

Navigating Strategic Uncertainties: The Board's Role

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“If you live in Florida or Louisiana, you shouldn't spend a lot of time thinking about how likely it is that you'll be hit by a hurricane. Rather, you should think about what would happen to your organization if it was hit by one and how you would deal with the situation.”¹

Welcome to the bayou. This sage advice from a 2009 issue of *Harvard Business Review* was addressed to U.S. corporations facing the “storms” of severe market uncertainties and industry disruptors. How different might their futures have been if Sears, Blockbuster, and Toys“R”Us—among many others—had been more open to considering future scenarios that they hated to even acknowledge were possible?

This advice is especially relevant today for hospitals and health systems, given the many uncertainties and turbulence in our environment. Rather than debate exactly what changes will occur and when, hospital and system board members need to ensure that their organizations are adequately prepared for potential (albeit not certain) industry disruptions.

Articulate Uncertainties

An integral part of strategic planning is identifying “wild cards” or major changes in the market that would require fundamental changes in the business for continued success. The following are several examples of uncertainties from among the myriad ways our industry could be reshaped:

- **Payment:** If the U.S. moved to a single payer system or if Medicare were converted into a voucher system, what would be the impacts on your organization—and what should leaders be doing now to prepare?
- **Competition:** Will telemedicine and virtual health become the norm for primary care, specialty care, or both? What opportunities or challenges might this create?
- **New players:** Will Google, Apple, Intel, Facebook, or other consumer-savvy technology firms—with their seemingly unlimited resources—fundamentally alter how and where consumers seek care

or “virtually” manage their own health? What could this mean for you?

- **Clinical breakthroughs:** What if there were a breakthrough to cure diabetes? Or new cancer treatments that would dramatically curtail demand for our traditional radiation therapy and chemotherapy programs?

Identify Potential Disruptors

Step one for your board, in concert with management, is to identify a short list of the greatest potential disruptors to your future success. This takes great courage, as it can be very scary to acknowledge that “hurricane force winds are out there.” Be willing to name your worst-case scenarios and play devil's advocate against conventional wisdom. But remember, such disruptions should be plausible even if they are not likely.

Develop Scenarios/Contingency Plans

Step two is to identify contingency plans and “trigger points” associated with such disruptors. A solid contingency plan identifies the major actions that the organization would need to take should this industry disruption occur (akin to the disaster planning that you already undertake for local or regional physical disasters/disruptions).

“Trigger points” are like the canary in the coal mine: that is, they are early indicators of potential change. Leaders should identify and constantly monitor these trigger points. Federal payment changes, as an example, often can be foreseen years before they are enacted. Such predictable changes need not come as a surprise, although many hospitals and health systems scramble to adapt once implementation is imminent.

Promote an Adaptive Culture

Step three is for the board to enable and support an adaptive culture—that is, a culture with leaders who embrace change and are willing to take prudent risks, coupled with the systems and policies/procedures

Key Board Takeaways

The board cannot and should not be immobilized by the myriad uncertainties and turbulence in today's healthcare market. Taking a “wait and see” approach won't work during a period where stability is unlikely in the foreseeable future. Instead, we recommend that boards:

- Be courageous in facing up to the potential for significant market changes that could challenge your organization's strategies and/or continued success.
- Ensure that management has in place contingency plans for future scenarios that are plausible even if not currently likely.
- Actively support cultural changes, starting with the board's own processes that will increase your organization's agility and adaptability.

that support timely decision making. Culture starts at the top. The board itself must review its own processes and model the desired behaviors. Specifics for the board include:

- **Attract/develop new competencies on the board:** Ensure that the board includes individuals who have experienced rapid change in their own businesses, have demonstrated entrepreneurial skills, and can create consensus across stakeholders.
- **Update the CEO performance evaluation process:** Ensure that the CEO's performance expectations include indicators of effective performance and leadership in today's world as well as the ability to transform the organization for the future.²
- **Identify risks of both action and inaction:** Ensure that the board understands the financial, strategic, reputational, or internal political risks associated with being proactive. Equally important, ensure understanding of the risks associated with a “wait and see” approach.
- **Encourage open, candid discussion:** Board leaders should create a space for members to ask, “What problems may we be facing?” to gain insight into organizational identity and purpose. Often called generative discussion, this allows board

1 René M. Stulz, “Six Ways Companies Manage Risk,” *Harvard Business Review*, March 2009.

2 Elements of Governance[®]: *CEO Performance Evaluation in the New Healthcare Industry*, Third Edition, The Governance Institute, 2016.

members the opportunity to lead as well as govern.³ Intrinsic to effective generative discussion is understanding that the fiduciary duty of loyalty does not expect or want board members to look only at the “good” of an organization; rather it requires members to put the best interests of the organization first. In today’s dynamic environment, this means

being willing to think about the uncomfortable.

Finally, the board should keep in mind this quote attributed to former General Electric CEO Jack Welch, “If the rate of change on the outside exceeds the rate of change on the inside, the end is near.”⁴ Your board’s responsibility is to ensure that your leaders are unafraid to ask the right questions, are

developing the right, adaptive culture, and are preparing the organization for success—even should the hurricane strike. ●

The Governance Institute thanks Marian C. Jennings, M.B.A., President, M. Jennings Consulting, Inc., and Governance Institute Advisor, for contributing this article. She can be reached at mjennings@mjenningsconsulting.com.

3 Peggy McGuire, “Generative Thinking: The Board’s Highest Purpose,” CompassPoint (blog), www.compasspoint.org/blog/generative-thinking-board%E2%80%99s-highest-purpose.

4 Jack Welch, “GE Annual Report, 2000,” General Electric Company, February 9, 2001, www.ge.com/annual00/download/images/GEannual00.pdf.