In 2012, the governing board of respondent, Avera Marshall Regional Medical Center (AM), a nonprofit hospital in Marshall, Minnesota, announced a plan to repeal the hospital’s medical staff bylaws and replace them with revised bylaws. AM’s Medical Staff, its Chief of Staff, and Chief of Staff-elect commenced an action seeking a declaration that the Medical Staff had standing to sue AM and that the medical staff bylaws were an enforceable contract between AM and the Medical Staff. The District Court of Minnesota entered judgment for AM and dismissed the case after concluding that the Medical Staff lacked the capacity to sue AM and that the medical staff bylaws did not constitute an enforceable contract between AM and the Medical Staff. The court of appeals affirmed the District Court. This was the subsequent appeal to the Supreme Court of Minnesota.

AM is owned and operated by Avera Health and is incorporated under the Minnesota Nonprofit Corporation Act, Minn. Stat. ch. 317A (2012). Under AM’s articles of incorporation and corporate bylaws, AM’s board of directors (the board) is vested with the general responsibility for management of AM. The corporate bylaws require the board to ‘organize the physicians and appropriate other persons granted practice privileges in the hospital ... into a medical-dental staff under medical-dental staff bylaws approved by the [board]’.

The appellants included two individual physicians and Avera Marshall’s Medical Staff as a whole. The medical staff is composed of practitioners, primarily doctors (physicians) with admitting and clinical privileges to care for patients at the hospital. The Medical Staff is subject to medical staff bylaws originally enacted by the board in 1995. The 2012 by-laws were unilaterally introduced to staff in January 2012, and took effect from 1 May 2012 without the opportunity of full feedback being provided. Two individual physicians and the Medical Staff as a whole objected, eventually filing a lawsuit against the hospital. There were two important governance issues for nonprofit hospitals within the lawsuit:

1. did the Medical Staff, as an unincorporated association, have the legal capacity to sue?
2. did the medical staff bylaws constitute an enforceable contract between the hospital and the Medical Staff?

With respect to the first question, the Supreme Court acknowledged that the common law rule in Minnesota is that unincorporated associations are not legally distinct from their members and so do not have legal capacity to sue or be sued in their own right. However, the court found that the Minnesota legislature had overridden this rule when it enacted Minnesota Statute section 540.151 (2012), which the court interpreted as granting the capacity to sue and to be sued to any unincorporated associations which met the statutory criteria. Those criteria are having two or more persons associate, and acting under a common name, criteria that the court found the hospital’s ‘Medical Staff’ satisfied (at page 10):

We conclude that, under its plain language, Minn. Stat. § 540.151 grants to an unincorporated association the right to sue and be sued if it meets the statutory criteria. The statute states that people who associate under a common name “may sue in or be sued by such common name”... Here, the Medical Staff is composed of two or more physicians who associate and act together for the purpose of ensuring proper patient care at the hospital under the common name “Medical Staff.” Therefore, because the Medical Staff satisfies the statutory criteria of section 540.151, we hold that it has the capacity to sue and be sued under Minnesota law.
With respect to the second question, the Supreme Court concluded that even though the hospital had a legal obligation under Minnesota administrative rules and the hospital’s corporate bylaws to adopt medical staff bylaws, both sides still provided consideration. More specifically, the hospital granted privileges at the hospital in exchange for the prospective Medical Staff member agreeing to abide by the bylaws. The court therefore concluded that there was a bargained-for exchange of promises and mutual consent to the exchange, creating an enforceable contract. The court therefore remanded the case for consideration of the plaintiffs’ claims that the repeal and replacement of the medical staff bylaws violated the terms of that contract (at pages 16–17):

The record in this case indicates that Avera Marshall formed a contractual relationship with each member of the Medical Staff upon appointment Avera Marshall offered privileges to each member of the Medical Staff, so long as the Medical Staff member agreed to be bound by the medical staff bylaws as a condition of appointment. Each member of the Medical Staff who accepted Avera Marshall’s offer of appointment agreed to be bound by the bylaws. Thus, there was a bargained-for exchange of promises and mutual consent to the exchange. Importantly, there was also consideration. Both Avera Marshall and the members of its Medical Staff voluntarily assumed obligations on the condition of an act or forebearance on the part of the other.

Therefore, the Supreme Court reversed the findings of the courts below, and remitted the case to the District Court of Minnesota for rehearing.

The case may be viewed at: [http://mn.gov/lawlib/archive/supct/2014/OPA122117-123114.pdf](http://mn.gov/lawlib/archive/supct/2014/OPA122117-123114.pdf)

**Implications of this case**

The result in this US case, which may be significant to many hospitals in that country, both for-profit and nonprofit, was not a foregone conclusion as both the state trial court and the state appellate court had concluded the opposite on both questions. Indeed, in this case, two of the five justices of the Minnesota Supreme Court dissented from the majority's opinion. However, the decision is of note in that it granted an unincorporated body of persons the right to sue because there had been statutory interference with the usual common law rule.