Setting Strategic Direction

A Toolbook for Healthcare Boards and Executives

THE GOVERNANCE INSTITUTE

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9685 Via Excelencia • Suite 100
San Diego, CA 92126

Toll Free (877) 712-8778 • **Fax** (858) 909-0813
GovernanceInstitute.com

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Table of Contents

Introduction

What is the board's role in setting strategic direction during a time of upheaval in healthcare? Continued disruption and uncertainties about how the future will unfold are here to stay. While this current turbulent environment may require flexibility and agility, being agile and speedy without a clear sense of direction is simply random motion, not progress. Healthcare organizations that will succeed in the future have a focused and disciplined long-term strategic planning process that allows room for being flexible and agile in how they move forward, while always keeping an eye on the vision 10 years or more into the future.

This toolbook outlines key steps and provides checklists, tools, and questions for board members in order to establish and/or assess their organization's strategic planning process.

Core Board Responsibilities for Strategic Planning and Setting Strategic Direction

- Establish strategic direction for the organization.
- Set high expectations related to the process and plan content.
- Embed the plan into the work of the board and its annual board calendar.
- Foster generative discussions.
- Lead change from the top, but don't execute. Allow management latitude in how to achieve the strategy.
- Provide oversight and hold management accountable for successfully implementing the strategic plan.

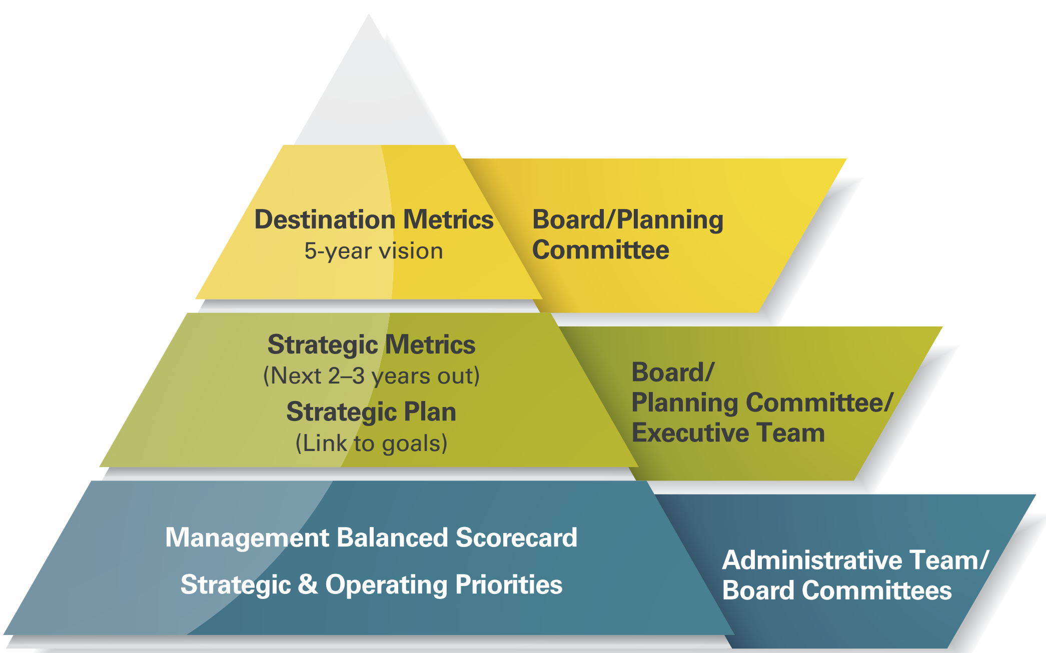
Successfully implementing a strong strategic plan ensures mission fulfillment and vision achievement. The board works in partnership with management to craft the organization's strategic direction. A good strategic plan:

