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System Governance Structure:
A Resource for Subsidiary Boards

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Introduction

This toolbook provides a guideline for subsidiary boards to follow when evaluating their governance structure and position of responsibility within the health system. We provide information regarding committee structure and the types of committees that subsidiary boards should utilize. Data from our 2015 biennial survey is also presented to provide an example of how subsidiary governance structure is organized in hospitals and healthcare systems across the country.

Board Committee Structure for Subsidiary Boards

Most health systems across the country are moving away from a holding company model, in which the subsidiary hospital board has significant authority, to more of a shared authority governance model, a modified operating company model, or a pure operating company model.

In all three of those newer models, the following key governance responsibilities are moved up to the system/parent board:

- Audit and compliance
- Strategic planning
- Executive compensation
- Finance
- Governance and nominating
- Executive

Most subsidiary boards have too many committees. First, they must look to the role that the system board wants them to play as laid out in a governance authorities matrix (see **Appendix 1**); then they should eliminate as many committees as possible and use the board as a whole to undertake the work. A committee should be used only if needed for legal/regulatory reasons (e.g., compliance or audit). In a more evolved governance structure, local boards do not need to maintain a finance committee or strategy committee. Executive compensation oversight can be done by the executive committee. Recommended committees for subsidiary boards include:

- Executive committee
- Governance committee
- Quality/credentialing committee
- Community benefit committee (responsible for community needs assessment/addressing community need; this is a key role and allows for active involvement of non-board community members)
- Audit and compliance (focus on "internal audit" and required local compliance functions, linked to regulatory/accreditation/legal requirements)

Emerging System Governance Best Practices

Subsidiary Boards

- Extension of system board, greater alignment to system board/priorities
- Committee structure aligned with priorities of the system counterpart committees
- Board development/education, board agendas, and annual board calendars should be similar to system board
- Performance measures consistent with system
- Strategy is system-wide, subsidiary boards may:
  - » Oversee implementation; identify local opportunities, including partnership opportunities
- Quality standards set and monitored by system management
- Clear governance authorities must be set

Roles and Responsibilities of Subsidiary Boards

- Quality/value equation
- Organic growth
- Community needs assessment/community benefit
- Credentialing, typically using system-wide process and support
- Philanthropy (in the absence of a separate foundation)

If limited or no financial oversight responsibilities for subsidiary boards:

- No finance committee at local board
- No approvals of operating or capital budgets

Source: Marian Jennings and Gail Costa, Evolving Roles and Responsibilities of Boards in Health Systems (Webinar), *The Governance Institute, March 2016.*

Survey Results

System–Subsidiary Governance Structure

Data from our 2015 biennial survey of hospitals and healthcare systems shows that over half of systems (52 percent; up from 44 percent in 2013) have a system board as well as separate local/subsidiary boards with fiduciary responsibilities. Sixty-nine percent (69 percent) of system boards approve a document or policy specifying allocation of responsibility and authority between system and local boards (about the same as 2013), and 86 percent of system respondents said that the association of responsibility and authority is widely understood and accepted by both local and system-level leaders.

Table 1. Subsidiary Hospital Board Composition

Subsidiary Hospitals	Total # of Voting Board Members		Management		Medical Staff Physicians*		Independent Board Members**		Other Board Members***	
	2015	2013	2015	2013	2015	2013	2015	2013	2015	2013
Average # of Voting Board Members	18.1	15.4	1.9	1.0	2.7	2.6	12.2	9.8	1.3	2.0
Median # of Voting Board Members	16	14	1	1	2	2	10	10	0	1

Note: Total size increased significantly, reflected in increases in management and independent board members.

Source: Kathryn Peisert, *21st Century Care Delivery: Governing in the New Healthcare Industry,* 2015 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

