

## Governing the Evolving Academic Health System

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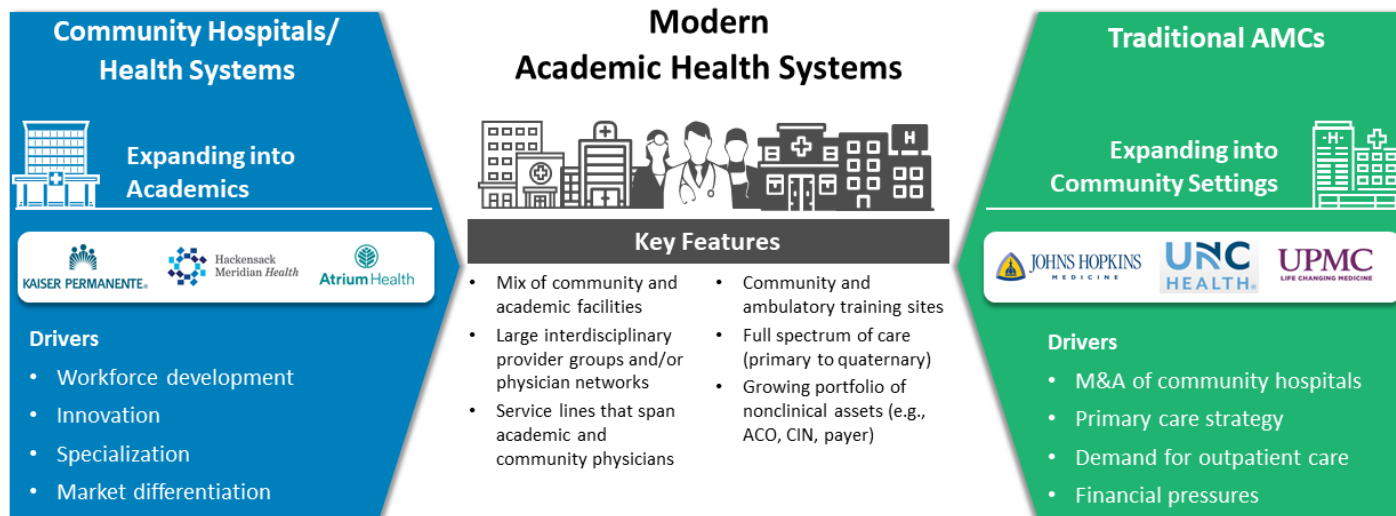
**Historically, it has been relatively straightforward to distinguish academic medical centers (AMCs)/primary teaching hospitals from community hospitals.** Teaching hospitals serve as hubs of subspecialty care, research, and medical education and treat the highest-acuity and most vulnerable patients. Community hospitals provide convenient access to high-quality care in patients' local area. However, as the healthcare market continues to evolve, the line that separates academic and community hospitals is quickly blurring.

Intensifying economic and market pressures on AMCs have forced many to diversify their portfolio, expand into new markets, and provide clinical care with little to no academic component. Conversely, increasing physician shortages, the need for differentiation, and technological innovations that enable more complex care to be handled in lower-acuity settings are driving community health systems to train

### → Key Board Takeaways

- Market forces are driving the convergence of traditional AMCs and community health systems and blurring the previously distinct lines between academic and community medicine.
- Boards are now governing hospitals and health systems that look entirely different than they did five or 10 years ago, which has widespread implications for all facets of governance.
- It is critical for boards to examine their key functions (strategy setting, fiduciary oversight, generative thinking, and executive oversight) through a new lens to ensure the continued success of the modern AHS.
- Boards should consider the key questions posed in this article to ensure they are well positioned to guide these increasingly complex and diverse organizations.

# Exhibit 1: Forces Driving the Merging of Academic and Community Health Systems



medical residents and conduct their own clinical research. Further contributing to this shift, community health systems are increasingly being called upon to improve the health of the populations they serve, which materially influences their mission and the resources and capabilities required to support these efforts.

This evolution has resulted in the emergence of modern health systems that span academic and community medicine and provide a full spectrum of care, from primary to quaternary. **Exhibit 1** illustrates the driving forces behind this market trend and the key features of the modern academic health system (AHS). This alignment between community and academic organizations has immense benefits for patients, including improved access to clinical services, greater opportunities to participate in clinical trials, and integrated care delivery with potential for better patient outcomes.

