

HEALTHCARE
STRATEGIC
PLANNING
SECOND EDITION

ALAN M. ZUCKERMAN

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HEALTHCARE
STRATEGIC
PLANNING

Second Edition

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HEALTHCARE STRATEGIC PLANNING

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Alan M. Zuckerman

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Acknowledgments

I HOPE YOU enjoy the second edition of *Healthcare Strategic Planning* as much as I enjoyed writing it. I appreciate all of the suggestions and ideas given to me over the past six years by my clients, students in my ACHE courses, and colleagues. As a result of their input, this new edition is a much better guide to healthcare strategic planning.

There are three groups I would particularly like to acknowledge for their contributions to this second edition. First of all are my clients from the past six years, and especially those organizations that generously allowed me to share aspects of their strategic plans and processes with the field. They include the following:

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Alan M. Zuckerman
Philadelphia, Pennsylvania
December 2004

Preface

SINCE THE PUBLICATION of the first edition of *Healthcare Strategic Planning: Approaches for the 21st Century* in 1998, I have been pleased and a bit overwhelmed by the response of healthcare professionals to this book. Many have told me how helpful it has been to them and their organizations. Quite a few have remarked on how simple, straightforward, and practical the book is. A number have made suggestions for improvement based on their own experiences.

I've been gathering ideas for improving the book for six years. When Health Administration Press approached me about updating it, I was quite prepared. Now that the manuscript is done, I am amazed at how much has been added and changed since the first edition. This second edition of *Healthcare Strategic Planning* is truly new and improved. I hope it will be as useful and helpful to the field as the first edition was.

What has been retained in the second edition is the basic structure of the recommended strategic planning approach. Chapters 3 through 6, which review each component of the strategic planning process, and chapters 2 and 7, which address preplanning preparation and planning process issues, will at first glance appear remarkably similar to the same chapters that appeared in the first edition. But each of these chapters, as well as Chapter 1, present significant and important new material.

- *Chapter 1—Is Strategic Planning Still Relevant?* The second part of this chapter is completely new. Key additions include a description of what is effective strategy, an enumeration and discussion of the problems that limit the effectiveness of strategic planning so that approaches can be developed at the outset of

planning to anticipate and avoid the problems, and an outline of how strategic planning has changed in healthcare organizations, especially in the past five years.

- *Chapter 2—Organizing for Successful Strategic Planning: 12 Critical Steps.* The main changes in this chapter are the additions of sections on the leadership role of the CEO in strategic planning and the importance of a designated strategic planning facilitator.
- *Chapter 3—Activity I: Analyzing the Environment.* A number of exhibits have been added related to the data needs for the environmental assessment. The future-oriented parts of the environmental assessment, assumptions about the future, and identification of planning issues have been completely updated, including new illustrations and examples.
- *Chapter 4—Activity II: Identifying Organizational Direction.* All of the examples of mission, vision, strategy, and values statements have been updated and improved, and much of the guidance material about how to develop these statements has been reshaped and sharpened.
- *Chapter 5—Activity III: Formulating Strategy.* Perhaps the most confusing part of strategic planning is how to define the critical strategic issues and what to do about them. These issues are addressed directly in the new Chapter 5 and are accompanied by new examples of potential outputs of this activity.
- *Chapter 6—Activity IV: Transitioning to Implementation.* The transition from planning to implementation has proven to be a difficult task for many organizations. New, more specific guidance on this topic is provided in this chapter, including an updated implementation plan format, transition management guidelines, and a detailed description of how to communicate and roll out the plan's findings and recommendations to stakeholders.
- *Chapter 7—Major Planning Process Considerations.* The last of the chapters updated from the first edition presents extensive new material on the facilitator's role and facilitation processes in strategic planning and the important topic of making effective use of planning teams in the process.

The second edition replaces the case studies that appeared in chapters 8 to 11 of the first edition with specific topical discussions of areas that were discussed briefly in the first edition. Chapter 12, which addresses future challenges, is substantially revised.

- *Chapter 8—Realizing the Benefits from Strategic Planning.* This chapter argues that strategic planning needs to produce tangible, important benefits to remain relevant and suggests that most healthcare organizations should attempt to realize benefits in four broad categories: products/markets, finances, operations, and community health.
- *Chapter 9—Making Planning Stick: From Implementation to Managing Strategically.* This chapter makes the case for changing strategic planning from a periodic event to an ongoing management process to achieve full realization of the benefits of strategic planning. The emerging concept of strategic management is described and discussed as the new model for achieving this change in perspective. Detailed guidelines are presented on implementation management as a crucial component of strategic management.
- *Chapter 10—The Annual Strategic Plan Update.* Today, many healthcare organizations conduct an annual planning update. This topic, only briefly discussed in the first edition, is accorded full treatment in the second edition, including both the content and process for the annual update. Three short case studies, representing three alternative update paths, are also provided.
- *Chapter 11—Encouraging Strategic Thinking.* Strategic planning has been criticized for being too static—evolutionary rather than revolutionary even in times of great external change. Processes to encourage more farsightedness, creativity, and responsiveness to the nature and rate of change in the healthcare field are described in this chapter.
- *Chapter 12—Future Challenges for Strategic Planning and Planners.* Two entirely new sections are added to this chapter: material that represents the latest thinking on how to move strategic planning from its present state in healthcare to a more continuous, iterative model (building especially on chapters 9 to 11) and how the role of planners needs to change in response to a new model of strategic planning.

Ad hoc planning, educated guesses, and intuition have allowed some organizations to survive, although many have succumbed to the most recent wave of hospital and system consolidation and closure. These approaches alone will not serve healthcare organizations well as they contend with an increasingly competitive and financially unstable oper-

ating environment. I fervently believe that planning that is truly strategic—envisioning a desired future that may challenge conventions and then crafting creative and ground-breaking strategies that will take organizations there—will distinguish those providers at risk for closure from those who will thrive. I hope this book will be a call to action for healthcare executives and will help to inspire and motivate them to use strategic planning to lead their organizations into a new century of serving the healthcare needs of their communities.

Chapter 1

Is Strategic Planning Still Relevant?

“If you don’t know where you’re going, any path will take you there.”

—*Sioux proverb*

“Every moment spent planning saves three or four in execution.”

—*C. Greenwalt (quoted in Fogg 1994)*

STRATEGIC PLANNING REMAINS an important and frequently used management tool, both inside and outside healthcare. Despite its prevalence and prominence, evidence of its effectiveness is mixed. Ginter, Swayne, and Duncan (2002) note that, “After almost three decades of research, the effects of strategic planning on an organization’s performance are still unclear. Some studies have found significant benefits from planning, although others have found no relationship, or even small negative effects.”

Although academicians and pundits are divided on the bottom-line performance of healthcare strategic planning, executives and managers on the front lines of healthcare delivery argue that strategic planning is still relevant and a central management and governance discipline, especially in the rapidly changing operating environment. According to Thomas C. Dolan, Ph.D., FACHE, CAE, president and CEO of the American College of Healthcare Executives, “Ten to 20 years ago, a trend in one part of the country might take years to get to your area. Today, that can happen in a matter of months, and you need to be prepared” (*Trustee* 2004). Bellenfant and Nelson (2002) note that, “Too often strategic planning fundamentals . . . are neglected during times of

high pressure and crisis. Yet the stronger an organization is at developing and implementing a strategic plan, the better it can anticipate the environment's changing demands and opportunities."

My unscientific observations of the field indicate that strategic planning is practiced with regularity by a majority of healthcare organizations. Some organizations carry out strategic planning on an ongoing basis, much as they perform financial planning. Others completely update their strategic plans every three to five years and carry out a variety of related activities between major updates. Still others may develop a strategic plan periodically, perhaps precipitated by the arrival of a new CEO or a change in board leadership. While the scope and extent of strategic planning vary widely in the field, most healthcare leaders view it as a necessary and important practice.

STRATEGIC PLANNING IS . . .

The concept of strategy has roots in both political and military history, from Sun Tzu to Euripides (Duncan, Ginter, and Swayne 1995). The Greek verb *stratego* means "to plan the destruction of one's enemies" (Bracker 1980). Many terms associated with strategic planning, such as objective, mission, strength, and weakness, were developed by or used in the military (Duncan, Ginter, and Swayne 1995).

A number of definitions have evolved to pinpoint the essence of strategic planning. According to Ginter, Swayne, and Duncan (2002), "Strategic planning is the set of organizational processes for identifying the desired future of the organization and developing decision guidelines." Those authors also note that, "When an organization exhibits a consistent behavior it has a strategy," and "A strategy is the means an organization chooses to move from where it is today to a desired state some time in the future."

Beckham (2000) describes a true strategy as "a plan for getting from a point in the present to some point in the future in the face of uncertainty and resistance." Campbell (1993) adds the concept of measurement to his definition: "Strategic planning refers to a process for defining organizational objectives, implementing strategies to achieve those objectives, and measuring the effectiveness of those strategies."

Evashwick and Evashwick (1988), incorporating the concepts of vision and mission in their definition, define strategic planning as "the process for assessing a changing environment to create a vision of the future, determining how the organization fits into the anticipated envi-

ronment based on its institutional mission, strengths, and weaknesses; and then setting in motion a plan of action to position the organization accordingly.”

Strategic Planning Outside Healthcare

Strategic planning has been used in the business sector since the mid-twentieth century. The concept of planning, programming, and budgeting systems was introduced in the late 1940s and early 1950s and used only sparingly by business and government. In the 1960s and 1970s leading firms such as General Electric practiced strategic planning, promoting the merits of providing a framework beyond the 12-month cycle and a systematic approach to managing business units (Webster, Reif, and Bracker 1989). Strategic planning in the 1980s and 1990s was based on corporate market planning, which emphasizes maximizing profits through identification of a market segment and development of strategies to control that segment (Spiegel and Hyman 1991).

In today’s business sector it is common to hear that things are changing too quickly to make strategic planning worthwhile. Real-time processes are thought to be the antidote for dealing with rapid market shifts and competitor moves. Quick reactions are valued more than well-reasoned responses (Rheault 2003). Einblau (2003) counters this reasoning with the point that change is always inevitable—sometimes it happens quickly and other times it slowly evolves, but it always happens:

Our external environment is one of market uncertainty, international political unrest, and shifting social values; current economic imbalances will continue to occur and will continue to be managed. This is why it is important that we envision our desired future and then plan the strategies needed to get us there; otherwise we will always be accepting the future someone else has worked to make happen, and in business, that “someone else” is usually a competitor.

Hamel (1996) notes that most strategic planning is not strategic. He stresses that only a portion of an industry’s conventions are ever challenged and that the planning processes harness only a small amount of an organization’s creative potential. Hamel suggests that most strategic planning can be characterized as ritualistic, reductionist, extrapolative, positioning, elitist, and easy; instead, strategic planning should exhibit the qualities of being inquisitive, expansive, prescient, inventive,

inclusive, and demanding. Hamel (1996) also emphasizes that strategy making is assumed to be easy, which of course it is if organizations limit the scope of discovery, breadth of involvement, and amount of intellectual effort expended.

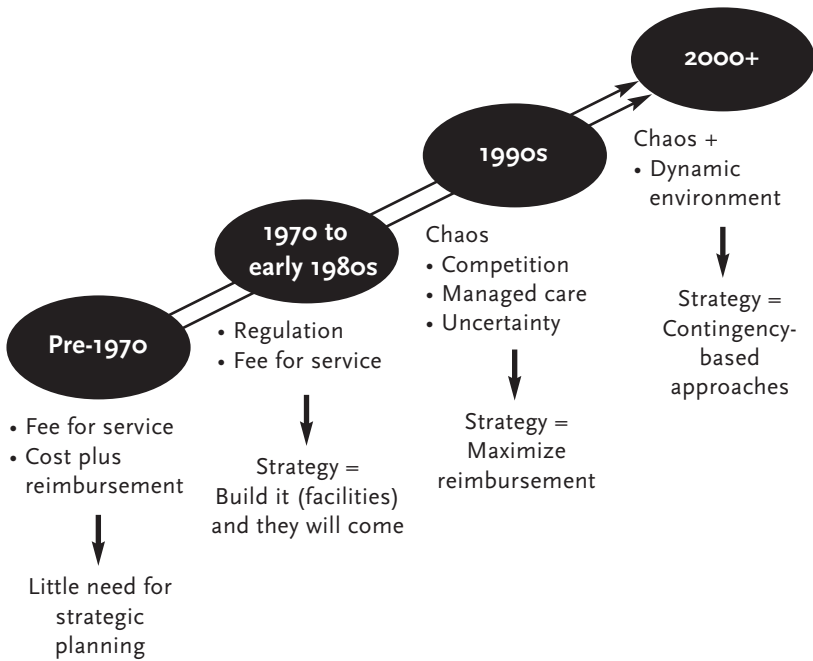
Many organizations are now finding that strategy development needs to be reintroduced and reinvigorated (Rheault 2003). And despite the uncertainties about its value, strategic planning is being used with some frequency. A 2003 survey by the Buttonwood Group of 225 U.S. companies (the average company having more than 3,000 employees and \$850 million in sales) revealed that the annual strategic plan required 10.5 days of work for about 22 percent of that company's employees. The average company in the survey spent \$3.1 million to produce the plan (Taub 2003).

Healthcare Strategic Planning

Strategic planning has been used by healthcare organizations somewhat sporadically since the 1970s, oriented toward providing services and meeting the needs of the population. As illustrated in Figure 1.1, prior to the 1970s hospitals were predominantly independent and not-for-profit, and healthcare planning was usually conducted on a local or regional basis by state, county, or municipal governments. In the fee-for-service, cost-plus reimbursement environment there was little need for formal strategic planning.

From the 1970s through the early 1980s, regulation became more prominent, but the fee-for-service system ensured steady revenue sources. When strategic planning was conducted, it often focused on facilities, with the prevailing notion that, "If you build it, they will come." The 1990s were characterized by the chaos generated from the emergence of managed care and competition among providers that had previously been collegial. Strategic planning conducted in the 1990s featured a heavy emphasis on maximizing reimbursement.

Chaos is still evident in twenty-first-century healthcare organizations as they continue to contend with competition and reimbursement issues and the added challenge of an increasingly dynamic environment. Technology advances; new competitors, such as physician entrepreneurs and for-profit niche providers; demands for demonstrated quality and increased attention to patient safety and convenience; and the current nursing crisis and looming physician shortage have converged to create an environment in which hospitals and systems

Figure 1.1: Healthcare Strategic Planning: A History

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must be prepared to cope with a variety of contingencies that can best be managed by a comprehensive and sound strategic plan.

THE STRATEGIC PLANNING PROCESS

Many variations of a strategic planning model have emerged in both the business and healthcare sectors, but the basic model has remained relatively unchanged since its inception. Two similar versions of strategic planning emerged in the 1980s. Sorkin, Ferris, and Hudak (1984) presented the following basic steps of strategic planning:

- Scan the environment;
- Select key issues;
- Set mission statements and broad goals;

- Undertake external and internal analyses;
- Develop goals, objectives, and strategies for each issue;
- Develop an implementation plan to carry out strategic actions; and
- Monitor, update, and scan.

Simyar, Lloyd-Jones, and Caro (1988) tailored the process to health-care strategic planning.

- Identify the organization's current position, including present mission, long-term objectives, strategies, and policies;
- Analyze the environment;
- Conduct an organizational audit;
- Identify the various alternative strategies based on relevant data;
- Select the best alternative;
- Gain acceptance;
- Prepare long- and short-range plans to support and carry out the strategy; and
- Implement the plan and conduct an ongoing evaluation.

