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# *Elements of* GOVERNANCE

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*The Governance Institute and Kaufman Hall sincerely appreciate the participation of Ochsner Health System in the development of this publication.*

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# Introduction

**T**his *Elements of Governance*<sup>™</sup> highlights the importance of a key board responsibility, namely, the oversight of organizational strategy. In this context, *strategy* refers to the entirety of a board's thinking and decision making related to an organization's long-range mission and vision, strategic direction-setting, and the integrated finance and quality execution issues that are mission-critical to the organization.

The material in this publication comes from two sources:

1. Foundational information and tools used by Kaufman, Hall & Associates in facilitating strategic direction-setting and planning processes with boards and executive teams of hospitals and health systems nationwide
2. Information, approaches, and tools used by Ochsner Health System for integrated strategic direction-setting and implementation

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## Ochsner Health System in Brief

- A not-for-profit organization based in Southeastern Louisiana, Ochsner Health System is the largest health system in the Gulf South, with 12 owned and managed hospitals, 25 hospitals affiliated with the regional Ochsner Health Network (OHN), and 58 health centers.
- A highly integrated health system, Ochsner has nearly 1,500 clinically integrated physicians, including more than 1,000 employed doctors in the Ochsner Clinic multispecialty group practice, and 3,400 physicians in OHN.
- Ochsner has a strong reputation for providing quality services and is nationally ranked by *U.S. News & World Report* in six of 12 specialties, by *Becker's Hospital Review* as one of the "100 Great Hospitals in America 2015," and regularly receives top rankings by numerous other entities. Ochsner also has been a 20-year recipient of National Research Corporation's Consumer Choice award.
- Ochsner's 2014 patient activity included 62,000 discharges, 1.52 million clinic visits, 304,000 emergency department visits, 15,000 surgeries, and 6,500 deliveries.
- Ochsner had 2014 revenues of \$2.3 billion, up from \$1.6 billion in 2010.
- Ochsner's core strengths include strategic positioning, clinical outcomes, innovation, speed to action, and integrated care delivery platform.

This publication describes seven board practices that establish the foundation for strategic direction setting. As such, these practices are essential to positioning a hospital or health system for continued success in a changing healthcare environment.

The first practice is to ensure that organizational strategy is driven by leadership, and involves a team-based approach. The next two practices involve a commitment to ongoing education of the board and leadership team so as to be able to answer the “big-picture” questions about the organization’s role in its community. Gaining a broad educational perspective from within and beyond the healthcare field facilitates this process. Such perspective often proves instrumental to how strategy is executed organization-wide.

The next two practices focus on the tactical approaches used by the organization for integrated strategic direction-setting. These involve maintaining a disciplined and continuous process, and insistence on decision making that is grounded on rigorous, data-driven analytics.

The final practice is to sustain a culture of leadership accountability that will define, measure, and respond to expected or less-than-expected organizational performance.

These seven practices complement the 12 recommended practices to fulfill the board’s fiduciary obligation for setting strategic direction and strategy oversight established by The Governance Institute, as outlined in its biennial survey reports.<sup>1</sup> Samples of strategic direction-setting tools used by Kaufman Hall and Ochsner Health System appear throughout this publication.

### **A Note on Differing Direction-Setting Styles**

A hospital or health system’s approach to strategic direction setting and the execution of its strategy will be based on its unique mission and vision for providing healthcare in the community(ies) it serves.

Direction-setting approaches of contemporary boards differ. Many boards engage in organizational strategy principally through an oversight role that involves review, approval, and monitoring, with the senior executive team taking the lead in developing and executing the strategy. This approach is increasingly common in complex health systems nationwide. Other boards take a hands-on role, leading or partnering with the senior executive team in developing the strategy, and providing oversight to its execution. This approach is more common in community hospitals. While this publication emphasizes the first-mentioned board-oversight approach through description of Ochsner’s practices, the material also provides guidance to boards that use the hands-on approach.

<sup>1</sup> See K. Peisert, *21st-Century Care Delivery: Governing in the New Healthcare Industry*, 2015 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

## Practice 1: Ensure a Leadership-Driven, Team-Based Approach to Answering the Big Strategic Questions

**D**isciplined strategic direction-setting and planning starts with an engaged board of directors, CEO, and key members of the senior executive team. They set the tone for the organization, establish expectations, engender broad participation, and ensure that the hospital or health system makes a real commitment to strategy-related education, planning, execution, and monitoring.

Hospital leadership must commit to asking and answering the big-picture questions. As identified and described by Michael E. Porter, Ph.D. and Thomas H. Lee, M.D.,<sup>2</sup> the questions include the following:

1. What is our fundamental goal? Value must be the overarching goal (Drs. Porter and Lee describe this goal as “value for patients”; hospitals and health systems may wish to consider a broader definition of “overall value to the community at large”).
2. What businesses are we (currently) in? This is defined by the entities in which patient value is created for care of a specific clinical condition over the full care continuum.
3. What scope of businesses should we compete in? No organization can meet all the needs of every customer; organizations have to make choices about what they will and will not do.
4. How will we be different in each business? This is the organization’s unique value proposition for each of the areas in which it competes.
5. What synergies can we create across business units and sites? Value is created if organizations can integrate care through consolidating volume by condition and location, performing services at the most cost-effective location, and coordinating care across sites.
6. What should be our geographic density and scope? Organizations need to serve a large enough area to have the volume for each condition that is needed for value creation, and the density of sites to allow services at appropriate locations.

Answers to these questions will differ by organization. Essential areas of focus among the questions will emerge. For example, the organization may be focused on building market relevance in order to increase value for patients. Or, it may want to catalyze the value-based delivery and payment model in its community by forging new contracting arrangements with major payers. Further, the organization may want to redefine its cost structure to achieve operational efficiency. These approaches are not mutually

<sup>2</sup> M.E. Porter and T.H. Lee, “Why Strategy Matters Now,” *NEJM*, Vol. 372, No. 18 (April 30, 2015); pp. 1681–1684.

exclusive; however, clear and articulate answers are essential for cogent strategy formulation.

Additional questions will need to be asked and answered. For example, with focus on operational efficiency, questions might include: How are we working with physician practices, post-acute, home care, and other providers to ensure efficiency and create a low-cost, high-quality service? What should we do to right-size our care sites and facilities? What can we do to transform our cost structure to a significantly lower level?

Clinical and administrative teams will be involved in collecting and analyzing the data and other information needed to identify and support answers to these questions. This level of detail may be shared with the board, executive, and clinical teams only, or with all constituents based on appropriateness of the content to stakeholder information needs.

### **Ochsner Health System Example: Leadership-Driven, Team-Based Approach to Answering the Big Strategic Questions**

The key focus areas of Ochsner's board are mission, vision, strategic direction-setting, and policy. The board provides oversight of the organization's strategy, as developed by the senior executive team.

To illustrate, in December 2014, Ochsner's CEO presented a proposed long-term vision and strategy to the board of directors for discussion and approval, as appropriate. The session began with education related to the disruptive changes currently occurring in healthcare, as described in the next section. Following the presentation on the current and future environment, the CEO led the board through a discussion about the appropriateness of the vision. Once clear agreement on the vision had been reached, the discussion centered on the strategic initiatives over the next decades that would lead to achieving the vision (see **Exhibit 1**).

