

GOOD GOVERNANCE CASE STUDY

An Online Series by **The Governance Institute®**

Building a Better Health System through Board Education and Communication

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Building a Better Health System through Board Education and Communication

Organization Profiled:

Premier Health, Dayton, OH

Mary Boosalis, President & CEO

Dale Creech, System Vice President & Chief Legal Officer



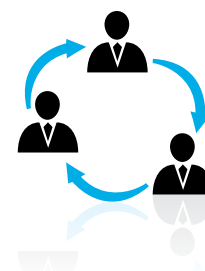
Statement of Interest: Identifying the Need for Systemness

When Premier Health joined The Governance Institute in 2012, its governance structure was in transition. The organization had some unique complexities that did not easily allow the boards to align, including:

- A joint operating company structure, with each member continuing to own its contributed assets (e.g., hospitals) and the hospital boards, as a result, the boards naturally were more acquainted with their own site, impacting the amount of top-down change that could be made at the system board level to drive alignment
- Complex governance structure (system, hospital, and hospital parent boards), adding challenges to effective communication and complicating the decision-making authority of the system board

The organization took shape over the past 23 years as a group of hospitals came together under a joint operating company affiliation model with Premier serving as the operator. The two initial hospitals to come together as Premier Health were Good Samaritan Hospital and Miami Valley Hospital. The initial parents/members of Premier were Sisters of Charity Health Care System (founded by one of the women religious congregations that came together to form Catholic Health Initiatives [CHI] in 1996, which included Good Samaritan Hospital), and MedAmerica Health Systems Corporation, which owned Miami Valley Hospital. The hospitals maintained their separate corporate existence and boards and did not merge into Premier. And, as the other hospitals that are currently part of Premier (Atrium Medical Center and Upper Valley Medical Center) joined, they too maintained their separate corporate existence and boards, but subject to Premier's operating authority.

The last hospital joined the system in 2008, and as Premier's identity as a system continued to take shape, system leaders began to feel the effects of its unique structure and resulting governance complexities. Further adding to this concern, as payer reimbursement continued to tighten and health reform increased pressures to become more integrated and cost-effective, from Premier management's perspective, Premier's structure was no longer optimal to sustain the organization into the future.



Premier Health Case Brief: Key Board Takeaways

The Issue: A unique joint operating company structure limited the ability of the system board to drive change and lacked an optimal aligned role of the local boards. The layers in the approval process did not lend themselves to nimble decision-making in a rapidly changing healthcare environment.

The Decision: Create a unified system identity and structure through reorganization from a joint operating company model to a joint venture model (with parent/member ownership focused at the top-most vs. hospital level) and transform the role and effectiveness of the system and local boards, to allow the system to be more integrated, nimble, and cost-effective in order to improve performance more quickly.

Actions Taken:

- The joint operating company structure was reorganized into a joint venture structure, resulting in a full corporate merger of the hospital interests.
- Under the new structure, Premier is the owning entity of its four main hospitals and several outpatient and other affiliated care facilities.
- The system board has full decision-making authority.
- Local hospital boards focus on operations, implementing system strategy, quality oversight, and medical staff credentialing, using standards and procedures established at the system level.
- The new hospital board composition became a majority of physician leaders, along with hospital and system-level executives, nominated by the system CEO and hospital and medical staff presidents, and elected by Premier (or delegated to its CEO).
- Partnering with The Governance Institute to educate the board and provide resources and support throughout the process was a major catalyst for the organization's ability to make this transition.

Results to Date:

- A dramatically streamlined governance structure.
- Parent and hospital boards now have a clearer understanding of their new role and their purpose within the system.
- The system board has full decision-making authority.
- The ability to function as one cohesive business and strategy unit.
- Greater agility and decision making:
 - » System oriented
 - » Improved standardization
 - » More efficient use/timely decision making at the governance level (ability to avoid duplicative and redundant meetings with numerous boards covering the same items)

Lessons Learned:

- When the local hospital boards changed their focus to operations oversight, there was initially some confusion as to what the new responsibilities entailed. This was improved through charter development, education, enhancing communication channels between local boards and the system board, and board retreats.
- The restructuring process reinforced the broader role of parent board members to enable them to focus on Premier's system-wide goals.
- The emphasis on board education to understand the reasons why the changes needed to be made was essential in enabling the restructure and avoiding pushback and culture challenges from board members and senior leaders.