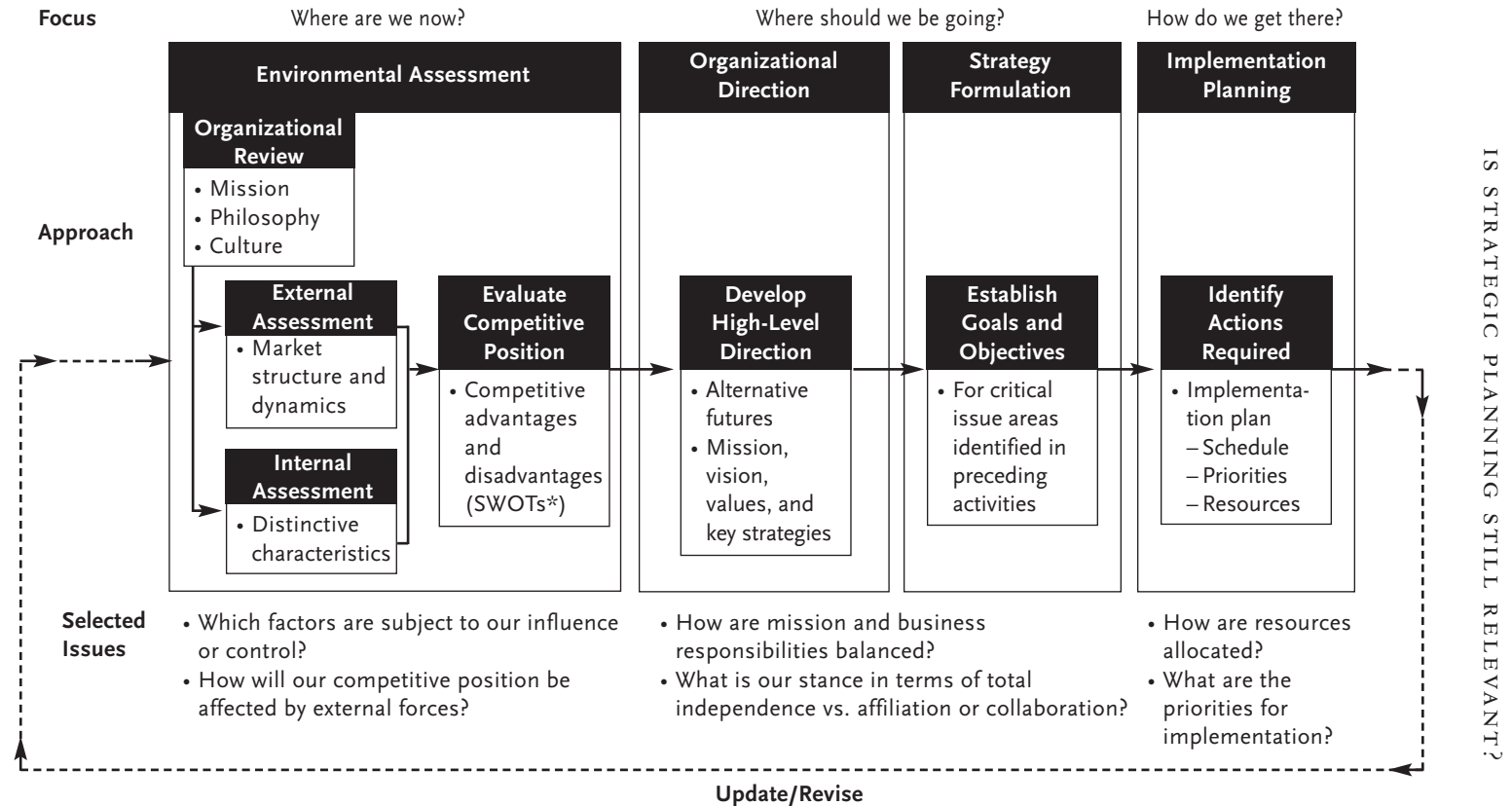
For the purposes of this book these various steps of strategic planning have been synthesized into the four stages illustrated in Figure 1.2. The first stage is the environmental assessment that focuses on the question of where we are now; it includes four activities:

1. Organizational review, including mission, philosophy, and culture;
2. External assessment of the market structure and dynamics;
3. Internal assessment of distinctive characteristics; and
4. Evaluation of competitive position, including advantages and disadvantages.

The goal of the environmental assessment is to determine which factors are subject to the organization's control and how external forces will affect the organization.

The second stage of the planning process is organizational direction, followed by the third stage of strategy formulation. Stages two and three address the question, Where should we be going? The main activity of the organizational direction stage is to develop a future strategic profile of the organization by examining alternative futures, mis-

Figure 1.2: Strategic Planning Approach



* SWOTs = strengths, weaknesses, opportunities, and threats.

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sion, vision, values, and key strategies. Strategy formulation, stage three, establishes goals and objectives for the organization. The purpose of these stages of the planning process is to determine what broad, future direction is possible and desirable and what, generally, the organization is going to target as its future scope of services and position.

The fourth and final stage is action planning, determining how we get there. This stage involves identifying the actions needed to implement the plan. Key activities include setting a schedule, determining priorities, and allocating resources to ensure implementation. While implementation needs to occur as soon as possible after completion of the plan, if not actually during this final stage, a return to the initial stages and updating of the plan, at least in part, ensures that strategic planning becomes an ongoing activity of the organization. Each of these stages will be discussed in detail in the following chapters.

WHY STRATEGIC PLANNING?

With the chaos pervading the healthcare field, many executives and not-for-profit boards may wonder if it is possible to plan effectively or plan at all given the uncertainty ahead. Why not rely on ad hoc planning based on educated guesses and intuition? Healthcare organizations may have historically survived using less formalized approaches to make policy decisions, but today's providers must be more thoughtful about their choices. Mistakes will result not only in lost revenue but also closure.

Fogg (1994) suggests the following benefits of strategic planning:

- **Secures the future** for the organization and the individual by crafting a viable future business.
- **Provides a road map, direction, and focus** for the organization's future—where it wants to go and the routes to get there. It lets the organization align its activities with the thrust of the corporation, a continuous process that most people and organizations subconsciously and inherently seek. People know that aimlessness gets you anywhere the winds of competition and serendipity take you, often to detours and dead ends.
- **Sets priorities** for the really important strategic tasks that absolutely must be accomplished, including those hairy, burning issues, such as lack of direction and growth, lack of profitability,

and organizational ineffectiveness, that everybody talks and knows about, while wondering why they are not being addressed.

- **Allocates resources** available for growth and change to the programs and activities with the highest potential payoff.
- **Establishes measures** of success so that the progress of the organization and individuals can be measured. It is a fundamental business and human need to know where you stand.
- **Gets input and ideas** from all parts of the organization on what can be done to ensure future success and eliminate barriers to that success in accordance with the old adage that ten or one hundred or one thousand heads are better than one.
- **Gains commitment** to implement the plan by involving the organization in its development.
- **Coordinates** the actions of diverse and separated parts of the organization into unified programs to accomplish objectives.

Fogg (1994) notes that

When all is said and done, employees also recognize what's in it for them personally: the resources to do what they want if they plan; a more secure future if the organization plans well and does well; financial rewards if they make themselves heroes as a result of the process; recognition by their peers and superiors if they succeed; and, of course, the inverse of all the above if they fail.

Ginter, Swayne, and Duncan (2002) believe that strategic planning

- Ties the organization together with a common sense of purpose and shared values;
- Improves financial performance in many cases;
- Provides the organization with a clear self-concept, specific goals, and guidance as well as consistency in decision making;
- Helps managers understand the present, think about the future, and recognize the signals that suggest change;
- Requires managers to communicate both vertically and horizontally;
- Improves overall coordination within the organization; and
- Encourages innovation and change within the organization to meet the needs of dynamic situations.

According to Nadler (1994), for many organizations the true value lies in the planning process, not the plan: “Most plans have a tremendously fast rate of depreciation. By the time they’re printed and bound they’ve become obsolete. The value of planning is largely in the shared learning, the shared frame of reference, the shared context for those small decisions that get made over time.”

Indeed changes may occur daily that influence a strategic plan, and new ideas may surface once the plan is complete. A successful strategic plan enables providers to establish a consistent, articulated direction for the future. But the plan is also a living document that must be monitored and revised to meet both anticipated and unanticipated needs of the organization and the market, whether these changes are related to managed care, integrated delivery, healthcare reform, systems development, technological advances, or other challenges on the horizon.

WHAT IS EFFECTIVE STRATEGY?

Beckham (2000) indicates that when strategy is effective, it has seven key characteristics:

1. **Sustainability.** It has lasting power, with greater long-term impact than other initiatives.
2. **Performance improvement.** It results in significant improvement in key performance indicators.
3. **Quality.** It is a demonstrably superior approach versus those of competitors.
4. **Direction.** It moves the organization toward a defined end, although not necessarily in a linear fashion.
5. **Focus.** It is targeted and represents a choice to pursue a certain course over other attractive alternatives.
6. **Connection.** The set of strategies employed have a high level of interdependence and synergy.
7. **Importance.** It may be not essential to organizational success, but it is certainly significant or fundamental.

Considerable strategic planning and strategizing occur in health-care organizations, yet much of this effort fails to achieve the benefits and outcomes cited in this chapter, and some is blatantly ineffective. Measuring the performance of strategy against Beckham’s seven characteristics and avoiding many of the problems described in the next

section should go a long way toward increasing the value of strategic planning.

TYPICAL PROBLEMS THAT LIMIT THE EFFECTIVENESS OF STRATEGIC PLANNING

Many healthcare organizations that have undertaken strategic planning experienced problems that jaded their leaders to the value of planning. Several problems are typically encountered during the strategic planning process.

Failing to Involve Appropriate People

Sometimes there is too much involvement; sometimes too little. In other cases, the amount of participation is fine but does not necessarily come from the right people. Thoughtful involvement of the right type and mix of internal and external stakeholders is essential.

Conducting Strategic Planning Independently of Financial Planning

If financial considerations are excluded from the strategic plan, strategies may never become a reality. Sound strategic planning will explicitly incorporate financial realities and capabilities.

Falling Prey to Paralysis of Analysis

The fast-paced healthcare market demands that providers respond to opportunities and threats without extensive delays. Many providers are lulled into a sense of security when they are planning and squander time over endless fine-tuning and revisions. When exhaustive planning takes over, little change or progress occurs.

Not Addressing the Critical Issues

The most pressing issues may not be addressed because they are too difficult to deal with or so many issues are identified that none are appropriately addressed. If leadership is not prepared to initiate discussions of key issues, strategic plans focus on minor topics and ignore the most critical and threatening ones.

Assuming that Established Objectives Take Care of Themselves

Failure to implement a strategic plan is one of the most common flaws of the planning process. Staff may be overwhelmed with managing day-to-day crises, leaving little time to implement strategic

objectives. The objectives may also lack precision so that ensuing activities lack direction.

Failing to Develop Consensus

Even though a great strategic plan may have been developed, it is imperative that strong support and enthusiasm exist for the recommendations. Leadership must address this issue directly to ensure that the benefits of the strategic plan are realized.

Lacking Flexibility and Responsiveness to the Environment

Plans can be too rigid, inhibiting flexibility, creativity, and innovation. A more fluid, dynamic, and ongoing process, as suggested in the strategic management approach described in Chapter 9, should help address this issue.

CONCLUSION

When strategic planning first became commonplace in healthcare in the early to mid-1980s, it was a first-generation approach applied in a far less complex healthcare environment. Twenty or so years later, state-of-the-art strategic planning has progressed to at least the third or fourth generation of sophistication, driven by improvements in the discipline and developments in the field.

Strategic planning's application in healthcare organizations today differs from that of the past in five critical ways:

1. **The environment has evolved and is changing at an even faster pace.** The rate of change is a key factor in causing strategic planning to be practiced in a more dynamic fashion.
2. **The competitive environment is much more intense than at any time in the past.** The number of competitors, increasing for-profit influence in healthcare delivery, decline of geographical barriers to competition as a result of the Internet, and other less significant factors raise the competitive ante and force strategic planning to be more externally focused and fluid.
3. **Healthcare organizations have grown into vast multientity systems.** The emergence of systems, especially in the past five to ten years, has ratcheted up the complexity of strategic planning.
4. **The financial underpinning of healthcare delivery has been destabilized.** When organizations are operating in an environ-

ment of increasing financial risk and uncertainty, strategic planning needs to be linked more clearly to financial planning and contribute more directly to financial performance.

5. **The time frame within which to act and generate results is increasingly shortened.** Strategic planning must address near-term pressures while still directing organizations toward long-term targets.

With this chapter as a backdrop, succeeding chapters present contemporary strategic planning approaches.

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Chapter 2

Organizing for Successful Strategic Planning: 12 Critical Steps

IT IS TELLING that in drafting and redrafting an outline for the first edition of this book, and then beginning the actual writing of it, this chapter was omitted. Like many in the field, I chose instead to plunge into performing the actual work and began to describe the process and product of strategic planning. However, as I tried to describe what must be accomplished in strategic planning and why, I realized I had left out the most critical first activity, organizing for successful strategic planning.

Why was a chapter on organizing not conceptualized as part of this book originally or even well into the writing of the first draft? On reflection, I suspect that the bias toward action that most of us have was responsible. Also, organizing seems boring and obvious to many and drudge work to nearly all.

As I reflect on the hundreds of strategic plans I have reviewed, and the many planning and management staffs with whom I have spoken about strategic planning, it is clear that one of the common mistakes in an organization's strategic planning process is the failure to organize before the "work" of strategic planning begins. To correct this problem, the following 12 steps should be completed in advance of strategic planning to ensure successful initiation of the planning process:

1. Identify and communicate strategic planning objectives;
2. Describe and communicate the planning process;
3. Assert CEO leadership of strategic planning;
4. Define and communicate roles and responsibilities of other organizational leaders;
5. Identify the strategic planning facilitator;
6. Plan and communicate the strategic planning schedule;
7. Assemble relevant historical data;
8. Resolve not to overanalyze historical data;
9. Review past strategies and identify successes and failures;
10. Conduct strategic planning orientation meetings;
11. Prepare to stimulate new thinking; and
12. Reinforce future orientation.

IDENTIFY AND COMMUNICATE STRATEGIC PLANNING OBJECTIVES

The word *communicate* is integral to the first six steps of organizing for strategic planning. One of the failures of healthcare strategic planning in the recent past is too much analysis by too few. To be successful the process needs to include as many elements of organizational leadership as possible and as many different perspectives as possible. To ensure that widespread participation occurs in the planning process the organizational phase needs to emphasize communication of strategic planning objectives from the outset.

The importance of clear objectives in successful strategic planning cannot be overemphasized. While some may find it satisfactory to state as an objective that, "Strategic planning will provide our organization with a road map for the future," or "Strategic planning will allow our organization to allocate scarce resources in the most effective manner possible," these general strategic planning objectives are probably not specific enough to prove to all constituencies that it is worthwhile to expend the time and resources required for strategic planning.

More specific objectives should be established and reviewed periodically during the strategic planning process to ensure that the process is addressing priority issues and that the plan is on track to produce outputs that satisfy these objectives. Although a healthcare organization may establish a wide range of potential objectives for its strategic plan, some of the more specific objectives for the healthcare delivery environment of the early twenty-first century include determining

- How to respond to decreasing reimbursement, more uninsured patients and bad debt, deteriorating balance sheets and overall credit environment, and potential new insurance vehicles;
- How to grow in a financially beneficial manner;
- How to address new competitive threats posed by medical staff, for-profit niche firms, and others;
- How to address nursing and other labor shortages and the skyrocketing cost of pharmaceuticals;
- How to respond to increased awareness of safety and quality issues; and
- Whether, and if so how, to become a second- or third-generation integrated delivery system.

It is the role of senior management to clearly define these or other objectives for the strategic planning process; review them with board leadership, physicians, and other important stakeholders; and communicate them broadly and regularly to the organization during the strategic planning process.

DESCRIBE AND COMMUNICATE THE PLANNING PROCESS

An abundance of material on strategic planning processes and approaches exists for healthcare organizations to draw on. A well-tested strategic planning process, adapted for the current healthcare delivery environment, is described in detail throughout this book. Examples and other explanatory materials are included to illustrate how the process may be tailored for different healthcare organizations. Chapter 1 provides a brief summary of recent healthcare and business strategic planning literature with references to a variety of texts on contemporary strategic planning. Whether the strategic process described in this book or one from another source is chosen, it is imperative to identify a planning process and customize it to meet the organization's specific needs prior to initiating strategic planning.

Too often planning begins without a clear sense of what the planning process entails. In these cases planning often commences as a reaction to strategic planning questions raised by the board or senior management. As the questions are being answered, management decides that the questions are best answered within the context of an as-yet-unspecified strategic planning process. Thus, migration into what is

called strategic planning begins without a careful and thoughtful attempt to understand why or how strategic planning should occur.

Once a strategic planning process is developed to meet the specific strategic planning objectives of the organization, this process must be communicated effectively to organizational leadership and other important stakeholders. Without an understanding of the planning process, leadership and stakeholders will feel removed from the strategic planning and be reluctant to participate or will participate ineffectively.

ASSERT CEO LEADERSHIP OF STRATEGIC PLANNING

In nearly all organizations, even healthcare organizations, the CEO will lead the strategic planning process. Others may play an important role (see next section), and the role of the board of directors in a not-for-profit organization is especially critical, but the CEO should be the leader.

At the outset of the planning process Fogg (1994) suggests that certain key aspects of the CEO's role and leadership responsibilities are especially critical to clarify and communicate:

- Demonstrate and continually reinforce the importance of planning in the organization;
- Allocate time, money, staff support, and personal support to the planning process;
- Set high standards for the planning process and results;
- Encourage creativity and the search for the unlikely or not so obvious;
- Lead the development of an inspired, broad, and stretched vision for the organization;
- Make, push, or affirm timely decisions;
- Be the principal link between the planning process and important external constituencies;
- Hold senior staff and others accountable for results, and reward them accordingly; and
- Install an ongoing integrated planning process and infrastructure.

