Streamlining and Aligning System Governance

Significant opportunity remains for system boards to enhance governance effectiveness.

Health systems are transforming themselves at lightning speed to achieve the Triple Aim, deliver on their brand promise and manage population health to create healthier communities. So, too, must system governance transform itself—and quickly. More specifically, a system's governance model should efficiently and effectively facilitate management's ability to implement strategy and align the efforts of the entire organization around transformation.

As health system governance evolved, many systems began as parent holding company models with multitiered governance structures. In larger systems, these tiers sometimes included the system board, regional boards, local hospital boards and even subsidiary boards of the local hospital boards. As shown in The Governance Institute's 2015 biennial survey of hospitals and healthcare systems, more than half of today's systems continue to maintain separate local and subsidiary fiduciary boards, and another 17 percent maintain local boards that serve in only an advisory capacity. The same survey reveals a consistent trend away from systems with subsidiary boards that hold full responsibility toward subsidiary and system boards that instead share responsibility. Seven out of 10 systems with subsidiary boards have in place a matrix of governance authorities or a policy that specifies the allocation of responsibility and authority between system and local boards.

Despite all the good work system boards have done to enhance governance effectiveness, significant opportunities for improvements remain.

Single-Board Systems

For systems already operating with one board that has fiduciary and oversight responsibilities for all subsidiaries, efforts should focus on streamlining and more directly aligning the board's work with the system's vision and transformational efforts. Ensuring that the system board is competency based, rather than representational, will facilitate these aims. This requires identifying, systematically recruiting for and developing board members with the necessary competencies for the future. The 2015 biennial survey indicates that boards slowly have been adding new competencies, such as population health expertise, an appreciation of active consumerism, or predictive modeling and risk management expertise. It is time to accelerate these efforts, including instituting rigorous selection and reappointment criteria and using multiyear board development plans to achieve the desired competency-based board as quickly as possible.

Additionally, the board should devote more meeting time to forward-looking strategic and generative discussions and less time looking in the rearview mirror. Focusing on performance, rather than tactics, and effectively using committees and a consent agenda are critical elements of developing a more forward-looking board. For the former, the board should use "bifocal" outcome metrics, which combine tangible measures of longer-term strategic success with a concise set of short-term performance indicators that tie directly to longer-term metrics.

The system board and its committees also should use formal annual work plans. The board's work plan should directly align with the system's strategic and transformation efforts with each meeting, including a deep dive around a key strategic element. This could include population health management, physician engagement and risk sharing, cultural transformation, using IT to drive change or delivering value from the consumer's perspective. Finally, the system board should routinely review its committees and sunset those for which there is no longer a compelling reason for existence.

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Systems With Multitiered Boards
Emerging best practices in healthcare governance call for value-added, nonduplicative work and input at each level of governance. The "right" balance between system board and subsidiary board roles varies from system to system. Regardless of the particular approach, subsidiary hospital boards have less authority and need to play different roles than those overseeing independent hospitals. Subsidiary hospital boards should focus more on overseeing performance in quality and service and less on financial oversight; more on population health and less on this month's volume; and more on delivering value to the community and less on the status of negotiations with specific payers. These boards should have a greater need for members who have experience in quality improvement and less need for those whose primary competency is understanding financial statements.

Your system board should thoughtfully re-examine whether and how local boards—fiduciary or advisory—will add value to your system in the future. Such value should not be assumed, nor should local boards' connection to the community be sufficient justification for maintaining them.

Many systems have concluded that, because of circumstances such as local board members' understanding of their market or community needs, local boards add more value to the system than could a system board or system managers overseeing a broad geography. Other perceived benefits may include quality and credentialing oversight and/or philanthropic support, although the latter may best be accomplished through a local foundation. If the system does decide to retain local boards, such boards must see themselves as an extension of the system board, not primarily a governing body representing the interests of the local community.

If maintained, local hospital or other subsidiary boards should focus on oversight that furthers the system's overall strategic plan and successfully addresses local needs. In this role, local board members should see themselves as stewards of the

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system's resources. Often, this is accomplished by focusing on a limited list of strategic metrics identified by the system that are essential to long-term system success.

In the event that local performance lags, the subsidiary board should ask local management for a corrective action plan and monitor improvements to get back on track.

Re-examining and clarifying the system's governance matrix is a must. A shared governance model, albeit well-intentioned, too often generates role confusion, unproductive duplication of efforts or frustration at the local level, which often centers on the local board's right to recommend action. For example, many local boards still retain the right to recommend annual capital and operating budgets—despite the reality that the system board establishes financial policies and sets the annual operating and capital budgets, and system management determines what the local capital and operating budgets will be—well before the local board takes action. In this case, the local board's role is pro forma. Worse yet, the local hospital board may retain a finance committee. Because financial oversight is provided through the system board, the system finance committee and system management, a local finance committee provides unnecessary duplication of efforts and generally is unwarranted.

The system should identify which, if any, committees should be maintained at the local board level and which responsibilities should be delegated to the hospital board as a whole. Most subsidiary hospital boards today maintain a committee focused on quality and value, which includes credentialing of medical professionals, and a local governance committee, focused on governance competencies, board self-assessment, recruitment, and board orientation and education. Any such committees retained at the local board level should have clear-cut charters that directly align with their counterpart committees at the system level and with overall system priorities. Committees should see themselves as an extension of the system's committees.

Finally, even if a health system decides to retain local hospital boards under a more streamlined governance approach, it should start planning for a future with a single system board. Changing the governance model will require patience, open dialogue, engagement and trust, so that community board members who have supported their local hospital for years embrace any governance changes—including the elimination of local boards—and feel respected and valued throughout the process. ▲

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Editor's note: For more information about The Governance Institute's 2015 biennial survey report, *21st-Century Care Delivery: Governing in the New Healthcare Industry*, please visit www.governanceinstitute.com/ 2015biennialsurvey.

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