#### **Exhibit 1. Statement of Mission and Vision**



**Our Mission**  
We Serve, Heal, Lead, Educate and Innovate

**Our Vision**  
Ochsner will be a global medical and academic leader who will save and change lives. We will shape the future of healthcare through our integrated health system, fueled by the passion and strength of our diversified team of physicians and employees.

*Source:* Ochsner Health System. Used with permission.

The discussion between the board of directors and senior executive team included asking and answering the big-picture question, “Where will we ‘play’ geographically?” This essentially involved redefining Ochsner’s market as a multi-state region, as well as an even wider national and worldwide market as a destination referral center.

As stated, the strategic objectives for Ochsner are to be the following:

- The leader in existing markets through owned or partnered entities
- The leading system in Louisiana in terms of patient choice and value
- Integrator of the tri-state region
- The leading national and international referral center
- The leader in value-based care through improved quality, access, and affordability

Questions asked of the board at this point included:

- Is this the right vision for Ochsner?
- Does the board support and approve the new market definition?
- Is the case for healthcare’s change strong enough for where we’re heading?

The Ochsner strategy proposed by the senior executive team built on Ochsner’s two chief differentiators—its group practice and its brand—to create the “Ochsner Centers of Excellence Strategy.”

The Strategy has three Centers of Excellence (see **Exhibit 2** on the next page):

- **The Destination Center:** This is where patients want to receive their care, whether in the region’s top intensive care unit, the tertiary-quaternary center, or specialized high-quality services not available at other hospitals or physicians’ offices. The case for Ochsner’s role as a destination medical center is a strong one. The organization’s clinical outcomes are in the top 1 percent of the country, making it a prime referral center. Each year, nearly 10,000 patients are transferred from other facilities, coming from 50 states and 100 different countries.
- **The Population Health Center:** This center emphasizes providing wellness/health-care value to patients to improve their quality of life through the center’s ongoing relationships with providers and purchasers. As the industry moves to a value-based model, the bulk of the nation’s dollars will be spent in managing chronic disease, so consistent world-class performance in chronic disease management under risk or shared savings arrangements is key. Ochsner currently manages more than 200,000 lives under Medicare Advantage, the Medicare Shared Savings Program, Ochsner Health System Network products, and commercial shared savings programs.
- **The Solution Center:** This center focuses on becoming the “trusted partner in care” by providing solutions in clinical quality, care delivery improvement, telemedicine, collaborations, efficiency improvement, cost reduction, technology, innovation, and more to payer, provider, and employer partners. For example, Ochsner has developed a supply chain collaborative which now includes dozens of hospitals and physician practices. More information on Solution Center innovations appears in Practice 3.

## Exhibit 2. Ochsner Centers of Excellence Strategy



Source: Ochsner Health System. Used with permission.

Big-picture questions for each Center of Excellence discussed by the board and senior executive team included:

- What is our winning aspiration for each Center (i.e., what will winning look like)?
- Where will we invest?
- How will we measure success?

For example, with the Population Health Center, the “winning aspiration” includes expanded ambulatory offerings and comprehensive chronic disease centers of excellence in hypertension, diabetes, heart failure, obesity, pulmonary disease, and depression. Investment areas include primary care, analytics, telemedicine, and digital health. Success is measured based on unique patients served, number of ambulatory access points, percentage of patients with chronic diseases under control, and total health-care cost trend as measured on a per-member, per-month (PMPM) basis.

Competitive advantage comes from the way activities “fit” and reinforce one another, noted Michael Porter.<sup>3</sup> A company’s activities can be mapped to examine and strengthen strategic fit.

After studying the activity-system map of Southwest Airlines, as published in Dr. Porter’s article (see **Exhibit 3** on the next page), the senior executive team mapped Ochsner’s activity system. This enabled them to identify and illustrate to the board strategic differentiators and fit of activities that would meet patient needs in the communities served by the organization.

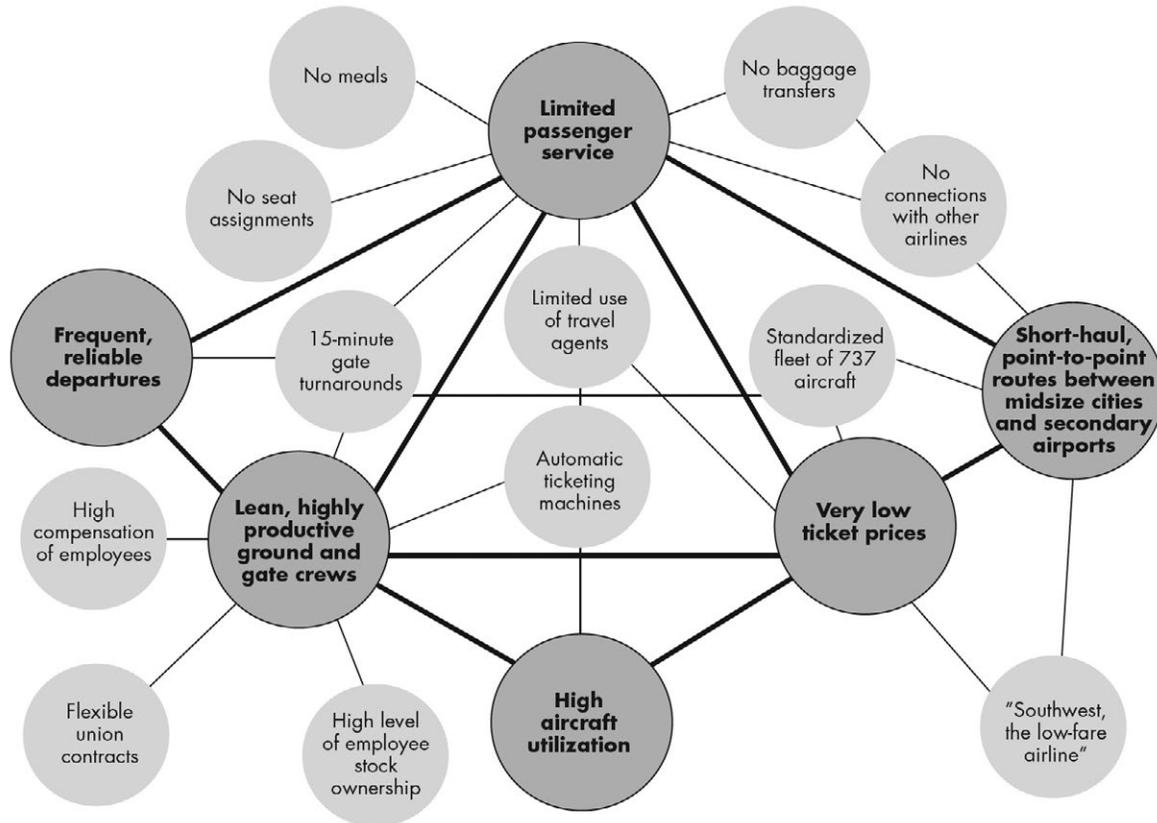
The patient is in the center of Ochsner’s activity map. Surrounding the patient is the Ochsner group practice, built on serving the patient in partnership with community physicians and the regional network. Other components of the map include the

3 M.E. Porter, “What Is Strategy?” *Harvard Business Review*, Nov–Dec 1996.

Centers of Excellence, brand, population health management, and the leading academic (teaching/research) institution.