By asserting a strong presence at the initiation of strategic planning and then carrying through on key elements of the leadership role throughout the planning process, the CEO will be viewed, appropri-

ately, as the champion of strategic planning and increase the likelihood of a smoothly functioning process and successful results.

DEFINE AND COMMUNICATE ROLES AND RESPONSIBILITIES OF OTHER ORGANIZATIONAL LEADERS

Strategic planning is also one of the major responsibilities of the board, particularly in not-for-profit organizations. The board represents the community, which in not-for-profits is the owner of the organization. As such, the board needs to play an especially significant role in setting and guarding the mission and values of the organization. It also should serve as the key advisor to staff on other significant plan elements. And ultimately, it is the board that must approve (or reject) the strategic plan.

In healthcare organizations strategic planning is also a mechanism to bring physicians, who usually are not employed by the organization, into the process of collectively determining what direction should be taken in the future by both the healthcare organization itself and indirectly by related entities such as physician groups. Depending on the nature of the organization, other clinicians may also share a key role in strategic planning.

Substantial diversity of opinion exists in literature about the importance of and the breadth and depth of involvement of key organizational constituencies in the planning process. Some believe that strategic planning is principally the responsibility of executive management and that participation of other elements of the organization should be limited. Others believe that the best plans are developed when all key stakeholders in the organization participate broadly and frequently. The perspective espoused in this book, while representing neither of these extremes, is somewhat closer to the latter view. Chapter 7 further discusses this issue.

Here, as in the first two planning preparation steps, there is no single answer for every organization, but rather a choice to be made from among available alternatives. Regardless of the level of participation selected, the decision, typically made by the CEO and senior management team, should be made before the planning process actually begins and communicated clearly to all affected constituencies. Once the strategic planning process is formally initiated, board members,

management staff, physicians, and others will then understand their roles and what specific responsibilities they will have as the planning process unfolds.

IDENTIFY THE STRATEGIC PLANNING FACILITATOR

While the CEO may be the leader of strategic planning, the CEO is rarely the day-to-day facilitator of strategic planning. A critical issue at the outset of the process is how facilitation will be carried out.

Fogg (1994) suggests that

Most CEOs depend upon a skilled objective strategic planning facilitator to jump-start the organization into strategic planning and to shepherd the process during the early years of implementation. A good facilitator helps the organization design and install an effective planning and review process, trains the planning team and the organization in facilitation techniques, intervenes when key organizational or strategic blockages occur, and exits once the team is self-sustaining and self-facilitating.

In nearly all healthcare organizations the choice of a facilitator is usually between an internal staff member, typically the director or vice president of planning, and an outside consultant. Occasionally, the facilitator may be an experienced board member, which is generally not recommended, or in smaller healthcare organizations, the CEO. Whoever is selected for this role, it is critical that this selection be made and communicated widely in the organization before strategic planning formally commences.

PLAN AND COMMUNICATE THE STRATEGIC PLANNING SCHEDULE

Although strategic planning should be an ongoing activity of every organization, a full strategic plan development process or complete update of a current plan is usually necessary about every three to five years. Most organizations that practice ongoing strategic planning have annual planning cycles and schedules. In such situations a brief strategic plan update is usually carried out in the first six months of the fiscal year.

Strategic planning experts disagree about the optimal duration of the complete strategic planning process. Some believe it is best to complete

the plan as quickly as possible to maintain a high degree of focus on the planning process during its duration. Others believe that a more extended schedule is better, allowing for broader participation and reflection on planning analyses and intermediate outputs during the process.

This book takes a perspective between these two extremes, although it is generally closer to the latter view. Here again there is a choice to be made by senior management among available alternatives, with related pros and cons. As with the previous steps, the choice should be made deliberately and consciously, made in advance of the initiation of planning activities, and clearly communicated to all affected constituencies.

ASSEMBLE RELEVANT HISTORICAL DATA

Accurate and complete data are an asset to strategic planning. Conversely, the lack of accurate and complete data can be a major impediment to the strategic plan.

It is never too early to assemble an historical database for strategic planning. Data profiling for the past three to five years of the organization's performance and the market in which it operates should be compiled and routinely updated. The specific types of data required and analytical approaches are discussed in Chapter 3. The main point here is twofold: (1) to stress the importance of an early start on the time-consuming data collection process, which is often difficult to complete in a reasonable time frame, and (2) to emphasize that it is critical to devote ample time and effort to the task of data collection to ensure an accurate and complete database.

An organization may conduct analyses later, only to discover partway through the process or as the results are being reviewed that essential data are missing or that the data are inaccurate. This development is discouraging at a minimum and disabling at worst, especially if the problem is discovered in a public forum and undermines the credibility of the strategic planning process. Getting an early start on assembling the historical database and building in adequate time for review and validation of accuracy and completeness of the data is an indispensable, yet infrequently used, approach to ensure high-quality strategic planning.

RESOLVE NOT TO OVERANALYZE HISTORICAL DATA

Historical data assembled to aid strategic planning can be a great asset, but they can also be a trap into which the organization falls. Two major pitfalls can occur to hinder serious strategic planning.

Inability to Assemble the Required Database

How much historical data are required for sound planning is clearly a subjective decision. Frequently, a few members of the planning team want more or better data and will disrupt the planning process before it begins or derail it through a series of challenges to its validity.

Undue Focus on Analyses of Past Performance

A related problem is the penchant of some planning team members to analyze every facet of historical performance. More analyses can always be carried out. The decision about the scope and extent of historical data analysis is a subjective one, and every effort should be made in advance to determine what analyses are necessary for sound strategic planning to limit lengthy delays.

Although it can be comforting to focus on the past and dwell on the known rather than the unknown, strategic planning should be primarily oriented toward preparing the organization for the future. Understanding past successes and failures has clear value, but organizations should resolve to use historical data for its intended purpose of guiding future forecasts and strategies.

REVIEW PAST STRATEGIES AND IDENTIFY SUCCESSES AND FAILURES

Part of the important historical analysis that must be completed is a review of the organization's past strategies, its successes, and its failures. This activity is often best completed in advance of formal commencement of the strategic planning process for three reasons: (1) it will help determine how best to structure the strategic planning process itself; (2) it will highlight certain types of analyses that may be important to successful planning in a particular situation; and (3) it will identify issues of which the organization must be aware as it formulates its new strategies and implementation approaches.

An objective review of past strategies can be very revealing. Often the actual strategies used by an organization are quite different from those that may have been proposed in a previous strategic plan. Similarly, the actual strategies employed by the organization may vary to some degree from those that organizational leadership perceives are being followed. A review of historical documents by someone outside the inner circle, either a new senior staff member or a consultant, and a discussion of what was proposed, was perceived, and actually occurred

over the past three to five years can be a fascinating and important preplanning process exercise.

As part of this process, it is also important to review what has worked, what has not, and why. Often inadequate attention is paid in formal planning to failed strategies, which can lead to recurring mistakes. Thorough, honest evaluation of successful and unsuccessful strategies can help an organization avoid this common pitfall.

CONDUCT STRATEGIC PLANNING ORIENTATION MEETINGS

The first formal step in the initiation of the strategic planning process is to conduct one or more strategic planning orientation meetings. These meetings should be scheduled and held during the preplanning stage.

In most healthcare organizations a strategic planning committee is established as the focal point for oversight of the strategic planning process. This committee may be a standing committee of the board or be created to serve on an ad hoc basis. The committee should have its initial orientation meeting during this phase and should aim to

- Describe and discuss strategic planning objectives;
- Review and revise the strategic planning approach and schedule, including identification of key project meetings and other milestones;
- Review the initial database and identify sources for any additional data required;
- Identify internal and external interviewees;
- Identify other primary market research to be conducted, including intended audiences and purpose of market research; and
- Discuss the mechanisms for interface among the planning staff, consultants (as applicable), and organization, including (1) structure of the strategic planning steering committee; (2) staff contacts for logistical support; (3) interaction with the board, medical staff, and other constituents; and (4) logistical issues related to the project.

As part of strategic planning initiation, a planning retreat may be held with senior management and the strategic planning steering committee. The purpose of this retreat is to review the organization's past planning initiatives, including successes and failures; identify and explore important environmental trends and potential impacts; and

discuss key planning issues already defined, including potential alternatives to address these issues.

It may be desirable to convene strategic planning orientation sessions for various other groups in the organization at this point. Depending on the size and complexity of the organization and decisions about the breadth and depth of participation sought in the strategic planning process, orientation sessions may be held with the board in its entirety, other members of the senior management staff, physicians, other professional staff, or occasionally municipal government leaders or community groups. These orientation sessions will usually focus on just a few of the areas outlined, such as objectives for strategic planning, planning process and schedule, and future role of the affected constituencies in the planning process.

PREPARE TO STIMULATE NEW THINKING

As the strategic planning process gets underway, it is easy to get caught up in analyzing the past and never engage in true strategic planning. A temptation exists to extrapolate, literally and figuratively, from the performances and experiences of the past and devise future strategy on this premise. In the more orderly and less frenetic world of past decades good planning strategy may have resulted from this approach. But with rapid and nonlinear changes occurring at an ever-faster pace, this type of thinking will likely lead to naive strategies at best.

Avoiding Mimicry

Another problem-laden strategic planning method frequently used by healthcare organizations is adopting or mimicking known strategies used by other organizations in demographically similar but more advanced regional markets. This practice usually takes the form of mid-western or eastern organizations studying what is occurring in California or a similar advanced market in order to understand and adopt the already successful methods. Although this approach may work, it is not without significant pitfalls, including lack of comparability of seemingly similar situations and failure to understand the actual strategy and plan in the more advanced market.

While we certainly can and should learn from others in similar situations, it is at least equally important to try to break new ground and be innovative with plans and strategies. As described in chapters 3, 4, and 5, healthcare planners need to be much more thoughtful and cre-

ative about describing the future environment, understanding implications of changing environmental conditions, and considering potential strategies that enable organizations to realize their objectives. Much of the strategic planning by healthcare organizations assumes a static competitive environment. This approach is at odds with today's reality and will be increasingly inconsistent with the more dynamic era we are entering.

Stimulating Creative Thinking

There is an enormous body of literature on techniques and approaches for stimulating more creative thinking. Further, the subject of stimulating strategic thinking in the planning process has become increasingly topical, both within and outside healthcare, in the past ten years. Because of its importance, this new edition of *Healthcare Strategic Planning* devotes an entire section (Chapter 11) to this subject. What is important at this point is that preparation for the strategic planning process in each organization should include a review of literature, consideration of organizational needs and potential alternative processes, and selection of techniques that may help the organization leap forward in its strategic development.

REINFORCE FUTURE ORIENTATION

To successfully plan for the future, healthcare organizations require a new perspective on the future. This perspective needs to be broader, bolder, and more creative and dynamic. To counter the tendency to overemphasize the past and present circumstances, organizational leaders need to overcompensate and continually push their organizations to break with the past and consider alternative futures that are very different from today's known circumstances. Injecting this kind of thinking into healthcare strategic planning will invigorate the process and lead to much more thoughtful plans and strategies. These are the plans and strategies that will set the new standard by which successful planning and development is measured early in the twenty-first century.

CONCLUSION

Before initiating the strategic planning process, organizations may find it helpful to review some requirements for effective planning. Figure 2.1 presents a useful starting point for discussions about what you need and how you feel about the planning process.

Figure 2.1: Requirements for Effective Planning

Community						<i>What you feel:</i>
Support	Leadership	Direction	Resources	Structure	Timing	
	✓	✓	✓	✓	✓	Frustration
✓		✓	✓	✓	✓	Confusion
✓	✓		✓	✓	✓	Fibrillation
✓	✓	✓		✓	✓	Stagnation
✓	✓	✓	✓		✓	Uselessness
✓	✓	✓	✓	✓		Irrelevance

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Healthcare strategic planning is at a relatively immature stage in its developmental process. Within this chapter alone, healthcare strategic planning has been characterized as historically focused, lacking creativity, preoccupied with mimicry, haphazardly applied, poorly planned for, and so forth. Part of the problem is a lack of clear, meaningful objectives, and part is a function of the failure to adequately prepare to plan by both staff and other important members of the organization. This chapter addresses both of these deficits and hopefully will heighten awareness of the need to prepare and adequately carry out successful strategic planning.

REFERENCE

Fogg, C. D. 1994. *Team-Based Strategic Planning: A Complete Guide to Structuring, Facilitating, and Implementing the Process*. New York: American Management Association.

Chapter 3

Activity I: Analyzing the Environment

“To prophesize is extremely difficult . . . especially with respect to the future.”

—*Chinese proverb*

“We are drowning in information but starved for knowledge.”

—*John Naisbitt (1986)*

LOOKING FORWARD VERSUS LOOKING BACKWARD

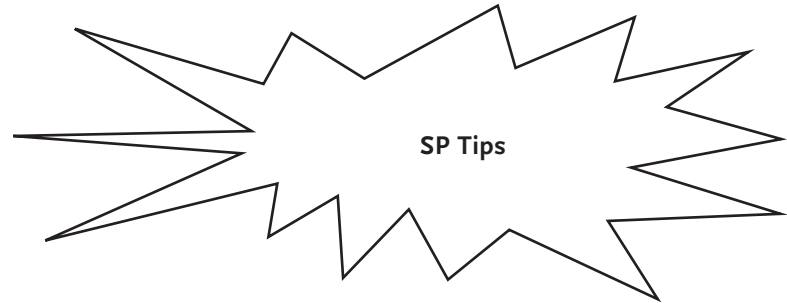
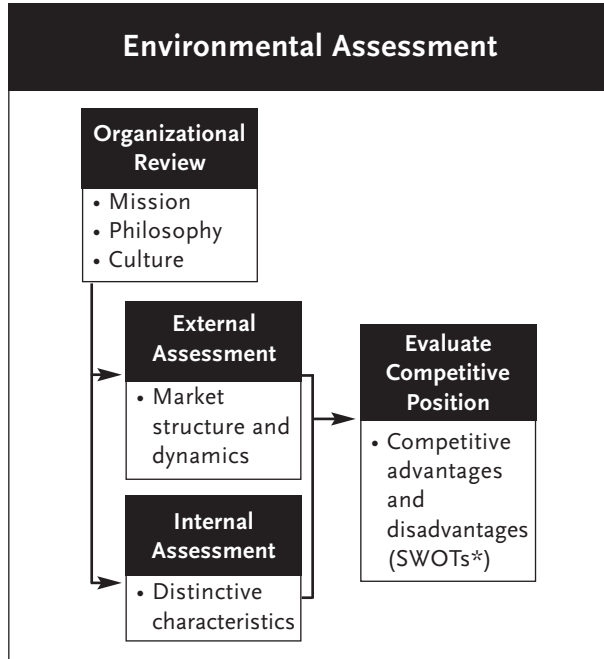
Strategic planning typically begins with an analysis of the current and recent situation of the organization. This activity is referred to as the situation analysis or environmental assessment (see Figure 3.1).

In many ways the environmental assessment sets the tone for the strategic plan. As the first activity in the planning process, it indicates how the rest of the planning process is likely to unfold.

- Will the process be comprehensive in scope?
- Will the process constructively involve key organizational stakeholders?
- Will the process be highly structured or loosely organized?
- Have the objectives of the strategic planning process been clearly articulated, and will they be followed?
- Is a planning schedule being followed, and can it be anticipated that planning will lead to action in the foreseeable future?

Many planning efforts get off to poor starts because the planning process and activities have been insufficiently conceptualized in advance, not well organized, or inadequately communicated to all elements of

Figure 3.1: Developing the Plan: Environmental Assessment



- External orientation
- Broad and insightful competitive analysis
- Focused competitive analysis at operating unit level in integrated delivery networks

*SWOTs = strengths, weaknesses, opportunities, and threats.

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the organization at the outset, as discussed in Chapter 2. In this same vein, the environmental assessment can easily take strategic planning off course right away. Although some believe that the environmental assessment is busywork for the planning staff before real strategic planning begins, it has valid and important purposes that should be enumerated and highlighted when the activity commences. Typically, the environmental assessment's purpose is to

- Understand past successes and failures—what has worked, what has not, and why;
- Allow trustees and others less knowledgeable about the organization to obtain a solid grounding for constructive involvement in the process;
- Help determine what factors are subject to the organization's control and influence; and
- Identify how external forces might affect the organization in the future.

A second and equally serious problem is the staff's tendency to become enmeshed in data gathering and analysis, bogging down the planning process early in analysis paralysis. Because the subject of the appropriate amount of data gathering has been so controversial and laden with checkered results, some guidelines and resources for carrying out this task effectively are provided in Figures 3.2 to 3.4.

