

# “Everybody’s Doing It” Is Not Enough: *Strategy for the Long Haul*

## Webinar

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Presented by:

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# Today's Presenters



**Marian C. Jennings**, president of M. Jennings Consulting, Inc., has over 30 years of healthcare consulting experience and is a nationally recognized expert in strategic planning, governance restructuring, and affiliation planning. She served as editor and co-author of *Health Care Strategy for Uncertain Times*, a book published by AHA Press/Jossey-Bass Publishers, which has a timeless message.

Ms. Jennings is a frequent national speaker and author on the topics of strategy, health system integration, physician development strategies, contemporary governance, healthcare reform, and finance.



**Amy B. Hughes**, vice president of M. Jennings Consulting, Inc., has over 12 years of experience as a healthcare consultant. She handles a broad range of engagements including strategic planning, financial modeling, and service line planning for healthcare organizations. Ms. Hughes has worked with Marian Jennings since 2001, when she joined Jennings, Ryan & Kolb. Prior to her work as a consultant, Ms. Hughes conducted clinical research.

Ms. Hughes has developed integrated financial models for hospitals and health systems, and created a system-wide strategic planning manual for a national health system.



# Learning Objectives

After viewing this Webinar, participants will be able to:

- Identify sources of uncertainty in the current healthcare environment.
- Understand how to assess strategic risks, both overt and hidden, in their preferred strategic positioning, as well as how to manage these risks.
- Use scenario planning (“wild cards”) to enhance the planning process.
- Identify what constitutes a sound strategic plan and avoid common failings in many current hospital and health system plans/strategies.

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# We Are Caught Between Two Worlds

The board should play a critical role in determining how to cross this chasm!



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# “Me Too” Strategies Are Not Sufficient

## Every Hospital’s Strategic Plan: 2015-2019

- ✓ Quality
- ✓ Service
- ✓ People
- ✓ Focused growth
- ✓ Operating excellence



### How Do We Get Breakthrough Thinking?

- Are these sufficient?
- Will they differentiate us?
- Do they address industry changes?





# A Cautionary Tale

At one point in the 19<sup>th</sup> century, Westfield, Massachusetts was a prominent center of the buggy whip industry, and the city is still known as the "Whip City."

Every Hospital's  
Strategic Plan: 2015 - 2019

- ✓ Quality
- ✓ Service
- ✓ People
- ✓ Focused Growth
- ✓ Operating Excellence



**Is your hospital's plan  
about making a  
great "buggy whip"  
and growing share?**



# Common Strategy Failings

- Unclear where we are headed long term
- Long-term vision and annual “performance goals” are disconnected
- Plan too operational, not strategic
- Strategic plan and capital plan in two different universes
  - *Positive financial impact of strategies assumed*
  - *Finance committee detached from planning efforts*
- Thinking that “partnering” is enough
- Thinking we all can become Geisinger
- Counting on the future being a continuation of the past
  - *Today’s successful strategies versus what is needed tomorrow*



# Identify Sources of Uncertainty and Impact on Strategy



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## What Happens to Strategic Thinking in the Face of Uncertainty?

“Risk-averse (managers) who think they are in very uncertain environments don’t trust their gut instincts and suffer from decision paralysis. They avoid making critical strategic decisions about the products, markets, and technologies they should develop. **They focus instead on reengineering, quality management, or internal cost-reduction programs. Although valuable, those programs are not substitutes for strategy.**”

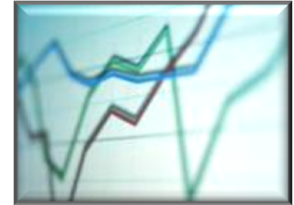
Source: *Harvard Business Review*, “Strategy Under Uncertainty,” November-December 1997.



