Trustee Insights

SYSTEM GOVRENANCE

Effective Governance of Health Systems

4 principles for effectively governing health systems

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The evolution of health care delivery organizations in the United States is generally marked by the transition from stand-alone hospitals to multihospital systems to integrated delivery systems that include different provider organizations such as skilled nursing facilities, rehabilitation facilities, physician organizations and insurance companies. As systems evolved, so has governance.

Governing a health system is different than governing a stand-alone hospital. One clear example of this is that all health system boards oversee and attempt to integrate different businesses regardless of the type of system they govern. But many system boards also are charged with the unique responsibility of overseeing different, subsidiary governing boards and coordinating their work. The structure of system governance can be divided into two broad categories: centralized and decentralized. A pure centralized model of governance means that the entire system, even if it has multiple hospitals, is governed by a single board. Yet the most common system governance model is a decentralized one, where there are multiple governing boards in the health system.

A decentralized system governance structure has several distinct components. In addition to having multiple boards within the system, it has a hierarchical structure and levels of governance where boards report and are subordinate to other boards. Further, a decentralized system governance model must subdivide governance authorities and functions between and among the different boards in the system. Finally, it has a "parent" or system board, which is the ultimate governance authority in the health system and so has the unique role of overseeing and directing other boards in the system.

Interestingly, both the structural and functional models of governance for many systems developed over time based on implicit assumptions, history and agreements necessary to consummate acquisitions and mergers. Rarely was the approach to decentralized system governance based upon explicit and foundational principles that could be used by board and system leaders as a touchstone to make their multiboard model work efficiently and effectively.

To effectively govern health systems with a decentralized model

of governance, the parent or system board must assure that its model of governance is based on explicit principles, and that these principles are well known and used by all the different boards and committees in the system. Such principles will vary by system and be influenced by the different history, mission, strategy, location and competitive position of each system. Even so, there are several basic principles that serve as a foundation for effective and efficient system governance. Following are several of these basic principles.

Minimalism: Having as few boards and committees as possible

The number of boards and board committees in a health system tends to grow as the system grows. Yet, having more boards and committees comes with considerable cost. Several of the most common costs are: consuming more executive management time to staff and coordinate the boards and committees; consuming excessive amounts of time of board members who serve on multiple boards and committees; and diffusion of the relative roles, responsibilities and authorities between the different governance entities resulting in duplication of information and deliberation, which slows down the "governance metabolism" and decision-making process and makes the system less nimble and responsive to a dynamic and challenging environment. The governance principle of minimalism is based on the view that fewer governance entities are better, and that each system should attempt to structure its governance model with as few boards and committees as possible to effectively govern the system. Health systems that embrace this principle are very deliberate and cautious about creating new boards or committees to maximize governance efficiency, minimize time demands on executive management and board members, and to reduce decision-making cycle time.

Board structures and processes are consistent throughout the system

Subsidiary boards within a system (those that are below the system or parent board) that are allowed to have their own unique committee structure, meeting schedule and duration, board size and composition process, terms and term limits, and other characteristics of governance generate significant governance entropy. With inconsistent structure and function among the boards of a health system, the governance gears of the system do not mesh and work well together; instead they tend to incessantly grind and cause friction. Health systems with inconsistent governance structures and functions suffer consequences that range from inefficient, time-wasting governance at best, to system governance paralysis or conflict at worst. For those systems with multiple boards (a decentralized governance model), mandating consistency in governance structure and process for similar boards throughout the system is critically important to maximize effective system governance function. Further, a consistent approach facilitates a more centralized governance function in the context of a decentralized governance structure. Thus, systems that embrace this principle can get the best of both worlds, enjoying more efficient and effective governance that is characteristic of health systems governed by a single board (centralized governance), while getting the political and practical benefits of multiple boards performing different governance functions within the system (decentralized governance).