While it is important to compile a database that clearly reflects the organization's historical performance and the market in which it has operated, strategic planning is not primarily an exercise in plotting historical patterns and then extrapolating forward. There is comfort in looking back over recent history and analyzing successes and failures, and, unlike other aspects of strategic planning, it is at least theoretically possible to compile an unequivocally accurate picture, albeit of the past. But little is gained from overanalysis of the past, and whatever momentum and excitement the organization may be able to create at the initiation of strategic planning will likely be lost if historical performance becomes the major focus of the strategic planning process.

APPROACH TO THE INTERNAL ASSESSMENT

The internal assessment combines data analysis and qualitative information and analysis to formulate an accurate profile of the historical

Figure 3.2: Minimum Data Requirements for the Environmental Assessment

Internal	External
<ul style="list-style-type: none">• Characteristics and utilization of major programs and services• Key indicators: facilities, equipment, and staff• Financial performance and position	<ul style="list-style-type: none">• Major demographic and economic indicators• Major technology, reimbursement, and regulatory factors• Market share of major programs and services• Profile of key competitors• Future market size and characteristics

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performance of the organization. Along with the external assessment, it establishes the organization’s strengths, weaknesses, opportunities, and threats (SWOTs) and identifies competitive advantages and disadvantages that serve as a springboard to subsequent strategic planning activities. The internal assessment has five main components.

Review Role Statements and Organizational Framework

This activity is a high-level review to determine whether the organization does as it says it will do and has an organizational structure and processes that allow it to achieve its purpose and business objectives. The review includes an assessment of current mission, vision, and values statements and compares them to recent performance. An assessment of program development and financial performance is also carried out (see below). The governance and management organizational structures are evaluated in light of the above and in comparison to like organizations. A review of the effectiveness of governance and organizational structures, based on internal information and industry norms where available, completes this task.

Figure 3.3: Selected Internet Data Resources

• National Center for Health Statistics	http://www.cdc.gov/nchs
• Agency for Healthcare Research and Quality	http://www.ahrq.gov
• Centers for Medicare & Medicaid Services	http://www.cms.hhs.gov
• Centers for Disease Control and Prevention	http://www.cdc.gov
• Health Resources and Services Administration	http://www.hrsa.gov
• National Cancer Institute	http://www.nci.nih.gov
• American Hospital Association	http://www.aha.org
• American Medical Association	http://www.ama-assn.org
• The Dartmouth Atlas of Health Care	http://www.dartmouthatlas.org
• State-specific hospital discharge databases	

Analyze Characteristics and Utilization Trends

Although organizations are often tempted to profile all programs and services in this task, it rarely makes sense to profile more than the top 75 to 80 percent of all programs and services individually (as measured by volume or financial contribution), although all or nearly all should be inventoried. The profile of programs and services should include capacity, volumes, and key resource attributes for the past three to five years for the overall organization, its component entities, and their programs and services. It may also be worthwhile to profile low-volume or poor-performing programs and services financially as a prelude to considering downsizing or divestiture.

Conduct Primary Market Research

There are two primary purposes of market research: (1) to gather pertinent information on the strengths and weaknesses of the organization and its competitors in the marketplace; and (2) to involve organizational lead-

Figure 3.4: Creative Data Gathering for the Environmental Assessment: Competitor Intelligence

Hard Data	Soft Data
<ul style="list-style-type: none">• State licensure and other state filings• 990 and 10-K reports and other federal filings• Hospital associations• Public vendors	<ul style="list-style-type: none">• Annual reports• Web sites• Public relations releases or brochures• Newspaper articles• Speeches by executives• Former employees

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ership constructively and broadly early in the strategic planning process. This task should begin with a review of any recent (one to three years) primary market research. Then, additional research can be initiated, including personal interviews, focus groups, written surveys, or telephone surveys.

Research targets typically include board members, physicians, other health professionals, and upper and middle management staff. This task, when performed well, has almost limitless returns. Although the substantive value of the market research often diminishes significantly with greater amounts of research, the political value of soliciting and carefully listening to opinions of organizational leaders cannot be overestimated. The researchers must clearly indicate at the outset, however, that they are listening through note taking and feedback following research.

Analyze Other Critical Resources

Analyzing other key resources generally focuses on facilities, equipment, and staff to identify major assets and liabilities. Comparison to industry norms and competitors in the local marketplace is appropriate.

Analyze Financial Performance and Position

Financial performance for the entire organization and its major component entities for the past three to five years should be profiled and

compared to industry norms and competitors in the local marketplace. If the organization has already prepared future financial projections for the next one to three years, these should be included in the analysis.

The product of the internal assessment should be a maximum of ten charts or tables—except for the largest and most complex healthcare organizations, which may need additional analysis—with modest narration or highlighting of key points. While three to five times as many analytical tables and other supporting documents may be prepared and available as backup, there is no reason the internal assessment report cannot be shortened for ease of understanding and use.

APPROACH TO THE EXTERNAL ASSESSMENT

The external assessment, like the internal assessment, combines data analysis and qualitative information and analysis to formulate an accurate profile of the historical performance of the organization, with reference specifically to the marketplace in which it operates. The external assessment also provides a profile of the historical performance and evolution of the marketplace and starts the process of beginning to look forward through its explicit consideration of market trends and forecasts. Listed below are the five main components of the external assessment, with comments on the important analytical underpinnings of each.

Review Demographic, Economic, and Health Status Conditions

Organizations should exercise extreme caution with this task, as the extent of the analysis often exceeds all reason. Key indicators for the past three to five years should be profiled and forecasts provided for the next five to ten years, if available. However, the objective of this task is to identify the broadest trends and variables that have had and will have an impact on organizational performance. Minor shifts in population, economic performance, or health status are of minimal or no consequence to the strategic planning process. This analysis is occasionally useful in identifying geographical areas or population segments with strong potential for future cultivation.

Review the State of Healthcare Delivery

The purpose of this task—reviewing healthcare technology, delivery, reimbursement, regulatory, teaching, and research trends, as applicable

—is to identify any major environmental influences, largely occurring at the state or national level, which have affected and will affect the future performance of the organization. Major trends in each category should be profiled for the past three to five years. Forecasts, including potential alternative scenarios, for the next three to five years should be identified and discussed.

Historically, healthcare organizations have been dramatically affected by major changes in reimbursement. With predictions that reimbursement will continue to be a key issue, it deserves particular attention looking forward. Technological (including pharmaceutical) advances should also be considered among the major environmental influences in the future.

Analyze Competitors

Analyzing competitors is the most important and often the most difficult task to complete well in the environmental assessment. Competitor data in healthcare can be incomplete and out of date even when available, although, increasingly, good competitor information can be collected with some hard work and resourcefulness. Of all the environmental assessment tasks, by far the most effort and greatest importance should be assigned to this task. Competitors may exist on a variety of levels. Some organizations may compete in most or all service categories, whereas other competitors may operate in one or a few selected niches. To profile competitors data should be collected from regional, state, and national sources. Qualitative information should be gathered from internal and external market research.

Conduct Primary Market Research

This task parallels the market research activity described in the internal assessment but focuses on parties external to the organization. The purpose of market research is to gather pertinent information on the position of the organization in its marketplace relative to its competitors and likely changes in key external factors. Recent (one to three years) primary market research should be reviewed before proceeding with this task. Market research that may be appropriate includes personal interviews, focus groups, written surveys, or telephone surveys. Targets of research typically include senior managers of competitors, other persons knowledgeable about the healthcare delivery system, and community leaders.

Assess Market Forecasts and Implications

In some instances market forecasts may already exist and should be gathered and assessed. Typically, population changes, economic indicators, and healthcare delivery—specific parameters may already have been the subject of publicly available forecasts. In other cases forecasts will need to be prepared. At a minimum projections should use appropriate forecasting techniques for major health service components, including acute, post-acute, and ambulatory care services by major service lines. A list of publications addressing forecasting techniques is presented at the end of this chapter.

A summary of the market structure and dynamics should be prepared parallel to the internal assessment summary. A brief report with no more than ten charts and tables with modest narration or highlighting of key points and backup should suffice.

COMPETITIVE ADVANTAGES AND DISADVANTAGES

The internal and external assessments need to produce three main outputs to facilitate the strategic planning process: (1) a succinct, pointed, and honest statement of the organization's competitive advantages and disadvantages in the marketplace; (2) assumptions about the future environment; and (3) considering all of the preceding, an appraisal of key planning issues requiring resolution in the strategic planning process.

There is no universally accepted approach or format for determining and displaying competitive advantages and disadvantages. In general the two most reliable measures of competitive advantage or disadvantage are market share and bond rating. Upward historical trends in these variables are usually indicative of strong competitive position. However, the trends evidenced in healthcare organizations are often not clear-cut. For example, this simplistic perspective masks major shifts in competitive position occurring as a result of the lagged effect of capital or human investments.

The two most commonly used formats for displaying competitive advantage and disadvantage are the SWOTs summary and a straightforward enumeration of competitive advantages and disadvantages. Examples of the typical outputs of each are shown in Figures 3.5 and 3.6.

While a lengthy listing of SWOTs or competitive advantages and disadvantages may initially be generated, it is desirable to refine the list to a one-page summary. As the examples show, items may be drawn

Figure 3.5: Small Rural Healthcare System Strategic Profile

Strengths	Weaknesses
<ul style="list-style-type: none">• Excellent financials (particularly for hospital and home care agency)• Relatively large, subspecialized, high-quality medical staff• Home care has high market share and recent growth• Quality at hospital and home care agency• Broad range of services• Community support and fundraising• Geographical isolation	<ul style="list-style-type: none">• Nursing home facilities• Organizational structure cumbersome• Hospital site constrained• Hospital vulnerable at periphery of service area• Somewhat parochial and resistant to change• Information systems• Market share in surgical services and medical subspecialties
Opportunities	Threats
<ul style="list-style-type: none">• Addition of more physicians to medical staff, especially in key specialties and primary care at periphery• Senior services• Further penetration into southern part of region• New service development• Acquisition of other local nursing home and rationalization of nursing home services	<ul style="list-style-type: none">• Potential demise of protective state regulation• Further reach of two nearby large hospitals and metro-area providers into region• Further reimbursement cutbacks• Competition from physicians for outpatient ancillaries

Figure 3.6: Large Rural Healthcare System Competitive Analysis

Competitive Advantages	Competitive Disadvantages
<ul style="list-style-type: none">• Dominant provider in a 15-county region• Strong financial performance and position• Market share growing• Viewed as the quality provider• Competitive costs and prices	<ul style="list-style-type: none">• Complacent• Large, cumbersome, and bureaucratic• Losing share at periphery of region• Strong competitors outside the region are moving in

from each of the categories of the internal and external assessments already prepared, but not every category needs to be represented in the final summary.

The purpose of this analysis is to provide organizational leadership with a clear assessment of where the organization stands in its competitive marketplace. Little benefit is derived from overly complicating the results. The competitive assessment is a device to assist in determining what planning issues the organization must grapple with in its future development, but it is not an end itself.

ASSUMPTIONS ABOUT THE FUTURE

Up to now the environmental assessment has been concerned primarily with the past. At this point, and for the remainder of the strategic planning process, the focus shifts to the future.

The first future-oriented task is to develop a picture of the future environment, at least three to five years hence and sometimes further, in which the organization will operate. This forecast should consider key external factors (some local, others state or national) that will likely or possibly have a significant impact on the organization's future strategies. This should not be a strict numerical forecast of market size, precise level of reimbursement changes, and so on, but rather a more qualitative and macro-level view of significant, future, and external influences.

Numerous resources (see the suggested readings at the end of the chapter) are available to assist healthcare organizations in creating these

assumptions, including both the predictions of healthcare experts and processes for carrying out these forecasts in an organization. Hamel and Prahalad (1994) write that few organizations spend an adequate amount of time thinking about the future. They note that, "Senior managers devote less than three percent of their time to building a corporate perspective on the future. In some companies the figure is less than one percent. Other experience suggests that to develop a distinctive point of view about the future, senior managers must be willing to donate considerably more of their time."

Much planning by healthcare organizations and the general business community in the past has been predicated on one view of the future environment, usually linear extrapolations of the past, rather than evaluating a wide range of possible futures. The upheavals in healthcare and other industries illustrate how this singular view of the future has led to major errors in organizational strategy and legitimate concern about the wisdom of planning for the future within a limited environmental context.

General Motors failed in the 1970s to explore fully the impact of the Organization of Petroleum Exporting Countries (OPEC), globalization, environmentalism, and the importance of quality and speed in manufacturing (Schoemaker 1995). In the 1980s IBM and Digital Equipment Corp. failed to account for the consequences of personal computers (Schoemaker 1995). According to Hamel and Prahalad (1994), "If senior executives don't have reasonably detailed answers to the 'future' questions, and if the answers they have are not significantly different from the 'today' answers, there is little chance that their companies will remain market leaders."

Planning for the future within a narrow, limited environmental context may have been acceptable in the more static, highly regulated healthcare environment prevalent through the early 1990s (and beyond, in some of the most highly regulated states). However, this approach is no longer sensible and constitutes one of the main differences between contemporary strategic planning methods and those of the recent past.

To ensure that a broader perspective is adopted it is critical to define and discuss alternative futures in the fullest possible way before mission and vision can be appropriately determined. It may even be necessary to revise or fine-tune some of the products of the environmental assessment after completing this task.

Many excellent references discuss approaches for developing alternative future scenarios. Schoemaker (1995) recommends the following steps in scenario development:

1. Define the scope (time frame and scope of analysis);
2. Identify the major stakeholders;
3. Identify basic trends;
4. Identify key uncertainties;
5. Construct initial scenario themes;
6. Check for consistency and plausibility;
7. Develop preliminary scenarios;
8. Identify additional research needs;
9. Develop quantitative models, as applicable; and
10. Evolve toward final scenario (iteratively, converge toward the scenario that will be used).

This approach enables diverse alternative futures to be considered and seriously analyzed by organizational leadership with a composite scenario distilled from this broad view of the future. In contrast, the typical approach used by most healthcare organizations explicitly or implicitly relies on the planning staff to develop a single future environmental scenario by extrapolating current trends and incorporating hot issues of the present.

Regardless of which approach is used in this task, the result should be an explicit set of underlying assumptions about the future, on which the remaining planning analyses and outputs will be based. Figure 3.7 presents an example of the results of this process.

As the example illustrates, the assumptions should be stated quite briefly to avoid unnecessarily complicating the perspective of the future environment in which the organization will operate. This concise, simple summary of a potential future environment is a powerful guide for consideration, or in many cases reconsideration, of critical planning issues and, subsequently, organizational mission and vision.

IDENTIFICATION OF PLANNING ISSUES

The final task of the environmental assessment is to determine what critical planning issues need resolution during the strategic planning process. All of the preceding analysis is input into this final result. The determination is a subjective one that usually evolves through an iterative

Figure 3.7: Future Environmental Assumptions, Fiscal Years 2003 to 2008

Chester River Health System strategic planning must take into account expectations and likely conditions of the future environment.

- Considerable growth in Queen Anne's County and population aging throughout service area will increase demand for health services.
- Competition among area and regional providers will intensify for Queen Anne's County patients.
- Pharmaceutical and technological advances will continue to shift care delivery to lower-intensity settings.
- Financial pressures will drive physicians to consider providing ancillary services historically offered at the hospital.
- Price sensitivity will increase as employers shift more of healthcare costs to employees.
- Labor shortages will continue to affect care delivery and require additional financial resources for recruitment and retention.
- Continued (significant) government involvement will require a high level of time and resources to comply with the issue of the day (e.g., HIPAA, state and federal reimbursement changes, quality mandates, etc.).

Source: Chester River Health System 2002. Used with permission.

process of some or all of the following steps, depending on the size and complexity of the organization, the issues it faces, and the extent of participative processes used in strategic planning.

After the planning analyst or planning staff selects an initial list of issues, senior management team members, individually or collectively, review and revise the list of issues. The list may then go to the strategic planning committee members, individually or collectively, who will do the same. The issue listing may then be accepted as a basis for moving forward or returned to the planning or senior management staff for further work.