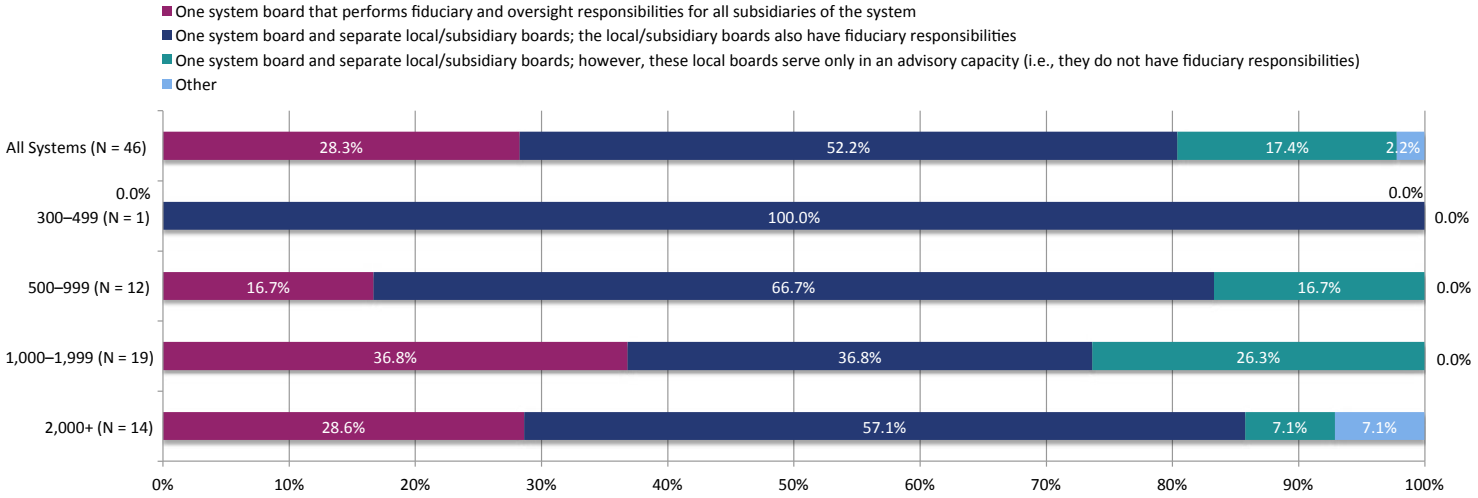
System Governance Structure and Allocation of Responsibility

We asked system boards about the governance structure of the system overall, whether the system board approves a document or policy specifying allocation of responsibility and authority between system and local boards, and whether that association of responsibility and authority is widely understood and accepted by both local and system-level leaders.

Governance Structure

- Most systems (52 percent, up from 44 percent in 2013) have a system board as well as separate local/subsidiary boards with fiduciary responsibilities.
- Twenty-eight percent (28 percent) of system respondents have one board at the system level that performs fiduciary and oversight responsibilities for all hospitals in the system (a decline from 35 percent in 2013).
- Seventeen percent (17 percent) have one system board and separate local/subsidiary advisory boards without fiduciary responsibilities (about the same as 2013).

Exhibit 1. System Governance Structure by Organization Size *(# of Beds)*



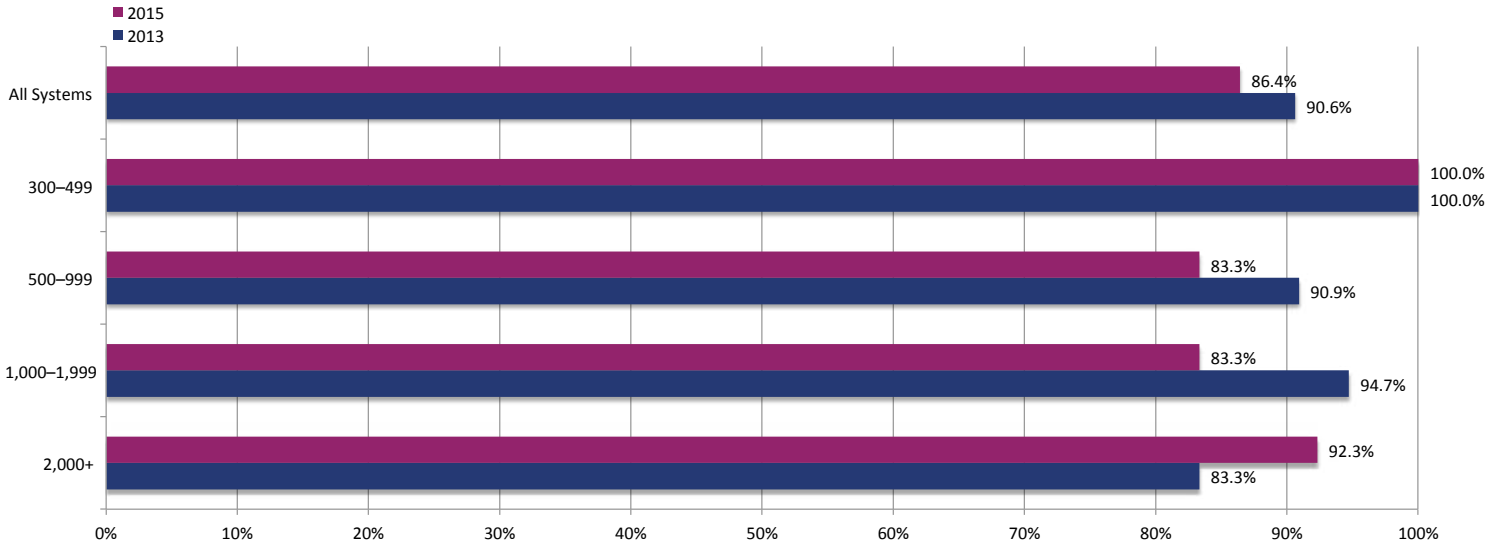
Source: Kathryn Peisert, *21st Century Care Delivery: Governing in the New Healthcare Industry,* 2015 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

