

Trustee Insights

PRACTICAL GOVERNANCE



TRUSTEE TALKING POINTS

- As health systems realign their management and operating structures, they also are restructuring governance to support organizational success.
- A study of eight Catholic systems found that governance transformation may involve rethinking the definition of community boards.
- Study participants acknowledged governance transformation was both necessary and challenging.

Exploring a Variety of Ways to Transform System Governance

How Eight Health Systems Are Redefining Community Governance

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To address the unprecedented level of disruption in the health care sector, many large health systems are centralizing their management and operating structures to enable more effective, coordinated responses to their marketplace challenges. With this shift, many are finding their governance structures in need of realignment as well.

Most large health systems

today possess incredibly complex corporate structures that include multiple levels of community boards reporting up through management to a system board. Unclear governance authorities, a lack of transparency and inconsistent board meeting practices stymie organizational efforts to remain nimble. The

Transforming Governance

board's value in bringing the community voice and perspective to the leadership table may be

overshadowed by these challenges in many health systems, some of which find themselves with 50 or more community boards to manage.

For this reason, many health care and hospital systems have begun to

refine their current structures and practices to ensure that each level of governance is working efficiently and effectively to promote organizational success.

This article summarizes the results of interviews with eight large, multistate, Catholic health systems and provides hospitals and health systems of all sizes a firsthand understanding of how organizations are approaching this important redesign work. The findings show a sector in transition, where the very definition of what it means to be a community board is being transformed.

Post-merger Challenges

Each of the systems interviewed has undergone a significant strategic merger, affiliation or consolidation within the past 10 years,

one as recently as 2019. Despite variations in approach, each organization described a challenging period of post-merger adjustment. Governance questions that often emerged included:

- How to balance the need for more efficient, centralized decision-making while maintaining strong community connections;
- How to integrate multiple boards with widely varying governance practices; and
- How to ensure that the resulting structure enables all boards within the system to fully realize their strategic value.

Furthermore, these redesign efforts often examined a variety of governance features, including the number of boards across the system, board responsibilities and authorities, committee structures, meeting frequency and whether to call all the resulting governing bodies “boards.”

Establishing New Governance Structures

Despite the challenging nature of governance redesign, most of those interviewed acknowledged the necessity of taking on this work, despite the significant hurdles created by politics, passions and entrenched points of view.

The systems interviewed took on the work of governance redesign because they believe it would positively impact the organization's ability to achieve efficiencies as well as effectively respond to changes in a highly competitive health care field. Furthermore, many viewed the status quo as unsustainable. One individual observed that “... health

care has changed, and the way we used to do things is not sufficient anymore. We must adapt our structure to ensure we remain nimble, efficient and focused on providing top-quality care.”

To accomplish this work, five of the eight organizations engaged board leaders and executives from across the system in an interactive process to determine what the new structure should look like. Most typically, boards and executive leaders held multiple meetings to build trust, knowledge and buy-in, while also providing oversight and serving as internal advocates for the redesign work.

In addition, a number of the organizations solicited input from stakeholder groups – boards, medical staffs, employees, the community and donors – to provide input on the emergent structures. Stakeholder input sessions provided an opportunity to introduce the governance redesign process, discuss proposed changes and receive real-time feedback.

Encountering Resistance

Most who were interviewed acknowledged governance redesign work as change management, which inevitably encountered resistance. Several described instances when board members chose to leave a board rather than continue to serve in the newly created structures. However, according to one interviewee, most of their organization's board members chose to stay.

After adopting the new responsibilities and structure, some commented their community board members believe their role has

become more meaningful. Changes in governance have led to greater engagement and more generative discussions. Board members said that “in the traditional structure, they often felt tired of being talked at. By the time decisions came to their board, it was clear that it was old news, decisions had already been made and local boards were being asked to rubber stamp it.”

No One-size-fits-all Approach

While all organizations interviewed have engaged in some form of governance redesign work, no single governance structure or approach appears to have yet emerged as the prevailing model for large health system governance. What works for some does not seem to for others. Even within the same system, differences in culture, geography, patient population and community appear to influence an organization's approach to redesigning their governance structure.

Research also revealed a lack of consistency regarding naming conventions. Those interviewed used a variety of terms to describe their governing bodies including affiliate, regional or market boards, as well as community ministry boards, hospital boards or care site boards.

Six out of eight organizations continue to refer to their community governing bodies as “boards.” Some indicated this was a historical practice that was easier to maintain. One interviewee observed that “Ours [board members] were used to ‘community board’ so we stayed with that even though from a literal [legal] corporate sense these bodies are committees with specific responsibilities.”

Along with maintaining continuity, the use of the term “board” appears to be viewed as an indication of respect for the important work being done at the community level. While all the organizations recognize that work at the local level will be different and more focused going forward, the community governing body’s work is still felt to be critical to the overall success of the organization. Finally, because some organizations indicated difficulties recruiting new board members, maintaining the term “board” is viewed as an opportunity to attract the caliber of people they need.