The outputs from the environmental assessment may be quite diverse. A framework for categorizing the types of critical planning

Figure 3.8: Results of Environmental Assessment: Framework for Critical Issues Facing Healthcare Organizations

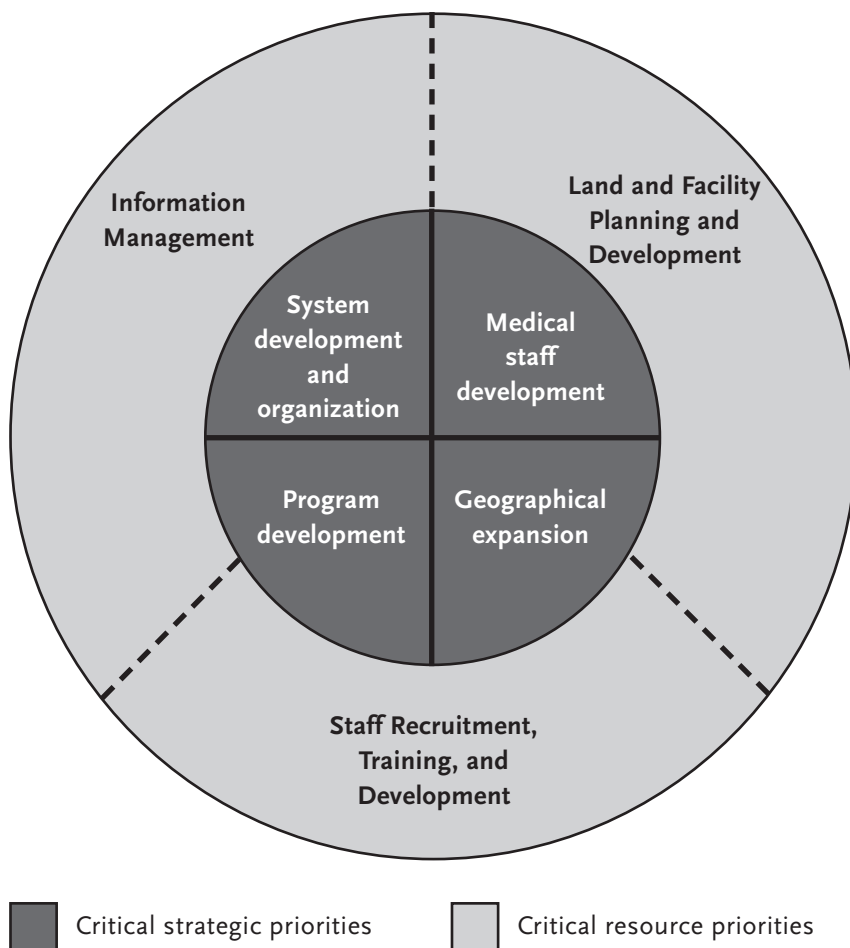


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issues that emerge is shown in Figure 3.8. Typical critical planning issues that are common to strategic plans today are

- Clinical program development and competitive positioning;
- Financial performance improvement;
- Capital formation and capital needs;
- Medical staff development and relationships; and
- Building an effective integrated delivery system.

Increasingly, a variety of largely operational and quasi-strategic issues will emerge as critical issues in the environmental assessment. Figure 3.9 depicts how one small system subdivided the defined issues into two categories: critical strategic priorities and critical resource priorities. This approach is one reasonable way to handle an otherwise thorny political situation.

Figure 3.9: One Small Healthcare System's Critical Issues Categorization

Only a limited number of planning issues can and should be dealt with in the strategic planning process if the planning is going to lead to a successful outcome. The temptation in the environmental assessment is to enumerate dozens of “important” issues that need to be resolved to ensure future success, sacrificing strategic clarity and precision in the name of comprehensiveness and political expediency.

However, few healthcare organizations have so many critical issues that they cannot be condensed to at most five to ten strategic issue cat-

egories. Failure to produce a limited number of issues to address in subsequent planning activities almost always dooms the strategic planning process. It is impossible to address effectively an excessive number of issues concurrently and may confuse organizational leadership about what issues are truly critical to strategic development.

CONCLUSION

A brief and high-level listing of planning issues requiring resolution is an excellent springboard to the next two planning activities: establishing overall or corporate direction and formulating core strategies. A short list of key planning issues reduces voluminous data and information collected during the environmental assessment to a manageable amount and energizes organizational leadership to move forward on strategic planning with a clear focus on issues of immense importance to the organization.

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Chapter 4

Activity II: Identifying Organizational Direction

“No wind favors the ship that has no charted course.”

—*Nautical saying*

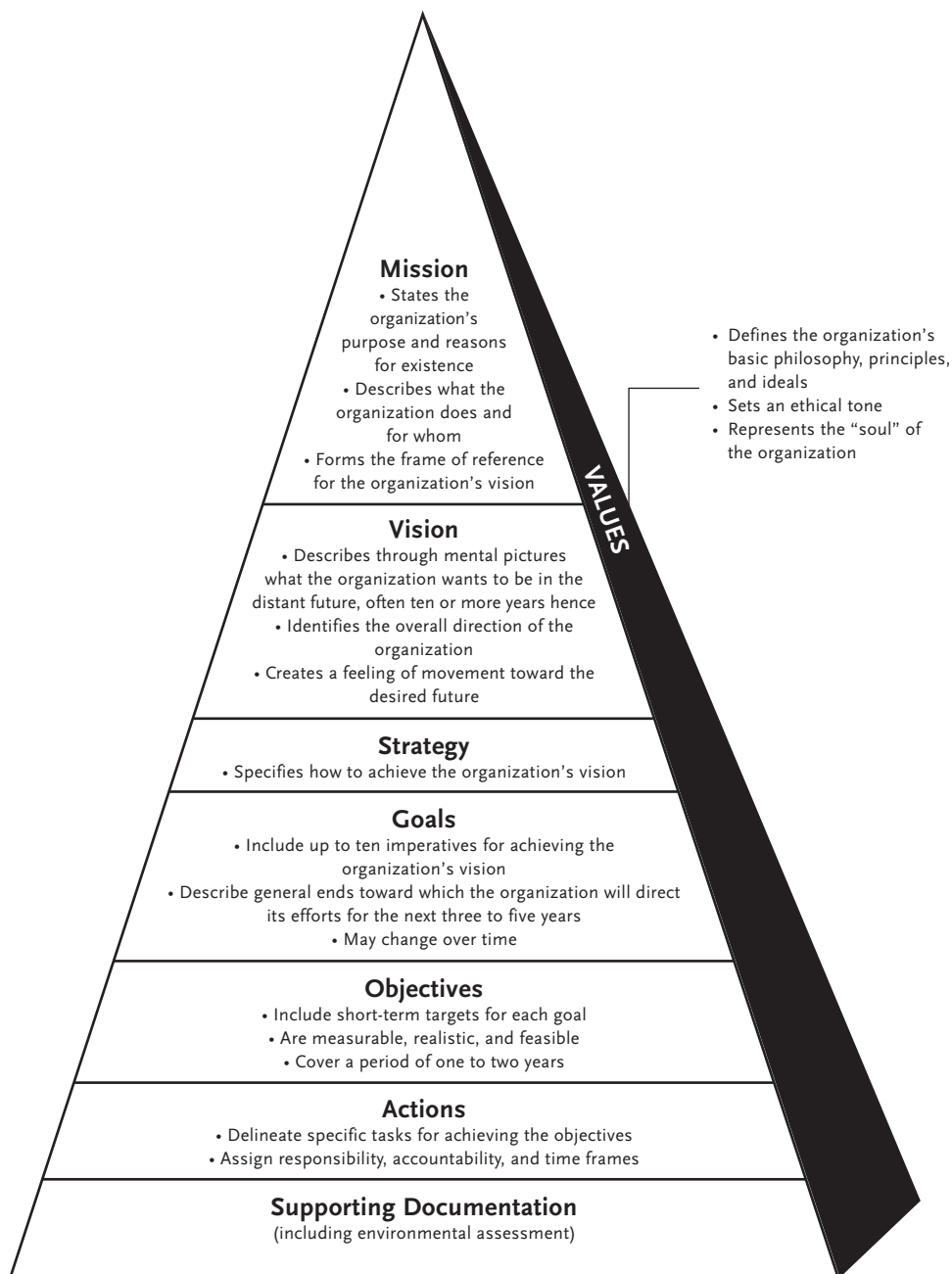
“The very essence of leadership is [that] you have to have a vision. It’s got to be a vision you articulate clearly and forcefully on every occasion. You can’t blow an uncertain trumpet.”

—*Theodore Hesburgh (quoted in Fogg 1994)*

THE SECOND ACTIVITY of the strategic planning process, identifying organizational direction, initiates in earnest the process of looking forward to frame what the organization’s future might be. This activity sets high-level direction, encompassing mission, vision, values, and key overall organizational strategies. Subsequent activities address important components of future direction and the particulars of implementation. Figure 4.1 provides a context for the principal outputs of the strategic plan included in this and subsequent chapters.

Much has been written in the strategic planning literature about the importance of a clear mission and vision to the organization’s future success. Donaldson (1995) notes that to be effective, every organization needs a clear, unambiguous strategic mission statement and top management with the authority and ability to carry it out. Campbell (1993) refers to organizational vision as the foundation of the planning process that drives the development of broad strategies for attaining measurable organizational goals. Coile (1994) describes the importance of vision using an analogy, stating that the interrelationship between vision and strategy is an arrow-to-target process.

Figure 4.1: Strategic Plan Framework



A shared vision is the target, whereas strategic planning is the arrow. Collins and Porras (1991) state, "The few truly great companies have known for years—in some cases, for over a hundred years—the importance of having a vision."

There are, however, caveats to developing mission and vision statements. Allen and Benson (1995) emphasize that the vision must be emotionally inspiring and personally fulfilling, but according to Kaplan and Norton (1996), many vision statements are too lofty and fail to translate easily into operational terms that provide guides for action. Beckham (1991) indicates that many mission statements are not relevant and lack a sense of direction or differentiation. Bart (2002) adds, "For many senior executives, mission statements don't seem to be worth the paper on which they are written. They don't seem to be of any value." Nevertheless, he goes on to say that, "Surprisingly, mission statements (and their accompanying vision and values proclamations) continue to be considered one of the most popular management tools in the world and have even been ranked at least in the top two practices in global usage by Bain & Company since 1993."

As Bart (2002) suggests and as this author's experience validates, the reason for the popularity and prevalence of mission and vision statements lies in their promise and focus. Most often, healthcare organizations that clearly express their basic purpose in a mission statement and have a good picture of what they want their organization to look like in five to ten years in a vision statement stand a better chance of being able to articulate and implement the more specific components of the strategic plan and realize the vision they have articulated. Failure to specify a mission that is compelling and unique to the healthcare organization, or to define a clear and exciting vision, renders attempts to resolve strategic issues and make progress toward a better future extremely difficult.

Finally, Porter (1996) cautions that all too frequently in U.S. industry, "Bit by bit, almost imperceptibly, management tools have taken the place of strategy. As managers push to improve on all fronts, they move farther away from viable competitive positions." By failing to focus on what will distinguish their organizations in the future, and thus on the essence of effective organizational direction, these companies have difficulty translating gains in operational improvements into sustained profitability.

GUIDELINES FOR DEVELOPING AN EFFECTIVE ORGANIZATIONAL DIRECTION

While specifying direction is necessary and important, developing effective organizational direction statements is a monumental challenge, especially in healthcare organizations. Common problems are extreme wordiness; confusion of mission, vision, strategy, and values and a mixture of some in each statement; redundancy among statements; lack of precision; and failure to be farsighted. For example, the Joint Commission on Accreditation of Healthcare Organizations expects the rank-and-file employees (and especially the leadership) to know what the mission statement is. In how many organizations is this really the case?

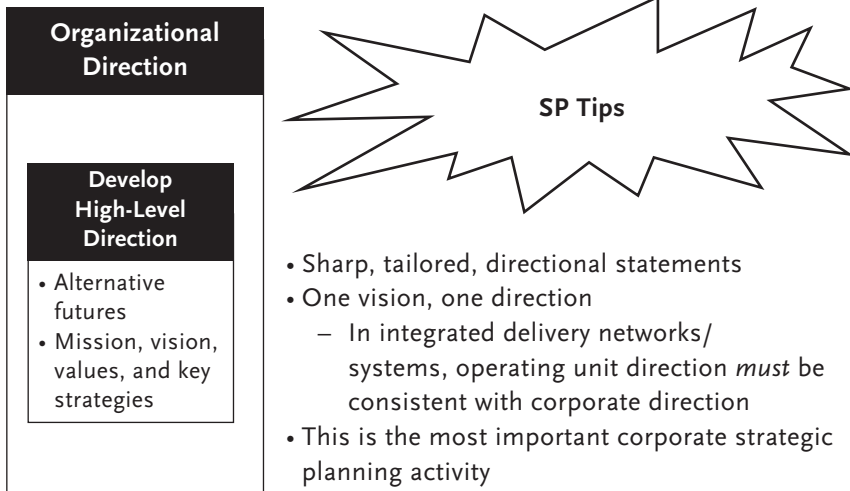
Figure 4.2 provides a summary of the key guidelines for successfully navigating this activity of the strategic planning process. Key points include the following:

- **Sharp, tailored, directional statements are produced.** These statements should be highly focused and specific to the particular organization that created them; platitudes and verbosity have no place here.
- **For any complex, multientity organization, one vision and one direction are essential.** All subsidiaries must be pulling in the same direction; major, and even sometimes minor, differences in vision and direction are extremely divisive and potentially destructive.
- **Organizational direction is the most critical part of the board's and CEO's contribution to strategic planning.** This policy recommendation must emanate from and be fully supported by all elements of corporate leadership.

If planning for the future position of the organization gets off to a poor, uncertain, or confused start here, it will be difficult if not impossible to get things back on track later. Having a clear organizational direction assists in focusing the subsequent more specific and detailed strategy formulation and implementation planning activities, making it key to strategic plan success.

DEVELOPMENT OF THE MISSION STATEMENT

Most healthcare organizations have an existing statement of mission. And because mission statements should be relatively timeless in the

Figure 4.2: Developing the Plan: Organizational Direction

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absence of significant organizational change, no alterations to the current mission statement may be required. If reexamination and retooling of the mission statement are called for, the starting point for the mission determination task needs to be the current statement. Most mission statements developed by healthcare organizations in recent years have two main problems. First, they are often too lengthy and cumbersome, and second, the mission is often confused with strategy.

Effective mission statements are brief and fundamental statements of organizational purpose that conform to the guidelines listed in Figure 4.1. A mission statement should clearly communicate to the board, employees, and other internal and external constituencies why the organization exists and what important purpose it intends to achieve. To accomplish this task the mission statement must be short and to the point. Many experts believe that the most effective mission statements are at most one sentence in length. “Peter Drucker says that the content of a mission statement should be small enough to fit on a T-shirt” (Bart 2002).

Several examples of recently developed mission statements for healthcare organizations, as well as examples from major companies outside

the healthcare field, are presented in Figure 4.3. Note the precision, clarity, and brevity of the non-healthcare mission statements compared with some better examples of healthcare mission statements that have been selected for illustration here. The Barnes-Jewish Hospital mission, although quite strong, exhibits the common problem of healthcare mission statements that stray into strategy: the use of “by . . . , by . . . ,” etc. is the “how,” not the “what” that organizations should be emphasizing. Interesting, too, is how 3M and Nike are able to capture the essence of their purpose without resorting to descriptions of the business, product, or markets. These statements should inspire healthcare leaders to think more carefully and creatively about what their organization’s true purpose is.

Development of the mission statement can occur in many ways, but most organizations include significant input from the board, because this is the board’s most fundamental contribution to organizational policy and strategic direction. Two to three sessions with the strategic planning committee that are at least partly devoted to a discussion of mission are usually sufficient to gain the input required to draft or redraft a statement that will be embraced by the board as the cornerstone of the strategic plan. These sessions typically encompass

- Scenario development and generation of a composite future scenario (per Chapter 3);
- Review of the definition of a mission statement and examination of the current statement;
- Review of other healthcare organizations’ mission statements (and possibly some non-healthcare mission statements); and
- Review and modification of a new draft mission statement.

One final note of caution is needed regarding the mission statement. It is not productive for the strategic planning committee or board to “wordsmith” the proposed mission statement. These groups should concentrate on what the mission statement is trying to convey, with discussion focusing on substantive changes in content. It is cumbersome, tedious, and ultimately unproductive for a strategic planning committee or board to rewrite, in whole or in part, the mission statement in a group discussion. Drafting or redrafting this document should be left to an individual or small group.

Figure 4.3: Mission Statement Examples

Non-healthcare

- **3M:** To solve unsolved problems innovatively
- **Nike:** To bring inspiration and innovation to every athlete in the world.

Healthcare

- **Exempla (Denver):** To foster healing and health for the people and communities we serve
- **Barnes-Jewish Hospital (St. Louis):** We take exceptional care of people
 - By providing world-class healthcare
 - By delivering care in a compassionate, respectful and responsive way
 - By advancing medical knowledge and continuously improving our practices
 - By educating current and future generations of healthcare professionals
- **Covenant Healthcare (Milwaukee):** The Covenant Healthcare System is committed to living out the healing ministry of Jesus by providing exceptional and compassionate healthcare service that promotes the dignity and well being of the people we serve.

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DEVELOPMENT OF THE VISION STATEMENT

The task of developing a vision statement is usually carried out concurrently with the development of the mission statement and follows the same process and general principles. Many organizations also have existing statements of future vision. The distinction is that while the mission statement is not time limited, vision statements refer to a particular future point or period in time and generally must be updated and revised with each complete strategic planning process.

