



To Be or Not to Be: The Future of Subsidiary Hospital Boards

By Marian C. Jennings, President, M. Jennings Consulting, Inc.

"I know our system needs to be agile. But sometimes I feel that our governance model slows us down; it is cumbersome, often requiring us to make the same presentation to a seemingly endless number of committees and boards."

Have you ever uttered something like this? Whether your healthcare organization is focused on transforming your delivery model, delivering on a brand promise, rationalizing service offerings across a region, or offering a distinctive and consistent value proposition to consumers regardless of their point of entry, your strategy should be easier to formulate and implement because of—not despite or regardless of—your governance model. Your future system governance model must facilitate fundamental not just incremental transformation and include members capable of both critical and strategic thinking. Finally, the system board must be able to make informed, prudent decisions in a timely fashion and be sufficiently nimble to respond to a rapidly changing market.

According to The Governance Institute's 2017 Biennial Survey of Hospitals and Healthcare Systems,¹ health system governance is moving toward a value-based model, albeit at a slower-than-expected pace. The survey reported that one-third of systems operated with one system board with fiduciary oversight for the entire system. The other two-thirds operated under a shared governance model, equally split between systems with a system board and subsidiary boards with fiduciary duties and those with a system board and subsidiary advisory boards.² Importantly, only 61 percent of system respondents indicated that the association of responsibility and authority (in the shared governance model) was widely understood and accepted by both local- and system-level

leaders.³ While there was reportedly greater understanding and acceptance of governance roles in the larger systems surveyed, there was an unacceptably large understanding/acceptance gap even in these organizations.

Key System/Parent Board Takeaways

If you decide to maintain subsidiary hospital boards:

- Create or refresh your governance decision authorities matrix to ensure that the roles, responsibilities, and authorities of the system board, system committees, any subsidiary hospital or other boards, and the system CEO are clearly articulated.
- Ensure that subsidiary hospital boards see themselves as an extension of the system board, not primarily as a group representing local/regional interests.
- Refocus subsidiary hospital boards on identifying and addressing community health needs; providing quality oversight; monitoring/enhancing patient, staff, physician, and community engagement; credentialing within system-wide standards/parameters; and serving as local/regional advocates for improving health. These areas complement, rather than duplicate, system board roles and responsibilities.
- Discourage subsidiary hospital boards from maintaining committees that duplicate efforts of system/parent board committees. Specifically, it generally does not make sense for local boards to maintain the following committees: finance, audit and compliance, executive compensation, strategic planning, or an executive committee. Instead, oversight or input to the system—when needed—should be the work of the board as a whole.

¹ Kathryn Peisert and Kayla Wagner, *The Governance Evolution: Meeting New Industry Demands*, 2017 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

² *Ibid.*, Exhibit 30.

³ *Ibid.*, Exhibit 32.

Pros and Cons of Maintaining Subsidiary Boards

Clearly, system governance with a single fiduciary board is the most streamlined and efficient governance model. But is it the most effective model?

The following are often described as **advantages to systems that maintain subsidiary boards**:⁴

- Maintaining valuable community “connections” through the insights and perspectives of those from different geographic constituencies
- Building local advocates for the health system within the community
- Having a cadre of community members who are well informed about healthcare and can help to educate others
- Cultivating local donors/philanthropic support

These benefits are often very real; however, they beg the questions: Do we need to maintain either fiduciary or advisory hospital boards to achieve these benefits? And do these roles constitute meaningful work for a group designated as a board? Moreover, could the parent board obtain these same benefits via a local group or task force focused on improving community health, by conducting local focus groups, or through maintaining a local foundation focused on philanthropy?

