Aligning Governance and Business Models to Achieve the Best Fit

by Pamela R. Knecht

According to the American Hospital Association's annual survey, more than 62 percent of community hospitals across the country are now part of "systems." Many of those systems comprise multiple hospitals, but others are single hospital care systems. In either case, the traditional acute-care hospital is becoming just one of the entities within a larger system that probably includes primary and specialty care clinics, ambulatory care sites, behavioral health care and post-acute care. In addition, the systems may be employing physicians, developing robust philanthropic organizations, developing entrepreneurial businesses, conducting research and offering medical education.

Most of these systems are also building the capacity to provide integrated, accountable care for an entire population across the continuum of care. Therefore, they may also include accountable care organizations, clinical integration models and even health plans/insurance products. As a result, they are often complex organizations with multiple business lines, various ownership models and many layers of governance. Understanding how governance is structured and functions in various business models now being adopted by health care systems can help boards best align their governance with the business model it is designed to support.

An Example of Health System Governance and Alignment Challenges

The boards and senior management teams of these increasingly complicated organizations often struggle to provide both effective and efficient oversight. One large health system with 12 hospitals; more than 90 clinics; about 30 long-term care facilities; hundreds of employed physicians and many other entities, recently determined that its senior management team was spending approximately 11,500 hours each year in preparation for and participation in 383 board and committee meetings. When the system board members heard these numbers, they became concerned that their own governance structure and practices were hindering their valuable senior executives from doing their jobs in a highly competitive environment.

And, these data did not include the significant number of hours that the nearly 300 board and committee members were volunteering on behalf of the organization every year. Although these dedicated community members and physicians were devoting significant amounts of time and effort to the organization, some were understandably confused about their role and authority in the multi-tiered governance structure. For example, as a result of many mergers and acquisitions, there were 54 boards including 12 separate hospital boards each with a slightly different interpretation of their responsibilities and authority. Even more important, many of the community board members felt insufficiently informed and engaged by the parent board. Therefore, they did not always feel they were making a valuable contribution to the system.

The challenge that put the parent board "over the top" was when they realized they had recently approved a strategic plan that included transitioning to an operating company philosophy, but their governance structure was more aligned with a holding company business model. The system board wanted the governance structure to support transitioning from a decentralized holding company business model which allowed substantial autonomy at the local level to a more centralized operating company business model in which decisions are made at the corporate level and implemented at the local level. They felt this was the best way to accomplish the system's vision of achieving better health for their communities. This system (and many others) explored the following options for a governance model that would be better aligned with their operating company business model.

"Pure" Operating Company Governance Model

A "pure" operating company governance model supports a fully integrated operating company model with intense centralization of business and clinical processes. The key components of this governance model include (but are not limited to):

Structure

- Only one board with external community members—the corporate/parent board.
- The absolute minimum number of subsidiary corporations is retained—only those that are necessary according to federal or state law or for reimbursement or compliance reasons.
- Any subsidiary corporations that remain have management boards, not boards with external community members.
- Local hospital boards are eliminated or become advisory councils (see the next sections for alternative approaches).
- Executives throughout the system report to the system CEO (not to subsidiary boards).
- The parent board's size is leaner and the majority of its members are external community individuals, many of whom are from outside the service area because of their expertise.

Function

- Goal setting, oversight and decision making are centralized at the corporate level board.
- Strategic planning, financial planning and capital planning are driven from the top.

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