Unlike the mission statement, the current vision statement will probably require substantial change if it is to be an effective guide for the organization's future direction. And, similar to the mission state-

ment, many current statements of organizational vision share the two main problems of nearly all mission statements—cumbersome length and inappropriate inclusion of strategy.

Effective vision statements conform to the guidelines listed in Figure 4.1 and are often brief, single-sentence statements of desired high-level organizational characteristics at a distant point in the future, usually ten years. The vision statement should be a vehicle to communicate to internal constituencies a preferred future state of the organization. It should be a challenge given current circumstances and conditions, and it should represent such an exciting and desirable state of being that it motivates and energizes all elements of the organization to reach it through the more detailed strategies and actions that follow. The vision statement should project to a point in time far enough from the present so that the future for the organization is unpredictable. The time frame should encourage organizational leaders to be imaginative in their views of the future characteristics of the organization while avoiding the urge to analyze their way into the future. Kouzes and Posner (2002) suggest that, “Effective visions possess four important attributes: idealism, uniqueness, future orientation, and imagery.”

The process comments related to the mission statement apply in this task too. Interactions among the board, strategic planning committee, and other key leaders should produce and refine an effective vision statement without excessive attention to wordsmithing.

Several examples of healthcare organizations’ vision statements that conform to this description are presented in Figure 4.4, along with a few examples from major corporations outside the healthcare field. Here, as with the mission statement examples, what is striking is the relative precision, clarity, and brevity of the non-healthcare examples. The non-healthcare examples also best illustrate the recommended vision principles—stretching, motivating, and inspiring the organizations to achieve what nearly all experts would have deemed improbable, if not impossible, at the time they were developed. Do any healthcare organizations dare to reach that far?

DEVELOPMENT OF OVERALL ORGANIZATION STRATEGY

Both the mission and vision address the “what” of future direction. However, many healthcare organizations cannot or do not distinguish between the “what” and “how” of future direction and inappropriately include strategy in mission or vision statements. Organizations have

Figure 4.4: Vision Statement Examples

Non-healthcare

- **Ford (early 1900s):** Democratize the automobile
- **Sony (early 1950s):** Become the company most known for changing the worldwide poor-quality image of Japanese products
- **Stanford University (1940s):** Become the Harvard of the West

Healthcare

- **Exempla:** To be recognized as best in the nation as measured by patients' safety, their satisfaction, employee and physician engagement, clinical excellence, and value
- **Barnes-Jewish Hospital:** BJH will be the best teaching hospital in the world, coupling unparalleled clinical expertise with a new standard in healthcare for compassion and service.
- **Covenant Healthcare:** The Covenant Healthcare ministry will be recognized in the communities we serve for superior and compassionate patient service, clinical excellence, as the healthcare employer of choice and the preferred partner of physicians.

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difficulty distinguishing a principal means (i.e., strategy) to accomplish the ends (i.e., mission and vision) they have articulated from the ends themselves. Typically, multiple and diverse overall strategies may be set forth, the result of which is really no strategy at all.

Porter (1996) argues that many senior managers have mistaken operational effectiveness for strategy and as a result moved away from viable competitive positions: "A major challenge for leadership is developing or reestablishing a clear strategy, not just improving operational effectiveness and making deals." The result: overall organization strategy is often the least clearly defined element of future direction.

Miles and Snow (1978) developed a typology to describe a hospital's strategic orientation, classifying hospitals into four categories: prospec-

tors, defenders, analyzers, and reactors. A *prospector* is defined as an organization that makes frequent changes in and additions to its services and markets and consistently responds rapidly to market opportunities by being the first to provide a new service or develop a new market.

A *defender* offers a fairly stable set of services to defined markets and tends to ignore changes that do not directly affect current operations, focusing instead on doing its best in the current arena. An *analyzer* also maintains a relatively stable base of services but selectively develops new services or markets like the prospector. However, the analyzer rarely is the first to provide new services or expand into new markets, choosing instead to monitor actions of others and follow with a more well thought out and thorough approach.

A *reactor* is an organization that does not appear to respond consistently to changes in the market and seems to lack a coherent strategy. The reactor may, on occasion, be an early entrant into a new market or service but usually is forced into action by external events or after considerable evidence of potential for success.

It may be difficult for a healthcare organization to articulate its strategy as other than prospector, and, as Shortell, Morrison, and Friedman (1990) point out, because few healthcare organizations are really following a prospector strategy, this may explain part of the confusion about overall strategy that healthcare providers evidence.

Another framework for overall strategy that is prevalent in general business, developed by Porter (1980), suggests that companies must follow one of three principal strategies (singly or in combination) to create a defensible position: overall cost leadership, differentiation, or focus (also called niching).

The overall cost leadership strategy is achieved through a set of aggressive policies that ensure construction of efficient facilities, continuous pursuit of cost reductions, and systematic control of costs and overhead. Differentiation of a product or service offering means creating something that is perceived industrywide as being unique. The differentiation strategy does not ignore costs, but they are not the primary strategic focus.

The third strategy is to focus on a particular buyer or geographical market. While the low-cost and differentiation strategies try to achieve objectives industrywide, the focus strategy aims to serve a particular target well, and policies are developed with this in mind. The premise

is that the organization is then able to serve its narrow target focus more effectively than those competing broadly.

More recently Hamel (1996) argued that successful strategy must be revolutionary: "Never has the world been more hospitable to industry revolutionaries and more hostile to industry incumbents." Hamel describes nine routes to industry revolution involving reconceiving a product or service, redefining market space, and redrawing industry boundaries.

Regardless of which strategy framework is adopted by the organization, a choice must be made from among available alternative future strategies if the organization is to have a high probability of realizing its vision. A principal strategy needs to be selected and articulated to all affected internal organizational constituencies as a key part of the organization's direction.

The process of developing overall organization strategy can be quite similar to that described previously for the mission and vision statements. The main difference is in the degree to which this statement emanates from planning staff and top management versus the strategic planning committee and board.

Figure 4.5 presents several examples of strategy statements from organizations outside healthcare as well as a few gleaned from healthcare organizations (the latter are based on the author's research and observations and do not come directly from company documents themselves). Good examples of clear healthcare strategy statements are difficult to find because so few organizations, especially not-for-profits, appear to be pursuing any discernible strategy. Many are still on the rebound from the "in" strategy of the 1990s—integration. Opportunism and drift, rather than strategy, seem to be the norm today.

DEVELOPMENT OF THE VALUES STATEMENT

Figure 4.1 illustrates that the values statement is the underpinning of the entire organizational direction and strategic plan. And, like the mission statement, the values statement is widely disseminated, both to internal and external constituencies. As with the mission and vision statements, many organizations have already developed a statement of values. In the absence of significant organizational or environmental changes this statement is relatively timeless and may not require major modification.

With the proliferation of mergers and other forms of affiliation; growth of integrated delivery systems; and, lately, disaffiliation and

Figure 4.5: Strategy Statement Examples

Non-healthcare
<ul style="list-style-type: none">• Procter & Gamble: Product excellence• Nordstrom: Service to the customer
Healthcare
<ul style="list-style-type: none">• MedCath: Niche provider of invasive cardiology• Johns Hopkins: Unparalleled quality• Griffin Hospital (CT): Exceptional service to the customer

disintegration, few healthcare organizations have been untouched by the waves of change sweeping the industry. In these new, larger organizations, diverse organizational cultures are brought together, and existing values are blended into, or in some cases imposed on, the new entity. The character of the organizational culture that is desirable in the new entity and how this is represented to employees and other important stakeholders is at the core of what the values statement represents. As some organizations downsize, restructure, and divest themselves of component parts, values of the surviving entities often must be reexamined.

In stable, successful healthcare organizations a values statement can probably best be gleaned from organizational behavior. Observance of the day-to-day practices of the employees and of board policy and performance will lead to a fairly clear picture of the values of the organization. This values statement can be fine-tuned by leadership to reflect some minor modification of organizational behavior and then serve as the product for this task.

For other healthcare organizations a values statement will probably need to be developed through a top-down process, similar to that recommended for the mission statement. Where new or significantly different organization values are necessary, leadership must determine the current organizational values (which may differ across recently com-

bined or disassembled entities) and how they have come into being. Then, the organization must conduct a self-examination to create a new values statement for the future. An example of a recently developed values statement typical of what many healthcare organizations aspire to is illustrated in Figure 4.6.

CONCLUSION

Four critical outputs—mission, vision, strategy, and values statements—comprise the statement of organizational direction and are produced during activity II of the strategic planning process. With the description of direction completed, it is possible to move productively into the next level of detail of strategic planning—the goals and objectives to address the important issues defined in activity I.

Figure 4.6: Values Statement Examples

Non-healthcare

- **Disney:**
 - No cynicism
 - Nurturing and promulgation of “wholesome American Values”
 - Creativity, dreams, and imagination
 - Fanatical attention to consistency and detail
 - Preservation and control of the Disney image

Healthcare

- **Covenant Healthcare:**
 - Respect: We value each person as sacred, created in the image and likeness of God, which gives worth and meaning to each person’s life
 - Integrity: We value honesty and words and actions that build trust
 - Development: We value personal and professional growth that combines the physical, emotional, spiritual and relational aspects of life and work
 - Excellence: We value superior performance in our work and service
 - Stewardship: We value responsibility to use human, financial and natural resources entrusted to us for the common good, with special concern for those who are poor

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As the organization moves more into the “how” of strategic planning, the roles and responsibility of management will expand. The board, both directly and through its strategic planning committee, may have had significant input to the organizational direction because it represents the major policy elements of the strategic plan; with the completion of the organizational direction activities, however, the transition from board-driven strategic planning to staff-driven strategic planning begins to take place.

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Chapter 5

Activity III: Formulating Strategy

“The only constant in our business is that everything is changing. We have to take advantage of change and not let it take advantage of us. We have to be ahead of the game.”

—*Michael Dell (quoted in Brown and Eisenhardt 1998)*

“Strategy renders choices about what not to do as important as choices about what to do.”

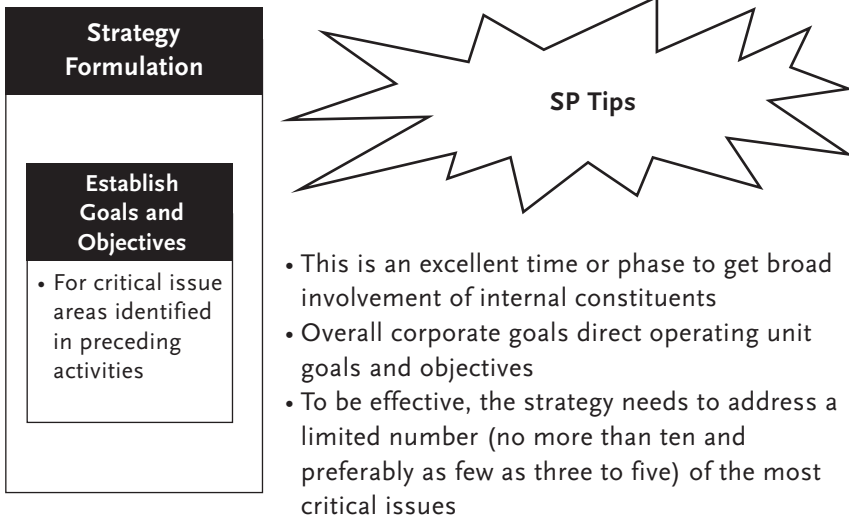
—*Michael Porter (1996)*

FROM VISION TO GOALS

With overall organizational direction defined, goals and objectives for the organization and its future strategic development can be determined. It should be clear from Chapter 4 that to achieve the vision of the next five to ten years significant progress must be made in a number of key areas. These subareas of overall strategy are derived from the critical issues determined in activity I.

Figure 5.1 highlights a few especially important points about the strategy formulation phase of strategic planning. From a process standpoint, as described further below, it is generally desirable in this activity to broaden the number and type of internal participants who are involved in plan development and bring multiple, diverse perspectives to bear on strategy formulation. In large, multientity organizations, strategy formulation usually begins at the system or corporate level, and the framework developed is then used for operating unit or other subunit strategy formulation.

For many organizations the most difficult part of strategic planning is moving from the vision to the next level of detail: the goals. The temptation is to identify literally hundreds of areas in which activ-

Figure 5.1: Developing the Plan: Strategy Formulation

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ity needs to occur to achieve the vision. The result is an unwieldy and ultimately unimplementable plan.

Strategic planning at its essence is the process of making difficult choices among competing priorities and focusing the organization's limited resources in those areas with the greatest payoffs. If strategic planning is to be effective, that focus needs to be maintained throughout the process, but especially in this transition from vision to goals. A successful organization generally is able to identify no more than ten, and preferably as few as five, goals that are imperatives for realizing the vision.

Moving from vision to goals is most readily accomplished in a three-phase process:

1. Determining critical issues;
2. Preparing white papers on critical issues; and
3. Identifying goals.

Determining Critical Issues

Critical issues embody those areas in which action is imperative to realize the vision. Critical issues are determined by examining the mission,

vision, and key organizational strategy in light of the initial issues defined in the environmental assessment (see Figure 5.2). Often, the issues defined earlier in activity I survive largely intact as the final set of critical issues for the organization, but they may need to be reshaped because of conclusions reached in the organizational direction phase of the planning process. In any event, reviewing the initial critical issues is a good starting place for determining the organization's final set of critical issues.

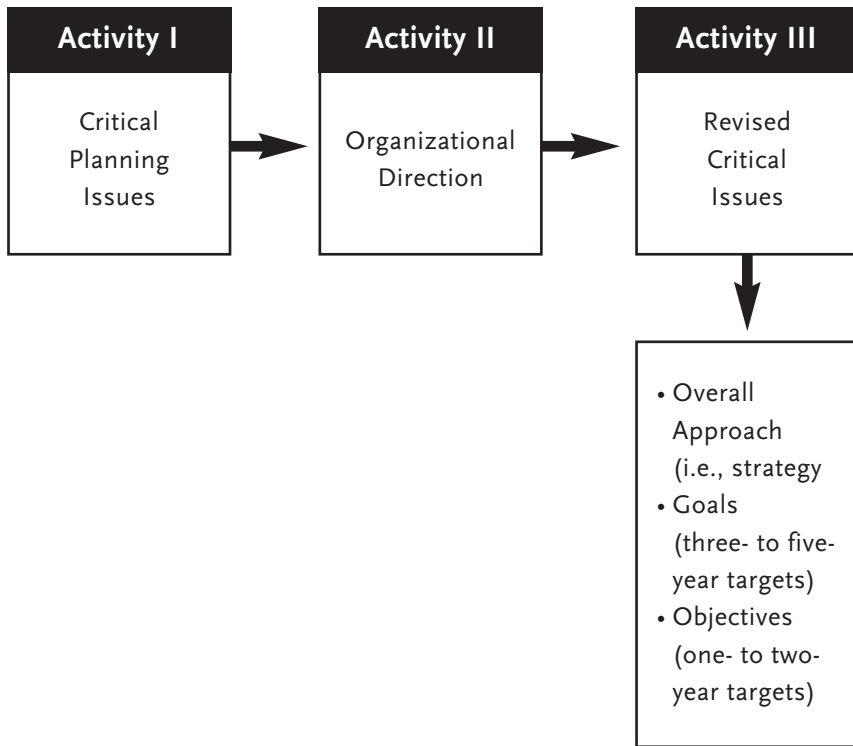
Much confusion exists among healthcare executives about what constitutes a critical issue, and clearly the determination of this is quite subjective. Typically, critical issues stand out as being central to the achievement (or failure) of the vision, have the potential to have high impact on the organization, and cannot be addressed easily or resolved in the short term. Another distinction often made is that these issues deal primarily with concerns out of the realm of day-to-day operations.

One of two approaches is typically used to determine the final list of critical issues. The more process-intensive approach—one used most often when there is a large or controversial initial list of issues—consists of three steps. First, the members of the strategic planning committee are asked to identify the top three (or other small number) issues each feels are most critical, and a master list is compiled. Assuming the priorities are not obvious from this first step, a second step is to have some discussion of what each issue is and why it is important. Some issues may fall off the list or be consolidated as a result. Third, the committee members are asked to vote for the top three (or other limited number) issues; the most frequently named issues make the final list.

Alternatively, planning staff or a small group of senior management narrow the number of potential issues to no more than ten and present the findings of their analyses to the strategic planning committee for review and modification. It is important to specify why the selected areas are strategically significant and why other areas are not. Two representative lists of critical issues that resulted from such a process are shown in Figure 5.3.