Next Steps:

- Premier will continue to consider its market position and assess the need for strategic growth.
- The new structure has put the system in a much better position to possibly add new partners.
- Premier will take advantage of the streamlined structure to continue to enhance efficiencies and standardization across the organization.

Through a 10-year transition to pursue a more efficient and streamlined operating and governance structure, Premier has finalized a system reorganization agreement effective January 1, 2018. Under the new structure, Premier is the owning entity of its four main hospitals and several outpatient and other affiliated care facilities, with the former parents/members of Premier exchanging their individual ownership interests in their respective hospitals and facilities for joint venture ownership interests in Premier.

The reorganization has transformed Premier's governance structure so that the Premier system board has full decision-making authority across the system, while local hospital boards are composed of a majority of physician leaders plus hospital and Premier executives who focus on operations, including implementation of system strategy, quality oversight, and medical staff credentialing, using standards and procedures established at the system level.

A major catalyst for the organization's ability to make this transition was its relationship with The Governance Institute. "Five years ago, this wouldn't have been possible," said Dale Creech, System Vice President and Chief Legal Officer, who credits much of their success to The Governance Institute's partnership and resources to bring the board members along on this journey of systemness.



A Profile of Premier Health

Premier Health is the largest private employer in the Dayton region with almost 14,000 employees and \$1.8 billion in revenue. It oversees four major hospitals and dozens of additional healthcare facilities in southwest Ohio. The organization serves over 50 percent of its total market and a significant portion of Medicare/Medicaid recipients within its service area.

The Premier Health Mission

We will improve the health of the communities we serve with others who share our commitment to provide high quality, cost-competitive health services.

The Premier Health Vision

People will choose Premier Health over any health system in southwest Ohio. We will earn their choice, and grow our market leadership, by anticipating their needs and exceeding their expectations.

The Premier Health Values

RESPECT each person's dignity.

Act with **INTEGRITY** to do the right thing in all aspects of our responsibilities.

Serve with **COMPASSION** that embraces each individual's concerns and hopes.

Commit to **EXCELLENCE** as measured to the highest level of performance.

Our mission, vision, and values drive our dedicated service to the community.

History and Growth

Premier Health originated as the joining of two hospitals 23 years ago: Good Samaritan Hospital in Dayton and Miami Valley Hospital, five miles away. Premier Health was created in 1995 as a result of a joint operating agreement between MedAmerica/Miami Valley Hospital and Sisters of Charity Health Care System (later CHI)/Good Samaritan Hospital. This agreement allowed the organizations to retain separate boards and assets but delegated significant strategic, operational, and financial decision making with respect to the hospitals to Premier Health.

Both Atrium Health System in Middletown (about 25 miles south of Dayton) and Upper Valley Medical Center (UVMC) in Troy (about 25 miles to the north) were also proponents of still owning their assets and keeping their boards; however, they saw value in and joined with Premier to help perpetuate and bring strength to their local brands while becoming part of a larger system. Atrium joined in 2005 and UVMC was the last organization to join in 2008, becoming the two additional “parents/members” of Premier Health System, for a total of four separate parent entities. Each parent had its own board, in addition to the Premier board, which was the fiduciary board overseeing system operations. Local hospitals within the system retained their own boards as well, but they functioned as operating boards, ensuring that Premier policies on strategic planning, budgets, and so forth were being followed.

Unintended Consequences: Problematic Structure

The nature of Premier’s design and growth was not how one would design a health system “from scratch.” The resulting challenges created with this unique joint operating structure included the following:

- Parent board roles became confusing due to their reduced scope of authority.
- The parent boards were more familiar with their own site and naturally tended to focus on it.
- The joint operating model was relatively complex and not easily understood, both by internal and external constituencies (e.g., banks, bond underwriters, auditors, etc.).
- This structure did not allow needed decision-making agility in a rapidly changing health-care market.

Since then, “over the last 10 years, it’s been an evolution to improve on our initial integration,” Creech said.

“The boards were always interested in the changing form of healthcare and the best approach for Premier Health to successfully serve the community. But because the changes we proposed were very comprehensive, it took our boards time to consider and adapt to the proposed new structure.”

—Dale Creech

Getting the Boards on Board

Due to the nature of Premier’s joint operating company affiliation model, board members and parent entities were not immediately all of one mind when it came to system needs. “The boards were always interested in the changing environment of healthcare and the best approach for Premier Health to successfully serve the community,” said Creech. “But because the changes we proposed were very comprehensive, it naturally took our boards time to consider and adapt to the proposed new structure.”