# Key: Differentiate Uncertainties by Degree of Risk

## ***Clear Trends***

- Easily researched and generally predictable



## ***“Unknowns that Are Knowable”***

- Through market assessment or research, these can become clearer trends/knowns



## ***Residual Uncertainties (or “Wild Cards/Game Changers”)***

- Cannot be researched away
- Can become more certain over time



## “Clear” Trends

1. Consolidation increasing to achieve critical mass needed to be viable
2. Blurring of line between payers and providers
3. Population health management is coming, but...
  - How fast, what is the tipping point, and how to actually *do* this profitably is less clear
4. Major spending cuts are inevitable
  - Some states already targeting increases in overall state health costs (or hospital costs in aggregate) < State GDP + 1%
5. ACA will result in rapid growth of Medicaid enrollment...
  - And most/all will be in more tightly managed care plans



## “Clear” Trends

6. “Subaru” strategy will not be enough to succeed
  - Quality, service, safety, and low cost the price of playing the game, not winning it
7. EHR and decision support are musts
  - Primary use of capital dollars over next five years
8. Patients will assume greater financial risks that will influence their choices of providers, but...
  - Whether and how to create incentives to “manage their own health and health costs” for publicly insured patients stuck in political morass?
9. Future role for not-for-profits and public hospitals being challenged if/when “everyone is insured”

