

Moving from Good to Great Governance: A Case Study on the Successful Implementation of a Governance Restructuring

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Enhancing a board's governance structure and functioning is a key concern of many hospitals and health systems today, in an environment where peak efficiency and efficacy is essential, both for the organization and its governing board. This article provides a case study of the governance review and restructuring process implemented at Sarah Bush Lincoln Health System (Sarah Bush), a regional provider of healthcare services in east central Illinois. The system has a hospital/health center, physician provider network, home health, hospice, and other related healthcare services.

In this article, we describe the reasons why Sarah Bush undertook a review/restructuring, the process utilized, the outcomes achieved, the transition accomplished, and the lessons learned—what these board members would share with others who are contemplating a governance review and/or restructuring.

Review Rationale

In the summer of 2011, the Sarah Bush system board hired a new CEO. As the CEO began to work with the various boards within the system, he concluded that they were not “broken,” but that they could enhance their effectiveness. For instance, the CEO noted that he and his team needed to prepare for and attend 53 board and committee meetings a year to work within the corporate and governance structure that included six different boards (system board, health center/hospital board, foundation board, a board for home health and other services for seniors and disabled, a board of the employed physician group, and a board of the captive insurance company). In addition, he observed a significant amount of confusion and redundancy between two of the boards (the system board and that of the health center/hospital), because completely different

individuals served on each board, yet all 24 members of the two boards always met together. As a result, he suggested to the combined executive committee that it might be wise to bring in an external consulting firm to assist with a governance review focusing on these two boards.¹

The committee agreed that it was time to revisit Sarah Bush's governance structure so it could move “from good to great” (as Jim Collins would say). The committee developed the following rationale for the governance review:

- Create efficient, nimble, responsive governance so Sarah Bush can respond quickly and effectively to changes in the healthcare industry and other challenges.
- Assure the community that governance oversight of Sarah Bush meets the highest standards for institutional integrity (e.g., IRS scrutiny, etc.).
- Embrace national trends and “best practices” in not-for-profit health system governance.

Review Process

The combined executive committee served as the task force that oversaw the entire process and ensured it was board-driven, not management-driven. They chose to use a participative, but efficient approach that engaged members of both boards, the administrative team, and the medical staff by:

- Holding a kick-off session for board members to provide education on best practices in governance and identify the issues to be addressed
- Asking the consultant to interview 31 individuals: board members, administrators, and medical staff
- Reviewing the findings from the consultant's interviews and comprehensive governance document review, structural options to consider, and other

recommendations for governance enhancements

- Developing an understanding of the consultant's findings, finalizing governance design principles, and developing preliminary recommendations to take to the full boards
- Convening a carefully designed, combined board retreat to share and secure input on the committee's preliminary recommendations

Outcomes Achieved

One of the main outcomes of the retreat was the decision to restructure the health system and health center boards. The boards explored a number of structural options and decided to recommend combining the two boards into one system board and moving all the committees up to the system level. A new committee structure was created to ensure that the system board was focused on governance, not management-level work, and that it oversaw all of the entities within the system, not just the acute care component. These changes dramatically reduced the authority confusion and eliminated the duplication of effort between the two boards and their committees.

In addition, other issues/challenges identified through the retreat were reframed according to governance best practices, and then specific action items were developed to enhance the effectiveness and efficiency of the boards and committees. The key issues and actions are listed below.

1. Issue: Role Clarification

Actions: With the decision to clarify roles by merging the two corporations and boards into one, a revision of the existing bylaws was needed. However, after legal counsel researched this issue, it was determined that for reimbursement and

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¹ Some members from the other boards were interviewed as part of the early review process, but it quickly became apparent that these boards were functioning well, and the key issue was the overlap and confusion between the system and health center boards. Thus, the review and subsequent restructuring focused only on the system and health center boards.

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other reasons, it was best to keep both legal corporations and create two “mirror” boards (all board members serve on both corporations’ boards). It also became apparent that the work involved in revising the bylaws exceeded the expertise of the board members. Thus, the board asked administration to work with legal counsel on drafting bylaws that would be in compliance with all legal requirements. A preliminary draft was discussed at the February 2012 board meeting. A final draft was presented at the March board meeting and voted upon at the April board meeting. The newly adopted bylaws became effective July 1, 2012.

This mirror board structure was similar to the previous structure, but had significant advantages: the new structure created one set of board members, one set of board officers, and one set of bylaws (before there were two of each), and it eliminated overlapping and differing governance responsibilities that existed previously. This removed any confusion as to when board members should vote and when they should not, resulting in much smoother and more efficient board meetings.