Premier system leadership and the system board approached the parent boards about five years ago to put the idea of restructuring governance on the table. “But the time for a total restructure was not right,” Creech said. “Most of the feedback was, ‘Why don’t you do this in incremental steps? So, we did.’”

The first step was to change the composition of the local hospital boards to become even more focused on operations through resignations, term expirations, and transferring some board members to the foundation board. The new hospital board composition became a majority of physician leaders, along with hospital and system-level executives (all nominated by the system CEO), and hospital and medical staff presidents elected by the respective parent boards. There was no significant pushback from those members being rotated off the local boards; they understood what the system’s goals were with respect to the governance restructuring.

Policy was set through the strategic planning and budgeting process at the system level. The system board became the only comprehensive fiduciary governing entity. The code of regulations was amended for the parent and hospital boards to effect this change and ensure that the operational boards had a clear understanding of their charter and responsibilities. In the beginning, there was some degree of confusion as the change was being implemented, but now the roles are clearly understood. This was improved through charter development, education, enhancing communication channels between local boards and the system board, and regularly held board retreats.

The Next Phase: Unified Ownership and Governance Structure

Premier leaders knew that, in order to get to a higher level of functioning as a system, with aligned governance and streamlined operations, it needed to exit from the complex joint operating company arrangement with its parents/members, with their separately held assets (e.g., the hospitals Premier operated) and do a more structured merger of the system’s hospitals into one ownership under Premier.

In 2017, system leaders went through a year-long process to develop a new agreement with Premier’s parents/members. “We went through the Hart-Scott-Rodino process with the Federal Trade Commission,” Creech explained. “It’s a pre-merger notification you give to the antitrust authorities so they have an opportunity to weigh in on it.”¹

Not surprisingly, the regulatory and other approvals to affect the reorganization took time. The definitive system reorganization agreement was established in the summer of 2017, “but to put pen to paper and get the [FTC] and other needed approvals took the better part of six months,” Creech said.

¹ For more information on this process, visit www.ftc.gov/enforcement/premerger-notification-program.



The parent-designated representatives on the Premier board kept the relationship between their parent and Premier very positive throughout the process, participating in educational retreats on governance issues and actively participating in generative board discussions and decisions that ultimately led to the approval of the proposed restructure.