- Is reality-based (recognizes the organization's risk position) but aspirational
- Takes into account uncertainties intrinsic to the industry:
  - » Incorporates "scenario planning"
  - » But does not let those uncertainties immobilize the organization
- Articulates a clear and compelling "desired future state":
  - » Along with meaningful and measurable metrics that show movement toward achieving that future
  - » Includes a short set of goals
  - » Integrates the strategic plan and a multi-year financial plan
  - » Identifies "trigger points" or early indicators that the strategy must be re-evaluated

Destination metrics answer the question: How will the board know we are accomplishing our mission and vision? In order to be successful, the destination metrics should be:

- Clear and meaningful
- Objective and measurable
- Representative of the organization's aggregate performance
- Limited in number and encompassing multiple attributes of performance

Exhibit 1: Who Does What?



The Governance Institute's Recommended Practices for Strategic Direction

1. The full board actively participates in establishing the organization's strategic direction including creating a longer-range vision and approving the strategic plan.
2. The board ensures that a strategy is in place for aligning the clinical and economic goals of the hospital(s) and physicians.
3. The board requires that all plans in the organization (e.g., financial, capital, operational, quality improvement) be aligned with the organization's overall strategic plan/direction.
4. The board evaluates proposed new programs or services on factors such as mission compatibility, financial feasibility, market potential, and impact on quality and patient safety, community health needs, and adherence to the strategic plan before approving them.
5. The board incorporates the perspectives of all key stakeholders when setting strategic direction for the organization (i.e., patients, physicians, employees, and the community).
6. The board holds management accountable for accomplishing the strategic plan by requiring that major strategic projects specify **both** measurable criteria for success **and** those responsible for implementation.
7. The board spends more than half of its meeting time during most board meetings discussing strategic issues as opposed to hearing reports.
8. The board follows board-adopted policies and procedures that define how strategic plans are developed and updated (e.g., who is to be involved, timeframes, and the role of the board, management, physicians, and staff).
9. The board requires management to have an up-to-date medical staff development plan that identifies the organization's needs for ongoing physician availability.
10. The board works with management to gain awareness of, and prepare to respond to, matters of business disruption.

Steps to Setting Strategic Direction

1. Establish Strategic Oversight Structure

Setting strategy and monitoring performance should be the work of the board as a whole. However, should your organization prefer to utilize a planning committee:

- Consider reconstituting your finance committee as a strategy and finance committee. The work of these two committees must be inextricably linked. This is especially the case given changes in payment models such as value-based payments as well as new delivery models such as accountable care organizations. Positioning the organization to deliver value—as defined by consumers/payers, not providers—is both a strategic and financial imperative.
- Alternatively, establish a time-limited *ad hoc* strategic planning committee to serve a specific purpose.
- Regardless of what form your committee takes, the board should ensure that its charge—and its charter—are clear.

Should your board decide not to use a planning committee, the board's role in setting and monitoring strategic direction must be clearly articulated and sufficient time be devoted to fulfilling this core governance fiduciary role. Additionally, directors should be recruited and developed to ensure that the board has the requisite competencies of strategic thinking and experience to successfully navigate an organization during a period of rapid industry change.

Even if the board uses a committee or *ad hoc* group to develop the proposed plan, the whole board must spend the time required to thoroughly understand the plan context and content. Typically, the organization would conduct a major reassessment of the plan every three years, with updates in the interim years. When in the reassessment portion of the cycle, board members should engage in generative discussions to explore underlying assumptions as well as the types/degrees of transformation the plan requires for the organization.

> "Why are we doing this?"

2. Get Planning Basics in Place

The process of developing a viable long-term strategy should be lively, using generative discussions to ensure all issues are on the table. Practically speaking, the board can facilitate a more robust process and a better resulting plan by ensuring:

- There is clarity around roles and responsibilities for plan development.
- The plan is based on objective information and market research; specifically, it includes expert opinions on emerging market trends/disruptions.
- The plan includes clearly articulated assumptions about future market conditions, along with implications for your hospital or system.

