

BoardBrief

Knowledge Resources for Health Care Governing Effectiveness

The Board's Role in Strategic Planning

Building and maintaining focused, accountable and visionary trustee leadership is one of the principal challenges for hospitals in today's turbulent health care environment. Hospital boards face difficult choices in a time of burdensome governmental regulation, inadequate reimbursement, increasing competition and shifting community needs.

Complexity, financial strain and demands for a greater level of governance accountability require motivated, knowledgeable trustees who understand how to think and lead strategically in today's demanding environment.

The Strategic Plan: More Than Words on Paper

A highly effective strategic plan is not simply a set of strategies, plans, budgets and responsibilities. Instead, it's an ever-evolving process of examination of the market, forces for change, and other current information that helps the board to understand changing dynamics, and continually reshape or fine-tune the hospital's strategic direction.

In essence, strategic planning is an organized, systematic approach for understanding and dealing with the hospital's future possibilities and uncertainties. It takes an "outside in" view of the organization, and what is required to achieve the defined objectives expressed in the mission and vision statements.

In order to be successful, a high-performance strategic plan relies on the viewpoints of a broad range of constituents and stakeholders. To accomplish that, the hospital's planners must reach out to people and organizations throughout the community, and engage them in meaningful discussions about their views of the hospital, community health needs, barriers to care, issues of access and more. Typically, this is accomplished through a community needs assessment, interviews, surveys and focus groups with physicians, employees, business leaders, elected officials, opinion leaders and others whose views are important to understand in shaping strategies for a successful future.

The strategic plan should also help the hospital's leaders determine a meaningful, realistic, challenging and compelling

vision of the future. The key for the board is to ensure that the hospital's vision truly means something.

Finally, a high-performance strategic planning process ensures a clear understanding of the resources required for strategic success, and the accountabilities of everyone in the organization for performing their part in ensuring strategic success.

Three Important Truths to Understand About Strategic Planning

1. ***Board members don't need to know everything there is to know in order to make intelligent decisions and wise choices about the future.*** There is an overwhelming amount of information available at any given time that may be relevant to the planning process. Trustees need to have assurance that senior leadership is asking the right questions and utilizing the appropriate tools to ensure an evidence-based, outcomes-focused process.
2. ***Because of the rapid pace of change in health care, what organizations know today is very different from what they're likely to know tomorrow.*** That means that strategic planning processes, structures and systems need to be nimble and flexible, and that the plan must be able to be adapted to new information and new realities of the future that have not yet been envisioned.
3. ***Trustees will never know everything they'd like to know to be totally confident in every decision they make.*** What they need to have is the assurance that the board's "knowledge bank" has sufficient "capital" to ensure that the decisions they make, and the directions they outline for the future of the hospital can withstand scrutiny.

Steps in the Strategic Planning Process

While the planning process can be detailed and complex, depending upon the hospital's size and market, there are five key steps in a typical strategic planning process:

1. **Ensure a Strong Foundation.** Ensuring a strong foundation begins with the three critical components of the hospital's foundation: its mission, values and vision. While the mission and values may change little over time, the hospital's vision is an ever-evolving look into the future. The board of trustees should ensure that these three components are carefully examined, considering questions like:
 - Is the mission as presently stated still a meaningful and memorable description of the core purpose of the hospital?
 - Are the values or principles underlying the mission still relevant?
 - Is the vision, or what the hospital is striving to achieve, still a challenging but realistic stretch?
2. **Understand the Environment.** Understanding the environment requires conducting a thorough and comprehensive scan of the environment - inside the organization, in the community and nationally. The board should ensure that the hospital's strengths, weaknesses, opportunities and threats have been deeply and fully explored. In addition, the board should ensure a robust examination of demographic trends, economic trends and forecasted community needs, and ensure that the vision, goals and strategies developed respond to both external trends and internal issues and opportunities.
3. **Understand Challenges and Opportunities.** Hospitals can utilize the findings from steps one and two to define the primary challenges, barriers, and opportunities confronting the hospital, and determine the factors most critical in future success.
4. **Set the Direction.** Once a strategic analysis has been conducted to understand the environment, challenges and opportunities, the next step is to use the information to set a course for the future. Setting the long-term direction involves a careful analysis of changes to existing strategies, or development of new strategies that respond to environmental change and that capitalize on the most significant opportunities for the hospital as it moves forward.
5. **What's Most Critical?** Once potential strategies and objectives have been determined, the board and senior leaders must carefully priorities them to ensure their