The executive team and board also identified where the organization would and would not “play.” For example, to enhance overall organizational and community healthcare value, Ochsner would not need to “own everything,” and instead could engage in collaborative partnerships.

**Exhibit 3. Strategic Differentiators and Fit: Southwest Airlines Example**



Source: Mapping activity systems concept and graphic comes from M.E. Porter, “What Is Strategy?” *Harvard Business Review*, Nov/Dec 1996.

In addition to their Centers of Excellence Strategy, Ochsner has developed an operating plan. The plan is centered on The Power of ONE Ochsner program, which focuses on the patient and actively engages physicians and employees. Additionally, the program develops leadership skills needed to win, attracts and retains top talent, and offers clear goal alignment and accountability. Further description of this program appears in Practice 7.

Ochsner’s Plan to Win (see **Exhibit 4** on the next page) includes four focus areas: proving the organization’s value, serving more patients, making care affordable, and shaping the future. Each area has specific objectives. For example, “reduce total cost including waste and unnecessary care” is one objective for making care more affordable.

### Exhibit 4. The Ochsner Plan to Win

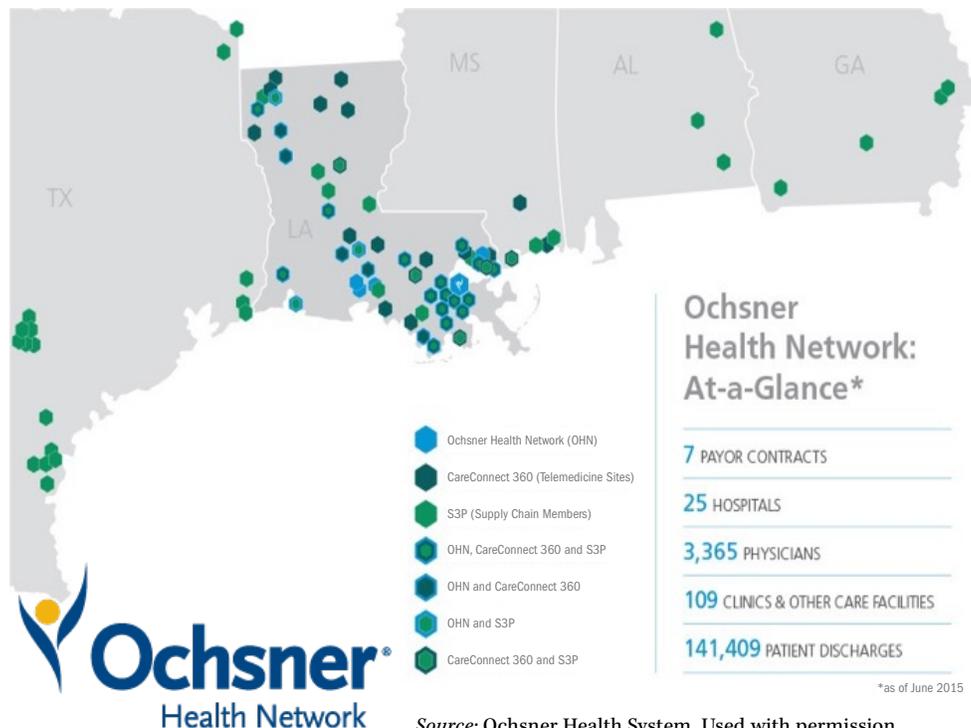


Source: Ochsner Health System. Used with permission.

One key enabler for accomplishing the Centers of Excellence Strategy is the Ochsner Health Network (OHN). The vision of OHN is to be the highest quality, highest-value healthcare network in the state and Gulf South via strategic partnerships with like-minded, leading providers.

Partnering with providers located in key metropolitan areas and geographical regions, OHN includes a leading provider partner in every market (MSA) in the state, is the leading network in Louisiana, and is expanding throughout the Gulf South (see Exhibit 5). OHN covers nearly 90 percent of Louisiana’s population. Together, the OHN providers across the Gulf South have more than 25 hospitals, 3,400 physicians, and one million patients.

### Exhibit 5. Ochsner Health Network



Source: Ochsner Health System. Used with permission.

## Practice 2: Commit To Ongoing Education

**D**ue to the rapidly changing healthcare environment, extensive and ongoing education of the board and executive team is required to equip leaders to provide oversight and management during their organizations' transformation to a new business model.

The new model transforms the healthcare industry from provider-driven “sick care” to consumer-driven *healthcare* under a value-based delivery and payment system focused on population health and wellness.<sup>4</sup> Key education areas for new and ongoing directors and other leaders are described below.

### **The New Model and the Challenge of Value-Based Population Health Management**

Population health management (PHM) represents a broad and fundamental change in care delivery and payment, which presents hospitals with significant business opportunities and challenges. Increasingly, organizations will be responsible for providing defined care to a specific population while managing the population's total cost of care. To succeed, healthcare directors and executives must rethink the scope of their enterprise, including where, to whom, and how their organizations provide services, and which services are most appropriate given the unique needs of the populations they serve. Health systems require a strategic roadmap to define their individual approach, timing, and expectations relative to the changing market.

### **The Hybrid of Emerging Payment Mechanisms**

The value-driven approach to care delivery and financing alters the established business fundamentals of all healthcare organizations. Directors and other leaders will need to understand how the current fee-for-service (FFS) payment system works, how the new PHM-focused payment models differ and will affect care delivery and revenue going forward, and how hospitals and health systems will manage the old and new systems concurrently.

Hospitals and health systems can participate in a variety of value-based or risk contracts, ranging from FFS with incentives (e.g., gainsharing and pay-for-performance) to partial or full risk models (e.g., global payment, partial capitation, or full capitation). Fully integrated health systems will be able to use all types of contracting arrangements that tie payment to performance and outcomes, while small providers will be more limited in the types of arrangements they can secure.

Directors need to understand how contracting for PHM requires consideration of the risks and opportunities related to the health/risk characteristics of the populations

4 M.E. Grube and K. Kaufman, “Inflection 2.0—The Real Change Begins,” *Kaufman Hall Point of View*, August 2013.

served by specific insurance products, design of insurance plans, contract terms and conditions, and many other factors.

Operating pressures from new payment mechanisms are expected to intensify as the field continues to move toward value-based payment and PHM. The speed of change will vary from market to market, but the leadership of hospitals and health systems that wish to serve their communities over the long term must develop realistic plans for making the transition, and navigating the gap in between.<sup>5</sup> Knowns and unknowns, whether strategic, financial, and/or operating, create enormous complexity, about which directors need to be informed.

### **The Changing Nature of the Competition and Delivery Landscape**

A wave of new competition is transforming the traditional model of healthcare delivery. For example, companies are providing physician–patient interactions by phone or via Web-enabled kiosks in shopping centers. Retail pharmacies are using store-based nurses to manage chronic conditions. New competitors, often operating completely outside the traditional hospital business model, are seeking market share by offering services at high levels of convenience and customization, and at low costs. Consider Uber’s recent offering of flu shots delivered by car to your door.

