Subsidiary Focus

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Furthering Systemness at the Local Level: The Benefits of Subsidiary Boards

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The pressures on hospitals and health systems from healthcare reform coupled with the changes in consumerism are dramatically impacting the delivery of care. The clinical and business relationships needed for healthcare institutions to survive are essential. Given the fact that more and more healthcare services are being delivered outside of the hospital, and with this trend certain to continue, it's imperative that in order for hospitals and health systems to thrive, they must form relationships with hospitals, medical groups, surgery centers, and other entities located in other markets.

While there are many governance experts and system CEOs who believe only one board should exist, today's marketplace reality is that the delivery of healthcare is increasingly complex and unique from market to market and state to state. Given the complexities of managing relationships that hospitals and physicians have in different markets, the contractual relationships healthcare insurance companies have in those markets, and the management of technology platforms across institutions, managing healthcare in different communities is extremely difficult with one parent board. The delivery of healthcare services vary from community to community, so a one-size-fits-all approach may not be realistic. Subsidiary boards have their pulse on the local markets they serve.

The definition of a subsidiary is "a corporation that is controlled by the parent company."[1] Depending on the jurisdiction and the role of the subsidiaries, there are different thresholds for control. This nuance is important since the parent company is generally considered to be responsible for the actions of its subsidiaries.

[1] U.S. law defines subsidiaries and parent companies under the Code of Federal Regulations, Title 17, Chapter II, Part 270, § 270.8b-2 Definitions. (h) Parent. and (l) Subsidiary.

Key Board Takeaways

Best practices for subsidiary boards include:

- The subsidiary board chair must periodically meet with the parent board chair to maintain an effective relationship, review accomplishments, and address any roadblocks.
- The board chair should ensure the subsidiary board has a charter with clear duties, responsibilities, and member roles detailed.
- Regularly review an authority matrix created by the system board so each member can see which issues are handled by the subsidiary board and which get referred to the system board or other areas in the organization or network.
- Set priorities, goals, objectives, and timelines for key activities.
- Be aware of market trends, local laws, and the political environment.
- Provide resources for board member education and development.
- Ensure that board members have a broad range of skills and expertise.
- Have at least one physician serve on the subsidiary board along with a process for identifying other physicians that are willing and able to serve.
- Assign a mentor (senior administrator) to all identified future physician leaders. These mentors will work with selected physicians to identify gaps in expertise and work with them to identify continuing education courses, seminars, or professional organizations to address those gaps.
- Establish a budget, which includes paying physicians for their time or recognizing their administrative work effort in their compensation formula.

Subsidiary boards must understand that the parent board's main concerns about having multiple boards are whether they have the same commitment to organizational success, values, processes, sense of responsibility, and loyalty as at the parent board level. We have all heard the saying "all healthcare is local," which is why, when carefully constructed, subsidiary boards provide tremendous value to a healthcare system.

Subsidiary Success

Subsidiaries are created for several reasons, including to limit risk and as a requirement for business transactions or combinations. However, oftentimes, subsidiaries are created to preserve the local "feel" and "control" of decision making within that community. In some health systems, the governance of the subsidiary is assigned to a senior executive who is then responsible for developing the charter and selecting other board members—subject to the approval of the system board.

A best practice for each subsidiary board chair is to work with the parent board to identify one member from the parent board to sit on their subsidiary board. This provides continuity and consistent bi-directional information on system goals, objectives, and priorities. While this may be practical for health systems that have one to five subsidiary boards, those health systems with more subsidiaries may not find this option viable. If the latter is the case, each subsidiary board will have to work out a feasible process with the system board to ensure effective communication and alignment.

Subsidiary board members can also be members of the parent board and committees to help align "systemness" and prepare subsidiary board members for future positions on the system board. Alternatively, if board membership is not an option, subsidiary board members should attend system board meetings so they get a flavor of the role, responsibilities, and issues at the system level.

Subsidiary boards are able to devote more time on strategic planning, often with better results. While the parent board is responsible for setting overall strategy, the reality that the parent board has their pulse on the market in different locations—especially systems that span different cities and states—may be unrealistic. The subsidiary board, if designed correctly, has a key advantage in assessing the local market and developing key objectives that are in line with the parent board's strategic initiatives.

Evaluating subsidiary board performance is also a best practice but rarely performed. Each subsidiary board must have an evaluation system whereby the performance of each board member and its overall performance is assessed.

Subsidiary boards must make certain that the parent board has a process to evaluate their performance based on their charter and agreed-upon objectives. Most system boards do not evaluate the performance of their subsidiaries; however, they are spending over 20 percent of their time discussing issues from their subsidiaries.[2]

Local Success: Composition and Education

Members of subsidiary boards will need to have the appropriate mix of skills, experience, and backgrounds to be effective in fulfilling appropriate oversight of that market. It's paramount to have physicians be key members of each subsidiary—not just figureheads, but active and respected physicians in that community. Physician representation on boards continues to increase at the hospital and system level.[3] Given the pressures on managing cost, ensuring quality, and healthcare payment reform, the necessity of having physicians serving on boards is sure to increase over the coming years.

The subsidiary board should also have a budget and program for regular training for all members including an orientation program that is tailored to provide group and individualized education. This is important not only for physicians but community board members who are not as

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[2] Based on client data from MGMA Health Care Consulting Group.

[3] Kathryn Peisert and Kayla Wagner, *The Governance Evolution: Meeting New Industry Demands*, 2017 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

knowledgeable on the breadth and depth of the healthcare industry.

Conclusion

Given the demands and pressure on the healthcare industry, subsidiary boards are increasingly important to system success. Leadership at each organization in their respective community will need to determine the appropriate framework and governance practices to govern their organization and fit within the system they are affiliated with. It's important for the parent board and the subsidiaries to not only fulfill their fiduciary responsibilities but act in the best interests of all the communities they serve.

The Governance Institute thanks Nick A. Fabrizio, Ph.D., FACMPE, FACHE, Principal, MGMA Health Care Consulting Group, for contributing this article. He can be reached at nfabrizio@mgma.com.

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