

# Governance in Developing Systems: How Boards Add Value

by Mary K. Totten

*Editor's Note: In "Navigating the Stages of System Development," which appeared in the October 2013 issue of InsideTrustee <http://www.trusteemag.com/trusteemag/html/WebExclusive1013Navigating.html>, authors Casey Nolan, Thomas Dixon and Chris Meyers of Navigant Consulting discussed three stages in the development of health care systems. They outlined areas of focus, required capabilities, desired outcomes and governance models that typically occur at each stage: Asset Aggregation, Functional Integration and System Optimization (see Figure 1: Stages of System Development). Great Boards talked further with author Casey Nolan, managing director of Navigant's Healthcare Provider Strategy Practice, Washington, D.C., about how boards typically function and the challenges they are likely to face at each stage of development. Nolan also discussed what board members need to know to govern effectively and add value as their systems evolve.*

**GB:** You suggest that organizations in the first stage of system development, Asset Aggregation, typically focus on bringing together competing hospitals and their assets under one parent organization umbrella. Boards exist at both the system and subsidiary levels, with system boards typically composed of board members from system hospitals and organizations. Control and authority are often decentralized, with local boards retaining a high degree of autonomy and decision-making. What are some of the governance challenges at this stage of system development?

**Nolan:** Because newly forming systems usually have multiple organizations, each with its own board and set of board committees, governance can be hampered by top-heavy board structures. Boards tend to duplicate each other's work because they are still operating autonomously as they did in the past. As new corporations join the system they also bring their boards with them, further increasing the density of governance structure and function. Challenges at this stage include figuring out "Who's on first?" regarding authority and responsibility between system and subsidiary boards and committees, as subsidiary boards

struggle with the prospect of giving up some level of control. Another challenge is determining what mechanisms to put in place to ensure communication of key information across all boards. Representational governance on the system board may actually impede system development and effectiveness at this stage, if system board members believe their role is to represent the interests of their subsidiaries rather than the interest of the evolving system. Development of a common culture can be slow-going as board members continue to identify with the organization they came from, rather than the system they are now charged with governing.

**GB:** What can boards and system leaders do at this stage to increase governance effectiveness and ensure boards add value to the developing system?

**Nolan:** System leaders and boards should not underestimate the value of developing and articulating a clear vision and mission for the system that can foster clarity about the role of each component and how each contributes to system success. Boards and leaders that fail to have explicit discussions that result in this type of clarity will have a harder time achieving the value that systems can deliver. Because multiple, steep learning curves are embedded in this first stage of system development, boards and leaders need to make sure that governance at all levels is not under-resourced. Boards need adequate staff support and resources devoted to board communication, education and development as they work together and with system leadership to sort through relative roles and authority and help the system evolve. At this stage, boards also need to develop a broader perspective that focuses on governance within a larger enterprise and view their organization and board as a contributing member of the larger system. Communication between and among all boards should be two-way and system-focused. Boards can add value by ensuring communication focuses not on what individual organizations want or need, but on how each organization can add value to the system.

**GB:** How many systems do you think are at this stage of development?

**Nolan:** Because systems have been actively engaged in formation for more than 20 years, we estimate that perhaps 20 to 35 percent of today’s systems are at this early stage, with the balance at more mature stages of development. As pressures accelerate for health systems to deliver higher quality services at lower cost, systems and their boards will not have the time for organic growth and must move more quickly through the stages of development to be successful.

**GB:** Systems move to the Functional Integration stage to begin achieving the advantages systems can deliver. Activities focus on leveraging scale and achieving cost efficiencies through centralizing functions such as finance, human resources and revenue cycle in hospital and physician organizations. Power shifts from local to parent/system boards, which exercise authority across consolidated activities. Relative roles, responsibilities and authorities between system and local boards become more clearly defined. Are the challenges for boards at this stage

largely a more intense version of those at the first stage of development, or are there different pressures and obstacles?

