid



Delivering these competencies is more complex than we may have thought. It is more than just having specific knowledge, skills, or other characteristics. It also has a lot to do with how we behave when we're in certain situations or when we perform various tasks or jobs, as well as how we work together with others in reaching decisions or meeting goals.⁵

In addition to developing individual board member competencies, the AHA panel also considered what makes a board an effective team, and identified tools and resources to help boards begin to apply competencies to health care organization governance. Adapting studies by the NCHL, the AHA Panel defined a powerful series of 14 key board member core competencies shown below.⁶

1. **Accountability:** guides creation of a culture of strong accountability throughout the organization; appropriately and effectively holds others accountable for demanding high performance and enforcing consequences of non-performance; accepts responsibility for results of own work and that delegated to others.
2. **Achievement Orientation:** ensures high standards are set and communicated; makes decisions, sets priorities, or chooses goals based on quantitative inputs and outputs, such as consideration of potential profit, risks, or return on investment; commits significant resources and/or time in the face of uncertain results when significantly increased or dramatic benefits could be the outcome.
3. **Change Leadership:** maintains an eye on strategic goals and values during the chaos of change; exhibits constancy of purpose, providing focused, unswerving leadership to advance change initiatives; demonstrates quiet confidence in the progress and benefits of change; provides direction for overcoming adversity and resistance to change; defines the vision for the next wave of change.
4. **Collaboration:** promotes good working relationships regardless of personal likes or dislikes; breaks down barriers; builds good morale or cooperation within the board and organization, including creating symbols of group identity or other actions to build cohesiveness; encourages or facilitates a beneficial resolution to conflict; creates conditions for high-performance teams.

⁵ Center for Healthcare Governance, op cit, page 8.

⁶ Adapted from NCHL Healthcare Leadership Competency Model, 2005 and Lee, Soon-Hoon and Phillip H. Phan. "Competencies of Directors of Global Firms: Requirements for Recruitment and Evaluation." *Corporate Governance: An International Review*. Vol. No. 8, No. 3: 204- 214 (2000), at 204, 207-210.



5. **Community Orientation:** advocates for community health needs at community, state, and federal levels; engages in meaningful actions at the national level to move recognized priorities forward; partners across health constituencies to create a coordinated and dynamic health system that meets long-term health and wellness needs; understands needs of health stakeholders and pushes their agenda forward.
6. **Information Seeking:** Asks questions designed to get at the root of a situation, a problem or a potential opportunity below the surface issues presented; seeks comprehensive information; seeks expert perspective and knowledge; establishes ongoing systems or habits to get information; enlists individuals to do regular ongoing information gathering; encourages adoption of best practices from other industries.
7. **Innovative Thinking:** makes complex ideas or situations clear, simple, or understandable, as in reframing a problem or using an analogy; fosters creation of new concepts that may not be obvious to others to explain situations or resolve problems; looks at things in new ways that yield new or innovative approaches — breakthrough thinking; shifts the paradigm; starts a new line of thinking; encourages these behaviors in others.
8. **Complexity Management:** balances tradeoffs, competing interests, and contradictions and drives for the bigger, broader picture both to reach resolutions and expand one's knowledge; exhibits highly developed conceptual capacity to deal with complexities such as expanding markets; understands the vision, mission, and strategy and their implications for the organization's structure, culture, and stakeholders.
9. **Organizational Awareness:** becomes familiar with the expectations, priorities, and values of health care's many stakeholders; recognizes internal factors that drive or block stakeholder satisfaction and organizational performance; addresses the deeper reasons for organization, industry, and stakeholder actions, such as the underlying cultural, ethnic, economic, and demographic history and traditions; uses these insights to ensure organizational leaders are building long-term support for creating local, regional, and national integrated health systems that achieve a national agenda for health and wellness.
10. **Professionalism:** develops governance roles/values compatible with improving population and individual health; ensures that the organization values and exhibits professional, patient- and community-oriented behaviors; commits to addressing the health and wellness needs of the total population, including adopting new approaches that address diverse cultural attitudes about health; ensures organizational stewardship and accountability for honesty and fair dealing with all constituents.



11. **Relationship Building:** builds and maintains relationships with influential people in the health care field, the community and other constituencies that involve mutual assistance and support.
12. **Strategic Orientation:** understands the forces that are shaping health over the next 5 to 10 years; helps shape the organization's vision and future direction; aligns strategy and resource needs with the long-term environment and guides positioning the organization for long-term success; develops a perspective on long-term health and wellness trends and developments that is respected by colleagues and leading policymakers; helps shape competitive positioning for the organization and the industry through policymaking forums and industry-specific groups.
13. **Talent Development:** holds management accountable for developing people in the organization; ensures that succession plans for the CEO and senior leaders are robust and current; serves as a coach and mentor within the board and organization as needed and industry-wide to develop health care talent.
14. **Team Leadership:** establishes and models norms for board behavior; takes appropriate action when board members violate the norms; works with board members to gain their personal commitment and energy to support board goals; removes or reduces obstacles to board effectiveness; coaches and develops board members to top performance; encourages these team leadership behaviors organization wide; is recognized throughout the health industry as an outstanding leader.