The disadvantages of maintaining subsidiary boards typically relate to four areas:

- Lack of role clarity: Regardless of whether a subsidiary board is technically a “fiduciary” or “advisory” board, being designated as a board generally connotes that the body is expected to exercise some or all of the six core governance responsibilities (formulating policy and providing oversight around quality, finance, strategic direction, management oversight, community advocacy/benefit, and board development). This is especially the case when the local board includes long-standing members of a hospital board that existed before the hospital merged into or formed a system with a parent board. This role confusion often results in frustration at the local board level, where there typically is vested little, if any, final authority.

⁴ Hugh Greene, “The Enduring Importance of Local, Subsidiary Boards,” *BoardRoom Press*, The Governance Institute, October 2017.

- Overly hospital-centric focus: Most subsidiary boards today are populated by individuals who historically served on the local hospital board. Understandably, and despite bylaws and a governance decision authorities matrix that may clearly outline the (limited) authorities and responsibilities of a subsidiary board, the board may continue to function much as it did historically. Its meeting agendas may not change. Its quality review may continue to focus on hospital inpatient care, although most patients will never be hospitalized. While the system may be focused on developing a distinctive integrated delivery system across geographies, the subsidiary board may have a hard time accepting its role in the overall system strategy.
- Disconnects between system and local priorities: Despite leaders’ best efforts, there often remain myriad disconnections between system priorities and activities that occur at the local board level. Unfortunately, it is not rare to see that a local hospital within a system develops a strategic plan that pays lip service to but bears little resemblance to the overall system plan; that charters for board committees across different hospitals are all over the map, with little or no direct connection to the charter for a system-level counterpart committee; or that the different hospitals within a system have not even considered identifying together the most important attributes and competencies needed on their boards.
- Slow, cumbersome decision-making: A common complaint within the shared governance model relates to the number of committee meetings and board meetings required to approve a decision. Ensuring robust input and thoughtful consideration are keys to successful decision making. But more meetings, often involving many of the same board leaders and key executives, do not necessarily translate into better decisions. Instead, the system board should focus on ensuring that the right individuals—including those most impacted by a decision along with those most knowledgeable about the topic—are actively involved in providing input and formulating recommendations.

The list goes on and on. While, arguably, each such “for instance” may appear trivial, together they result in lack of alignment of local and system priorities. All too often, hospitals and their boards fall into the “not invented here” syndrome: that is, the presumption that something created or used

elsewhere in the system is not best for their situation.

Importantly, addressing the four disadvantages above does not always require a change in structure. Many improvements can be made through taking the time to ensure greater differentiation among—and understanding and acceptance of—designated roles, responsibilities, and authorities; along with taking a disciplined and relentlessly diligent approach to implement and ensure adherence to changes in board processes and policies.

Looking Forward

No one governance model is “right” or fits all situations. If there were, everyone would adopt it. The plurality of current governance approaches is likely to continue to evolve slowly and—in my opinion—is likely to move toward more centralized models that locate all or most authorities at the system level. In some cases, restructuring is the default response when attempts to improve processes and policies within the shared governance model have failed to deliver.

In the short term, there are several important actions that system boards can take to increase the

efficiency and effectiveness of their shared governance model (see “Key System/Parent Board Takeaways” sidebar).

We recommend that those who operate today in a shared governance model convene a group/task force comprising board leaders from the system/parent board and subsidiary boards to embark on a thorough, objective governance evaluation process. Plan to spend six to nine months on this process and avoid rushing into “models” and structures too quickly. Instead, as in any good planning process, start by identifying the characteristics you desire in your future governance model and why, identify the principles that will guide your collective decision making, candidly assess the strengths and weakness of your current model, and then, and only then, identify changes to your governance processes, structures, and expectations that will help you close the governance gap.

Remember that this is not a race. Take the time to engage board members from across the system in this dialogue. This investment in time up front will yield greater engagement, alignment, and support down the road for a governance model that has been designed to meet your specific needs.

The Governance Institute thanks Marian C. Jennings, President, M. Jennings Consulting, Inc., and Governance Institute Advisor, for contributing this article. She can be reached at mjennings@mjenningsconsulting.com.