Consumerism is bringing to healthcare a new retail mentality and openness about where to go for services. Leaders will need to understand that this business disruption is not a one-time event, but is occurring in various spheres simultaneously and will advance as market competitors continue to invent ways to deliver services to consumers even more conveniently and at ever-lower prices. Ambulatory-centric disruption will move services from outpatient facilities to in-home, “anywhere-care” enabled by virtual Web- and mobile device-based technology.

### **The Organization’s Current Position in the Market and the Market’s Stage of Evolution to Value**

A board’s understanding of the of the organization’s current position in the market, and the market’s stage of development and how fast it is likely to adopt value-based care delivery and payment are critical in timing organizational initiatives.

Seven market characteristics ( for example, demand for services, amount of vertical collaboration, and new-entrant activity) indicate market readiness for PHM and how quickly the market is evolving.<sup>6</sup>

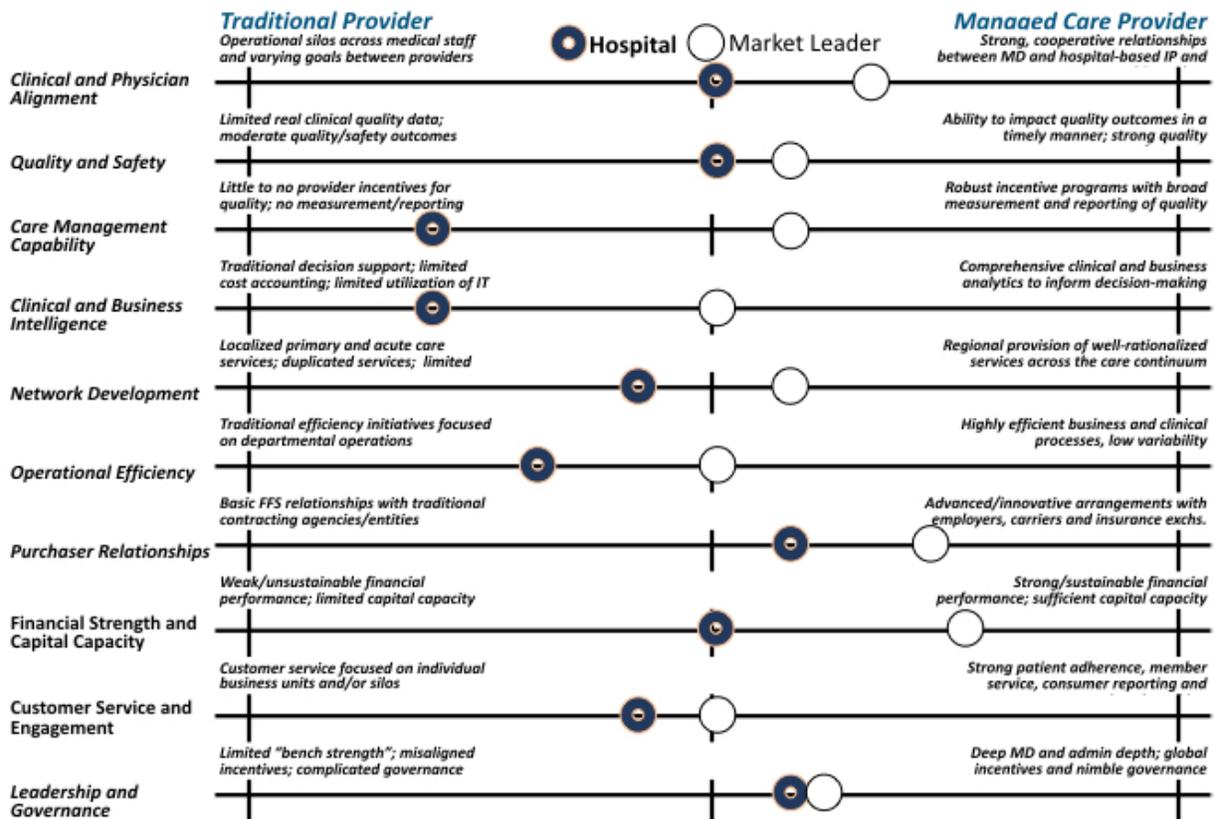
Additionally, the organization’s position and competence gaps should be evaluated along nine dimensions, including clinical integration, purchaser relationships, market relevance, operational efficiency, financial strength, and leadership and governance. Each of the capabilities is important, but usually a few capabilities require significant focus by the leadership team in order to establish the organization’s value for payers, employers, consumers, and other stakeholders. A “readiness assessment tool,”

5 J.H. Sussman and B.R. Kelly, *Navigating the Gap Between Volume and Value: Assessing the Financial Impact of Proposed Health Care Initiatives and Reform-Related Changes*, Health Research & Educational Trust and Kaufman, Hall & Associates, LLC, June 2014.

6 M.E. Grube, R.W. York, B.P. Fuller, and J.P. Poziemski, *Managing Population Health: A Strategic Playbook for Best-Fit Opportunities* (white paper), Kaufman, Hall & Associates, LLC, 2015.

developed using extensive quantitative and qualitative analysis, helps to identify current organizational strengths and weaknesses (see **Exhibit 6**).

### Exhibit 6. Provider and Market Readiness Assessment Tool: Generic Example



Note: This tool shows the results of a readiness assessment of a fictitious hospital (not Ochsner) as compared with the leading provider in the region.

Source: Kaufman, Hall & Associates, LLC

### Ochsner Health System Example: Commitment to Ongoing Education

Topics at all board of directors meetings reflect Ochsner's significant commitment to ongoing education. At the year-end long-term strategy-focused meeting, topics included the following:

- The case for change and factors driving change in healthcare: areas of focus included growth of health insurance exchanges, impact of high-deductible plans, inpatient discharge and admission trends in Louisiana, payment trends, and boomer-driven payer-mix shift to higher Medicare/Medicaid.
- Identification of what providers must do to address the changing healthcare environment: be better, faster, leaner, bigger, and innovate (see **Exhibit 7** on the next page).
- The system's financial trends with/without strategic initiatives.
- Description of strategic options for hospitals and physician groups: these include continue to stand alone, merge with peers/build a system, build a superregional, join a superregional, and join a national (see **Exhibit 8** on the next page).
- The proposed vision: redefining the market, and defining the winning aspiration and how they will measure success; the long-term strategy; key differentiators.

## Exhibit 7. What Healthcare Providers Must Do



Source: Ochsner Health System. Used with permission.

## Exhibit 8. Strategic Options for Hospitals and Physician Groups



Source: Ochsner Health System. Used with permission.

Educational topics at a 2015 leadership retreat included an environmental update and competitor snapshot, among other items.

Environmental update:

- What is changing for patients? Discussion of the evolution of patients as consumers and the role of technology, self-care, new delivery options, transparency, higher out-of-pocket costs, and insurance exchanges.
- What is changing for providers? Discussion of payment cuts, new payment models, transparency, technology, increased competition, and declining discharges.