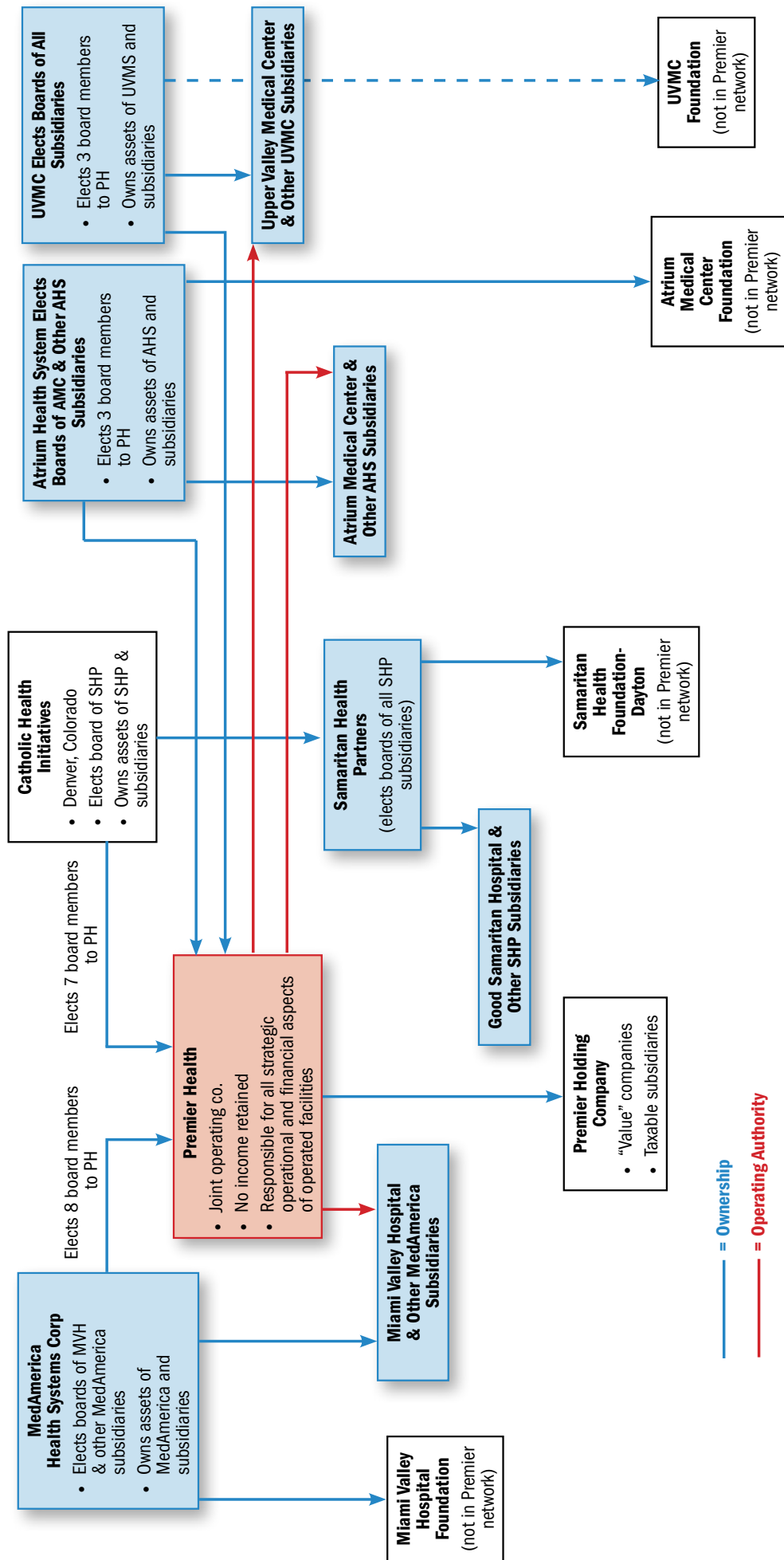
Under the new agreement, Premier became the sole corporate member (parent) of the four system hospitals and essentially all subsidiaries and affiliates, owning the assets, and with powers to elect the boards (which can be delegated to the Premier CEO). Up to 10 members of the Premier system board are elected by MedAmerica, five by CHI, and three each by Atrium Health System and UVMC (for a total of up to 21 seats on the new system board). Premier will have the right to request any parent to remove a board member it elects, if that person is inhibiting Premier's system goals. "This has ultimately given all the decision making to Premier, and it's a lot easier to get one entity to agree to something than it is to get four affiliated entities to agree," Creech said.

The local hospital operating boards will have authority over:

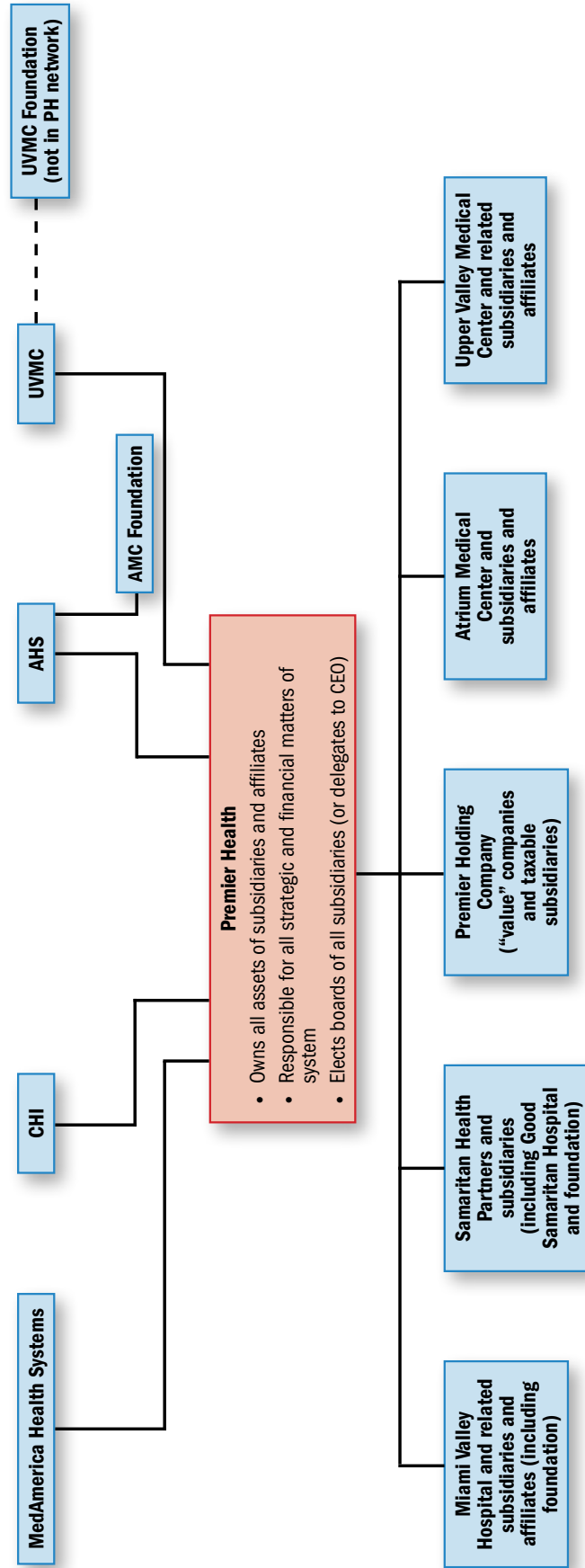
- Executing the system-level strategic plan and budgets, as established by Premier
- Implementing quality programs approved by the Premier system board
- Resolution of ethical issues
- Medical staff credentialing, subject to Premier system policies