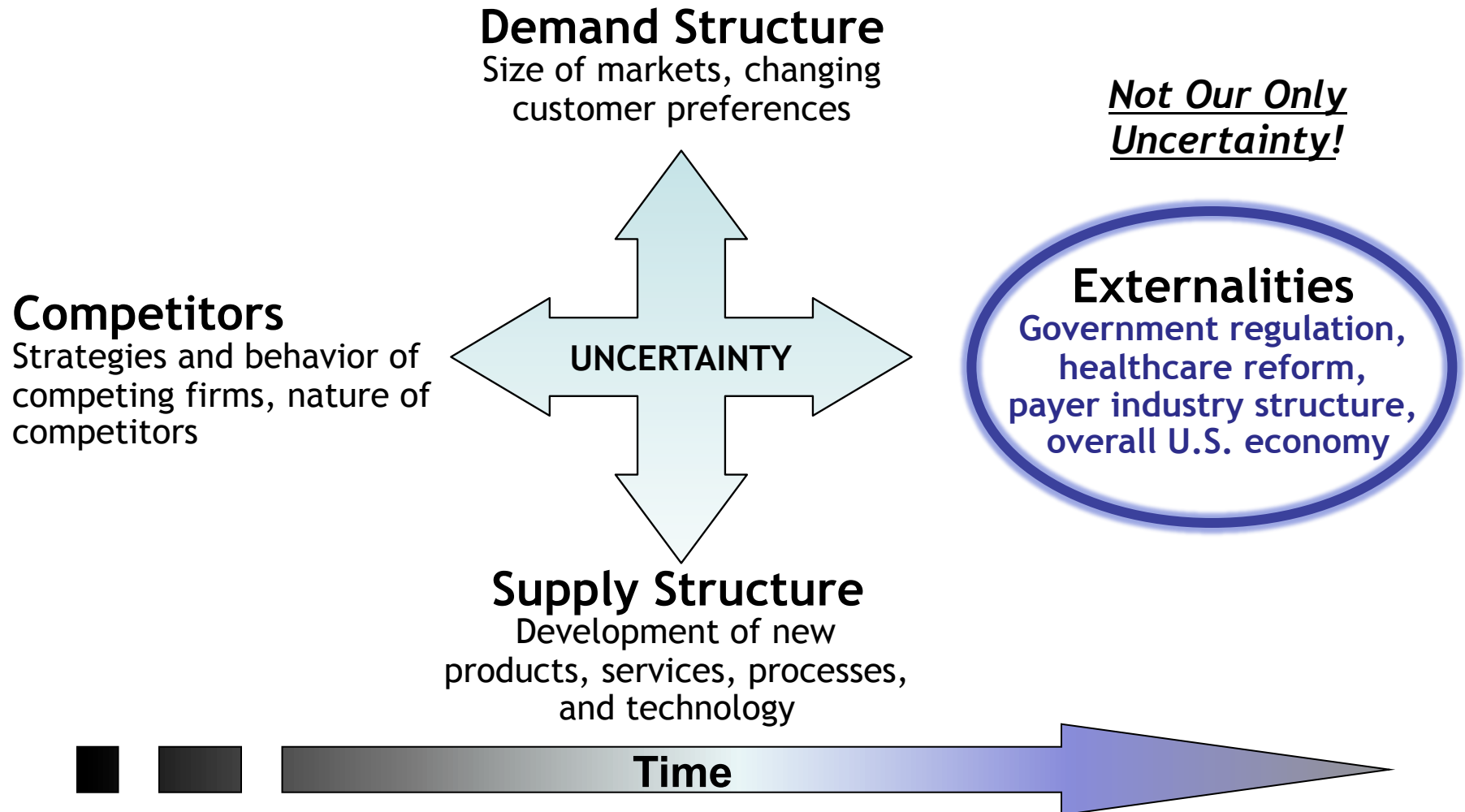


## But... What We Learned in the 1990s

- “Absolutely certain” trends and forecasts turned out to be dead wrong.
- Focusing strategy around one certain future is a bad idea.
  - Better to consider alternate future scenarios and what we would have to do well under each to be successful.



# We Have *Multiple* Sources of Uncertainty



Source: Adapted by M. Jennings Consulting from *Strategic Management Journal*, "Competitive Strategy Under Uncertainty," Volume 8, 1987.





# Strategy for the Long Haul: 3 Essential Ingredients

1. Understand and *intentionally* manage strategic risks.
  - Use “wild cards” and scenario planning to challenge assumptions.
2. Build financial strength to provide needed flexibility and ability to absorb risk.
3. Recognize elements of strategy that are still valid.

Timing, timing, timing!



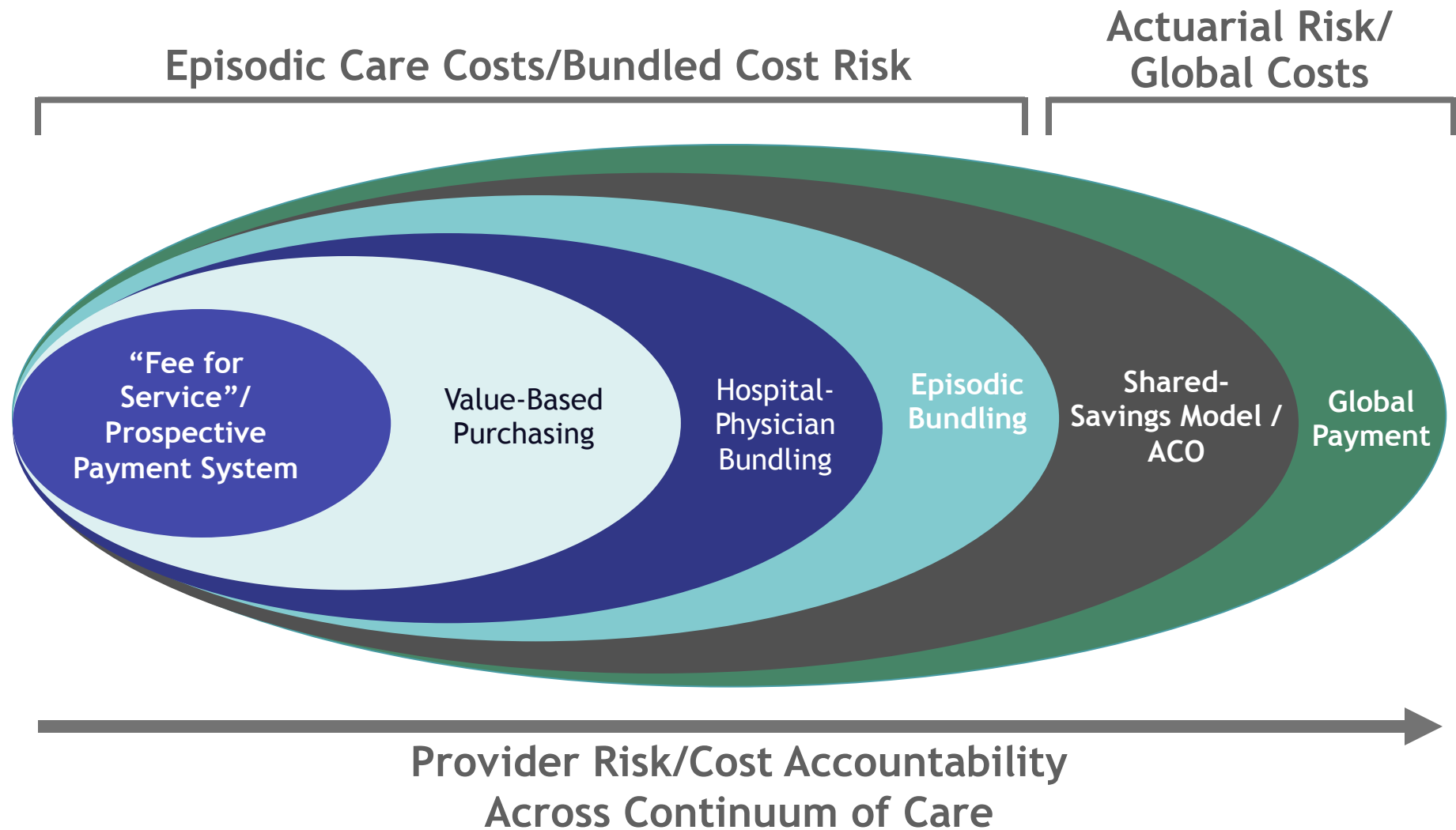
# 1. Understand and *Intentionally* Manage Strategic Risks