Subsidiary Hospitals: Allocation of Decision-Making Authority

Each year we ask subsidiary hospitals to tell us whether they retain full responsibility, share responsibility, or whether their higher authority (usually the system board) retains responsibility for various board responsibilities. In 2013 most of the movement was seen towards shared responsibility (fewer subsidiaries have full responsibility at the local level, and more system boards share this responsibility), indicating a slight movement away from the traditional "holding company" system model. In 2015, system boards were more likely than in 2013 to retain authority on certain issues that could be considered "system-level," such as quality, executive compensation, and compliance, and subsidiary boards continued (as in 2013) to retain authority on approving medical staff appointments and establishing board education and orientation programs, which are usually considered to be "local" issues. Notably, the larger subsidiaries (500+ beds) were more likely than smaller subsidiaries to retain responsibility for setting community benefit goals and evaluating their chief executive (rather than sharing responsibility).

This data could represent a trend in which systems are taking more initiative to standardize certain issues across their subsidiaries that most affect the system as a whole, while allowing local boards to retain responsibility in areas that require more intimate knowledge of the immediate community.

Exhibit 2. Assignment of Responsibility and Authority Widely Understood and Accepted by Both Local and System-Level Leaders *(by Organization Size)*



Source: Kathryn Peisert, *21st Century Care Delivery: Governing in the New Healthcare Industry,* 2015 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

Conclusion

When determining how to organize their governance structure, subsidiary boards need to take into account the role that the system board wants them to play within the organization of the system.

Alignment to the system board processes and priorities is important in maintaining a streamlined governance structure. Our current survey data shows that systems are taking an increased initiative to standardize issues across their subsidiary boards that have an effect on the organization as a whole. This creates an opportunity for the subsidiary boards to hold more responsibility in areas that are directly affecting their community. For this reason, maintaining a close relationship to the needs of the community is an important factor in keeping the subsidiary organization as successful as possible.

For more information, visit the Subsidiary and Local Boards resources page on our Web site.

References

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Appendix 1: Governance Authorities Matrix

Decision		System board	Subsidiary board	System CEO
Governance	System board member election/removal	A		
	Subsidiary board member election/removal	A	R	
	System board officer appointment	A		
	Subsidiary board officer appointment	R	A	
	Add new subsidiaries to system that alter system governance	A		
Executive Oversight	Establish system CEO annual objectives	A		I
	Conduct system CEO performance review and set compensation	A		I
	Establish subsidiary CEO annual objectives	A	I	R
	Conduct subsidiary CEO performance review and set compensation	A	I	R
	Select subsidiary CEO	A	I	R
Strategic Planning	System strategic plan	A	I	R
	New program development at subsidiary	I	I	R
	Close major clinical service at subsidiary	A	A	R
	Strategic plans of other entities (e.g., medical group)	A	I	R
Operational Planning	Integrate key administrative functions (e.g., finance, HR)	I	I	A
	Standardize medical staff credentialing process	I	I	A
	Standardize HR policies and benefits	I	I	A
	Integrate medical education programs	I	I	A
	Establish annual performance objectives and review performance of subsidiary executives	I	I	A
	Medical staff appointments at subsidiary		A	R
Quality Oversight	Establish annual system quality objectives/plan	A		R
	Establish annual subsidiary quality objectives/plan	A	I/R	R
Financial Planning	System operating budget	A		R
	Subsidiary operating budget	A	R	R
	System capital budget (annual/long-term)	A		R
	Subsidiary capital budget	A	R	R
	Approve contracts	A (over $X)	R	A (under $X)
	Debt financing	A		R
	Annual development plan	A	R	R

Authority Matrix Key

A	Approves
R	Recommends
I	Provides Input
Blank	No Role