



Subsidiary Focus

Subsidiary Hospital Boards: Executing Their Role and Purpose with Clarity

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Investment bankers and attorneys help us find solutions to freestanding hospital isolation through the fiercely competitive consolidation of hospitals into integrated delivery networks (IDNs). Once the definitive agreement is signed, the first step is generally aligning every operating standard and process within the institution. This supports the major change from hospital thinking to system thinking, and from thin margin preoccupation and community ownership to a massive-scale accountability partnership.

Being part of a larger market-based system is hardly a choice any longer. Many freestanding hospitals will struggle mightily if they continue to hold out for the best suitor. Still, some are concerned that being a subsidiary of a larger system erodes community participation and distances core processes from the community.

As the transition to systemness accelerates, there are five things that local and system boards and management teams need to consider:

- 1. Clarify the new role of the local board now that it is part of a system.** There is such a high emphasis to get a deal done, that when the merged entity wakes up—likely with a new name—we often miss

Key Board Takeaways

Discussion questions for the system board:

- Are local boards composed properly to assume their oversight of quality, risk mitigation, and credentialing?
- How can we engage the local boards so that we are governing with one voice?
- Is the system clear in delegating authority and accountability at each level of governance?
- Has the system clearly articulated the valuable role of the local hospital over population health?
- What does truly aligned system-local governance look like for our organization?

Discussion questions for the local board:

- What have we gained by being a part of this system?
- What expectations does the system board have of our board in terms of performance, communication, quality metrics, etc.?
- How do we want to be engaged to create stronger alignment with the system? What is our ask of them?

the opportunity to effectively centralize core functions and services. Instead, the hospital board largely carries on the way it always did. However, by joining a system, the governance structure is likely an entirely different model. Most likely, the local board will become either a community advisory board or a specialty services board, depending upon the nature of the transaction. In a merger, the critical role of the community board needs careful definition. The local hospital must figure out its role vis-à-vis the system of which it is now

a part. For emerging IDNs, it is important that leadership at the system or enterprise level address and clarify the authority delegated to each entity. We pay far too little attention to the community board when its role is foundational to quality, credentialing, market strategy, and community benefit. The board, regardless of the system's grand governing design, must be rapidly focused on their new charter.

- 2. Ensure the community board is fulfilling its new responsibilities.** The system board is likely the fiduciary authority of the entire

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system—its treasury, finance, human resources, compliance and risk, legal, and branding/marketing. While the system may have far-reaching fiduciary control over all entities, the role of the community board must be strengthened when it comes to areas such as quality oversight. While the role may change for the local board, its stability and continuity is important. The community board is there for a reason and that reason needs to be understood.

3. Structure quality, safety, compliance, and risk so that local standards are elevated to improve performance.

Calamities occur particularly in matters of quality and risk as systems put in place internal compliance and control systems. Things fall through the cracks largely because the new system has not adequately elaborated all the changes or because people step back assuming the new system has a plan. But this is not always the case. The local hospital will have significant responsibility over quality,

market strategy, mission, and operating impact.

- 4. Don't pretend everything is the same, just bigger.** The biggest risk in system integration is loss of engagement by a local board. This happens if the impression is created that the local authority has been subsumed in the grand system design. While it is true that the parent may have changed, finances are consolidated, and system leadership comes around more often, the local board and management team need to figure out their work in relation to the new system, strategy, and processes, and plan how to collectively achieve the institution's mission and vision.
- 5. Remember that great regional or national systems thrive when they remain close to the local market.** Acquisitions are rationalized to advance higher impact through scale, but higher impact takes time and repositioning to do it right. Scale, or a larger size of itself, just spreads overhead across a larger pool of entities. The real value of systemness comes

when resources are rationalized differently to produce centers of excellence, access points across a wider geography, and provide specialty care that is best-of-class as measured against national benchmarks. Local entities must realize that to be better as part of a larger system, there will be shifting of service lines, cost-shifting, right-sizing to the work at hand and patient demand, physician and clinician engagement, payer navigation, and reassignment or alignment of key staff for system accountability. Hospitals that merge should not be silent while waiting to see how things will change. It is incumbent on the local hospital to show its value, position itself for success in the new system, and demonstrate its capability to contribute to greater regional care systems.

The central message to a hospital that merges into a larger system is don't step away from home base too quickly. In fact, no one is stepping up to the bat because of a change of control. The local board has a fundamentally important role to play but the board and committees need to be restructured to the new work over quality, mission, operating performance, and physician engagement.

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