match with the organization's mission and vision. It is important to remember that all strategies are not created equal. Some strategies are absolutely urgent, critical and vital to achieve within a certain time frame. Others, while important, may not be nearly as urgent or critical to organizational success.

An easy way to prioritize strategies is to give them a "weight" using different rating dimensions. For example, strategies may be prioritized based on their doability, or how feasible a strategy is given current and anticipated resources. Strategies could also be given a rating based on their impact in fulfilling the community health mission, the urgency of undertaking the strategy, or the value of the strategy in ensuring the hospital's long-term strategic success.

Once the strategic plan is completed the hospital will have assessed its mission, conducted a thorough environmental scan, recalibrated its vision based on emerging trends, issues and opportunities, and will have conducted a wide and deep analysis of strengths, weaknesses, opportunities and threats.

Following that fundamental work, strategies can be developed and measurable objectives to achieve the strategies can be formulated.

It's important for board members to know that their primary strategic planning responsibility is contained in these critical areas. Once this work has been accomplished and the board is satisfied with the broad strategic direction, the management team can go to work to develop action steps, communicate the plan throughout the organization, and ensure that everything is in place to ensure a successful strategic implementation.

What Does a Good Plan Achieve?

Before the hospital begins the development of an action plan for undertaking its strategic plan, the board should ensure a full understanding of what it seeks to have the plan achieve. Management teams will often, and for good reasons, become consumed with financial and operational issues and challenges. It is the primary responsibility of the board to ensure that the hospital's mission, values and vision remain at the center of the strategic planning process. This focus will help ensure that the strategic plan has timely, responsible and realistic goals that support the mission and vision.

Alignment of Plans and Resources. A good plan has a logical, clear strategic fit of plans and resources. The board should ensure that when a commitment to undertake strategies and achieve objectives is made, adequate resources exist to ensure their success. This requires a careful process of prioritization.

Powering Strategic Success: Nine Key Governance Assets and Abilities

The board plays a significant role in ensuring the success of the hospital's strategic plan. However, fulfilling that role isn't easy. It requires a number of governance assets and abilities that must be consistently practiced in order to ensure strong and effective leadership of the strategic planning and strategic change process.

1. The board must have the ability to pioneer new thinking and new responses to emerging community needs. That requires innovative thinkers able to think outside the customary boundaries of strategic planning.
2. The board must have the ability to create and nurture a culture that welcomes and embraces change as a creator of new opportunities. Change is and will be a constant in health care. It needs to be accepted and utilized as a strategic asset, not a success inhibitor.
3. The board must have the ability to deal forcefully with unplanned and unexpected change. In order to do that, the board must carve out adequate time on every board meeting agenda to discuss emerging trends, issues and challenges, and determine their relevance to the strategic plan.
4. The board must realize that there is no straight path to the future. Instead, the dynamic, rapid-change maze hospitals must navigate requires governing boards to be able to think creatively through strategic responses to a wide range of scenarios. Accomplishing that requires a governance environment and infrastructure capable of fully capitalizing on board members' knowledge, insights and experiences. This leadership capital is essential to the hospital's strategic success.
5. Strategic governance leaders also have the ability to define the community benefit and value created as a result of successful execution of the plan. The ability to define, measure and report benefit and value is becoming increasingly important in today's hyper-scrutinized environment.
6. A focus on vision and outcomes, vs. programs and actions, is vital to strategic planning success. The board should be most concerned with the "what," rather than the "how" of strategic planning. That requires a consistent focus at the very highest level, leaving the details of plan implementation to those who are accountable for it.
7. New information and knowledge is not useful unless it's put to work. The board must have the ability to make rapid, timely and well-informed decisions resulting from their commitment to continuous knowledge development.
8. Strategic winners are those who develop the ability to anticipate market needs and opportunities ahead of their competitors. This governance asset is a powerful companion to management's day-to-day focus on strategic implementation.
9. The ability to lead with purpose and consistency through unplanned and unexpected change gives senior leaders and employees confidence in the organization's ability to adapt its strategic thinking and strategic responses when necessary.