The Premier joint venture owners with local system parent boards will be downsized over a period not to exceed three years to be comprised of the same members which they respectively elect to the Premier system board. This will happen through a similar process of retirements, non-renewal of future terms, or moving board members to their related foundation boards. The 2017 and 2018 organizational charts provide a visual picture of the dramatic difference between the old and new structures.

2017 Premier Health Organizational/Operational Chart



2018 Premier Health Organizational/Operational Chart



- * MedAmerica will elect 8 Premier Health board members
- * CHI will elect 5 Premier Health board members (down from 7)
- * Atrium will elect 3 Premier Health board members
- * UVMC will elect 3 Premier Health Board members
- * Board of Premier to be reduced to 19 over the next two to three years and thereafter further reduced as it deems necessary or desirable
- * Local parents' boards to be reduced over next three years to just those representative members on the Premier board



Advantages of a Restructured System

- Reinforce the broader role of parent board members, which is to focus on Premier's role over all hospitals within the entire region
- Function as one cohesive business and strategy unit, with Premier having direct ownership control over hospitals
- Will make adding new partners or joining with new partners, if desired, easier
- Greater agility and decision making:
 - » System oriented
 - » Improved standardization
 - » More efficient use/timely decision making at the governance level (avoid duplicative and redundant meetings with numerous boards covering the same items)

Role/Authority of Premier/Parent/Hospital Boards

	PREMIER	PARENTS	HOSPITALS
FORMER	<ul style="list-style-type: none"> ● Strategic planning ● All budgets/capital expenditures ● Location/relocation/consolidation of administrative & clinical services ● Control over funds for system purposes ● Managed care contracting ● Issuing debt ● Future affiliations ● Sale/disposal of material assets ● Closing of unprofitable services ● Hiring/firing of hospital CEOs ● Compensation and benefits 	<ul style="list-style-type: none"> ● Elect reps to PH board ● Elect hospital boards, per slate nominated by PH CEO, hospital CEO, and medical staff president ● Oversee PH to ensure compliance with JOA ● Arbitrate disputes with Premier ● Participate in search committee for new hospital senior exec ● Oversee senior exec of parent ● Approve amendments to JOA ● Own/oversee respective foundations 	<ul style="list-style-type: none"> ● Execute strategic plan ● Comply with budgets ● Execute contracts within PH authority ● Implement PH-approved quality programs ● Community relations ● Credentialing of medical staff per PH policies
CURRENT	<ul style="list-style-type: none"> ● Same as above, plus would now own hospitals and other subsidiaries, and elect hospital/subsidiary boards 	<ul style="list-style-type: none"> ● Same as above, except no longer own hospitals/subsidiaries ● No longer elect hospital/subsidiary boards or appoint senior execs ● Certain JV interest owners continue to own and control their foundations 	<ul style="list-style-type: none"> ● Same as above, but under ownership of PH instead of former parent

Using Board Education Resources and Self-Assessment to Aid the Journey

Premier's membership with The Governance Institute (TGI) was an important component in getting board members to understand the bigger picture of healthcare industry changes and the need for systems to integrate, align, and deliver value-based care. "Once we started the relationship with The Governance Institute about five years ago, we've been encouraging systemness," said Creech. Through a combination of publications, having board members attend conferences, and working with TGI to bring customized education on-site using TGI advisors, "we basically just worked hand in hand with TGI on furthering systemness at the parent level, at the Premier level, at the hospital level, and how we had to move to that next, more integrated level of systemness," said Creech.