Competitor snapshot:

- Networks forming across the region
- Unaligned providers
- Performance of specific organizations
- “Virtual” collaborations across the region
- Value-based, four-quadrant matrix of cost and quality by provider

## Practice 3: Gain Broad Perspective

**B**oards and executive teams that are committed to gaining a broad perspective through learning from leaders within and beyond healthcare are better equipped to transform their organizations for a new delivery environment.

“The desire and the ability of an organization to continuously learn from any source—and to rapidly convert this learning into action—is its ultimate competitive advantage,” commented Jack Welch, former Chair of General Electric.<sup>7</sup>

Many of the best U.S. healthcare organizations have developed integrated strategic-finance planning processes and capabilities that are modeled on, or share key characteristics of, the disciplined planning used for decades by companies such as General Electric and Procter & Gamble.

Additionally, companies that have not traditionally played in the healthcare delivery space, such as retail pharmacies, consumer electronics companies, and others, are bringing innovations in care delivery that will permanently change the industry. Hospital boards and executive teams can stay abreast of latest developments and their implications, and partner with expert individuals or entities that will enable the organization to gain needed insights and competencies quickly. Prototypes appropriate for healthcare may be proven models for other companies and quickly adapted, as needed.<sup>8</sup>

### **Ochsner Health System Example: Learning from Leaders within and beyond the Industry**

Learning from leaders beyond healthcare and integrating such learning into strategic direction-setting and execution are part of Ochsner’s DNA. Experts regularly present organizational/management strategies and techniques at board of director and executive team meetings. Over the years, many of these approaches have assumed an important role in Ochsner’s growth and development. Recent examples include:

- *Playing to Win: How Strategy Really Works*, by A.G. Lafley (Procter & Gamble’s CEO) and Roger Martin. This book and Professor Ranjay Gulati’s application of it in Ochsner’s environment during a July 2015 presentation at a board of directors retreat on “Growing in Turbulent Times” provide the conceptual framework for moving strategy from concept to reality by asking the big-picture questions and defining the key

<sup>7</sup> As cited in J.A. Krames, *What the Best CEOs Know*, McGraw-Hill, 2005.

<sup>8</sup> J. Flower, “How to Strategize in the New Era of Health Care,” *HHN Daily*, July 14, 2015.

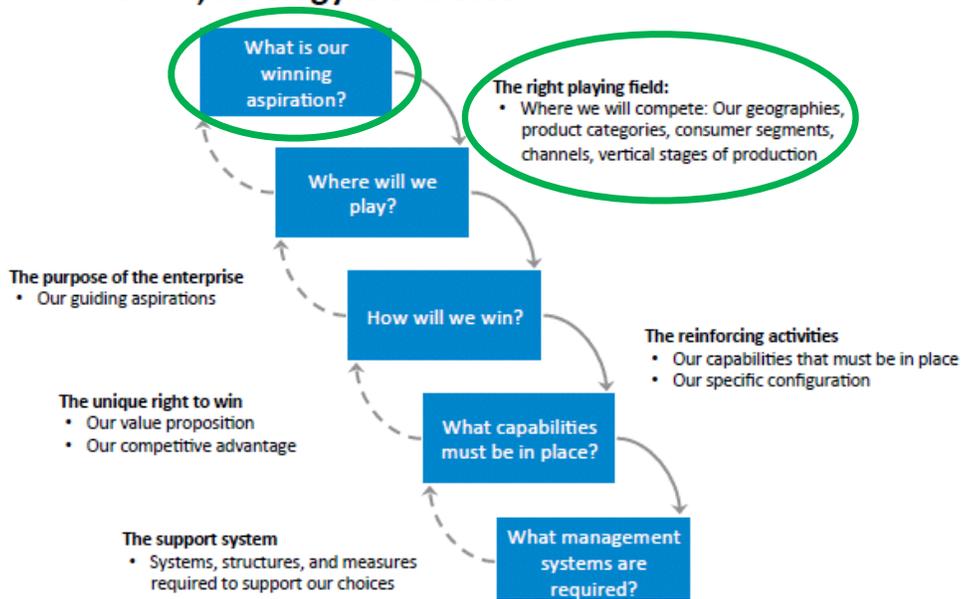
aspirations, value proposition, capabilities, and required support systems, among other items identified in **Exhibit 9**.

- *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*, by Frances X. Frei, Professor of Technology and Operations Management at Harvard Business School.
- M.E. Porter’s article, “What Is Strategy?” (*Harvard Business Review*, Nov–Dec 1996). Highlights of Professor Porter’s work adopted by Ochsner include the concepts that strategy rests on unique activities (differentiators), and that fit drives competitive advantage and sustainability, as described earlier.
- During a board of directors retreat, Delos Cosgrove, M.D., CEO of The Cleveland Clinic, spoke on a broad range of strategic concepts. One specific concept adopted by Ochsner was same-day access for clinic appointments.
- The Power of ONE Framework modeled after Evidence-Based Leadership by Quint Studer (described in Practice 7).

### Exhibit 9. The Playing to Win Framework

## Strategy: From Concept to Reality

In short, Strategy is a choice



Sources: *Playing to Win: How Strategy Really Works*, by A.G. Lafley (Proctor & Gamble’s CEO) and Roger Martin; and Professor Ranjay Gulati’s application of concepts in this book in Ochsner’s environment during a July 2015 presentation at a Board of Directors Retreat on “Growing in Turbulent Times.”

Additionally, Ochsner’s long history of innovation, the Solution Center of Excellence partnerships, and collaboration with OHN members provide fertile ground for new learning from top companies in and beyond healthcare. With priorities that include chronic disease, digital health, and personalized medicine/genomics, innovation is occurring across the three centers. Partnering entities include Epic, Apple, MedAssets, GE Healthcare, HealthGrades, CVS Health, GE Ventures, University of Queensland, Idea Village, payers, telehealth, and many other types of companies.

## Practice 4: Maintain a Disciplined and Continuous Process

**H**igh-performing organizations use a process that integrates strategic, financial, and capital planning; and financing, budgeting, and a rigorous monitoring system to track progress and results (see **Exhibit 10**).