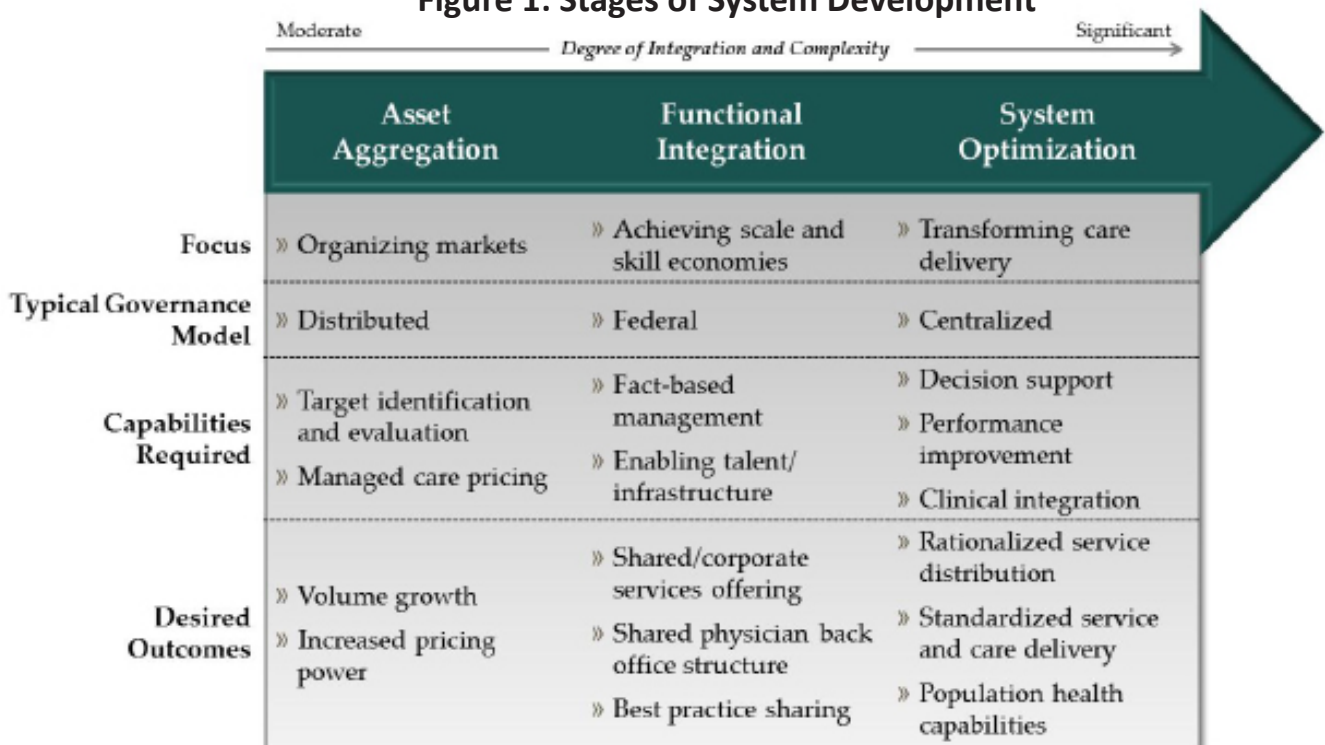
**Nolan:** At this stage the focus is on taking real money out of system operations. Challenges for boards center around coping with activities such as right-sizing organizations and functions, which can include laying off personnel—an activity that may have been delayed in order to form the system initially. The challenge for board members is the discomfort that may result from continuing to see or interact with former system employees out in the community. It is important for boards to take the long view and remember that in many cases the reason their organization joined the system was that their future as an independent organization was likely to be very challenged. So, while there is almost certainly going to be some pain associated with this stage, it is very likely to be far less pain than having to close whole programs or even the whole organization. Furthermore, one of the goals of the combined system is to grow the enterprise. In the longer term, the likelihood is that the small reductions resulting from the functional

integration stage should be more than offset by the overall growth of the organization, which may in fact add more positions than it loses over time.

Another challenge is that right-sizing also may affect boards that need to reduce their size or number to operate more effectively. Some larger systems are moving to different models of governance, such as from local to regional boards; governance centralized in a single system board; or fewer, but higher-impact committees that function at some levels of governance and not others. These changes mean that some board members may be asked to end their board service. Boards also see more decision-making being centralized at the parent/system board level, reducing governance roles and responsibilities at local levels. This may lead to less engagement or resignations from board members who don’t find their new roles sufficiently compelling.