Preparing White Papers on Critical Issues

Once the critical issues are agreed on, a number of potential paths exist to move from issues to goals. A more process-intensive approach, rather than a less process-intensive one, is most likely to identify the best goals (and the best objectives and actions) and build support for plan implementation and action. Preparing white papers, or in-depth reports, on issues helps distinguish and prioritize alternatives.

Figure 5.2: Strategy Formulation Process

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Clearly, the most process-intensive approach will require more time to complete, typically as long as three to four months. The least process-intensive approach can be completed in as little as a month or less. If the time frame for planning is a concern, the approach selected for this activity should be carefully considered.

Three basic paths (with a number of variations) can be followed.

1. **Move directly from critical issues to goals.** Planning staff, senior management, or the strategic planning committee develop the goals without further analysis or process.
2. **Prepare white papers on critical issues.** Planning staff prepare position papers on each issue and recommend goals for review

Figure 5.3: Critical Issues

Health First	Chester River Health System
<ul style="list-style-type: none"> • Value enhancement • Revenue growth • Physician relationships • Organizational management 	<ul style="list-style-type: none"> • System development and organization • Program development • Geographical expansion • Medical staff development • Critical resources

Sources: Health First, Inc. 2001; Chester River Health System 2002. Used with permission.

and modification by senior management and the strategic planning committee.

3. **Convene task forces to prepare white papers.** Similar to the path above, except that a multidisciplinary group of organizational representatives is convened for a limited period to assist in preparing the white papers.

The third alternative has an additional benefit in that it exposes important organizational stakeholders to the outline of the strategic plan that is likely to result from the planning process and constructively engages them in further definition of organizational strategy in areas of both significance and relevance to them personally. If this is the path chosen, a few guidelines about how to proceed are in order.

Assemble the Task Forces with Care

Unfortunately, there is no foolproof formula for assembling task forces, but recognizing what objectives your organization is trying to accomplish and the potential incompatibility of all the objectives is a good starting point. A number of sometimes conflicting objectives may be accomplished in selecting task force members. Those objectives might include:

- Gaining broad representation from potentially affected constituencies;

Figure 5.4: Task Force Overview

Strategic Issue	Issues to be Explored	Proposed Leadership and Membership Profile
1. Primary Care Network	<ul style="list-style-type: none"> • Size and distribution of the network • Operational and financial expectations • Mechanisms for incorporating physicians into the network 	<ul style="list-style-type: none"> • Leader: Primary care physician • Members: <ul style="list-style-type: none"> • Managed care marketing staff • Senior Pinnacle management • Practice managers
2. Cost Position	<ul style="list-style-type: none"> • Cost target required to compete successfully • Schedule to attain targeted costs • Approaches to cost management and reduction 	<ul style="list-style-type: none"> • Leader: Chief financial officer • Members: <ul style="list-style-type: none"> • Department chairs • Senior Pinnacle management
3. Medical Education	<ul style="list-style-type: none"> • Role of medical education within Pinnacle • Expectations of medical education and criteria for evaluating residencies • Need for an academic affiliation 	<ul style="list-style-type: none"> • Leader: Teaching physician • Members: <ul style="list-style-type: none"> • Physicians trained at Pinnacle programs • Other physicians • Senior Pinnacle management

Sources: Pinnacle Health System 1996.

- Having enough diversity so that the task force is not biased toward any single perspective;
- Achieving relatively good personal chemistry among the members;
- Assembling a task force not too large as to be unwieldy (few task forces are too small);
- Selecting members who are interested enough to participate actively; and
- Choosing a leader who will lead but not dominate.

The task forces typically will meet three to four times over a six- to eight-week period. The members should understand and appreciate that their charge is time limited and that they are not making deci-

Figure 5.5: White Paper Outline

- Issue definition
- Background (including importance of resolving the issue)
- Qualitative and quantitative description of situation
- Strategies being employed by others faced with similar situations
- Options available, pros and cons, evaluation of options
- Recommended option(s) to pursue
- Major goals for a three- to five-year planning horizon; objectives for next year (or two)
- Barriers and constraints to achieving goals and objectives

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sions, only presenting alternatives and making recommendations to the strategic planning committee.

Provide Guidelines and Support to Task Forces

Although active participation and free-flowing discussion are to be encouraged, some structure and staff support are necessary to achieve sound outputs and leave the participants feeling that they were constructively involved in the process. Expectations for the task forces need to be defined clearly at the outset, including time frame for deliberation, questions to answer or issues to address, and likely structure of the output needed. Figures 5.4 and 5.5 exhibit samples of such guidance that might be provided to task forces. Appendix 5.1 presents an example of a complete white paper developed using this outline. Data and other relevant information collected in earlier activities of the planning process should be assembled and provided to task force members in advance of their first meeting. The planning staff should be identified as staff support to the task forces and play a major role in logistical support, data support, and production of the white papers themselves.

Identifying Goals

Ideally, each white paper will thoroughly review all aspects of the critical issues and present recommendations that allow a goal, or occa-

sionally multiple goals, to be readily identified. It is the strategic planning committee's job, with appropriate planning staff and management support, to select a goal that will constructively and creatively deal with the critical issue (and assist in achieving some part of the vision, or at least make significant strides in that direction).

Typically, each task force leader will present his or her team's report to the strategic planning committee for review, modification, and, ultimately, acceptance. At that time, or in a subsequent meeting, a potential goal will be identified, discussed, and modified before approval by the strategic planning committee. Figure 5.6 presents goals that were defined for the critical issues of one of the organizations in Figure 5.3. Because this organization was concerned about its ability to move forward on all fronts at once, it took the additional step of prioritizing the goals (see Figure 5.7) as an aid to sequencing implementation needs.

Note that the goals have been stated in a measurable form to the maximum extent possible. Also, goals have been stated as targets to be achieved in the future—they are “what” rather than “how” statements for the most part. Both goals and objectives should be framed as ends to be achieved on the way to the vision, leaving the means to achieve them, or the “how,” to the action plan.

The completion of this task is significant in that it puts in place the final piece of the strategic plan with which the board should be principally concerned. Collectively, the mission, vision, values, strategy, and goals constitute the “policy” portion of the plan, whereas the remaining components, objectives and actions, are more tactical and operational in nature. It may be helpful to think about the strategic plan as composed of two parts: strategy, which has been the subject of Chapters 4 and 5 until this point, and the management action plan, which remains to be completed.

Unfortunately, few not-for-profit boards understand or appreciate this distinction. Although the work of the strategic planning committee as a whole should be wrapped up at this point and management should take responsibility for completing the remaining plan tasks and components, most strategic planning committees continue to function in an increasingly dysfunctional way until the plan is entirely complete.

A compromise may be in order here. Rather than finish the committee's work at this point, or allow it to continue to provide oversight in a manner similar to that in prior tasks, thank the committee for completing the overwhelming majority of its important work and offer

Figure 5.6: Summary of Strategic Plan Goals, 2002 to 2004

Value Enhancement	<ul style="list-style-type: none"> • QUALITY: Health First achieves superior quality outcomes through the use of evidence-based clinical practice and achieving customer satisfaction in the top 15 percent nationally. • COST: Health First attains a cost position at or below the 50th percentile of comparable central Florida health systems.
Revenue Growth	<ul style="list-style-type: none"> • CLINICAL PROGRAM DEVELOPMENT: Health First offers two to three leading “institutes” and raises the bar clinically in other key areas. • HEALTH PLAN GROWTH: Health First Health Plan grows to cover 65,000 Brevard County and northern Indian River County residents by 2004. • PLANNING AND BUSINESS DEVELOPMENT: Health First has a coordinated, innovative business development function to facilitate evaluation and selective pursuit of opportunities to grow new health-related revenue streams to 5 to 10 percent of net revenue.
Physician Relationships	<ul style="list-style-type: none"> • MEDICAL STAFF DEVELOPMENT: Health First grows and develops the medical staffs, consistent with community and strategic needs, and improves physician relationships in a proactive manner. • HEALTH FIRST PHYSICIANS, INC. EVOLUTION: Health First Physicians, Inc., and its affiliated entities achieve target budget performance, overall and per physician practice.
Organization and Management	<ul style="list-style-type: none"> • LEADERSHIP: Health First’s leadership structure and processes contribute to enhanced system behavior and streamlined decision making. • ASSOCIATES: Health First recruits and retains excellent associates and becomes the medical employer of choice in central Florida. • COMMUNITY: Health First continues to support programs or partner with other community organizations to improve the health status of the community.

Source: Health First, Inc. 2001. Used with permission.

to reconvene it when the objectives and actions are drafted. At that point management can present its draft management action plan and an executive summary of the plan to the committee. Following review by the committee, the action plan and executive summary are submitted to the full board for approval and adoption.

ESTABLISHING OBJECTIVES

If the approach suggested above is followed, the remaining planning tasks are carried out under the direction of senior management. These tasks typically involve broader representation of management team members than has been the case up to this point.

Essentially, each goal needs to be dissected into smaller, more manageable components:

- **Objectives**, which represent short-term targets in each goal area; and
- **Actions**, which are the principal activities that need to be accomplished to achieve the objectives.

The objectives and actions collectively comprise the near-term “game plan” to move the organization’s strategic plan forward.

Sometimes the objectives are fairly well developed in the white papers and task force discussions, assuming that the organization follows that route. In other cases senior management staff will need to prepare the objectives, individually or collectively. In any event, the objectives need to provide intermediate, measurable (if possible) targets on the path to achievement of the goals. An example of the goals and related objectives for one of the organizations in Figure 5.3 appears as Figure 5.8.

One final topic in this activity is deserving of some discussion. There is great controversy among strategic planners about the depth and breadth of financial analysis that is appropriate in the strategic planning process. A minimalist approach is recommended in this book, whereas others believe something close to a financial feasibility forecast is necessary. Current thinking on this subject, as embodied in much of the literature referenced in Chapter 1, is consistent with the approach recommended here. For example, Bellenfant and Nelson (2002) suggest that the financial analysis in strategic planning should be “a reality check, ensuring that an organization’s strategies do not outstrip its resources and that new initiatives provide the desired level of value.”

Figure 5.7: Relative Priority of Recommended Strategic Plan Goals, 2002 to 2004

	Value to the System as a Whole					Practical Considerations					TOTAL SCORE
	Strategic	Financial	Clinical	Image	Customer Service	Time Required	Capital Required	Legal and Regulatory Issues	Potential Internal Resistance	Likely Competitive Response	
<i>Potential Points</i>	20	20	20	20	20	-10	-10	-10	-10	-10	
VALUE ENHANCEMENT											
Quality	●	⦿	●	●	●	●	●	○	⦿	○	65
Cost	⦿	●	○	○	○	⦿	○	○	⦿	○	20
REVENUE GROWTH											
Clinical program development	●	●	●	●	●	●	●	⦿	⦿	●	60
Health plan growth	●	⦿	⦿	⦿	⦿	●	○	○	⦿	⦿	40
Planning and business development	⦿	●	⦿	⦿	⦿	⦿	⦿	⦿	⦿	⦿	35
PHYSICIAN RELATIONSHIPS											
Medical staff development	●	●	●	⦿	⦿	●	⦿	⦿	●	●	40
Health First Physicians, Inc. evolution	⦿	●	⦿	○	○	⦿	○	○	⦿	○	30
ORGANIZATION AND MANAGEMENT											
Leadership	⦿	⦿	⦿	○	○	⦿	○	○	⦿	○	20
Associates	⦿	⦿	●	⦿	●	⦿	⦿	○	⦿	⦿	50
Community	⦿	○	⦿	⦿	⦿	⦿	○	○	○	○	35

● Extensive: 100 percent of potential points ⦿ Moderate: 50 percent of potential points ○ Limited: 0 percent of potential points

Source: Health First, Inc. 2001. Used with permission.

Figure 5.8: Recommended Goals (Fiscal Years 2006 to 2008) and Objectives (Fiscal Year 2004)

	Critical Issue: System Development and Organization
Goals	<ul style="list-style-type: none"> • The leadership structure and processes of Chester River Health System (CRHS) contribute to enhanced system behavior and streamlined decision making • CRHS's membership supports efficient use of community resources
Objectives	<ul style="list-style-type: none"> • Consolidate decision-making authority into one board • Develop mechanism to move financial assets within system • Restructure system management • Redefine how long-term care services will be provided • Explore combining hospice services across Chester River Home Care & Hospice, Kent Hospice Foundation, and Hospice of Queen Anne's County
	Critical Issue: Program Development
Goal	<ul style="list-style-type: none"> • CRHS provides new or significantly enhanced services in two to three areas, with particular focus on core services and community health and wellness
Objectives	<ul style="list-style-type: none"> • Strengthen depth and breadth of surgical services • Enhance market position in women's health • Offer more advanced cancer services • Enhance inpatient and outpatient rehabilitation services • Play a more active role in community health and wellness
	Critical Issue: Geographical Expansion
Goal	<ul style="list-style-type: none"> • CRHS grows market share by 5 to 8 percentage points in Queen Anne's County and 1 to 2 percentage points in southern Cecil County
Objectives	<ul style="list-style-type: none"> • Provide practice promotion and development for existing primary care offices in the Centreville and Galena areas • Recruit additional primary care physicians to target area(s) based on community need • Consider development of satellite outpatient center(s) in Queen Anne's County • Expand key community leaders' involvement with CRHS • Explore expansion of home care services

	Critical Issue: Medical Staff Development
Goal	<ul style="list-style-type: none"> • CRHS has a net addition of eight to ten physicians to its medical staff, consistent with community and strategic needs
Objectives	<ul style="list-style-type: none"> • Conduct medical staff development plan and respond to identified needs • Establish full-time community-based radiology presence
	Critical Issue: Critical Resources
Goal	<ul style="list-style-type: none"> • CRHS has the appropriate land, facility, technology, and human resources to support future growth and development
Objectives	<ul style="list-style-type: none"> • Develop master plan to ensure adequate land and facility development to support strategic direction • Implement information systems upgrade • Continue focus on employee recruitment and retention • Integrate system resources

Source: Chester River Health System 2002. Used with permission.

The strategic plan should have a high-level strategy focus. Any substantial financial analysis should occur in implementation or later. However, one note of caution is important. The approach recommended in this book is one that is continually vigilant and cognizant of the need to recognize resource limitations, make choices, and focus effort. This approach can be accomplished with a process that has financial awareness and concerns as part of its infrastructure so that financial implications are implicitly part of each step of the process. If this degree of financial awareness and astuteness is not routinely part of the organization's work, some substantive financial tasks may need to be included in the strategic planning process.

CONCLUSION

When activity III is complete, the organization will have a strong framework, through its goals and objectives, for the work that lies ahead in implementing the plan in the years to come. But, even more important, if the planning process has been successfully carried out, a byproduct of the process will be shared learning among organizational leaders about how to address each critical issue. Consensus or near consensus

Appendix 5.1: Service Line Development and Centers of Excellence

Issue Definition and Background and Situation Description

Community Medical Center (CMC) has made some effort to develop clinical areas of expertise but has not developed a true center of excellence (COE). Without some level of COE development, CMC services will not be differentiated in the market.

- CMC offers a broad scope of clinical services—current programmatic strengths include cardiovascular, orthopedics, women’s health, and behavioral health.
- Regional Hospital is an aggressive system offering similar clinical services that directly compete with CMC.
- Linkages with University Hospital (in collaborative and successful working relationships) could strengthen service lines and contribute to development of COEs.
- Projected population growth over the next five years is minimal and market growth will be modest; therefore, competition will be among hospitals in service lines.

Strategies Employed by Others

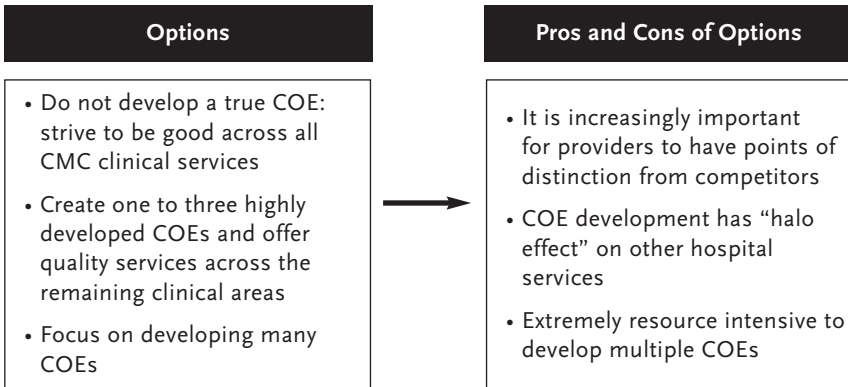
Hospitals like CMC that have been successful in developing COEs have concentrated on developing a limited number (one to three total at any point in time), as noted below. Hospitals that have attempted to develop multiple COEs have not succeeded because of the extremely high degree of resources required in each area of COE development.

