INTRODUCTION

A key governance design challenge in healthcare systems having multiple boards with parent-subsidiary relationships is specifying the most effective/efficient subdivision and coordination of responsibilities and roles among them. The questions that must be addressed are:

- What responsibilities/roles should be assumed and discharged by the system-parent board?
- What responsibilities/roles should be assumed and discharged by system subsidiary boards?
- How should the work of system and subsidiary boards be coordinated?

Options for answering these questions can be diagramed as follows:

That is, for a given role and a specific responsibility (say overseeing the quality of care): What duties should be retained by the system-parent
board? What duties should be delegated to the subsidiary board? What duties should be shared by the system-parent and subsidiary boards? Carefully thought-out, crafted and articulated board charters address these questions.
SYSTEM PARENT BOARD

Provided below is an illustrative charter for the board of a system-parent, with several subsidiary hospitals, each having their own boards. Here governance functioning is highly centralized; the system-parent board:

- retains responsibility for system ends (vision/mission, goals, strategies), President/CEO performance/contributions and finances
- delegates responsibility for the quality of care to subsidiary hospital boards
- delegates responsibility for subsidiary hospital ends (vision/mission, goals, strategies), executive performance and finances to the system President/CEO in cooperation with the subsidiary hospital President/CEO and input/advice from the subsidiary hospital board

There are, of course, a number of other options for partitioning governing responsibilities among boards in a healthcare system.

THE CHARTER

__[system name]__ is governed by a system board and is composed of subsidiary hospitals, each of which has its own board.

Governance quality has a significant impact on the System as a whole, in addition to the performance of individual subsidiary hospitals and their ability to improve community health status. Governance is important work and must be grounded on explicit/precise specifications of board responsibilities and roles among organizations within the System.

Our board’s ultimate obligation is to ensure the System’s resources and capacities are deployed in ways that advance and protect community stakeholder interests and fulfill their expectations/needs. To serve as the agent of stakeholders and add value to the System on their behalf, we:
**formulate policy** (convey expectations, direct and guide), **make decisions** requiring board action and **oversee** (monitor and assess) the System’s **ends**, **executive performance**, **quality** and **finances**. The nature of our board’s work is defined by these four responsibilities and three roles.

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<tr>
<th>BOARD RESPONSIBILITIES</th>
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<td>executive performance</td>
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<td>quality</td>
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Our board is responsible for determining the System’s ends. To fulfill this responsibility we:

- ✔ formulate the System’s vision/mission;

- ✔ specify System-wide goals that, if accomplished, lead to the vision/mission being fulfilled; and

- ✔ ensure strategies developed by System management are aligned with, and will lead to achieving, goals and the vision/mission; and

- ✔ formulate System-wide policies and specify performance measures (indicators, standards/benchmarks) and process/monitoring timelines to ensure necessary/appropriate standardization regarding vision/mission, goals and strategies among subsidiary hospitals.
Responsibility for the vision/mission, goals and strategies of subsidiary hospitals is delegated to the System’s President/CEO cooperating with subsidiary hospital Presidents/CEOs and incorporating the input/advice of their boards.

*The System President/CEO is the only employee directly accountable to our board. Our board is responsible for ensuring high levels of executive performance. To fulfill this responsibility we:*

- recruit and select the System President/CEO;
- specify his/her performance objectives;
- assess his/her performance and contributions;
- adjust his/her compensation and bonus distribution; and
- should the need arise, terminate his/her employment.

Subject to its directives and oversight, our board delegates all management functions and authority to the System President/CEO. The System President/CEO is responsible for executive performance in subsidiary hospitals with input and advice from their boards.

*Our board is responsible for ensuring the quality of care provided in, and by, the System. To fulfill this responsibility we:*

- delegate to subsidiary hospital boards responsibility for quality, including: medical staff credentialing; and monitoring/assessing clinical quality, patient safety and service quality;
- formulate system-wide policies and specify performance measures (indi-
ILLUSTRATIVE SYSTEM-PARENT AND SUBSIDIARY BOARD CHARTERS
Center for Healthcare Governance - page #6 -

cators, standards/benchmarks) and process/monitoring timelines to ensure necessary/appropriate standardization regarding quality of care among subsidiary hospitals; and

✔ ensure health status assessments are conducted for the communities served by the System and that the results are shared with the board to support appropriate System-wide resource allocation.

