A SERVICE OF nrc HEALTH

System Focus

January 2018

Trends in System Governance Structure: Where to Go from Here

Observations for System Boards from the 2017 Biennial Survey of Hospitals and Healthcare Systems

By Kathryn C. Peisert, Managing Editor, The Governance Institute

Every other year we survey all non-profit hospitals and health systems to gain an understanding of how boards are structured, how they spend their time, and how they perceive their performance in fulfilling their responsibilities. We look at differences in the data both over time and also by organization type. Typically, we have seen over the past 17 years in conducting these surveys that systems and subsidiaries have some similarities in how they are structured and operate, and that health system boards generally have more beneficial structures and culture than other types of organizations. Our recently published 2017 biennial survey shows continued movement in this trend. However, one of the burning questions for our system members continues to be how they should structure their governance during this period of continued change, as many systems find themselves with many boards and multiple "tiers" of governance.

Over the years, we have seen a transition in system governance structure as more governance and leadership becomes centralized at the system-board level. For example, in 2015 most systems had local fiduciary boards as well as a system board. In 2017, the responses were more evenly split (roughly 30% each) between a single system board overseeing the entire organization, a system board with fiduciary local boards, and a system board with advisory local boards. We know that systems with local boards are considering whether to reduce or remove fiduciary duties and transition those boards to the advisory capacity, or whether they are needed all together. Local boards are fighting to remain relevant and hold onto their ability to impact their communities.

We ask subsidiary boards on our survey to indicate whether they share responsibility, retain responsibility, or whether the system board retains responsibility for certain key aspects of governance. The most significant movement in this area of the survey results for 2017 include the following:

- We see an increase in systems retaining responsibility for determining subsidiary capital and operating budgets.
- There is greater shared responsibility regarding setting quality and safety goals, and a corresponding decrease in subsidiary boards having sole responsibility for this.
- More systems are getting involved in appointing/removing and evaluating the subsidiary chief executive.
- There is polarization regarding electing/appointing subsidiary board members: this year, more subsidiary boards retain sole responsibility and conversely, more systems retain responsibility, while there is significantly less shared responsibility. It seems that some systems feel the need to have sole control over this at the system level, whereas other systems feel that the local board can do this task without the need for system-level involvement, and/or the system boards have other areas of priority.
- Community benefit is a key area where we are seeing systems more involved at the subsidiary level, with more systems retaining responsibility for calculating and measuring subsidiary community benefit, and also setting community benefit goals for subsidiaries.
- More systems are establishing board education and orientation programs for their subsidiaries.

The question of system governance structure (both how many boards and what types of boards, vs. who should be responsible for what across the system) remains an open and urgent one as the nation's systems continue to grow and consolidate in order to meet industry demands of gaining market share, scale, brand reputation, and the access to capital in order to invest in innovations and value-based care delivery infrastructure. During this growth process the governance structure can become complex and cumbersome, with boards competing against each other for what they think is best. At the end of the day, where the control lies does not matter as much as ensuring that each

board within the system has a clear role that adds value and purpose to the organization—both at the local and system levels—and that the board members involved can carry out their role without confusion and with the confidence that their time is being spent in the best way possible.

As such, a key area in which we see health systems responding to our survey that reveals an opportunity for improvement is in creating a policy, document, or matrix that specifies allocation of authority and responsibility between the system and local boards, that is built from the ground up, with buy-in from the local boards. Such a document needs to be well-communicated throughout the system and well understood by all who are affected by it. Local boards need a voice and a mechanism to provide the system board with feedback about the matrix, whether it is working, and how it can be improved upon. In our 2017 survey, only 74% of systems approved a document or policy specifying allocation of responsibility, and even fewer (61%) said their assignment of responsibility and authority is "widely understood and accepted." When health system leaders are being asked to do their most difficult and complex work in transforming healthcare, and in a time of unprecedented uncertainty in our industry, these percentages need to be much higher. If board members are confused about their role, they are not likely to provide the kind of impact necessary of healthcare boards right now.

There is not one right answer to whether a system should have only one board with total authority vs. local fiduciary or advisory boards. In working with our system members, we recommend that each system looks at its own unique structure and strategic needs, and assess how they can best accomplish the following goals through the governance structure:

- The ability to implement standards and strategies uniformly across the system, so that reductions in cost, waste, and variation in care can be reduced or eliminated
- The ability to remain relevant to local communities, represent and partner with those communities, and have a strong understanding of how to address community needs
- The ability to continuously improve quality and patient safety while delivering a consistently positive patient experience
- The ability to provide access to care in the right care settings to optimize quality and cost, both for the system and for the patient
- The ability to partner with physicians and facilitate physician leadership throughout the organization so that physicians can be the champions to fast-forward the system's strategic goals
- The ability to partner with payers to accelerate value-based care payment models
- The ability to invest in new technologies, innovations, and analytics that can help to meaningfully change the way care is delivered

Every board in the system should be an asset, not a burden. The right governance structure removes barriers to goal accomplishment and frees up the system's leadership to be more agile, nimble, and have clarity of direction and vision. The final task is to ensure that the governance structure, above all else, best facilitates the organization's ability to fulfill its mission and remain focused on what is right for the patients, their families, and their communities. Through the thoughtful development of a system governance responsibility matrix, using a process that builds support and buy-in with open communication and the opportunity for all boards to provide input, systems can build governance structures that facilitate the kind of performance the industry demands.