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# Range of Value-Based Arrangements on the Risk Continuum



# What Is Your Risk/Reward Preference?

## Example: Value Based Purchasing/Risk Contracting



- Participate in a Blue Cross “patient centered medical home” (PCMH) with 5-15% upside bonus potential around quality & cost management

- Experiment with payment bundling for certain services (e.g., ortho, cardiac)
- Participate in an ACO

- Actively pursue risk contracts for managing population health with Blue Cross or major insurer
- Buy or build own health plan



# Hedging Your Bets: *More Examples*



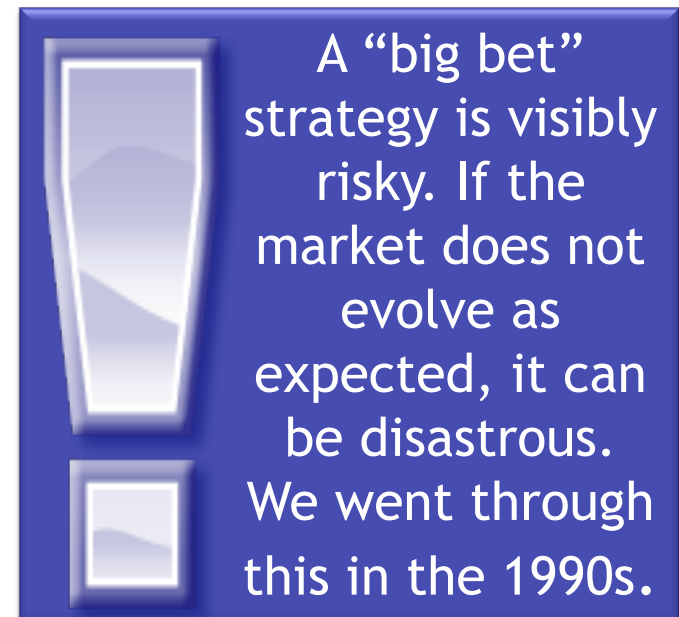
- **Seek CMMI grants** to “experiment” without assuming full financial risk.
- **Develop** and learn from “mini-ACO” for your own employees.
- **Develop highly desirable physician employment models** and infrastructure, but be very selective about employment.
- **Strengthen alignment, short of merger**, with key parties including area hospitals, FQHCs or community health centers, vertical integration players (e.g., home care), and potential tertiary care ACO partner.