Our board is responsible for the System’s financial performance and health, protecting and enhancing the community’s investment in it. To fulfill this responsibility we:

✔ specify System-wide financial objectives;

✔ review System management financial plans, making sure they are aligned with financial objectives in addition to the System’s vision/mission, goals and strategies;

✔ ensure the System’s credit worthiness;

✔ ensure the System effectively allocates capital across competing projects;

✔ monitor and assess System financial performance/outcomes;

✔ require System management to develop corrective action plans if financial performance and outcomes do not meet standards;

✔ ensure necessary System-wide internal financial/compliance controls are in place;

✔ ensure System and subsidiary hospital financial statements fairly and
fully reflect their financial condition; and

✔ formulate System-wide policies and specify oversight metrics to ensure necessary/appropriate standardization regarding finances among subsidiary hospitals.

Responsibility for the financial performance/condition of subsidiary hospitals is delegated to the System’s President/CEO cooperating with subsidiary hospital President/CEOs and incorporating the input/advice of their boards.

Additionally, our board is responsible for System-wide governance effectiveness and efficiency. We: consciously design board functioning, structure, composition and infrastructure; and continually monitor board performance and contributions.
SYSTEM SUBSIDIARY BOARD

Provided below is an illustrative charter for the board of a subsidiary hospital within a system. Here governance functioning is highly centralized; the system-parent board:

- retains responsibility for system ends (vision/mission, goals, strategies), President/CEO performance/contributions and finances
- delegates responsibility for the quality of care to subsidiary hospital boards
- delegates responsibility for subsidiary hospital ends (vision/mission, goals, strategies), executive performance and finances to the system President/CEO in cooperation with the subsidiary hospital President/CEO and input/advice from the subsidiary hospital board

There are, of course, a number of other options for partitioning governing responsibilities among system-parent and subsidiary hospital boards.

THE CHARTER

___[system name]___ is the sole corporate member of ___[hospital name]__. Accordingly, our board is ultimately accountable to the System board.

Governance quality has a significant impact on the Hospital and its ability to improve community health status, in addition to performance of the System as a whole. Governance is important work and must be grounded on explicit/precise specifications of board obligations, responsibilities and roles among organizations within the System.

Our board’s obligation is to assist in ensuring the Hospital’s resources and capacities are deployed in ways that advance and protect community stakeholder interests and fulfill their expectations/needs.
The System board has delegated to our board responsibility for ensuring the quality of care provided in, and by, the Hospital. Subject to System board policies, we:

✔ formulate/approve Hospital quality objectives;

✔ appoint, reappoint and determine privileges of the Hospital’s medical staff;

✔ ensure that necessary quality, utilization and risk management systems are in place and functioning effectively;

✔ assess (employing quantitative metrics and standards) clinical quality, patient safety and service quality;

✔ require management and/or the medical staff to develop corrective action plans if the quality of care does not meet standards;

✔ annually, report to the System board regarding the Hospital’s quality of care and processes/procedures in place to continually improve it; and

✔ provide input to the System board regarding community health needs and status.

With respect to ends, our board provides input/advice to the Hospital President/CEO regarding:

✔ formulation of the Hospital’s vision/mission;

✔ specification of goals; and

✔ development of strategies.
With respect to executive performance, our board provides input/advice to the System President/CEO regarding:

✓ recruitment and selection of the Hospital’s President/CEO;

✓ assessment of his/her performance and contributions;

✓ adjustment of his/her compensation and bonus distribution; and

✓ should the need arise, his/her termination.

The Hospital’s President/CEO is accountable to the System’s President/CEO, not our board.

With respect to finances, our board provides input/advice to the Hospital President/CEO regarding:

✓ development of financial objectives;

✓ formulation of financial plans;

✓ how well operational/capital budgets are aligned with, and lead to accomplishing, financial plans;

✓ assessment of the Hospital’s financial performance and condition; and

✓ the extent financial statements fully and fairly reflect the Hospital’s financial condition/status.
NOTES:

These are illustrations. They are provided as templates based on current best practices and are intended as a point of departure, for your board’s discussion and formulation of its own charter. A charter, to be reflective of your board and how it chooses to go about its work, must be custom-crafted.

These charters are based on a model of healthcare organization governance forwarded in Board Work by Dennis Pointer and James Orlikoff (Jossey-Bass, 1999). More background on tiered governance in healthcare systems with multiple boards can be gained by consulting: Getting to Great – Principles of Health Care Organization Governance by Dennis Pointer and James Orlikoff (Jossey-Bass, 2002). For information regarding, or to order, these publications, visit www.americangovernance.com.