Community Support. One of the key factors in the success of any strategic planning effort is how well its focus will be embraced and supported by the broad community – physicians, patients, consumers, businesses and payers. To accomplish this, boards of trustees need to be active "community connectors." They need to be strong advocates, educators and promoters of the hospital in the community, and build awareness, understanding and loyalty to the hospital as the community's most important and most needed health care asset.

Measurability. A good strategic plan must be measurable. The board needs to know precisely how well the hospital is progressing in achieving its stated strategies and objectives. The way to accomplish that is through a robust set of "key performance indicators" or "vital signs" that tell the board if the plan's goals are being met or if potential "strategic gaps" are developing.

The Board's Role: Deep Thinking and Leadership, Not Micromanagement

Governance leaders play a unique and very important role in the hospital's strategic planning process, and in its ongoing strategic success. The role of the board is to be a leader, a

motivator and a catalyst for strategic success. The board does not need to be involved in the details of strategic plan development and implementation.

It's the strategic thinking role that is absolutely unique to the board in the strategic planning process. Simply stated, the board should govern and lead the strategic plan, not create or manage it. But that simple statement too often gets lost in misunderstanding, miscommunication, misapplication and missed opportunities.

A Focus on High-Level Thinking. The board is the driver and keeper of the organization's mission, values, vision, goals and strategies, but it should not dictate the plans for delivering on those expectations. When it does, it ceases to play a governing role, and instead plays a management role, blurring the lines between these two critical elements. The board bears ultimate responsibility for the design of the strategic planning process and for the organization's success or failure. To fulfill this responsibility the board must assume a strong and focused leadership role; it cannot afford to reactively wait to see what developments will unfold in the marketplace.

The board must be able to engage in new thinking and help executive management develop new directions to successfully compete in an increasingly challenging marketplace. Board

leadership must be fast, fluid and flexible, and power an expectation of innovative ideas, new thinking and new directions to successfully compete in today's turbulent environment.

Effective board-level planning emphasizes a continual strategic dialogue into which are continually fed new information, new ideas and new perspectives, and out of which emerges a constant stream of strategic development opportunities.

Board Leadership. Finding a way to play the most positive role possible in the strategic change process, and drive strategic discipline and strategic thinking throughout the organization without micromanaging can be a difficult balance.

Hospital boards must first establish direction. The board must ensure that the hospital has a meaningful, unique, market-specific and compelling mission and vision, statements of purpose and long-term focus that inspire employees, physicians, trustees, volunteers and others. Second, the board must ensure that the entire hospital family, from top to bottom, sees their role and value in achieving the hospital's strategic initiatives. Every single person plays a role, and each person should hold him or herself accountable for understanding that role and playing their part in organizational success. That culture of commitment is created and inspired by the board. Third, and very importantly, the board plays a unique role in motivating and inspiring hospital leadership to excel as strategic change leaders, individuals who can coalesce their colleagues in a strategic movement unified by purpose, committed to excellence and rewarded for performance.

A Strategic Assessment Should Lead to Probing Questions From the Board

The board should lead the process of exploring deep, critical questions during the strategic planning process. The questions typically result from a close examination of the data and information included in a strategic assessment, and are sparked by review of information from all information gathered, including a community needs assessment, an analysis of demographic trends, emerging competitors, projected internal and external threats, and more.