A good “hedged bet” allows the organization to learn about a different model/environment without a long-term, major commitment, and enhances agility as market evolves.



# Bigger Bet Moves Can Be *Brilliant* or *Debilitating*

- **Move** from pluralistic medical staff to **fully employed physician staff** (e.g., mini-Geisinger model) as quickly as possible.
- Actively **seek a merger with another local community hospital** to create greater critical mass of patients/population to support population health management.
- **Create an exclusive referral relationship with a large regional hospital** (and participate in their population health management initiatives/ACO development; develop seamless EHR interface or install their system, etc.).
- **Pioneer at-risk or other value-based contracts** in your market.





# Ways to Challenge Conventional Thinking

Imagine your “worst-case scenario”

Play devil’s advocate

Ask WHY?

Ask, “does ‘expert’ opinion *really* apply to our market?”



## Articulate *Your* Uncertainties/Wild Cards

### “Questions to the Clairvoyant” (aka what keeps you awake at night)

If you could pose only 1-2 questions to a clairvoyant, someone who could actually foretell the future of the healthcare environment in 5 years, what questions would you ask?



# Wild Card: *What If* Your State Follows MA Lead?

## Scenario

- Your state decides that it must control total hospital costs, limiting increases to the state's economic growth.
- Federal deficit reductions mean that many federal jobs in your state are lost/contractors and the U.S. government agencies shrink instead of grow.
- So overall annual hospital total cost increases constrained to the 0%–2% range.
- The devil is in the details still under development.

### GOVERNOR PATRICK SIGNS 'NEXT BIG STEP FORWARD' ON HEALTH CARE REFORM, MASSACHUSETTS POISED TO LEAD NATION ON COST CONTROL

At State House ceremony, Governor credits broad coalition for making landmark law possible; Cites better care at lower costs, savings of nearly \$200 billion over 15 years & increase in take home pay for workers, savings for families



Governor Patrick signs the health care reform bill in Nurses Hall at the State House. (Photo Credit: Eric Hay)

### Control Overall Costs of Care

#### Massachusetts Law

"The historic bill, which could become a model for other states, aims to save \$200 billion over the next 15 years by linking healthcare cost increases to the growth of the state's economy."

WSJ, 8/1/12

#### "Gov. Deval Patrick's New Health Law is Flat-Out Dangerous"

Forbes, August 20, 2012

- Links health care costs to growth of state's economy through 2017.
- Hospitals and physicians "will have to cut rate of cost growth in half."
- Surcharge on insurers to help struggling hospitals.
- Commission and more regulation on their way ...

Source: [http://www.wsj.com](#), [http://www.forbes.com](#), Health Care Reform Bill, H.R. 3672, August 01, 2012; forbes.com

## Discussion Questions:

- What would you need to do, should such a scenario occur?
- What should you start doing now to prepare for this possible scenario?
- How likely do you believe this scenario is?



