Welcome to The Governance Institute's Governance Notes!

This newsletter provides governance support professionals with information and expert opinions in the area of hospital and health system governance and gives updates on services and events at The Governance Institute.

Consistent System Governance

By Pamela R. Knecht, **ACCORD** *LIMITED*

Today's healthcare systems are complex, often large organizations. According to *Modern Healthcare*, "Among the nation's biggest for-profit and not-for-profit systems, dealmaking in 2013 created giants with multibillion-dollar annual revenues that rival some Fortune 500 companies."[1] The growth of these health systems has occurred through mergers, acquisitions, and strategic partnerships with external entities. As a result, systems often include multiple legal entities, with various ownership models, and differing types of boards. And, those boards may have different levels of decision-making authority, different composition requirements, different committee structures, and different governance practices and documents.

In addition, the complexity of health systems has increased as they move into population health management. Most systems now include (or intend to include) services along the full continuum of care—pre-acute, acute, post-acute, behavioral, etc. Each of those services/entities may have been governed separately in the past, so it can become challenging to determine the right board and committee structures and compositions.

This situation creates enormous challenges for the governance support professionals who are attempting to assist the system's sponsors/owners, board leaders, and administrative leadership with ensuring effective, efficient, and consistent governance. The good news is that there is a large body of literature regarding how to ensure that complex organizations are effective.

Characteristics of Effective, Complex Organizations

For decades, social science and organizational effectiveness experts have observed that complex organizations, whether for-profit or not-for-profit, ultimately perform best when they have certain foundational characteristics. These "organizational effectiveness" characteristics include the following:[2]

- Common, agreed upon mission, vision, and strategy
- Values, culture, and management style that encourage functioning as one organization
- Management and governance structures aligned with and supportive of the strategy
- Consistent systems, processes, and policies with a high degree of integration
- Sufficient staffing and appropriate skills
- Trust and communication among entities

These characteristics can be used as a framework for discussing how to ensure the governance of complex health systems is more effective and consistent.

Common, Agreed Upon Mission and Strategy

Health systems that want to function in a more integrated manner should start by ensuring that all of those serving in governance for their organization understand and agree on the purpose and the overarching strategic direction. For example, a review of a large health system's governance revealed (among other things) that the members of the parent board did not all understand the broad strategies being pursued by senior management (e.g., the growth of ambulatory sites and the drive

---

[1] Melanie Evans, "Consolidation Creating Giant Hospital Systems," *Modern Healthcare*, June 21, 2014.

[2] Modified from McKinsey & Company's 7-S Model of Organization Effectiveness, *Business Horizons*, 1980.

towards employment of more physicians). Therefore, one of the first action items was for the board chair and CEO to spend time at the next board meeting facilitating an open, honest discussion designed to encourage board members to articulate the areas about which they were confused.

In another example, the foundation board within a large health system began to raise funds for activities that helped the community at large (e.g., building safe skate parks). It turns out that the bylaws for the foundation board were too vague regarding its main mission. The organizing documents did not sufficiently state that the foundation's mission was to support the mission and activities of the health system, not the community at large. Their governance support professional assisted the board chairs with discussions that helped clarify the foundation board's role.

Values, Culture, and Style of Acting as One

Another key area for system boards to address is whether they have clearly articulated their values and ideal culture. If the system has decided to function as one organization, there should be written documents (e.g., core values) that provide behavioral descriptions of that desired state. The system board, in its capacity of providing oversight for the system CEO, should ensure that the goal of "acting as one" is implemented throughout all senior management. Likewise, the system board should insist that all serving in governance abide by these values, and always consider what is best for the system as a whole versus what is best for any one entity.

Governance support professionals can suggest board self-assessments be implemented, if necessary, to uncover any gaps in this area.