Some boards spend less time focusing on the organization’s mission as they struggle to keep up with the growing needs of a larger, evolving organization. They also may need to take on new or deeper oversight of responsibilities such

**Figure 1: Stages of System Development**



Source: Navigant, 2013

as executive and board development and succession planning and enterprise-wide risk management.

As system and local board roles, responsibilities and authorities become more clearly delineated, boards will be challenged to seek new competencies needed to govern the components of their evolving organizations. Boards that looked for the same skills and characteristics for service on all boards will need to change their recruiting and selection processes and both seek and develop competencies particular to the roles and responsibilities of individual boards.

**GB:** What can boards and system leaders do to govern well during this stage?

**Nolan:** Boards and leaders need to recognize this stage is about transition and change. The good news is that many other sectors of the economy have also experienced significant change, and a variety of learnings and good models for “doing it right” are out there.

In addition to learning from the good work of others, boards must seek out and adopt governance best practices and

avoid relying on models and approaches no longer suited to a changing environment. An example might be continuing to draw all board members from communities served, rather than seeking outside experts with specific experience or competencies relevant to governing a developing system. Boards that move away from strictly community-based governance, either by going outside the community to add specific competencies or by eliminating local boards, need to determine how they will remain connected to the communities they serve.

As board roles and responsibilities shift, there is an opportunity to re-engage boards around new issues and responsi-

bilities, such as expanding care delivery to both individuals and patient populations or working with community organizations to raise overall community health status. In order to transition effectively and adopt a broader system perspective, board members must understand the business case for operating as a system and see examples of effective system operation that produce real results and benefits.

It is important at this stage to establish and convey clear expectations for board service, such as attendance requirements, preparation for meetings, participating and asking questions at meetings, challenging management’s assumptions and thoroughly vetting recommendations before approving them. Boards should take action when their members fail to meet established expectations, underscoring that improved governance is important to system effectiveness.

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Education and support remain critical for boards at this state of system development, as boards are asked to both guide change in their organizations and to change themselves.

**GB:** The System Optimization stage focuses on providing the right care to the right patients in the right settings. While operating cost effectively remains important, efforts here focus on delivering higher quality care by adhering to best practices and eliminating variation. What actions do you see boards taking in this stage of system development to optimize governance?

**Nolan:** Effective governance at this stage virtually demands consolidation of

authority, with system boards having responsibility for capital allocation and strategy across the system. Local boards mix advisory roles in areas such as finance and strategy with decision-making for responsibilities such as clinical quality, medical staff credentialing, community needs assessment and fundraising. Governance becomes streamlined, and boards shift from being community-based to competency-based. Board members from within and outside of the community bring skills and capabilities tailored to the focus and needs of the organizations they govern. Boards, especially at the system level, may have less frequent, but longer meetings with committees convening prior to the full board, as for-profit governing boards often do. Just as organizations at this stage focus on doing the right things in the right settings, each board in the system needs to be sure it is fulfilling the roles and responsibilities appropriate to its level of governance. A Chief

Governance Officer position may be needed to support and coordinate board work to ensure boards add value, rather than impede system effectiveness.

Two requirements for effective system function at this stage also are important

for good governance—decision support and performance improvement. As boards address more complex issues and make decisions that affect organizations across the system, they need better information and decision support resources. The more sophisticated analytical tools, data mining, and reporting capabilities needed to support organizational decision-making can be used to enhance board decision-making as well. Boards at this stage also focus more on evaluating their performance to ensure accountability to stakeholders.

As governance becomes more centralized, systems may use local boards

mainly to provide community perspective for activities such as strategic planning, or convene town-hall meetings in local communities for the same purpose. They also begin to employ other mechanisms to maintain connections with the communities they serve. These include holding system board meetings at various locations across the service area, convening “listening sessions” with community leaders and

elected officials or including local leaders on system board committees.

A critical role for boards to play at this stage of development is to ensure their systems remain disciplined about future growth. Boards must continually ask, “How would new organizations add value?” and have the discipline to say “no” unless the value they would contribute is clear. Boards that impose

this discipline will help their systems optimize the benefits that appropriate scale and integration can deliver and add substantial value at this and future stages of system development.

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