"It took a while for the seeds to plant and be nourished and grow and finally blossom into this new system that we've become," said Creech. "Without the assistance of TGI, it would have been considerably harder. We could encourage it internally as executives, but it took a national perspective to bring to Dayton and to Premier that really finally changed the hearts and minds of our people."

Premier offers onsite education and networking sessions for all board members and physicians three times per year. These sessions, many of which have included Governance Institute advisors and partner speakers, and ongoing access to TGI educational content (*BoardRoom Press*, white papers, etc.) over the years have helped to educate and expand the thinking of various stakeholders among the board and leadership at Premier and its parent partners. This evolution laid the groundwork for changes to Premier's structure.

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—Dale Creech



Value of Governance Institute Membership and Board Education for Premier

- Reinforcement of the importance of systemness from a national perspective via every article shared; TGI content was “hand in hand” with their desired outcome.
- Helping to identify the right speakers/advisors for onsite education sessions, including large groups of stakeholders across groups.
- Ongoing assessments, customized over time to reflect changes in board roles/responsibilities, to help leaders and the board understand where additional clarity was needed. Assessment results enabled management to target education where it was needed.

Next Steps and Looking to the Future

Since embarking on this restructuring journey, Premier has a new CEO. Jim Pancoast served the organization for 37 years and was in the CEO role since 2011. Mary Boosalis, Executive Vice President and Chief Operating Officer, took on Pancoast’s role on January 1, 2017. Boosalis was previously President and CEO of Miami Valley Hospital. “I am delighted that the board has named Mary to be the next CEO of Premier Health,” Pancoast said in a statement. “Her unparalleled talent, experience, and leadership abilities will take Premier well into the future.” Boosalis and Pancoast worked together for many years since she joined the organization in 1986, which has helped ensure a smooth leadership transition.



At the time of publication, Premier is in the process of consolidating services for the Dayton area community into MVH and will develop a plan for repurposing the current site of Good Samaritan Hospital. Per Premier leadership, this was a difficult but necessary decision in order to reduce redundant services given the proximity of Good Samaritan to MVH (a newer facility), achieve the system’s cost-effectiveness goals, and still ensure that the healthcare needs of the community are met.

Boosalis emphasized to the community and stakeholders that Premier will of course remain committed to keep patients at the center of everything they do. “It has been the goal to offer all Good Samaritan Hospital employees at the main campus a position within Premier, and at this time we have done so for over 90 percent of the employees and are proceeding with the rest as well,” said Boosalis. In addition, Premier is working to ensure that the medical staff physicians remain in the system. Necessary services that had been provided by Good Samaritan will remain in the city center and work is underway to repurpose the property and contribute to the neighborhood and region.

“Having all boards pulling together in the same direction allows the entire organization to meet strategic planning priorities more directly, quickly, and effectively. Not doing this restructure would have continued the misperception of priorities, roles, and responsibilities; the redundancy of duplicative board and committees hearing the same reports; and other related inefficiencies. As the healthcare industry gets more complex and organizations are made or broken based on their ability to effectively implement strategy, it becomes ever more critical to address and resolve these issues.”

—Dale Creech

Now that the restructure has been completed, Premier will utilize the new structure to better attain its strategic goals. One of those goals is to focus on board competencies in recruiting and retaining members who fill a specific need on a board, based on education, experience, occupation, or subjective expertise such as critical thinking, long-term future planning, etc. With the new restructure, the nomination and election of board members has been consolidated so that the Premier board nominating committee has more voice in recruitment, even at the parent level. That will become ever more critical as the parent boards are downsized over the next two to three years to be comprised of the same people whom those boards elect to the Premier board. Once that process is completed, the boards will be fully united in purpose and much better able to make major decisions more nimbly and in an aligned manner, to the benefit of the entire system.