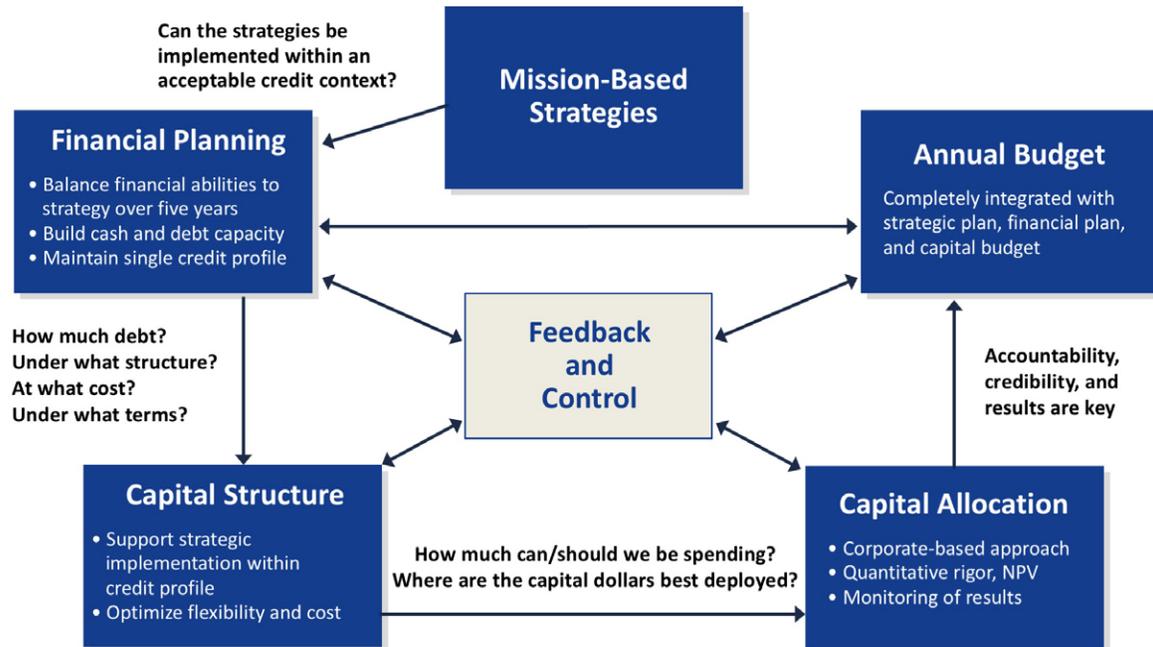
As developed and/or directed through the board and senior executive team, such planning guarantees appropriate analysis and coordination of mission-based strategic endeavors. Ingrained in the culture and occurring 24/7/365 organization-wide, rigorous planning provides the framework to achieve results in all dimensions, including strategy, operations, clinical quality, physician engagement, staffing, and financial performance. The disciplined process enables organizations to achieve and sustain strong financial performance over long periods of time.

In some organizations, the planning process involves a strategic plan that is linked to a financial plan. In other organizations, the planning process results in one integrated plan. Either approach is appropriate if the planning process includes five interrelated functions:

- A continuous strategic financial planning process that balances an organization's mission-based and market strategies with its financial capabilities
- Capital structure management that is appropriate to the organization's current financial and credit position
- A capital allocation process that enables the organization to prioritize capital spending decisions related to organizational investments
- An annual budget that reflects the strategic, financial, and capital plans
- Ongoing monitoring and control functions that accurately assess whether strategic, financial, and capital targets are being met

Plans may exist in written or presentation formats.

## Exhibit 10. The Integrated Planning and Execution Process



Source: Kaufman, Hall & Associates, LLC

The organization is committed to this continuous process. This differs markedly from a process that involves the development of a five- or 10-year plan that is put on the shelf and revisited only at the end of the period it covers.

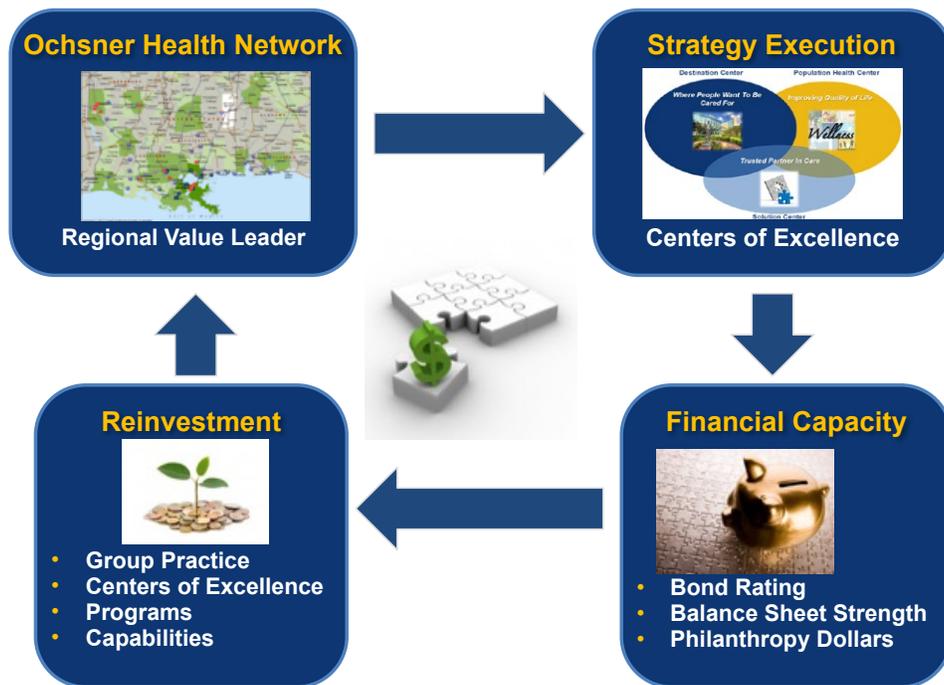
Unlike in past decades, when changes occurred more slowly and each decision was additive and influenced another decision only marginally, the current nature and speed of change in healthcare brings complexities through multiple new inputs, constraints, and interconnections. "Each changing vector (now) influences others in ways that rapidly lead us beyond any simple prediction or trend lines," comments one healthcare strategist.<sup>9</sup> "This is the definition of a complex adaptive system, an irreducible complexity whose outputs are by nature unpredictable."

### Ochsner Health System Example: Integrated Planning and Execution

Ochsner's planning process is both continuous and integrated. Strategy, finance, capital allocation, and operations build financial strength to invest in and execute the defined strategy, described earlier (see **Exhibit 11** on the next page).

9 J. Flower, "How to Strategize in the New Era of Health Care," *HHN Daily*, July 14, 2015.

## Exhibit 11. Building Value



Source: Ochsner Health System. Used with permission.

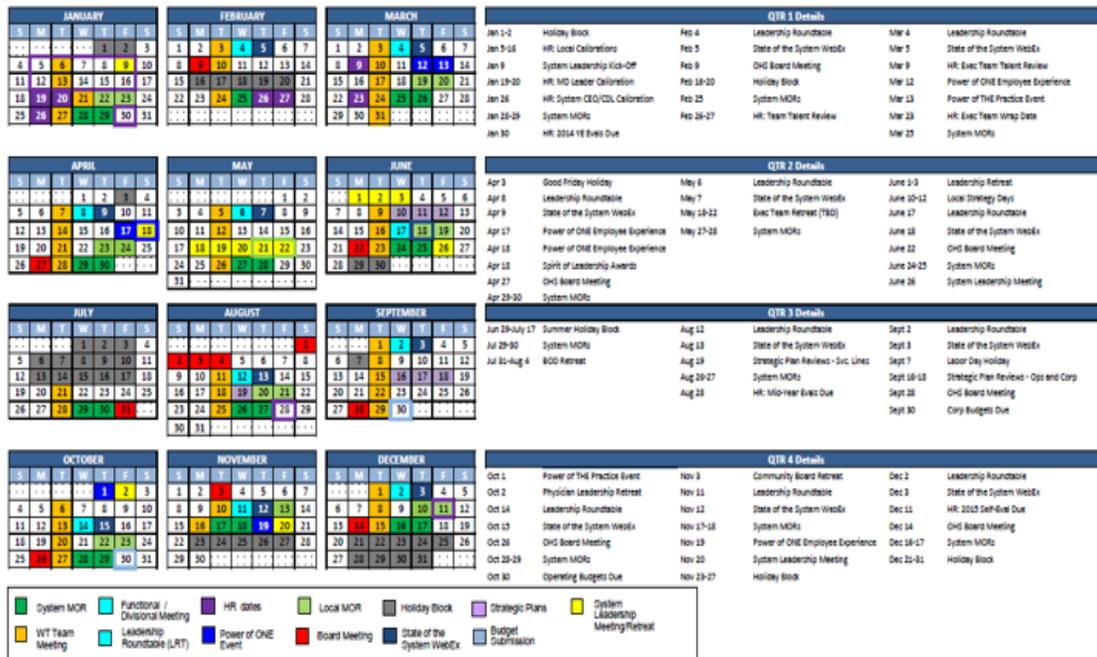
Goals for capital investment are clearly defined to meet strategic initiatives, such as:

- Increasing capacity at the flagship referral center to serve more patients from a larger geography
- Increasing clinic/ambulatory facilities and expanding the group practice to improve patient access to timely care
- Developing chronic disease capabilities through digital health to help patients better manage their conditions
- Delivering value-based solutions to OHN members to help them provide affordable, high-quality, and accessible patient care

The level of investment of capital in the Centers of Excellence Strategy is clearly defined by the specific Center.

A cyclical process during the calendar year, strategy implementation is guided through use of an operating calendar for each team and division that highlights all of the team-based strategy-driving events occurring during the year (see **Exhibit 12** on the next page).

## Exhibit 12. 2015 Operating Calendar for Executive Team



Source: Ochsner Health System. Used with permission.

Operating division teams create integrated implementation plans, with team determination of “what, when, who, and milestones.” Each team identifies the top three to five strategic issues and opportunities their plan must address in order to “win.” Each team then develops a plan for each strategy, identifying issues/barriers, solutions, help needed, and action needed (and by whom), tracking these regularly.

## Practice 5: Use a Data-Driven Approach

**H**igh-performing hospitals and health systems use a data-driven approach to strategic growth, solidly establishing the fact base required to guide leadership decision making.

The initial big-picture planning questions include:

- What are the critical facts about existing and potential geographic market areas?
- Which markets present the strongest development opportunity for our organization?
- What strategies should we pursue to build position in the priority markets?

Data-rich assessments indicate the organization's current position in the market, the competitive arena, and the organization's strengths and weaknesses by market segment, service line, or other factors.

Best-practice healthcare organizations thoroughly evaluate potential investments in specific services, quantifying, for instance, the net incremental impact of hiring more physicians in order to capture additional market share. As an example, one health system assessed the net operating impact of each of its service lines, quantifying the expense and revenue effect of achieving increased market share through defined strategies over a five-year period. Future market needs and baseline utilization projections related to these were quantified. Questions asked and answered include:

- What will be the near-, mid-, and long-term demographic picture for market area?
- How will changes in demographics and healthcare's evolution, including the increasing importance of consumer choice, impact future demand for hospital and ambulatory services?
- How well positioned is the organization to respond to changing market needs?

Proactive organizations now are identifying major consumer segments, identifying their "path to purchase" decision journey, and developing strategies to deliver care and services in a more cost-effective, convenient manner for each segment.

Data-based readiness assessments, as illustrated earlier in **Exhibit 6**, define the organization's position relative to the emerging functional competencies required in the emerging new era. Knowledge about the specific functional competencies that represent the biggest challenges for the organization enable prioritization of initiatives to address the gaps.

Quantifying and testing the impact of planned strategies on the organization's financial outlook are critical. Testing should occur both one at a time and in a number of groupings and timelines to learn whether the projected net impact would create sufficient incremental financial benefit to support organizational sustainability. Healthcare leaders should be mindful that there may be some overlap in the benefits of alternative strategies and strive not to double count such benefits.

This planning process enables healthcare leaders to determine the risks associated with moving to strategies at various levels and speeds. The timing of when to move forward with a specific initiative will be based on numerous factors, including the organization's capabilities, priorities, financial position and risk tolerance, and what is happening in its respective market. The faster the market is moving toward value-based care, the faster healthcare organizations will want to implement initiatives aimed at adapting to the new business model.

### **Ochsner Health System Example: Building a Network with Data-Driven Planning**

The planning for Ochsner Health Network involved extensive use of data to drive decision making about strategic partnerships. Through market research, Ochsner identified the competitive strengths and weaknesses of potential partners, including the value leader in each geographic area.

With a “first mover” advantage in network development, Ochsner picked their partners very purposefully, using the GE approach of partnering with a leading provider. The goal was to partner with the highest-value, like-minded organization in each market. However, given healthcare's rapid change, the market leaders may not always be perceived well by value-based stakeholders, such as payers, consumers, and employers, due to reputation for high cost. Ochsner therefore evaluated each organization using four-quadrant, data-driven matrices. Medicare spend per beneficiary was the cost metric for each matrix; risk-adjusted mortality and expected complication rate index (ECRI) were the quality and outcomes metrics. Ochsner was looking for organizations that delivered high value as demonstrated by low cost and low risk-adjusted mortality and ECRI.

Ochsner also used qualitative criteria to identify partners, including cultural compatibility; strong commitment to, and collaboration around, patients, clinical quality, and value; common view of the future; strong local market position; and the joint ability to create and capture value. The network used a range of collaborative partnership models, customized to meet the needs of the strategic partner or situation. Arrangements ranged from less integrated clinical affiliations, to moderately integrated management/lease-management agreements, to more integrated arrangements, such as joint operating agreements.

## Practice 6: Appropriately Communicate the Strategy

Organization-wide buy-in to the strategy a hospital or health system plans to pursue must be communicated to all stakeholders, based on clearly defined expectations for their engagement in the strategy. Messages should be tailored to the level of detail required of each audience, whether internal or external.

### **Ochsner Health System Example: Communication Strategy**

Ochsner's leadership believes that it is vital to "ignite everyone in the organization" in matters of strategic direction. The operating calendar (see **Exhibit 12**) identifies communications streams related to operating reviews, strategic plan development, governance cycle, leadership meetings, talent management, and more.

Frontline communication is key. Leaders at the supervisor level and higher are engaged through system leadership meetings held three times yearly. These meetings provide participants with a better understanding of system strategy, and enable the sharing of success stories, networking, and education. Monthly "State of the System" WebEx presentations supplement the meetings, offering news and updates about system strategies, system operational performance, and information about critical dates and initiatives.

Frontline physicians and advanced practice providers are engaged through Power of ONE Practice Events, which offer a dedicated venue for providers to network, share ideas, and gain a better understanding of system strategy, goals, and initiatives. A Physician Strategy Cabinet occurs as a monthly roundtable with the CEO and physician thought leaders, offering candid discussions of strategy and game-changing opportunities. Clear expectations for participation are set and communicated (see **Exhibit 13** on the next page).

Information about the strategic plan is provided to all employees, and tailored to the audience. The leadership team receives a higher level of detail, and frontline employees receive information that helps connect their roles to the organization's overall strategy (see **Exhibit 14** on the next page). A print or video "Ochsner Playbook" communicates the organization's complex strategy in a simplified, easy-to-understand manner.

