THE GOVERNANCE INSTITUTE
A SERVICE OF nrc HEALTH

March 2019

Pediatric Focus

Six Strategic Imperatives for Children's Hospitals

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Key Board Takeaways

As boards of children's hospitals strategically plan for the future, they should:

- Understand how the organization's current strategic plan addresses a set of key strategic imperatives.
- Know the financial implications of addressing various imperatives and collaborate with leadership to help their organization prioritize efforts across these imperatives.
- Think through how success will be defined and measured across each of these imperatives as they will likely vary by organization.

Over the last decade, children's hospitals have experienced some of the greatest success in their storied histories—clinically, operationally, and financially. Yet several trends, including increasing volatility in demand for pediatric services, competition from old and emerging organizations, and accelerating operating and financial pressures, will not be solved with the historical strategies used by leading children's hospitals. The historical focus, which was primarily on inpatient volume growth, reliance on premium pricing, and unit cost management to generate sustainable margins, will be inadequate in an era of shifting markets, emboldened payers' demands for value, and rapidly accelerating costs. As pediatric leadership teams embark on planning efforts to guide their organizations into this future, a set of six key imperatives should inform any strategy formulation:

- Solidify new areas for growth.
- Become a digitally enabled consumer-focused organization.
- Harness innovation to drive performance excellence and cost management.
- Actively explore non-traditional strategic partnerships.
- Embrace your clinical workforce as a strategic asset.
- Focus efforts to make a material impact on the health of the community.

The past decade has been a time of remarkable success for most children's hospitals. Growth, in the form of increased patient volumes and revenue, as well as significant philanthropic donations, have bolstered balance sheets and allowed many to make significant investments in both existing and new facilities, programs, and services across the care continuum.

Yet, external forces portend a much more challenging environment in the coming years. Volatility in demand, accentuated by declining birth rates, population shifts across the country, and changing care patterns threaten to undermine the core services children's hospitals rely on for financial strength. At the same time, competition from both traditional and new competitors is accelerating, weakening barriers to entry children's hospitals have long enjoyed due to their unique positioning.

1. Solidify New Areas for Growth

Children's hospitals grew over the past decade through a combination of programmatic expansion along the continuum and consolidation of specialized care. The question of where growth will come from looms large as strategists contemplate future growth projections. Any strategic plan will need to discern the true opportunities for growth, whether they be through expanded geographic reach, extension across a wider array of the care continuum, or entirely new lines of business.

Ultimately, any growth strategy requires focus. Few children's hospitals have the capacity or financial resources to be all things to all families. A compelling growth strategy will link the market opportunities with the rationale for why the organization can compete in these areas and what the organization might be willing to forgo to succeed.

2. Become a Digitally Enabled Consumer-Focused Organization

Today, millennials comprise the largest cohort of families being served by children's hospitals. Digital natives are most comfortable with

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the seamless interaction between technology and the physical world—and healthcare is no exception. The demand for a high-quality, integrated consumer experience that spans the digital and physical realm extends beyond just millennials, as Gen Y and Gen Z both demand greater connectivity and seamless access to services for their children as they grow.

Much of the digital revolution interfacing with patients is happening in the ambulatory arena. This includes new digital health technologies, such as virtual care, or new niche service providers organizing around a more consumer-oriented strategy to capture this growing service region. It must also extend beyond traditional geographic and service components to decrease wait times and increase access to services close to home (or in the home), and closely tie together a better understanding of various consumer segments and the clinical care model suited to meet the evolving needs of patients and families.

3. Harness Innovation to Drive Performance Excellence and Cost Management

Children's hospitals have historically engaged in various levels of performance improvement, but the importance of prioritizing enterprise-wide efforts to materially transform care and performance has been limited, often as a direct consequence of the reimbursement models on which children's hospitals rely (e.g., percent of charges, daily rates, supplemental payments tied to utilization). Increasing costs, whether through labor, construction, or specialty pharmaceuticals, will place even greater importance on meaningful commitment to performance excellence.

For children's hospitals, the boundary between strategy and operations will continue to erode. To be effectively positioned as the indispensable provider of pediatrics in a market will be largely predicated on an organization's ability to demonstrate a level of differentiated performance compared to other providers. This will include differentiating performance not just on clinical care (e.g., best outcomes for pediatric cardiovascular services), but also operationally (e.g., the provider with the best access and most efficient operating models).

4. Actively Explore Non-Traditional Strategic Partnerships

In many ways, children's hospitals were ahead of their adult counterparts in forging collaborative strategic partnerships, whether through programmatic joint ventures or clinical coverage agreements. Children's hospitals have benefited immensely from these partnerships, ultimately through greater influence over the quality of care and the location this care occurred. While there will continue to be opportunities for these types of targeted clinical partnerships, children's hospitals must expand the areas and capabilities they explore for potential affiliations. For example, these can include partnerships with technology firms to accelerate acquisition of capabilities around managing population health, improving clinical or business operations, or deploying consumer-centered services to families.

The challenge will be how to effectively manage these relationships. This will require pediatric leaders to effectively negotiate and manage a complex array of relationships with partners outside of the traditional not-for-profit provider realm. It will also require a change in the management of these relationships.

5. Embrace Your Clinical Workforce as a Strategic Asset

If there is one area that remains a barrier for entry to competitors for children's hospitals, it is the clinical workforce. It is a differentiator and defining element expressed to patients and families served at a children's hospital. Given the lack of supply for much of the pediatric clinical workforce (both physician and clinical support staff), the main avenue for competitors to grow their pediatric platforms is by recruiting away children's hospitals' workforce. To mitigate this threat, children's hospitals will have to ensure the work environment remains a distinguishing feature for clinicians. Success will require investing in the clinical workforce, so they want to remain with the organization.

6. Focus Efforts to Make a Material Impact on the Health of the Community

Funding for child health and social services has rarely matched the need in the U.S. The last few years, characterized by a sustained period of economic expansion, have not produced a commensurately strong response to aiding children in need. Even a minor recession in the next several years will expose deeper structural tensions in the country's ability (and willingness) to fund the safety net at current levels, in particular Medicaid and other services supporting children and families.

Going forward, a more strategic approach is required—one that evaluates opportunities in much the same way as strategic growth opportunities. This approach needs to resolve the existential question about whether to support a broad array of efforts superficially, or to target select areas to deliver a deeper and more sustained impact to the community. For example, organizations should start with a clear assessment of the needs in the community, and determine which members would benefit from the hospital's intervention and what is required to actually affect real, sustainable improvement along key measures. This could be focusing on a specific clinical area, such as mental health, or on an aspect of the social determinants of health, such as improving housing security and safety for families. Prioritizing initiatives should also occur in collaboration with community-based organizations and local governments to improve the effectiveness of any given initiative.

The Next Step

Over the years, children's hospitals have weathered many market uncertainties and, in the last decade, most of these organizations navigated a tumultuous environment quite well. Yet, the forces in play over the next several years will be of a much greater magnitude, with the potential to fundamentally reshape the market for pediatric care, but also provide an opportunity for children's hospitals to cement their position of leadership, both in their local markets as well as on the global landscape for advancing child health. If these forces are approached strategically, astute children's hospitals can re-envision their strategy and priorities, and proactively prepare for these evolving realities.

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