## 2. Strengthen Your Financial Position



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# Do Not Accept “Self-Liquidating” Performance

## Unacceptably Risky

	Financial Indicator	FY 2011	FY 2012	FY 2013	FY 2014 (YTD)	Trend	
						Desired	System
Operating Indicators	Operating Income	\$6.0 Million	\$ 10.0 Million	\$ 250,000	\$ (2.5 Million)	↑	↓
	Operating Margin	1.08%	2.05%	0.03%	-1.42%	↑	↓
	Excess Margin	1.53%	2.43%	1.09%	-0.22%	↑	↓
	Salary & Benefits as % NPR	61.1%	60.8%	63.4%	64.2%	↓	↑
Balance Sheet Indicators	Days Cash on Hand	95	94	83	94	↑	↑
	Debt to Capitalization	42%	39%	37%	36%	↓	↓
	Cash to Debt	95%	102%	103%	117%	↑	↑
	Days in A/R	40	42	38	39	↓	↓

Margins have been inadequate since FY2006 and are declining. Labor costs large/growing portion of NPR

Balance sheet has strengthened, especially the cash position (was only 56 days in FY2008)



# Strengthening Your Financial Position



## What Creditors Are Looking For

- Balance sheet stability
  - Substantial cash AFTER project
- Strong operating results (before investment income)
- Plans to address consequences of reform, economic pressures
- Stable or growing revenues from patient related activity or risk contracts
- Solid and growing market share (people served)
- Specific “turnaround” plans for troubled subsidiaries

## Practical Tips for the Board

1. Know your financial capability.
2. Establish clear financial targets pegged to targeted 2019 bond rating.
  - Minimum 3% operating margin (excluding investment income)
  - Days cash on hand
  - Cash-to-LT debt
  - Leverage ratios
3. Identify 3 to 5 specific steps to start *now* to increase financial capability.
4. Take immediate corrective action early on any services/entities being subsidized.





### 3. Use Planning Tools that Are Still Valid



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# For the Long Haul: 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 will let us know we are moving 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 your strategy must be re-evaluated



# Destination Metrics: “The Vital Few”

**Destination metrics** focus on the achievement of the organization’s 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