2. Issue: Committee Enhancement

Actions: The board adopted six standing committees: executive; board development; quality; human resources and compensation; strategic growth and healthy communities; and finance, audit, and compliance. Each new committee required the development of a charter that would define its purpose and authority, key responsibilities, membership, frequency of meetings, and

goals and work plan for the next year. Six mini task forces were developed, one for each of the newly proposed committees. Each task force was charged with developing a draft charter and work plan for its assigned committee and bringing it to the entire board for discussion and approval. Staff members were assigned to each mini task force and board members were selected based on their current committee experience, vocational expertise, and interest in the project. This proved to be an effective means of developing the charters and work plans. The mini task forces began their work in February. Draft charters were discussed at full board meetings in March and April and all six charters were adopted at the board meeting in May.

3. Issue: Efficiency and Effectiveness Improvement

Actions: The board agreed that reducing the number of members from 24 to 18 would improve efficiency of the board, and that downsizing should occur through attrition. It was also agreed that adding community members as non-board members to selected committees (quality; finance,

audit, and compliance; and strategic growth and healthy communities) would be beneficial to the organization and serve as a means of recruiting potential new board members.

The board also approved a revised meeting calendar for board and committee meetings. The full board would meet five times a year, instead of 10, and the executive committee would meet seven times a year instead of monthly. Although the board embraced the idea of fewer meetings, there was concern that the length of the meetings would increase. Using a consent agenda and assigning time limits to each agenda item helped ensure that the meeting would end within a two-hour timeframe.

Transition to the New Governance Model

The newly adopted governance model began on July 1, 2012. The first year was a learning experience for both the board and the administration.

The change in the meeting calendar was an adjustment for everyone. Members of the administrative team had to ensure that the committee(s) for which they were responsible reviewed proposals in a timely way prior to full board review and approval. That required some refinement of the committee meeting dates originally proposed. By the end of its second year, the board and administration established a positive working rhythm with the new schedule and organization.

More tenured board members, who were used to monthly board meetings, voiced concerns that they felt like they were “out of the loop” and “did not have their fingers on the issues.” Newer board members embraced the decreased number of meetings and did not share those same concerns. The CEO began sending out summaries of all committee meetings to board members. In addition, all committee and board meeting minutes were posted on a board portal and available to all board members in real time. The board also supported the concept of “open” committee meetings, allowing any board member to attend any committee meeting.

A few of the new committees found that their specific charter and work goals did not necessarily match the scope of their work. Revisions were made to accommodate this. For example, the human resources and compensation committee was originally assigned the CEO performance review. That task had previously been assigned to the executive committee, and both committees agreed that was the preferable model. Now, all the committees are more focused and disciplined, so they do their work more effectively and efficiently.

Everyone has positively received the addition of community members on committees. The non-board members have brought new perspectives to the board’s work and have gained new insights into the working of the health system. This has proven to be an effective means

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of recruiting and educating potential board members.

The revised governance structure at Sarah Bush has met all of the goals articulated at the beginning of the process. The smaller, single board and its focused committees allow more nimble decision making during this challenging time in healthcare. The refined committees ensure greater oversight in key areas such as quality. And, Sarah Bush is now utilizing many more governance best practices.

Lessons Learned

The authors offer the following lessons learned about how to ensure successful implementation of a governance review or restructuring. First, although the rationale for making the changes was strong, a closer look at the timing of the changes should have been considered. The board governance changes occurred during the CEO's first year at the health system. That was a big adjustment for him, his administrative team, and the board. In retrospect, waiting to initiate the changes until the CEO's

second year would have allowed everyone to become more comfortable with each other's philosophies and personalities.

At its core, governance restructuring is a change management initiative, in which dedicated volunteers agree to give up or modify their "jobs" as board members. Therefore, most of the keys to success were related to engaging the impacted individuals all along the way. Starting with an educational session for all board members helped create a level playing field and became a catalyst for change. Conducting interviews with all members of the two boards made all feel their concerns were being heard. Using a smaller group (the combined executive committee) to steer the process and develop initial recommendations enabled the process to move more quickly. Discussing the possible changes in a retreat facilitated by an external expert in not-for-profit governance resulted in robust discussions and effective decision making. Using the full board (instead of a subgroup/committee) to review, discuss, and approve each new governance document increased

each member's buy-in to the overall change. Allocating time in each board and committee meeting over a full year allowed sufficient time to do the detailed work that was required to ensure comprehensive implementation of the changes needed for more effective and efficient oversight of the health system. ●

The Governance Institute thanks Pamela R. Knecht, president and CEO, ACCORD LIMITED, and Jill Nilsen, former board chair, Sarah Bush Lincoln Health System, for contributing this article. They can be reached at pknecht@accordlimited.com or jfnilsen@eiu.edu. For more information on governance restructuring, refer to the following publications by Pamela Knecht: "Governance Restructuring: A Needed Change Management Initiative" (BoardRoom Press, April 2012) and "Ensuring Board Effectiveness: A Comprehensive Review" (BoardRoom Press, December 2012). These articles can be found at GovernanceInstitute.com.