

The System–Subsidiary Relationship in Hospital Governance

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IN HEALTH SYSTEMS OF ALL SIZES, the relationship between system and subsidiary boards suffers from inadequate clarity, coordination, and consistency. Roles and responsibilities are not differentiated. Subsidiary boards often lack a full understanding of their fiduciary duties. Even when clear “on paper,” reporting relationships are likely to be inconsistent, and more attention needs to be paid to creating a true sense of “systemness.”

Suggestions for Establishing Appropriate System–Subsidiary Relationships

The following five actions lead to optimal performance. A commitment to optimal governance within a health system involves taking on this entire package of tasks. Local input is critical, but the work involved needs to be driven by the system board and CEO.

1. Structure Building through Clear and Interrelated Bylaws

Bylaws and board policies for the health system should explicitly reference each assignment to subsidiary boards, the tasks delegated to these boards, and the oversight mechanisms that relate to each of these tasks.

All subsidiary boards should have the same set of bylaws and policies and these should parallel the bylaws of the system board in structure and content.

Bylaws need to be explicit about the authority vested in each body, the degree of autonomy delegated to the subsidiary board in each area of authority, as well as the mechanisms by which policies flow “downstream” to the subsidiary boards, and reports flow “upstream.”

2. Consistency through Standardization

Health systems should move toward standardization of the following:

- **Hospital bylaws:** See above. Attention to standardization should be particularly rigorous in areas where subsidiaries have discretion and authority (e.g., quality, credentialing, provider discipline, and so forth).
- **Medical staff bylaws:** There is a world of difference between “average” medical staff bylaws and great ones. Excellent bylaws institute a rigor to the credentialing and peer review functions that are essential to maintaining standards and advancing the system brand. While the ability of each medical staff to generate its own bylaws makes system standardization difficult, this should be the unwavering goal.
- **Board agendas:** A standardized template for all subsidiary board meetings will assure regular and appropriate attention to all critical areas and will streamline upstream reporting.
- **Board committee structures:** The system board will have committees that are not necessary for subsidiaries (i.e., audit) but unless there is a clear rationale for variation, all subsidiaries within a system should have parallel committees with similar charters and operating processes.



- **Compliance and risk management policies and processes:** These should be identical across all entities in the system unless there are specific reasons for variation.
- **Board support:** The administrator or administrative assistant coordinating the system board should have dotted-line authority over his/her counterpart at each subsidiary in order to assure coordination and consistency.
- **Board minutes:** Minutes should have an identical structure across all boards, highlighting issues at the system/subsidiary interface. All of this has efficiency, effectiveness, and compliance ramifications.
- **Board self-evaluation:** This JCAHO requirement can be a meaningless ritual or a meaningful piece of self-reflection. Be consistent within the system as to the process and format of the evaluations; allow some room for customization to address local issues.
- **Quality and safety:** The system quality plan and dashboard need to be carefully developed and, in turn, drive the form and structure of each subsidiary plan and dashboard. Again, allow room for customization to study local issues. The system quality committee needs to at least review summaries of each subsidiary quality committee.
- **Board nominating process; inclusion and exclusion criteria:** Consider system philosophy, values, and strategy when creating the nominating pathway for subsidiary boards. The nominating committee of the system board should be attentive to the opportunity to use appointment to a subsidiary board as a training ground and proving ground for potential system trustees.
- **Board contribution to local CEO evaluation:** The evaluation remains a management prerogative of the system CEO, but local board input is a regulatory requirement and a wise political move. The process for obtaining subsidiary board input should be clear and consistent across institutions.

3. Governance Education

While education on finance may be more germane for members of the system board, a clear understanding of business realities is useful for all board members. Creating a system educational calendar and agenda allows for consistent levels of knowledge and capacity across the system. Topics that should appear regularly on this agenda include, but are not limited to, the business of medicine, trends in service delivery, quality and safety, community health and well being, legal issues for trustees, philanthropy, and provider relations.

4. Engaging in a System Perspective

One of the critical advantages of being a system involves the mobilization of talent, energy, and creativity to transfer ideas and support programs across an extended geography.

To the extent that system boards understand the concerns and resources of subsidiary organizations, their attention to strategy will be enhanced. If subsidiary boards keep “the big picture” in mind

continued on page 2

The System–Subsidiary Relationship...

continued from page 1

they will be potential advocates, particularly with respect to the use of political influence and philanthropy.

5. Mobilizing for Philanthropy

Much has been written today about the need for philanthropic dollars to supplement operating income. Health systems have a unique story to tell the donor community, yet often squander the opportunity to

capitalize on that story by failing to create a plan that spans the communities involved in the system. Develop a comprehensive message that taps donors for both local projects of immediate relevance and, simultaneously, system-wide projects of overarching, long-term significance. This requires a unified plan that has components for each locality represented by a subsidiary institution.