Centralizing Structure and Function

Two of the eight organizations interviewed appear to have been more aggressive in their approach to centralization, creating lean two-tier structures that include the system board and one subsidiary board for each of their regions. These organizations moved from a traditional holding company model to an operating model, centralizing decision-making in order to eliminate redundancy and increase the organization’s ability to adapt and respond to changes in the market. They described consolidation as an opportunity to reduce the number of boards and shift greater authorities to the system and regional levels. “We could no longer afford to tailor [our structure] to everyone, and in order to be nimble and efficient, catering to those differences no longer made sense.”

Others are not as far along in the process or have chosen to maintain

The Fiduciary Controversy

The term “fiduciary” often appears to be a lightning rod of controversy when considering governance redesign. The fiduciary duties of care, loyalty and obedience are acknowledged as applying to all community, medical staff and executive leaders involved in governance. However, the concept of what constitutes a “fiduciary board” and whether a board has “fiduciary responsibilities” appears to have different definitions depending on the organization. Some boards referred to as “advisory” still were responsible for approving medical staff credentialing and privileging, for instance. When considering these issues, the advice of legal counsel should be sought.

a mix of regional and local community subsidiary boards with focused responsibilities around quality and patient safety, medical staff oversight and community engagement. Local community boards are viewed as important partners, serving as ambassadors to their community. They provide the regional board with valuable thoughts, ideas and observations regarding local communities. One representative indicated that as organizations begin to look at how to serve communities differently, the community board is well-positioned to help the organization grow its presence in the right way from a mission perspective.

Establish Clarity Regarding Roles and Responsibilities

Redefining governance roles and responsibilities at the subsidiary level was described as a sensitive topic that required additional discussion and education, especially for those organizations that retained community boards. One executive shared that, “Gaining the acceptance of the new role of the local boards was the biggest lift for us.”

Several interviewees said many long-term community board members expressed a sense of loss

and struggled with losing authority over finance and strategy. To ensure that board members continued to view their role as meaningful, education about new board roles and responsibilities was necessary. As one person noted, “From a legal standpoint, we had [to provide] a lot of education on what it means to be a fiduciary board member. The hospital board members saw themselves as ‘owners’ of these hospitals.”

It was necessary to emphasize that although their responsibilities have shifted, subsidiary boards continue to have important oversight responsibility for those things that are central to the work of the organization. As one person articulated, “... community boards in our way of thinking are fiduciary boards with respect to medical staff issues, quality and patient safety.” Board members are considered ambassadors to their community and play a vital role in holding local leadership accountable for meeting metrics around quality, safety and engagement.

Standardizing Governance Practices

Along with centralizing governance functions and decision-making,

organizations are working to standardize how their subsidiary boards do their work to promote greater efficiencies and stronger communication within the system. This focus also helps board members understand the importance of “staying in their governance lanes” to avoid duplication of efforts and to ensure each tier is providing maximum strategic value.

Six organizations indicated they have or are in the process of implementing standardized governing documents including articles of incorporation and bylaws. These documents are intended to provide consistency across the system regarding purpose and authorities and to ensure that the organization isn't re-creating the wheel every time it goes through an affiliation or merger.

A governance authority matrix that clearly defines the specific responsibilities and authorities of system and subsidiary boards as well as those of executive management is viewed as a useful tool. It provides additional clarity regarding the subsidiary boards' newly defined roles in relation to the rest of the system.

Additional work is being done to standardize and create alignment around meeting management. Those interviewed recognized that boards need to change when and

TRUSTEE TAKEAWAYS

Lessons learned from this study of governance transformation include:

- As of yet, there is no one-size-fits-all, best-practice approach to transforming governance.
- Efforts should balance the need for efficiency with maintaining strong community connections.
- Transforming governance may involve integrating multiple boards with widely varying governance practices.
- Resulting structures should enable all boards to be clear about their roles and responsibilities and to realize their strategic value.

how they meet as well as how they spend their time. There appears to be a move toward fewer meetings with an emphasis on aligning meeting schedules to support seamless communication between and among all levels of governance.

Conclusion

Health systems across the U.S. will continue to create the scale needed

to successfully navigate the increasingly competitive landscape. As these large, often multistate organizations address the challenges posed by integration of legacy organizations, there is growing recognition that a different approach to governance is needed. While no structure has emerged as a best practice, organizations are looking for ways to balance centralizing functions and decision-making while maintaining the critical connection to the communities they serve.

All the organizations interviewed believe they are making progress, clarifying newly defined roles and responsibilities, standardizing work processes and creating multidirectional communication to reduce duplication, enhance efficiency and promote effectiveness. They also recognize that the journey toward a more contemporary governance structure that reflects today's realities is not yet complete.

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