

## The Strategic Impact of Subsidiary Boards

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**The roles of health system parent boards and local subsidiary boards continue to evolve.** As new partnership models are implemented across the country, governance structures are changing to meet new needs. Mergers, acquisitions, joint ventures, and new affiliations require effort and execution across every facet of business operations. Therefore, it is imperative in this process that governance be considered much more than a line item in a lengthy project plan. Governance should be viewed as a critical enabler for not only the transaction at hand, but also for the future success of the entire organization.

There is no uniform approach to governance in these reorganizations. Many result in a system-level parent board with one or more subsidiary boards. Local subsidiary boards may maintain limited fiduciary duties, or they may serve in a more advisory capacity. It is common for these subsidiary boards to be created from legacy self-governed boards. This shift, from acting as the fiduciary decision-making board for a hospital to being a subsidiary board reporting to a parent board, can be challenging for directors and the institution to navigate. As a result, subsidiary boards sometimes lack clarity in purpose and alignment with the parent board.

Subsidiary boards can be key strategic assets for a healthcare system. With clear charters, ongoing education, and support from the parent board, these local boards add significant value for the entity, the health system, and the community at large. Subsidiary boards have an important role to play in executing strategy, overseeing quality, improving community health, and advocating inside and outside of the organization.

### Strategy Execution

Parent boards are responsible for strategic oversight of the health system, including the development of a system-wide strategic plan, budget allocations to fund the

strategic plan, and monitoring progress and key performance indicators to drive accountability. Depending on the governance model, subsidiary boards may have input into the system strategic plan and budget. In other cases, subsidiary boards will be mostly in receipt of the strategic plan. This nuance can cause friction when the subsidiary board feels they have little input into strategy or funding. This is especially true if the subsidiary boards are composed of legacy board members from the previously standalone hospital.

The parent board, along with the hospital CEO, has the responsibility to educate the subsidiary board on organizational strategy. Serving as local strategy champions, the subsidiary board has an important role in leading the local execution of that plan. With a clear understanding of how the local hospital feeds into the overall strategic plan, including specific tactics and performance measures, the subsidiary board should monitor local performance and serve as a resource for the local leadership team. For example, a healthcare system-level strategic plan may include the need to grow overall market share. To support that strategic goal, one hospital and its subsidiary board may be most focused on how to grow its oncology service line as it has the most local potential to support the system growth goal.

### → Key Board Takeaways

Subsidiary boards can play a strategic role in today's healthcare environment. With a clear governance structure and support from the parent board, subsidiary boards can best serve the organization in the following ways:

- Strategy execution: Be well versed in the system strategy, monitor local goals and metrics, and support leadership in local execution.
- Quality oversight: Monitor local quality data, understand the improvement needs, and ensure a process is in place to maintain quality, safety, and health equity.
- Community health: Provide leadership in identifying community health needs and in driving improvement efforts.
- Advocacy: Serve as internal champions and external advocates for the hospital or entity and the health system.

## **Quality Oversight**

Subsidiary boards often retain some level of authority for quality oversight within the local hospital. While there will be system-level quality improvement efforts and measures, there may also be unique quality needs at each entity to reach those goals. Subsidiary boards should monitor local quality data, understand the improvement needs, and ensure processes are in place to maintain the quality and safety of patient care. Many subsidiary boards also retain the authority of credentialing providers. Institution-specific knowledge of subsidiary boards is increasingly important as hospitals and health systems place more emphasis on health equity. A subsidiary board, with an understanding of local demographics and need, is best able to monitor and support improvement initiatives in health equity within the institution and the community they serve.

## **Community Health**

Subsidiary boards are uniquely positioned to impact community health. As community assets, not-for-profit healthcare organizations are obligated to address community needs. Local subsidiary boards can play a key role in the community health needs assessment (CHNA) and the community health improvement plan (CHIP). While linking this work to a system strategy is necessary, subsidiary board members live and work in the community and may be closest to community needs and available resources to improve community health. Within the same health system, one community may have significant needs in maternal health while a neighboring community may be challenged more by mental health access. Subsidiary boards can play a vital role in identifying these unique market needs and driving solutions.

## **Championship and Advocacy**

Serving as internal champions and external advocates are perhaps the roles where subsidiary boards can make the greatest impact. Subsidiary boards are the local face of leadership for the hospital they serve. Not only does the board serve as a sounding board and provide support to the CEO and executive team, but members should also lend their voices to celebrating achievements and sharing important messages broadly with staff and providers. When accreditations are granted, quality metrics are exceeded, or community awards are won, subsidiary board members should be vocal and visible in celebrating with the organization and the community.

Subsidiary boards should also be advocates outside the walls of the hospital they serve. These volunteer directors are often leaders in the broader community and can use their platform to share the mission and vision of the health system. Board members have a unique ability to cultivate relationships and build broad community support for the entity they represent.

Community support, specifically within the business sector, can be a differentiator in the market. In addition to promoting the great work of the hospital or health system and sharing the importance of local care, subsidiary board members can play a significant role in fundraising. Local philanthropy will be most successful with the involvement of local board champions.

When structured and implemented well, subsidiary boards can have a significant strategic impact for the hospital, the health system as a whole, and the community at large. The most successful subsidiary boards will be those with support from the parent board, significant role clarity, and members who are committed to both the system strategy as well as the unique community needs.

*The Governance Institute thanks Laura Orr, CEO, Forward Governance Consulting, for contributing this article. She can be reached at [laura@forwardgovernance.com](mailto:laura@forwardgovernance.com).*