This market transformation has slowly but steadily been working across healthcare over the last decade and has left many boards governing an entity that looks entirely different than it did five or 10 years ago. Like the scope of its AHS, the board’s mindset must evolve to ensure continued success. As such, boards should reconsider many facets of governance, including setting strategy, fiduciary oversight, generative thinking, executive oversight, and governance processes and protocols. Key considerations and critical questions for board governance of the evolving AHS are described below.

## Strategy Setting

The evolution from either a community health system or traditional AMC into a modern AHS challenges the core elements of strategy. It will be critical for the AHS to define a cohesive strategy and direction that will guide the organization forward without minimizing its core values and competencies. Boards must revisit and confirm the organization's foundational purpose statements (e.g., mission and vision) and market differentiators in order to ensure that the structure and the activities of the organization are designed to advance them.



### For Traditional Community Hospitals/Health Systems

Has the purpose of the organization fundamentally changed, and are academic assets being meaningfully used to advance the health system's strategy and mission?



### For Traditional Academic Medical Centers

Does the presence of community assets change the organization's identity in the market and how it is perceived by consumers and payers?



## Fiduciary Oversight

Maybe the most striking change for boards will be in how they evaluate investment opportunities and exercise their fiduciary responsibility. As health systems become more complex and have more competing business lines, prioritizing resources and making investment decisions becomes more challenging. Investing in medical education and research is new to many community health systems and requires a board that can recognize the value these activities will provide over a long investment horizon (typically longer than most boards are accustomed to). For traditional AMCs, investing increasing amounts in primary care, regional clinics, and ambulatory care carries a short-term trade-off from investing the same dollars in teaching and research. The board of the modern AHS must lengthen its investment horizon and exercise fiduciary responsibility in a contemporary and evolved way.



### For Traditional Community Hospitals/Health Systems

Is the board fairly evaluating investments in training and research programs that may not have a direct or identifiable return on investment?



### For Traditional Academic Medical Centers

How does the board deliberately think about different cost structures across the enterprise (i.e., at locations with and without academic activity)?



## Generative Thinking

Boards must also reorient their generative thinking to support the modern health system. The playbook for success will look very different for the modern AHS given the complexity of the organization, the variety of activities occurring at the organization, and the multidimensional strategies that are inevitable. Boards must have a clear understanding of the emerging issues that will challenge the AHS in the future and consider innovative ways to achieve strategic goals. The enterprise's new business lines may present unique opportunities. As a result, the board's orientation and thinking need to expand to identify these opportunities, seize them, and mitigate risks.



### For Traditional Community Hospitals/Health Systems

How does becoming a learning health system and cultivating a culture of innovation help position the organization for success?



### For Traditional Academic Medical Centers

What innovative, efficient, high-value clinical services not typically found in an AMC should be offered to consumers (through development or partnerships)?



## Executive Oversight

The evaluation and oversight of key executives is a critical function of the board, and holding executives accountable for undertaking such complex strategies will be paramount for the modern AHS. First and foremost, the executive composition of the AHS may look different than that of a traditional AMC or community hospital. Setting the roles and responsibilities of these individuals and determining performance expectations will be critical. Boards must also revisit historical metrics for measuring and evaluating success (KPIs) to ensure they are appropriate and relevant and continue to evolve along with the organization. Boards must be ready to oversee these changes.



### For Traditional Community Hospitals/Health Systems

Do traditional performance indicators (e.g., financial performance) appropriately demonstrate effective leadership of key executives given the new complexity of the organization?



### For Traditional Academic Medical Centers

Are executive leaders effectively balancing the competing priorities and missions of the academic health system as the size and scale of purely clinical activity continues to grow?



## Governance Processes and Protocols

Finally, the process of constantly ensuring an appropriate governance function will be critical for boards of modern AHSs. Regular evaluation of the composition and competencies of the board is best practice in any scenario, but this need will be intensified as the organization diversifies its mission, expands its service offerings, and broadens its geographic reach—all things modern AHSs are doing. Furthermore, ongoing board education and an appropriate committee structure accounting for the added complexity of the organization and its objectives will be crucial to ensure effective governance and oversight moving forward.



### For Traditional Community Hospitals/Health Systems

Does the board recognize and appreciate the implications of the evolving mission of the organization, or are there new competencies or perspectives required?



### For Traditional Academic Medical Centers

Does the board have the right competencies/skill set to oversee an academic health system that is expanding into new geographies and business lines?



The emergence of the modern AHS should prompt boards to reexamine their roles, responsibilities, and historical ways of thinking. Boards that continue to rely on governance approaches that do not challenge status quo or encourage forward thinking will be unable to lead their organizations effectively through the complex and changing market. The time for a modern AHS board is now.

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