Some examples of the types of questions that typically emerge at the board level when a strategic assessment is properly used include:

- What are the most important forces driving the hospital's future success?
- How can the hospital improve its image and enhance consumer preferences?
- How can the hospital best capture market share from its competitors? Will the hospital's competitors be different in the future? How?
- What hospital services have the most potential for growth, both existing services and services that could be created?
- What are the primary factors driving patient outmigration, and what can be done to retain more business for the hospital?
- What is the hospital's role and responsibility in addressing the primary service area's most serious health risks?
- How attractive will the primary and secondary service areas be in the future to aggressive competitors?
- How do the service area population mix and economic character affect future hospital development potential?
- What should be the hospital's financial growth strategy, both short and long term?
- How should the hospital balance expense reductions with the need to invest in future service development needs and opportunities?
- How can the hospital continue to fund capital needs and growth strategies in the face of declining margins?
- How can the hospital ensure an adequate supply of RNs, technicians and other employees required to meet emerging needs?

Driving SWOT Deep Into the Organization

Conducting a SWOT analysis, or analysis of strengths, weaknesses, opportunities and threats, is one of the core features of most hospital strategic plans. The problem with most SWOT analyses is that they are very general in nature, and oftentimes add little to the strategic planning effort.

For example, typical strengths identified in a hospital strategic plan may include concepts such as high quality, dedicated employees, strong financial position, or committed physicians. While each of these may be true, they would also be true for virtually every other hospital in America.

However, there is a way to conduct a SWOT analysis that results in dozens if not hundreds of individual strengths, weaknesses, opportunities and threats that can be effectively utilized in the strategic planning process. It's simple, straightforward, and involves everyone in the organization.

Each hospital service line, program and/or department should develop its own individualized strategic analysis. Service and

program leaders should work with their employees through focus groups, surveys and other interaction methods to engage everyone in the process of strategic thinking about the area they know best - their own program or service.

Management may provide each program or service line with a template to be used to guide their analysis process. The template should result in an analysis that includes:

- Statistics on utilization and personnel;
- Assessment of the strategic significance of the program or service to the hospital's future;
- A summary of the market for the program and service;
- An assessment of major trends and factors likely to influence program or service success in the future; and
- Strengths and ways to maximize them, weaknesses and ways to minimize them, opportunities and ways to capitalize upon them, and threats and ways to eliminate them.

In addition, the strategic assessment should identify primary and secondary competitors, assess long-term financial potential, and identify the factors that are most critical to the future success of the program or service.

The result of the service-line or department-specific assessment is a grassroots analysis of organizational position, needs and opportunities, a sense of engagement across the organization in strategic direction, and a long list of potential strategic initiatives for prioritization and implementation.

Vital Signs: Requirements for Evidence-Based Governance Decision Making

One of the primary challenges for hospital boards is to know whether the strategies and objectives adopted and implemented are achieving the desired outcomes. Being able to engage in a continuous analysis and dialogue about strategic progress and performance requires a set of key performance indicators that tell the board where current strategic gaps exist, and when potential strategic gaps may be on the horizon.

With the input of the CEO and management team, the board should track performance and progress using a set of metrics, a periodic review process, and an incentive system to reward management for meeting organizational objectives.

Well-designed vital signs have several specific attributes: they are few in number; strategically significant; quantifiable and trendable; time-specific; and consistently reported and used to determine and close strategic gaps.

An accountable, strategy-focused board will review strategic performance and progress at least quarterly, and most will review progress indicators on a monthly basis.