- The board or planning committee routinely incorporates scenario planning or "what if" analyses in plan development to ensure leaders have considered the impact of potentially dramatic market changes—especially those that would challenge continued success or require substantive changes.
- The plan is as clear about what "we will not do" as what the organization will do.
- The plan includes a clearly articulated "desired future state" that looks out at least five—but preferably 10—years. This desired future state should include four to six related "destination" metrics that would answer the question, "How would the board know we have achieved our desired strategic positioning?" These metrics must be both meaningful and measurable. For example, if your intent is to be a high-performing health system that improves the health of the community, exactly how would you propose to measure that?
- The plan focuses on strategies and tactics for the next three fiscal years consistent with the longer-term desired future state.
- The plan includes strategic metrics for each of the three years consistent with the longer-term destination metrics. The board will utilize these annual strategic metrics to monitor implementation progress.
- There is a strategic financial plan that outlines the required capital along with expected incremental revenues and expenses associated with plan implementation.
- The board and management agree on the major risks associated with plan implementation, and management has identified practical approaches to mitigate these risks.
- There is regular frequency of and rigor in monitoring and evaluating the strategic plan.
- The board conducts its annual planning retreat in the first quarter of the fiscal year to review current market changes and emerging disruptions/trends and to identify needed changes to plan content. This timing is critical to ensure changes to the plan can then be incorporated into the capital and operating budgets for the upcoming fiscal year.

3. Make Time for Strategic Discussions

Governance Institute research shows that boards that spend half or more of their meeting time devoted to "active discussion, deliberation, and debate about strategic priorities of the organization" are more likely to be high-performing boards, and it has been demonstrated that high-performing boards have a significant impact on organizational performance.

With full board meeting agendas, it can seem nearly impossible to free up at least half of the meeting time to these kinds of discussions. The following is a checklist for the board and/or support staff to implement to enable the board time for this mission-critical activity:

1. Implement a consent agenda for routine items that only need approval and do not require discussion, such as prior board and committee meeting minutes.
2. The board chair and CEO should jointly develop board meeting agendas that include "framing questions" for selected topics on the agenda to help focus the discussion (e.g., what do you need to better understand regarding the organization's clinical integration efforts?).
3. Delegate work to committees appropriately, and review committee charters and structure every two to three years to ensure that the committees are as efficient and effective as possible. This way, the board is not spending time doing work that committees could do, nor duplicating committee work.
4. Prioritize discussion over reporting during board and committee meetings (all members should be expected to read board packets and other relevant materials prior to the meeting and understand that there will be no verbal reports of the materials during the meeting). Only allow verbal presentations if there is a specific "ask" of the board.
5. Schedule committee meetings in proper sequencing prior to board meetings to facilitate work flow and approvals.
6. Schedule an education session at every board meeting to ensure the board is knowledgeable about topics before decisions must be made.
7. Include in the board calendar a specific date for an annual, multi-day board retreat on strategic issues and/or planning. All those who need to attend must commit to this date far in advance. This also allows for plenty of time to determine which topics need to be addressed at the retreat.

4. Avoid Common Pitfalls

The following table lists common failings of strategy setting in healthcare and a recommended course of action to avoid these pitfalls.

Common Mistakes and Recommendations

Common Mistake	Recommended Course of Board Action
The plan lacks clarity regarding the organization's desired positioning in five years.	Demand that the strategic direction be articulated clearly and concisely, avoid jargon, and include a short list of strategic 10-year and five-year measures of success (strategic or "destination" metrics).
Executive compensation is not tied directly to the plan.	Insist on executive performance measures that assess both today's performance and progress toward desired future strategic outcomes.
The plan is too operational, not strategic.	Strategy formulation can challenge the culture and comfort zones of leaders, physicians, and staff. Act courageously to avoid "lowest common denominator" strategies and directly address issues that may generate conflict.
Budget shortfalls crowd out strategic thinking.	Play a unique, important role in redirecting discussions to focus on long-term success and ask, "What must we do now to avoid this same situation every year?"
The plan is developed by those wearing "rose-colored glasses."	Good planning requires a grasp of reality rather than a bias toward optimism. In particular, directors must avoid being lulled into a sense that "these industry disruptions would never happen in our market."
The plan does not challenge the status quo or collective thinking.	Bring real-world and out-of-industry insights into board and management discussions.
The plan takes nothing off the table.	The hard part of planning is saying "not now" or "no" to initiatives that are not the best use of scarce resources. Make a list of "the things we will not do." Board members should ask for such an inventory of eliminated initiatives or projects.
The plan is not integrated with a long-term financial plan.	Strategic planning is about resource allocation to position the organization for future success. Without a long-term financial plan, there can be no clear sense of which initiatives represent the best and highest use of scarce resources, which should be the highest priorities and why, and/or the preferred sequencing for initiatives or investments.