### Exhibit 13. Participation Expectations

Meeting	Purpose	Invitees	Attendance Expectation
System Leadership Meetings (Full day off-site)	Intended to motivate & energize our leaders through gaining a better understanding of our system strategy, sharing success stories, networking and providing leadership education.	Physician Leaders	January Kick-Off Required, June & November Optional
		System Leaders	Required
Leadership Retreat (3 days off-site)	Intended to review market and financial trends, draft system level strategy and begin the division level strategic planning in alignment with the system's plan.	Sr. Physician Leaders (System Chairs & Above)	Required
		Sr. Administrative Leaders (AVP & Above)	Required
State of the System WebEx (1 hour WebEx)	Intended to share system news and updates as they relate to our system strategy, success stories and inform leaders of critical dates and initiatives.	Physician Leaders	Required
		System Leaders	Required
Physician Leadership Retreat (Full day off-site)	Intended to motivate & energize our physician leaders through physician leader specific education.	Physician Leaders	Required
		Administrative Dyad Partners (AVP & Above)	Required

Source: Ochsner Health System. Used with permission.

### Exhibit 14. Communication Strategy



Source: Ochsner Health System. Used with permission.

## Practice 7: Ensure a Culture of Leadership Accountability

The boards and executive teams of best-practice planning organizations define strategy success indicators, measure performance against those indicators, and devise and implement plans to respond to less-than-anticipated performance.

The boards of successful organizations govern around explicit strategic-financial expectations and metrics and are guided by an attitude that senior executives will deliver expected results on a consistent basis. Leaders set a high bar with targets for each organizational function and department. Based on the principle that what gets measured gets done, all targets are monitored rigorously. Information on the targets and performance toward meeting them is available and shared widely as an integral part of the planning and execution processes.

### Ochsner Health System Example: A Culture of Accountability

Ochsner uses the Power of ONE framework for leadership evaluation and accountability, as designed by a healthcare coaching firm. This framework helps organizations align goals, behaviors, and processes to achieve breakthrough performance (see Exhibit 15).

#### Exhibit 15. Execution Framework: Evidence-Based Leadership™

*The Power of ONE Ochsner*



Source: ©2015 Studer Group. All Rights Reserved. Used with permission.

The framework changed the system's leadership evaluation process. In the past, leaders' goals were set and metrics were weighted at the division level. Spreadsheet-based tools provided limited ability to assess progress throughout the year. Metrics were tracked through multiple systems, making it difficult to get an integrated view of performance.

Now goals and weights for Ochsner's leadership are set and cascaded to the individual leader level, aligned with the Plan to Win framework shown in **Exhibit 4**. Tools drive leadership accountability for integration of strategy, finance, capital planning, and operations. Transparency is provided by an online tool that offers the ability to "see" and manage a department or function. Speed is offered through centralized tracking and management in one tool for all leaders.

Beginning with the highest leadership, Ochsner created a one-page matrix to illustrate accountabilities, with a photo of each executive leader, including the CEO, at the top of the matrix. The executive team is aligned around organizational goals, with specific percentages of their time and performance identified in each of the Plan to Win areas identified in **Exhibit 4**—Power of ONE, prove our value, serve more patients, make care affordable, and shape the future. In the past, performance of business objectives and leadership traits shared equal importance in a leader's performance rating. Now, business objectives constitute 100 percent of an individual's rating. Weighting ensures proper focus in each area. Transparency of the matrix facilitates alignment of the senior team, both with Plan to Win and across the team for team performance.

To hold all executives accountable, Ochsner developed more specific metrics for each Plan to Win goal and created a Plan to Win scorecard with more than 60 metrics that would be monitored. For example, "Medicare readmissions by payer" and "telestroke door-to-needle time" would be tracked for the "Prove Our Value" goal. "Number of patients in clinical trials," "Number of appointments booked online," and "Number of patient telemedicine consults" would be tracked for the "Shape Our Future Goal."

A separate strategy scorecard takes a high-level look at performance on dozens of specific measures related to multi-year performance in capturing value and meeting the objectives of the Centers of Excellence Strategy and Plan to Win. For example, measures for the Population Health Center of Excellence strategy include "unique patients," "ambulatory access points," and "total medical cost and trend." Measures for the Solution Center strategy include "number of physicians in CIN," "number of partnerships/affiliations," and "virtual encounters."

Finally, **Exhibit 16** on the next page provides a comprehensive view of how Ochsner Health System's mission, vision, and values, all centered on the patient, are achieved through the integration of strategy, finance, and operational objectives, as articulated in the Plan to Win, Centers of Excellence Strategy, strategic differentiators and fit, and reinvestment strategy. As healthcare evolves, Ochsner's team-based direction-setting, commitment to education and gaining broad perspectives, disciplined planning, and accountability-driven execution will best enable the organization to provide high-value patient care in Louisiana and the larger Gulf South.

## Exhibit 16. Comprehensive Strategy Map



Source: Ochsner Health System. Used with permission.

# Closing Comments

**E**ffective and efficient delivery of care under the value-based business model demands of U.S. hospitals and health systems higher levels of governance, leadership, and organizational sophistication than perhaps *ever before* called for in healthcare. A population-based approach to healthcare moves the board's sphere of strategic oversight influence and responsibility to all areas where care is delivered under the organization's aegis or partnership arrangements.

Deep bench strength of governance and executive leadership is required to drive organizational strategy and ensure clinical, operational, and financial success. New expertise areas include value-based contracting, quality improvement, risk management, actuarial services, cost reduction, and other key PHM areas.

But boards cannot be expert in all areas. Great leaders ask great questions about plans, initiatives, and progress. Asking big-picture strategic questions early in the direction-setting process helps to ensure the right answers for hospital and health system strategy.

Is your board and senior executive team asking the right questions as they develop or review the organization's strategy? The sidebar on the next page offers sample questions leaders may wish to consider.

Close attention to the seven practices described here will help boards assure that the organizations they direct have a rigorous, integrated strategic direction-setting process, resulting in an agile plan that can be operationalized and revised as needed for success going forward.

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## **Questions Boards and Executive Teams Can Ask About Proposed Organizational Strategy**

- What is our current strategy? How is it working/not working for us?
  - Who should be involved in asking and answering the big-picture questions on strategic direction?
  - Who should we involve from outside our health system to help us develop an outside-in perspective on the strategic direction-setting process and overall strategic plan?
  - What proven tools can we bring from healthcare, other industries, and academia to adapt to our plan and how we run our business?
  - Do we clearly understand our core competencies and how they fit together in a way that differentiates us from others in our marketplace? Are we trying to do too much, being all things to all people?
  - Do we understand what competencies we need to develop, acquire, or partner to achieve?
  - What process are we using to make capital investment decisions that support the organization's role and key initiatives in population health management?
  - How do we ensure a data-driven approach to strategic decision making?
  - How much will our organizational strategy cost and can we afford the infrastructure to support this strategy?
  - How will the strategic plan align with individual and departmental goals, performance management systems, and incentives across the organization?
  - How do we keep the strategic plan fresh?
  - How will the strategy be communicated to our executives, managers, and other employees?
-