How prepared is your board to encourage, develop, and refine these competencies to strengthen your future board work? How should you best assess the degree to which you already have these competencies available for your board work?

Why is Competency Based Governance so important for Health Systems Boards?

Governance that intentionally recruits and develops community leaders with the above competencies is needed for the decision-making challenges of: forging population health strategic alliances; conducting wise capital financial planning; encouraging oversight of new forms of bundled payment contracts with payers; and establishing policies that create a performance based culture that drives to high quality health outcomes.



The call for more competency based board work across the U.S. health sector is therefore driven by the need for bolder and more sustainable organizational performance. A growing body of research is beginning to connect competencies to both individual and organizational performance in many sectors including health care.⁷ This link is motivating interest in competency based selection, and developing the competencies of people in roles of service on both for-profit and not-for-profit governing boards.

Competency based governance is important for two interdependent reasons: (1) it fuels faster and smarter board work for higher levels of performance, and (2) it encourages the intersection of disciplines and perspectives essential for governance innovation and continuous renewal of processes and practices for wiser and more effective board decision-making. It also builds a greater sense of pride among board members that their work draws upon the best experiences and thinking from their region; and helps ensure that their time and talent will be used wisely.

How can boards overcome common obstacles to good Competency Based Governance?

Too many boards are not willing to do the hard work of following the principles of Competency Based Governance. They prefer to take the easier path of inviting friends and traditional community leaders into their board work. This path may sub-optimize their board's effectiveness and is a function of these three large challenges:

- Board leaders are uncertain about the types of decisions they will need to make to be successful in population health management, so they are uncertain about the knowledge, skills, and attitudes they will need for successful decision-making in the coming years.
- Board leaders and executives naively believe that smart, well motivated community leaders should already possess the competencies needed for the uncharted waters of accountable care and new, “value for money” based payments from government and private purchasers, so they are not motivated to follow a competency based recruitment and development process.
- Boards are not familiar with how to use a “Competency Map” to guide their recruitment and development activities.

⁷ Center for Healthcare Governance, op. cit. page 8



Most people want their boards to be effective, and nominators may well consider filling these competency gaps with the people they put forward. How do we start down this path of competency based governance? The first step is creating a “Board Competency Profile”.

A Board Competency Profile can be developed either using the organization’s own resources or with the help of a consultant. In the first case, a nominating committee may simply identify what, in its view, are the essential skills and knowledge needed on the board to successfully develop and implement strategies needed to accomplish their strategic plan as a roadmap for their journey into population health management and accountable care. A more thorough process may involve engaging a consultant who interviews current board members and management and reviews the strategic plan’s requirements to define desired competencies. The advantage of this method is that senior staff and members can have frank conversations with the consultant about who the board really needs.

What are the three most important board actions to accomplish Competency Based Governance?

As you surface the concept of **Competency Based Governance** within your board and executive team, consider these three key initiatives:

Initiative 1: Assessment: Ask your board colleagues about the degree to which they believe their time and talents are being well used in your board work. At the same time, ask each member to define 3-5 key competencies needed to implement your strategic plans. This collection of competencies can be prioritized by your board, and then used in Initiative 2 below to guide your board development.

Initiative 2: Guide for Improvement: Use a formal “Competency Map” to guide three board activities:

- Recruiting talented new board members;
- Assessing board performance against the desired profile; and
- Invest in educational efforts to enhance gaps or overcome weaknesses in your competency mastery.

Initiative 3: Stakeholder Engagement: Expand invitations to diverse stakeholder groups to engage in board committees or special, ad hoc advisory councils to supplement your board’s access to needed mission critical relationships, competencies, and resources.

Have a conversation at your next board meeting about how best to understand and apply “Competency Based Governance” in your pursuit of continuous board improvement and to support governance innovation.

The Governance & Leadership practice of Integrated Healthcare Strategies uses proven, state-of-the-art governance design, educational programs, and tools to help boards use their time and talents more effectively. Our team of consultants have extensive experience in the assessment of board performance and in the development of strategies and systems to continuously enhance the governance of complex healthcare and hospital systems.

For more than 40 years, Integrated Healthcare Strategies (Gallagher Integrated), a division of Gallagher Benefit Services, Inc., has provided consultative services and people-based solutions to clients across the healthcare spectrum, including community and children's hospitals, academic medical centers, health networks, clinics, and assisted-care providers. Our Gallagher Integrated consultants and nationally recognized thought-leaders help organizations achieve their business goals, by ensuring top talent is attracted, retained and engaged, while measuring and maximizing human and organizational performance. With tailored solutions that extend well beyond single services, Gallagher Integrated offers the knowledge, guidance, and insights that organizations need to not only survive the rapidly changing healthcare environment, but to succeed in it.



JAMES A. RICE, PH.D., FACHE

Managing Director and Practice Leader
Governance and Leadership

**Integrated Healthcare Strategies
a division of Gallagher Benefit Services, Inc.**

901 Marquette Avenue South, Suite 2100
Minneapolis, Minnesota 55402
612-703-4687
www.IntegratedHealthcareStrategies.com

For additional information about how to enhance the effectiveness of health sector governing boards, contact us at: contact@ihstrategies.com