- Nationally, major medical centers are moving toward developing COEs.
- Many of the COEs being developed are comprehensive and offer a multidisciplinary approach to care.
- While many systems attempt to develop multiple COEs, *successful* systems develop a limited number (one to three) initially.
- Given minimal population growth in CMC’s primary service area, outreach to the secondary service area will be important in COE development.
- Linkage to clinical research and clinical trial opportunities appeals to today’s informed consumer.
- Community hospital COEs benefit from relationships with academic health systems like University Hospital.

Appendix 5.1 (continued)

Options Available to CMC

The planning committee considered the options available to CMC. Based on market conditions and the need to develop some areas of distinctiveness for CMC, it was decided that CMC should strive to create one to three highly developed COEs while offering quality services across the remaining clinical areas.



CMC’s Proposed Strategy

The proposed strategy calls for CMC to continue to develop COEs; however, the number of COEs will be limited to only a few over the next five years. Given current quality and performance, it is recognized that cardiovascular services could be quickly and efficiently positioned in the marketplace as a comprehensive, multidisciplinary COE for CMC. It is also proposed that additional COEs be developed over time and new services be created to meet market need.

Recommendation

- Aggressively continue the development of cardiovascular services as a COE.
- Continue to roll out the development of other COEs such as orthopedics, women’s health, and behavioral health.
- Identify and strengthen other key clinical services by determining those with the greatest likelihood of success in the market, including
 - Ability to meet market demand;
 - Potential to be a market leader and develop selective niches for CMC; and
 - Rational use of resources.
- Develop synergistic clinical relationships with University Hospital to the extent possible.

Appendix 5.1 *(continued)***Goal (2003 to 2008)**

- CMC is the leading regional provider of cardiovascular services and is recognized for its COEs in one to two additional clinical programs.

Objectives (2003 to 2008)

- Cardiovascular services is a comprehensive, multidisciplinary COE.
- Key elements required to become a successful COE are in place for one to two additional programs (potentially orthopedics, women's health, behavioral health, pediatrics, and oncology).
- Routine programmatic improvements continue in emergency department and trauma, neurosciences, and other services.
- Other clinical services are identified and significantly enhanced based on market need and opportunity; consider services such as digestive diseases, geriatrics, health and wellness, and others.

Measurement Criteria

- Quality indicators
- Volume and market position
- Financial performance
- Differentiation from competitors (consumer image)

CMC's Barriers and Constraints

- Extremely formidable competition from Regional Hospital in cardiovascular services
- Capital needs given financial position and competing priorities
- Leadership lacking currently to drive center of excellence development outside of cardiovascular services

on managing these issues will facilitate problem-free approval of the strategic plan and a rapid transition from planning to implementation.

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Chapter 6

Activity IV: Transitioning to Implementation

“When it comes to getting things done, we need fewer architects and more bricklayers.”

—*Colleen C. Barrett*

“Never mistake motion for action.”

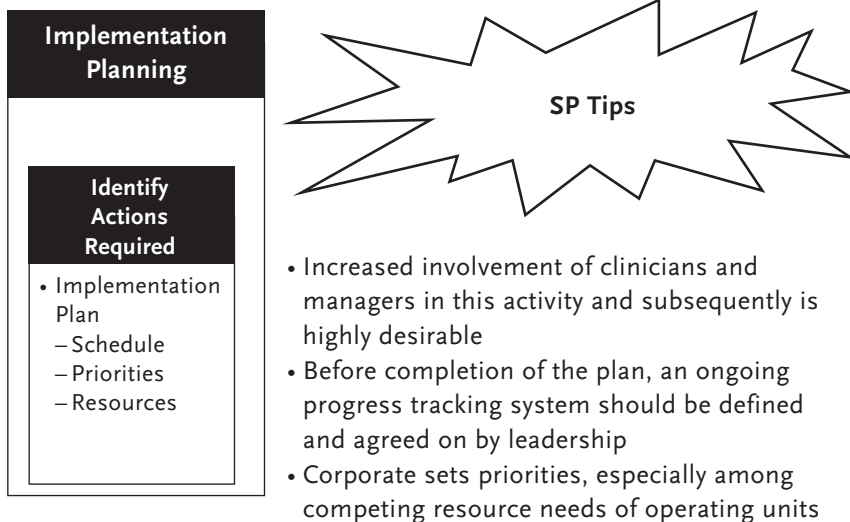
—*Ernest Hemingway*

NO STRATEGIC PLANNING topic is as confused today as how to manage successfully the transition from planning to implementation. While developing a good strategic plan is not easy, many feel that implementation is by far a more difficult activity. And the transition from strategic planning to implementation is apparently a point where organizations frequently stray off course.

Figure 6.1 identifies some of the key elements of this activity of the strategic planning process and highlights (1) the importance of increased involvement of those who will be the principal participants in implementation of the plan; (2) the need to specify and adhere to an ongoing tracking system for plan implementation; and (3) the critical role in larger healthcare systems of the corporate organization in defining and mediating demands for resources required to carry out implementation.

A few comments on the key subcomponents may be helpful in this stage and subsequently

- **Assignment of responsibilities for implementation.** Specific individuals must be designated and held accountable for each objective and action.

Figure 6.1: Developing the Plan: Action Planning

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- **Communications and roll out.** A formal, highly inclusive, and informative roll out of the strategic plan should assist in facilitating implementation.
- **Detailed planning.** In certain cases more detailed analysis or study during the implementation phase may be desirable and warranted and should be anticipated, structured, and managed.
- **Monitoring progress.** Progress must be monitored on a regular basis during implementation, with plans adjusted as needed.
- **Regular plan review and update.** If at all possible the organization should commit to carrying out strategic planning on an ongoing basis.

IMPLEMENTATION FRAMEWORK

The last substantive strategic planning task is the preparation of an implementation framework. This task involves taking the objectives identified as the final output in Chapter 5 and putting them into a framework that facilitates implementation and ongoing monitoring of implementation progress. At a minimum, actions for each objective need to be

developed, and each action should be assigned to a primary party who will be responsible for directing and scheduling implementation.

Some implementation frameworks may include additional information such as secondary parties or groups that will support implementation, incremental operational or capital resource requirements and time frames approval requirements, significant decision-making needs, and timing. A basic implementation framework is illustrated in Figure 6.2, and an example implementation plan appears in Figure 6.3.

With implementation nearing, the typical strategic planning process will involve additional members of the healthcare organization's management team. As noted earlier, during the course of the strategic plan development process, primary responsibility shifts from the board, whose focus is on the early strategic policy recommendations, to the senior management, whose responsibility it will be to implement these policies and provide consistent strategic direction to all of the operational entities of the organization, and finally to a broad group of middle management and staff who will act as the frontline implementation team.

If implementation is to be effective, these implementation team members need to understand the aspects of the strategic plan that have been developed largely by the board and senior management, and they need to actively participate in shaping those parts of the plan for which they will be principally responsible (i.e., actions, budgets, and schedule). At this point in the process, broad-based involvement of middle managers and others is not only appropriate but critical.

Often, a senior manager will be assigned primary responsibility for implementation activity related to a specific goal and will assemble an implementation team to work on the goal. Depending on the complexity of the assigned area and scope of implementation activities required, the team may consist of as few as two to three individuals or as many as 20.

During this final task of the strategic plan development process, each implementation team ordinarily will meet two to three times to flesh out the initial implementation framework. Every organization operates in its own unique manner. Some work best with loose frameworks, similar to Figure 6.2, whereas others may significantly expand this chart with additional implementation detail for each action. One important additional consideration increasingly incorporated into these frameworks is a contingency plan for complex, difficult, and risky strategies.

Figure 6.2: Sample Implementation Format

	Resource Requirements	Target Completion	Responsibility
Goal 1:	Magnitude of resources required (\$ and effort)	Month and year (can also provide start date and key intermediate points)	Individual leading effort and support staff or team
1.1 Objective: a. b. c. d. e.			
1.2 Objective: a. b. c. d. e.			
1.3 Objective: a. b. c. d. e.			

However the organization decides it is best to proceed, momentum must not be lost in the process. Implementation should begin as rapidly as possible, often before the plan is actually adopted by the organization, and should proceed as envisioned, with modifications as necessary and appropriate, so that the organization's vision and goals are realized.

Although much more will be said about the important topic of the actual implementation of the plan (see Chapter 9), this is an appropriate point at which to introduce this topic. Most experts concur with Ginter, Swayne, and Duncan (2002) that, "Implementation is as much a job of strategic leadership as strategy formulation . . . and that effec-

TRANSITIONING TO IMPLEMENTATION 83

GOAL: CMC is the leading regional provider of cardiovascular services and is recognized for its centers of excellence (COEs) in one to two additional clinical programs	Measurement Criteria: <ul style="list-style-type: none"> • Quality indicators • Volume and market position • Financial performance • Differentiation from competitors 		
	Resource Requirements	Target Completion	Responsibility
Objectives and Action Steps 1.1 Cardiovascular services is a comprehensive, multidisciplinary COE <ul style="list-style-type: none"> a. Analyze current programs and services to identify any gaps in services and ensure that CMC's cardiovascular program is comprehensive and multidisciplinary in nature <ul style="list-style-type: none"> • Consider developing new programs such as extended care, congestive heart failure, and lipid clinic • Identify resource needs and requirements as well as return on investment (ROI) b. Review and revise current proposed facility plan that develops cardiovascular services as "hospital in a hospital" and moves all inpatient services into a contiguous area <ul style="list-style-type: none"> • Prioritize space relocation (consider developing reception area first, remodeling 3A, etc.) • In conjunction with facility plan, conduct a bed-need study to determine utilization and streamline efficiencies (e.g., observation beds in emergency department for patients from chest pain center) c. Conduct (an equipment) needs assessment and upgrade equipment <ul style="list-style-type: none"> • Consider cath lab replacement, electrophysiology upgrades, additional monitored beds, fixed cath labs in emergency department d. Assess feasibility of implementing a nursing and allied health staffing plan based on projected volume growth, potential for dedicated staff (e.g., physical therapy, nutrition), and cross-training e. Measure and monitor quality indicators and report on a regular basis 	< \$25,000 \$3.0 million \$2.5 million to \$4.5 million < \$25,000 < \$25,000	December 2002 December 2002 December 2003 December 2003 June 2003	Dr. S.

Figure 6.3 (continued)

GOAL: CMC is the leading regional provider of cardiovascular services and is recognized for its centers of excellence (COEs) in one to two additional clinical programs	Measurement Criteria: <ul style="list-style-type: none"> • Quality indicators • Volume and market position • Financial performance • Differentiation from competitors 		
	Resource Requirements	Target Completion	Responsibility
Objectives and Action Steps f. Develop a comprehensive marketing plan (see infrastructure goal) g. Develop a plan that enhances programmatic relationships with University Hospital h. Work with medical staff office to continue building physician relationships locally and regionally i. Establish a financial performance system that monitors financial indicators and measures ROI	Refer to infrastructure < \$25,000 < \$25,000 < \$25,000	June 2003 Ongoing Ongoing June 2003	
1.2 Key elements required to become a successful COE are in place for one to two additional programs (potentially orthopedics, women's health, behavioral health, pediatrics, and oncology) a. Establish a decision-making process to assist in identifying one to two additional COEs <ul style="list-style-type: none"> • Define key elements required to be a COE (consider adding to those in CMC strategic plan) • Build a financial model to assess proposed financial performance and ROI • Consider "redefining" COEs (e.g., orthopedics broadened to restorative care) b. Reassess orthopedics as a COE c. Assess all other potential COEs (women's health, behavioral health, pediatrics, cancer, new program development) using the established decision-making process to identify an additional comprehensive COE	TBD < \$25,000	December 2002 June 2003 December 2003	N. Jones

Figure 6.3 (continued)	Resource Requirements	Target Completion	Responsibility
<p>1.3 Routine programmatic improvements continue in emergency department and trauma, neurosciences, and other services</p> <ul style="list-style-type: none"> a. Complete emergency department and trauma certification process b. Continue neurosciences program development <ul style="list-style-type: none"> • Consider adding intensive care unit beds for neuro/trauma (incorporate into facilities bed compliment plan) c. Review implementation of pediatric service <ul style="list-style-type: none"> • Support physician recruitment as needed • Incorporate facility needs into facility master plan • Assess opportunities for pediatric surgical services 	<p>\$50,000</p> <p>TBD</p> <p>TBD</p>	<p>December 2002</p> <p>Ongoing</p> <p>Ongoing</p>	J. Williams
<p>1.4 Other clinical services are identified and significantly enhanced based on market need and opportunity; consider services such as digestive diseases, geriatrics, health and wellness, and others</p> <ul style="list-style-type: none"> a. Create a business planning process that identifies all current non-COE programs and services and new program development opportunities <ul style="list-style-type: none"> • Assess potential opportunity and vision • Assess resource needs • Assess financial performance and ROI b. Evaluate potential program development initiatives using the business planning process c. Identify growth, maintain, or divest strategies for each current and potential program or service 	<p>< \$25,000</p> <p>< \$25,000</p> <p>< \$25,000</p>	<p>June 2003</p> <p>June 2003</p> <p>Ongoing</p>	N. Jones

tive strategy implementation requires the same determination and effort that is devoted to situation analysis and strategy formulation.”

Corboy and O’Corribui (1999) identify the following “seven deadly sins . . . that doom effective strategy implementation”:

1. **The strategy is lacking in terms of rigor, insight, vision, ambition, or practicality.** If the strategy is simply more of the same, comfortable, and incremental it will not create the excitement needed for successful implementation.
2. **People are not sure how the strategy is to be implemented.** Leaders are too impatient to make the strategy happen so that communicating details about how implementation is to proceed is thought of as time-consuming indecisiveness.
3. **The strategy is communicated on a “need to know” basis rather than freely throughout the organization.**
4. **No one is responsible for each aspect of strategy implementation.** Failure to carefully see to all aspects of implementation results in oversights and confusion.
5. **Strategic leaders send mixed signals by dropping out of sight when implementation begins.** The absence of strategic leadership implies that implementation is not worthy of their attention and, therefore, unimportant.
6. **Unforeseen obstacles to implementation will inevitably occur so that responsible people should be prepared for them and be encouraged to overcome barriers in creative and innovative ways.**
7. **Strategy becomes all consuming and details of day-to-day operations are lost or neglected.** Strategy is important but so are operations.

ADOPTION OF THE STRATEGIC PLAN

If planning activities have proceeded smoothly up until this point, adoption of the strategic plan is fairly simple and straightforward. The steps that need to be followed to formally approve the strategic plan include

- Preparation of an executive summary;
- Preparation of the strategic plan document;
- Resolution by the strategic planning committee recommending approval of the plan by the board;

- For most hospitals and health systems, review and input by medical staff leadership;
- Formal and informal educational sessions and presentations of the strategic plan to the board; and
- Strategic plan approval by the board.

The Executive Summary

Preparation of an executive summary of the strategic plan is sometimes overlooked in the rush to move from planning to implementation. However, this document is often the only strategic plan output read by many board members and other important stakeholders. When new board and senior staff members join the organization in the first few years following completion of the strategic plan, the executive summary of the strategic plan provides a critical perspective on both the organization and its direction and strategies.

The executive summary should include the rationale for preparation of the strategic plan, background on the planning process used, major findings, and major recommendations. It is highly desirable for this executive summary to be no more than two to three pages in length. Figures 6.4 and 6.5 present sample one-page summaries of major recommendations. Some organizations issue the executive summary as a stand-alone document, with the strategic plan as a separate companion document. Others place the summary in front of the complete strategic plan document.

Whether the executive summary is prepared as a stand-alone document or integrated into the strategic plan, a complete strategic plan report should be prepared at the conclusion of the planning process. The strategic plan report should include the outputs of all planning activities and a description of important process steps (e.g., interviews, retreats). This document serves as the record for all that occurred during the planning process and provides an excellent reference of analyses and supporting information that may be germane to implementation.

Committee Review

The complete strategic plan document usually is viewed in draft form by senior management and the strategic planning committee before being finalized. Most organizations provide a copy of the strategic plan report to all board members prior to discussion of approval by the board. The complete report is also distributed to the senior management team.

Figure 6.4: Proposed AtlantiCare Strategy Map, 2004 to 2008

VISION

AtlantiCare builds healthy communities.

MISSION

AtlantiCare is an integrated system of services that assists people to achieve optimal health. This system, driven by customer needs and expectations, provides accessible, comprehensive services of superior quality and value.

VALUES

Integrity . . . Respect . . . Service . . . Teamwork . . . Safety

STRATEGIC GOALS

EQUITABLE HEALTH CARE

- 1. Eliminate barriers to health and care using expanded community leadership

PROMOTE HEALTH OF POPULATION

- 2. Develop a core capability around promoting the health of populations, starting with our own employees and dependents.

“BEST IN CLASS”

- 3. