

## The Subsidiary/Local Board's Evolving Role and Emphasis on Diversity and Inclusion

By Jim Gauss, Senior Partner, WittKieffer

The role of health system and hospital subsidiary/local boards has changed tremendously over the past decade. While many health systems have consolidated into a single system board or, in large organizations, multiple regional boards, hospital subsidiary/local boards are still very vibrant in communities across the country. Additionally, in large systems, multiple subsidiary boards have often been created to lead a wide range of strategic work, such as ambulatory care strategies, physician organizational alignment, payer or owned insurance product design, and executing population health strategies. These subsidiaries include many innovation-oriented clinical and business initiatives critical for long-term success.

While the focus of this discussion is subsidiary/local boards, the principles to improve subsidiary board functioning and addressing the important issues of diversity and inclusion are very applicable to all boards today.

There are many questions that arise regarding the role of subsidiaries, but the single most important issue is always centered around the role of the subsidiary as it relates to the parent board. This includes such issues as:

### Key Board Takeaways

- A subsidiary board must know how it relates to the parent board; spell out the relationship in an authority matrix.
  - Diversify decision making, recruiting, orienting, and assimilating of more diverse members.
  - Have a passion to learn about diversity, create a safe environment, manage complex discussions, and manage change.
  - Define diversity more broadly than in the past, beyond race and gender.
  - Widen the net to identify board member candidates with desired skill sets and diversity characteristics in mind.
  - Emphasize inclusion and cultural competency as valuable characteristics of the board and organization.
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- What are the regulatory, compliance, capital spending, budgeting, quality, and patient experience prerogatives of the local board?
  - Who is responsible for subsidiary board member recruitment?
  - How are the member skill sets necessary for subsidiary board performance determined?
  - What priorities and strategies are employed to enhance diversity recruiting?
  - Is there a fundraising requirement for subsidiary board members?

Inherent in this discussion should be an authority matrix that clearly spells out the roles and responsibilities of the subsidiary and parent board.

The story of a recent board member recruitment emphasizes the importance of clarity regarding these issues. A board that my firm consulted with had just recruited a senior-level executive from a major local employer. After several months, this new board member was frustrated by the subsidiary board's lack of participation in key elements of hospital strategy and deployment of capital decisions. As it turns out, there was a great deal of ambiguity regarding the roles of the subsidiary and the parent board. Senior executive staff had not even met with the member in the process of recruitment so many of these issues were not addressed prior to the board member's appointment. A tremendous amount of work was required after the recruitment that ultimately provided answers to

these questions, but this all could have been avoided if there was an authority matrix and clarity of responsibilities prior to the board member appointment. This certainly would have saved a great deal of time and frustration.

## Discourse on Diversity

Another increasingly critical point of clarification is the subsidiary's role in ensuring quality of care and the overall patient experience. Quality has been a long-standing subsidiary responsibility, but with the increasing importance of social determinants of health, health equity, diversity, and inclusion, this discussion has taken on new meaning and importance as the populations of many communities served by our nation's hospitals have changed. Many of us have seen the studies that now show that the United States will be a majority ethnically diverse country by the years 2045 to 2055. This is no longer just an isolated issue for some of the largest American cities to address. Recent events have brought some of these issues forward in a manner not seen in some time, though many systems and subsidiaries have known these to be important items of consequence for many, many years. One aspect of this discussion has been how all boards, and in this case subsidiaries, better diversify their decision making, recruiting, orienting, and assimilating of more diverse board members than they have in the past. This is not a new issue for some boards who have done exemplary work in this area. However, the field as a whole has a great deal to do before healthcare boards come close to reflecting the greater population served.

In discharging subsidiary boards' roles and responsibilities, diversity and inclusion has been seen as increasingly important in the field for many years—so how some organizations succeeded while others have floundered should

provide good background and study as boards address this issue. This, of course, requires some straightforward discourse and at times uncomfortable discussions; but there are many success stories so we should not shy away from the dialog. Here are some of the important aspects of this work:

- **The discussion is always more successful if the board and executive leadership are truly committed to the strategies of diversity and inclusion.** They do not need to have all the answers, but it is critical that they have a passion to learn, create a safe environment, manage complex discussions, and manage change, as necessary.
- **Be clear on why this work is so important.** Most healthcare organizations have a supporting mission that obligates them to support community health and wellness as adequately and equitably as possible. It is easier for the board to be equitable and serve in the best interest of the community if its composition is at least somewhat reflective of the population served and the employees that work in the organization.
- **While diversity is increasingly becoming an ethnic makeup discussion, boards are defining diversity more broadly than in the past.** In addition to race and gender, other diverse discussions regarding age distribution, socioeconomic status, professional background, geography, and other elements are now being considered as matters of consequence.
- **An emphasis on diversity initiatives in many parts of society today clearly includes a commitment to inclusion.** This means that we need to answer the question: Do individuals feel welcome and involved in different board groups? It is critical for healthcare subsidiaries and other boards to welcome new directors in a

very intentional and thoughtful manner. Board members need to have their voices heard, and even have formal mentoring and training provided to achieve a certain level of comfort and success.

- **Boards may need to widen the net and their set of contacts to identify board member candidates with desired skill sets and diversity characteristics in mind.** It may be important to bring in outside expertise such as a search firm to assist with these efforts. The spirit of this should always be seeking the best candidates, and more organizations are employing an “out of community” recruitment process to identify people with backgrounds and an objective eye that may not be readily available in the specific community where an organization is located. Of course, it is important to balance skills and expertise of these out-of-community members with appropriate community representation.
- **Regardless of the board's specific ethnic makeup, high-performing boards as a whole are culturally competent.** For example, hospitals seek culturally competent physicians and staff to deliver care to diverse populations. In essence, cultural competency plays an active role in driving quality—a central responsibility of most subsidiary/local boards. Better quality and cultural competence builds a strong business case. The brand is also strengthened in the eyes of patients, payers, and many other stakeholders who would seek out a particular provider. This is why organizations of all sizes are critically evaluating how cultural competency impacts the business.

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### What Defines Great Boards

I have been studying diversity in the boardroom and within the executive suite for over two decades.

One theme has been consistent throughout these years: the vast majority of leaders feel diversity

improves patient satisfaction and supports successful decision making. However, in the studies we have conducted, healthcare leaders still believe that there is a diversity gap that is not being addressed. Again, many organizations are doing very good work in this area, and the

time is coming where great boards will separate themselves because of their commitment to diversity, equity, and inclusion.

Among the many responsibilities of today's subsidiary/local boards, diversity and inclusion can and increasingly must be a critical element of an organization's strategy. If done in a thoughtful manner, enhanced capabilities will serve the community well. Diverse board members, like all people on subsidiary boards, will serve as a pipeline and could contribute to other boards such as the health system board. The interests of our nation's health systems will be greatly enhanced if we pay attention to and focus on this work.

*The Governance Institute thanks Jim Gauss, Senior Partner with WittKieffer, for contributing this article. Jim pulls from three decades of experience serving leading healthcare organizations during periods of rapid transformation and unprecedented change. He has participated in hundreds of executive search and board consulting engagements and has also been widely published and recognized for his work on diversity and disparities of care issues. He can be reached at [jimg@wittkieffer.com](mailto:jimg@wittkieffer.com).*