Developing and Using Vital Signs. Developing and using a set of hospital-specific vital signs is a straightforward process, and generally includes the following six steps:

- Determine what should be measured to track performance and progress in each area.
- Determine the data that indicates the degree of success in achieving each objective.
- Regularly report performance in a way that shows actual performance compared to projections, and/or comparison with external benchmarks, such as the performance or best practices of other similar organizations.
- If management reports a significant gap between projected performance and actual performance, it should also be charged with recommending specific actions to be taken to close the performance gap.
- On a continuing basis, the board should re-examine progress and performance resulting from the changes made to close the gaps.
- In many instances vital signs become outdated based on new information or organizational changes. Rather than

Reviewing Your Strategic Plan: Ten-Point Success Checklist

Spend a few minutes discussing the following 10 questions about your strategic plan and strategic planning process, and give your strategic planning efforts a grade.

1. Does the plan build on the hospital's strengths?
2. Does the plan correct or minimize the hospital's weaknesses?
3. Does the plan contain a realistic appraisal of the hospital's markets, customers and competition?
4. Can the plan be understood by everyone who has a need to relate to it?
5. Does the plan appropriately balance risk and return?
6. Is the timing of the plan realistic?
7. Does the hospital have ready access to the resources required to achieve the plan?
8. Is the organizational structure compatible with the objectives of the plan?
9. Does the plan support the image the hospital wants to convey, both internally and externally?
10. Does the hospital have the leadership capacity to sustain the plan over time?

continue to rely on outdated or outmoded strategic progress indicators, the board should periodically update both its indicators and its performance expectations.

Typical Areas of Measurement. There are a variety of areas in which strategic measures may be developed to gauge the hospital's success in achieving its strategic objectives. The most common and easiest to develop are financial indicators. Equally important, however, are indicators in areas such as quality and patient safety, organizational efficiency, workplace culture, productivity and mission, among others.

Each hospital's strategic measures will be different. The key to success is to ensure that the measures chosen are relevant to understanding the hospital's progress in attaining its individual strategies. Performance indicators should be examined and discussed in the same way a balance sheet or income statement is discussed. No one indicator by itself can tell a complete story. In fact, a single indicator may be misleading if not examined in relationship to others. Taken together, key performance indicators reveal much about what's happening in an organization. This is where board insight and perspective becomes so pivotal to strategic success.

Avoiding Failure

One reason strategic plans may fail is because the board does not make strategic planning a high enough priority, and does not hold executive management appropriately accountable for plan outcomes.

Achievement of the hospital's mission and vision is the number one job of the board. And the best way to ensure that the mission and vision are achieved is to have a strong, vibrant and outcomes-focused strategic plan. Furthermore, the best way to ensure that the plan is meaningful and measurable is to have in place a reward system for the CEO and other senior leaders that is tied to the achievement of specific objectives.

Another reason plans may fail is because the board of trustees is unwilling or unable to devote the time and resources necessary to develop and carry out the plan successfully. Thirdly, plans may fail for one simple but false reason, and that reason is a belief that health care is changing too rapidly, and the environment is so uncertain that long-range planning is simply an exercise in futility.

Governance Planning Pitfalls: 8 Dangers to Avoid

As board members work to examine their strategic planning process and find new ways to engage the board in more meaningful involvement, it's important to recognize potential governance planning pitfalls that are important to avoid, including:

1. Assuming that the past is a reliable predictor of the future
2. The inability to craft a compelling, dynamic and meaningful vision embraced by all
3. Attempting to manage plan details instead of engaging in critical strategic dialogue
4. Taking narrow, board-centric approaches that do not involve a broad range of participants
5. The failure to see strategic planning as a continual process of real time responsiveness to change, rather than an end point
6. The failure to define precise targets, measure progress, and continually work to close strategic gaps
7. The inability to drive the strategic planning process, outcomes and responsibilities deeply into the organization
8. The inability to continuously turn new information into strategic knowledge, and transform it into strategic action

Nothing could be further from the truth. The rapid-change and uncertain environment creates even more of a need for strategic thinking and strategic planning. However, that planning cannot take place in a traditional "straight line" manner. Instead, it must rely on an ability to think and plan in "black, white and gray." Boards and executive teams need to be able to think through scenarios for the future, define the potential changes that may take place in a variety of circumstances, and define strategic responses in advance.