**Answer the question:  
*How will the board know we are accomplishing our mission and vision?***

} Same as any metric

} Unique to **destination metrics** at the vision level



# Sample 2019 Destination Metrics



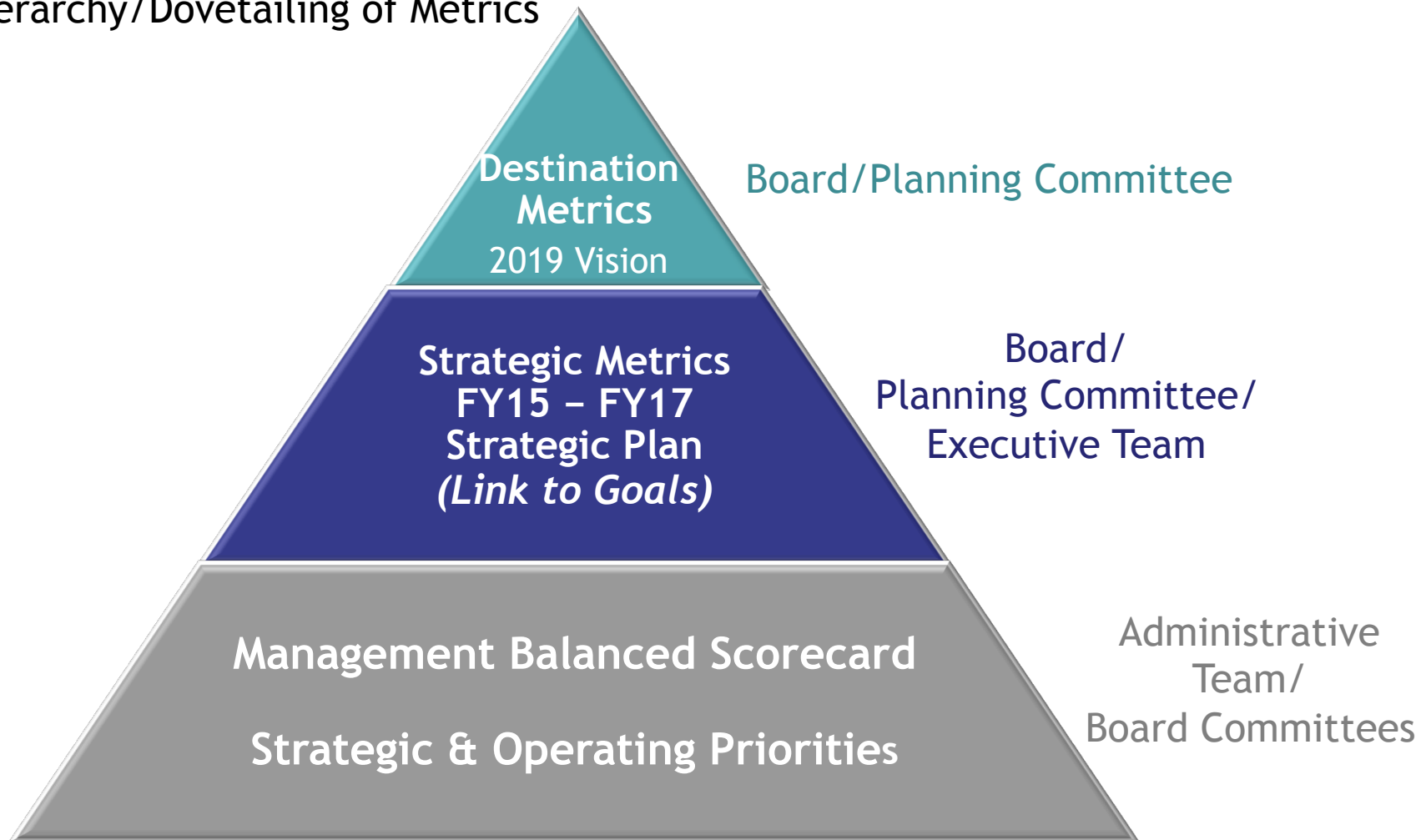
ILLUSTRATIVE ONLY

- System has received **AHA's Foster McGaw Award** for hospitals that distinguish themselves through efforts to improve the health and well-being of everyone in their communities
- System named among **Truven's Top 50 Health Systems** at least twice in 5 years
- System has maintained  $\geq$  **A+ bond rating**
- System's community (hospital referral region) has improved from third quartile to second quartile on "Overall Health System Performance" the **Commonwealth Fund's *Scorecard on Local Health System Performance***
- System has doubled **external research funding**
- System at least **breaks even** on any global payments or bundled payments



# Different Metrics for Different Purposes

## Hierarchy/Dovetailing of Metrics



# Key Board Role: *Help Organization Transform Healthcare*



Source: AHA Center for Healthcare Governance, *Governance Practices in an Era of Health Care Transformation*. Adapted by M. Jennings Consulting.





## Key Board Role: Embed the Plan Into Your Work

- Embed the plan into everything the board does; for example:
  - Developing annual board calendar (e.g., at routine board meetings, focus on progress against one goal area)
  - Redesigning employee performance expectations and review forms around the organization's values, mission and goals
  - Ensuring that every project/program or initiative brought to the board has context set around “how it advances our strategic plan”



## Key Board Role: Anticipate Implementation Conflicts

- Anticipate and seek to minimize negative consequences from potential conflict areas.
  - Moving away from the *status quo* is difficult.
  - Be willing to confront areas that need to change.
  - Recognize that you cannot be all things to all people.



## Key Board Role: *Engage Leaders But...*

**B E W A R E**  
**of**  
**“Consensus”!!**



# Key Takeaways

- You are serving during a time of great transition in the industry:
  - Causing anxiety
  - “Lemming like” behaviors can be tempting
  - Requiring an open mind, a disciplined approach, and flexibility in implementation!



# Key Takeaways

- You can increase the likelihood that your organization will be viable in the long term by:
  - Understanding and intentionally managing strategic risks
    - ✓ Using “wild cards” and scenario planning to challenge assumptions
  - Building financial strength to provide needed flexibility and ability to absorb risk
  - Recognizing that many elements of strategy are still valid and can help you transform the organization



# Questions & Discussion



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