Central authority: System governance operates on the principle of centralized authority and decentralized decision-making

Having a health system with multiple boards and board committees requires that governance authority and decision-making involvement and accountability be clearly divided and assigned to the different governance bodies. This principle facilitates the focusing of governance authority involving strategic, policy, financial and executive oversight with the system or parent board, and pushing the more tactical and programmatic governance decision-making to the subsidiary boards. Under this principle, the health system board has, and routinely exercises, the explicit authority to establish or approve systemwide strategic directions, goals and parameters. Once the system board exercises this authority it then delegates relevant and specific tactical, programmatic and focused oversight responsibility and decisions to governance entities that are subsidiary to the system board. The system board provides strategic and policy direction as

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the basis and guardrails for the decisions and recommendations made by the governance entities below the system board. Further, the health system board monitors that such decisions and recommendations are consistent with the strategic directions, goals and parameters established by the board and takes appropriate action when it determines that they are not.

Here is a practical example of this principle: The parent board of a health system establishes the system goal of reducing the hospital severity-adjusted mortality rate by 20% by a specific date two years in the future. The system board then directs the subsidiary hospital boards to establish policies and make specific decisions relating to their responsibility to oversee the hospital safety and quality programs and the medical staff credentialing processes to accomplish the system goal at their hospital level by the target date. Here, the health system board establishes the strategic direction and system goal, and each hospital board acts within its areas of responsibility to "make it so."

While this key principle of effective system governance may seem obvious, in fact many health systems with multiple boards have the opposite implicit principle: They tend to decentralize authority and centralize decision-making. In these health systems, the cultural authority to make major system decisions and to approve significant strategic initiatives implicitly rests with subordinate boards in the system which govern individual hospitals or other organizations. Executives and system board leaders must get the buy-in or consensus from the subordinate boards, if not their explicit approval, of significant system decisions and strategies before they can be implemented. If the system board makes such decisions without this time-consuming consensus, it can generate intense resistance from the subsidiary boards which causes system paralysis and often conflict. Meanwhile the parent board, unable to set or approve strategy or make such "big" system decisions, often retreats to focusing on more tactical discussions and decisions. When this system governance dysfunction exists, it often causes the system to stall in a market that requires action. Frequently, the health system bylaws and governing documents do not explicitly assign this authority to the subordinate boards. It is instead a cultural expectation borne of historical behavior that no system authority or decisions that affect subsidiary organizations and their boards then can be made without their approval or input.

This is not an optimal governance functional model, and as the market has become more challenging and less forgiving, it is now clearly a dysfunctional one. Thus, effective health systems base their governance structure and function on clearly defined and regularly exercised authority at the system board level: They centralize authority to the system board and decentralize decision-making to the subsidiary boards consistent with their delegated and focused roles and authority. Once established, this principle is often operationalized through the development and use of a governance authority matrix.

> It is not enough for a health system to simply have a governance authority matrix; it must be routinely used throughout the system. In effective systems, the governance authority matrix is always on hand and frequently consulted at all meetings of the various boards within a system.

Authority matrix

A governance authority matrix clearly defines how the authority to make different decisions is divided among different boards in a system, and between the system board and the CEO. This clear division of leadership authority specifies such issues as what board in the health system has the authority to make a specific decision; what other board or committee might have the ability to recommend a decision or course of action to a superior board; what subordinate board, if any, must be consulted before a specific decision is made by a superior board — making clear

whether the subordinate board's approval is required for the superior board to make a particular decision, or if it is simply and solely that the subordinate board's input must be sought but does not have to be followed by the superior board in making the decision; and what board or groups must be informed of a decision after it has been made but before it is publicly announced.

The authority matrix is a "cheat sheet" that summarizes in a self-contained document the multiple bylaws and board policies and procedures that exist in the health system. But it is not enough for a health system to simply have a governance authority matrix; it must be routinely used throughout the system. In effective systems, the governance authority matrix is always on hand and frequently consulted at all meetings of the various boards within a system. It creates clarity in the distinction in roles and responsibilities, and authority and decision-making responsibility between and among the boards in a system. It operationalizes the principle of centralized authority and decentralized decision-making in a health system with multiple boards.

Effective governance of health systems with multiple boards is not a happy accident. It occurs when there is a defined set of governance principles that form the basis for the structure and process of governance, and these in turn help facilitate effective governance function.

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