Designing an Effective Committee Structure within Healthcare Systems

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Consolidation continues relentlessly in American healthcare. Health insurance providers have already reached what one might call mature aggregation, with a small number of dominant national players and a modest number of regional powerhouses.

Among institutions offering clinical services, many ambulatory practices are aligning with insurers, others with providers outside the hospital space (DaVita, for instance). Hospitals as well—both not-for-profit and for-profit—continue to aggregate. The pace of system formation often pushes together governance structures in ways that are confused and confusing. Within any given health system, different "deals" made at different times or different types of affiliation agreements can result in puzzling inconsistencies.

One reaction to this confusion involves total governance centralization, with all fiduciary responsibility moving to one system (or "parent") board, leaving, if anything, only "advisory bodies" within each constituent member of the system. The existence of this option is relatively recent, consequent to a JCAHO ruling allowing the elimination of local boards; previously, separate governance structures were required for each licensed hospital. In some ways, this change parallels the migration from "holding company" models, marked by high levels of autonomy for each component of a system, to "operating company" models, marked by increasingly centralized and standardized operations.

While the strategy of complete governance centralization achieves simplicity and eliminates confusion, it does so at a high cost. This cost can be measured in a diminution of local "ownership" in the psychological sense. When local hospitals begin to be seen as anonymous commodities within their own communities, erosion of loyalty and philanthropy can be predicted. Market share is jeopardized. Recruitment and retention can be impacted. Rarely can these costs be entirely mitigated by identification with an overarching system brand.

For all of these reasons, the vast majority of health systems have elected to maintain governance structures that include both system and local—or affiliate—boards. When this is the case, questions inevitably emerge about committee structures, and how local and system committees should best relate to each other. Our work with numerous successful systems provides some guidance.

Key Board Takeaways

Below is a checklist for system committee structures:

- Does each committee have a clear charter?
- Are lines of connectivity between system and affiliate committees clear?
- Is the authority and responsibility of each committee explicit?
- Is there a unified rhythm of governance work across the system?
- Do board chairs and like-committee chairs meet regularly?
- Do system boards routinely solicit input from affiliate boards?
- Do affiliate boards routinely query system boards to ensure alignment?

Committee Structure Guidelines

This article suggests guidelines for fully integrated systems, wherein the system is the sole corporate member of all affiliates. In these circumstances, the need for all work to be directed by and report up to the system is explicit. Committee structure needs to reflect this reality. Let us look at each committee in turn.

Executive committees can exist—but need not exist—at the system level, and also at the affiliate level. Our experience suggests that large boards often profit from the existence of an executive committee, but smaller boards work well without them. When executive committees do exist, care needs to be exercised to ensure that they do not eclipse the entire board—a common phenomenon and serious risk.

Investment functions invariably live at the system level only, within a board committee of the system board. Appropriately knowledgeable members of affiliate boards often serve on this system committee.

Compliance and audit functions clearly need one (or two) committee(s) at the system board level. (We recommend a unitary committee, but dividing these tasks can certainly work.) There is little to be gained by replicating these committees on affiliate boards; management does this work at the affiliate level, rolling up to the system board committee.

The **executive compensation** committee is only needed at the system board level, as compensation of affiliate executives is a prerogative of system management. Affiliate boards should provide input to system management relative to the performance of local executives, but there is no need for affiliate committees.

Finance is interesting. In mature systems, we recommend a strategy equivalent to that described above—one system committee overseeing management activity across the system. However, in young systems, with affiliate boards still accustomed to exercising oversight around financial matters, there is often a strong desire to retain a board finance committee. Some young systems even delegate formal prerogatives to affiliate boards in the finance arena—voting on budgets, for instance. Where affiliates maintain finance committees, their prerogatives need to be explicit, without the intimation of authority that is in fact reserved to the sole corporate member. Critically, however, the affiliate committee's attention needs to be directed toward budgetary oversight (or approval, where designated) *within the context of the system's financial and capitol allocation plans.*

Quality and safety is an essential committee for affiliate boards. Even here, however, synchrony with system efforts is crucial. We recommend that an overarching plan for system performance, complete with goals and timelines, be generated by a system committee with input from all affiliates, and then approved by the system board—just as is the case with the operating budget. Affiliate quality and safety committees are then empowered to track local performance, focus on cultural determinants of success, and add metrics relating to unique local programs.

Setting overarching **strategy** is the responsibility of the system board, guided by the work of system management; sometimes it is set by that board as a whole, and other times it is first refined by a board committee. At the affiliate level, system strategy will be rolled out through management, but the affiliate board—either as a whole or through a dedicated board committee—should be actively involved in developing a local iteration of system strategy, one that takes into account the challenges and opportunities of the affiliate's service area.

Governance (or nominating) committees are relevant to each board that exists within the system, absent the unusual circumstance of a system where the parent board appoints members of all affiliate boards. Coordination among chairs of these committees ensures that all are working off of a shared list of "desired competencies."

Community benefit/outreach is a function that primarily lives at the local level. This involves deep connectivity with local civic leadership and community agencies that address the health and well-being of the populace. Many affiliate boards embrace this function as a "committee of a whole." Others delegate the work to a specific committee. So long as the work is done with diligence, either structure can work. Status reports from this work often roll up to a corporate officer directly reporting to the CEO, and are reported to the system board in that manner. It is unusual to have a *system* board committee tasked with this function.

Philanthropic efforts need to be strong at the local level. In some systems, this is managed by a unitary "foundation" that has local committees. Other systems use a committee structure, with a system board committee focused on businesses and foundations that cross the entire service area, and affiliate board committees focused on local geographies.

While structural clarity is essential, with clear charters and unambiguous domains of authority, communication is even more important.

Periodic "all boards" retreats—often focused on education or strategy discussions—allow everyone involved in system governance to experience a sense of joint purpose. Periodic meetings of all board chairs heighten alignment and cross-fertilization. Annual meetings of like-committee chairs (all quality and safety committee chairs, etc.) also allow coordination, cross-fertilization, and the rapid spread of lessons learned.

Finally, we find that two governance practices can profoundly mitigate tensions about "who is in charge," and resentment on the part of affiliate boards ("Do we really have a purpose anymore?"). The first of these techniques is to ensure *input* into decision making, rather than unilateral dissemination of conclusions. The second has to do with establishing a rhythm of "query and response," where the system board routinely asks for input from affiliate boards, rather than simply passing on information, and the same thing happens from affiliate boards to system boards. This rhythm ensures that all involved feel that they are part of a collaborative governance ecosystem, fulfilling mission and driving performance.

The Governance Institute thanks Eric D. Lister, M.D., Managing Director, Ki Associates, and Governance Institute Advisor, for contributing this article. He can be reached at elister@kiassoc.com.