5. Hold Management Accountable: Tight, Loose, Tight

As part of its oversight responsibilities, the board should regularly monitor progress in achieving key elements of the strategic plan and, where performance is lagging, expect management to prepare and initiate thoughtful, realistic corrective plans of action to get back on track.

The board must provide management the latitude to be agile, flexible, and responsive to market changes in its approaches, while ensuring that steady progress is being made toward achieving the desired long-term positioning.

Sometimes referred to as "tight-loose- tight," the recommended approach is for the board to be:

- **"Tight"** in its definitions of expected future outcomes related to desired future strategic positioning. These are the longer-term metrics that should be incorporated into the governance dashboard. To be effective, there must be clearly defined, objective, and measurable five- or 10-year destination metrics along with a set of goal-related metrics with annual targets for at least the next three years.
- **"Loose"** in allowing management the flexibility needed to implement long-term strategy in a dynamic market. The board should not micromanage how management moves forward; rather it should focus on monitoring the outcomes that are being achieved.
- **"Tight"** in increasing the frequency and rigor of monitoring performance toward strategic ends using the longer-term metrics on the governance dashboard. The board must focus itself on strategic outcomes—not recitations of the initiatives or processes underway to move forward or, worse, the reasons why an outcome was not achieved. If the outcome/metric is no longer meaningful, the board should delete or modify it. If it is still meaningful, the board should expect management to formulate a plan to get back on track.

Exhibit 2. Sample Board Strategic Dashboard

On course towards reaching target
May not reach target
Not reaching target

Strategic Plan Goals								
Community Confidence Goal			Quality and Health Management Goal			Financial Performance Goal		
Indicator	Target/Status		Indicator	Target/Status		Indicator	Target/Status	
Inpatient out-migration	X%	Y%	Implement clinical pathways	X%	Y%	Operating Margin	X%	Y%

Final Takeaways: Questions for Board Members and Executive Leaders

Establishing strategic direction and providing oversight of plan implementation are core governance responsibilities. Boards should consider what they are doing in today's dynamic environment to ensure that they are collaborating effectively with management to drive a vital and transformational planning process. This includes asking questions such as:

- What can the board do to avoid common pitfalls that result in strategic planning being a rote or even ceremonial process?
- What changes need to be made to the governance structure to enhance the planning and oversight processes?
- What policies and procedures should the board utilize to raise the bar for how it sets and implements strategies to benefit the organization and, more importantly, the communities and patients it serves?

In developing or updating the strategic plan, directors should start not with a review of the current mission and vision, for instance, but rather with a series of broad-based questions to foster creative thinking and dialogue:

- Why does our organization exist? If we did not exist, why would someone establish us—or would we be needed at all?
- What do we expect to be the greatest changes in our market—and when?
- What do we want to become in five years? In 10 years?
- In what ways would we be distinctive?
- How would we add value—and to whom would these benefits accrue?
- What will it take to achieve that "desired future state"? Is it realistically achievable with focus and hard work?
- How much change is implied by our desired future state?
- Would we be willing to radically redeploy our resources to achieve our desired future state?
- What will be required of us as a board? Of our leadership team? Of our physicians and other clinical colleagues? Of our staff?

References & Resources

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