Charting a course for the hospital's future is one of the most important responsibilities of the board. However, there's a big difference between mapping a course, or being a navigator, and driving the bus.

To successfully lead their organizations toward the future, boards of trustees must clearly understand and successfully carry out their unique and vital role in the strategic development and implementation process.

Action Agenda

Below are some ideas for actions to take moving forward as an accountable, responsible and responsive strategy-focused board:

- Review your current strategic plan, and evaluate its purpose and value
- Lead the initiation of a deep, wide-ranging and comprehensive examination of organizational fitness for future success
- Identify the most critical challenges and forces shaping the hospital's future, and develop a compelling and responsive vision
- Examine the governance substance and style, and adopt new leadership processes and practices to ensure a future strategic planning success



Larry Walker is the President of The Walker Company, a Lake Oswego, Oregon-based health care management consulting firm.

Larry has been a long-time governance leader, both as a consultant and a trustee. He served for six years as Chairman of the Board of Trustees of 107-bed Mt. Hood Medical Center, Gresham, Oregon. He has also been a trustee of Portland, Oregon's Legacy Health System and two of its predecessor organizations, Healthlink and Metropolitan Hospitals, with a combined 12 years of governing service to these three systems.

Larry serves as a special consultant to the American Hospital Association.



HEALTHCARE CONSULTING

4848 Hastings Dr.
Lake Oswego, OR 97035
TEL: 503-534-9462
FAX: 503-534-9462
Email: lw@walkercompany.com
walkercompany.com

One source. Many solutions.

The business of health care is changing—rapidly, dramatically, daily. Hospitals and health systems need fast, flexible, forward-looking solutions to the challenges that determine their future. The Walker Company offers a range of services that can improve governance effectiveness, sharpen organizational intelligence, and enhance strategic competitiveness to help you keep pace with today's turbulent change.

Our strength is our ability to clearly understand your unique needs, and create programs and solutions targeted at meeting those needs in a timely, cost-effective and outcomes-focused manner. We develop unique, customized approaches to meet your needs. We work in partnership with you to deliver the results you seek, always striving to ensure that the return on your consulting investment exceeds your expectations. Our services work together to provide you with the resources you need to improve organizational performance.

GovernanceWORKS™

GovernanceWORKS™ is a comprehensive governance development solution for hospital and health system boards of trustees. Through GovernanceWORKS™, The Walker Company serves as your dedicated governance development resource. We provide continuity, independent and informed outside viewpoints, and practical, organized and coordinated approaches to improving governance and leadership.

- Governance Diagnostix™, a top-to-bottom examination and analysis of governance structure, functions and effectiveness
- AssessmentWORKS™, a comprehensive board self-assessment
- KnowledgeWORKS™, a complete and wide-ranging governance education and knowledge-building resource, with education delivered both onsite and online
- SuccessionWORKS™, a total trustee recruitment solution
- PerformanceWORKS, a solution for conducting an accountable CEO compensation and performance evaluation process

RetreatWORKS™

Leadership workshops and retreats are a valuable tool to build understanding and teamwork, develop collaboration and consensus, and forge solutions and new directions. We custom-tailor our retreat planning and facilitation approach to achieve your critical objectives: Participation, interaction, creative thinking and results. Our services include:

- Pre-planning and preparation, including objectives and logistics
- Meeting materials, including agendas, name tents, case studies, background materials, retreat evaluations and other meeting support documents
- Meeting facilitation and management
- Development of a comprehensive, action-oriented summary retreat report
- Follow-up consultation on next steps

OpinionWORKS™

We plan, design and carry out a wide range of research solutions that improve organizational intelligence, build knowledge, and result in new success-building initiatives. We employ online surveys, printed surveys, focus groups and key informant interviews designed to meet your unique needs.

- Employee opinion surveys
- Medical staff surveys and needs assessments
- Community attitudes and needs assessments
- Key issues surveys
- Marketing effectiveness assessments

Leadership. Trust. Performance. Results.