Aligned Structures

One of the key areas for governance improvement is aligning all of the structures within the system. Once the parent board has determined its mission and strategy (e.g., to become a fully integrated health system that improves the health of the communities served), the parent board should ensure that the management structure and its own governance structure are supportive of that strategy. Most health systems are finding that to provide value (high quality and low cost) they need to become more like centralized operating companies, rather than decentralized holding companies. As a result, they are streamlining their corporate, governance, and management structures. For instance, they are consolidating similar corporations and boards (e.g., all entities that employ physicians and all hospital boards). And, they are insisting on consistent committee structures for "like" subsidiaries. At the same time, they are trying to retain the engagement and involvement of those who have served on the boards and committees that are being consolidated or eliminated.

Governance support professionals should engage their parent board chair and CEO in discussions about whether governance restructuring is needed to improve effectiveness, efficiency, and consistency in their health system.

Consistent Systems, Processes, and Policies

Systems, processes, and policies fall squarely in the purview of the governance support professional, working in concert with the governance committee of the parent board. A key component of effective governance is that all board systems, processes, and policies are consistent across the system. And yet, very few systems have mastered this task.[3]

One of the reasons this is so difficult is that often entities have each joined the system at different times and each "deal" has resulted in different levels of responsibility and authority (e.g., approval of annual budgets and approval of the hospital CEO's hiring and termination). To complicate matters, some subsidiary boards might have one committee while others might have several. This can make it difficult to have consistent documents (e.g., bylaws and committee charters) and processes (e.g., board member selection) across the system. And yet, the governance support professional should identify and bring to the governance committee's attention any inconsistencies that should be rectified.

Sufficient Staffing and Appropriate Skills

Health systems, like any complex organization, need the right types of expertise. So, too, do their boards and committees. The changing expectations of board members in complex health systems has resulted in a re-evaluation of the skills, competencies, and perspectives needed for each governing entity. Effective governance committees (assisted by their support professionals) will use rigorous, consistent approaches to recruiting,

---

[3] For sample templates to use while developing standardized governance policies and documents, visit The Governance Institute's Governance Support Template library.

selecting, orienting, developing, educating, and evaluating boards and committees as a whole, as well as individual board members and board leaders. All of the processes and documentation to support these tasks should be consistent across the system.

Building Trust and Ensuring Communication

All serving in governance roles want to feel informed and engaged. Methods for increased communication and information flow among all system's entities are:

- Institute a mandatory orientation for all new board and committee members.
- Distribute a system CEO update report on a regular basis to all in governance roles.
- Convene an annual governance conference for all serving on boards, committees, and councils throughout the system. Share the system's strategy and performance as well as providing education/updates on governance processes/effectiveness.
- Develop and implement an annual governance education plan that ensures all are learning what they need for their (new) jobs. Invite all in governance to attend all sessions.
- Include in the annual board and committee evaluation process questions about the effectiveness of the communication and information flow between and among the parent board and its committees and the other governance entities.

Summary of the Governance Support Staff's Role

If a health system is trying to enhance its governance, the changes will require substantial

support staff leadership and involvement. The list below includes some of the key issues for the governance support staff to consider during this transition:

- Ensure sufficient resources are provided for the governance support function (e.g., legal expertise, administrative assistance, annual budget).
- Require that similar governance entities (e.g., advisory councils or foundation boards) have the same size, competencies, and committee structures.
- Create master templates to ensure consistency across the system for all key governance documents (e.g., bylaws, charters, meeting agendas, meeting minutes, board policies).
- Insist on a standard format for all materials that will be given to the boards and committees (e.g., PowerPoint slide background, executive summaries).
- Ensure that all governance processes are conducted in a consistent manner across all remaining boards and committees (e.g., member selection, orientation, education, re-appointment, and evaluation processes).

In summary, governance support professionals play a critical role in ensuring their board and administrative leaders are assessing the need for and, if necessary, implementing new, effective structures and consistent practices to ensure their system's governance is aligned with and supportive of their mission and vision, and that all those involved in governance have meaningful roles to play.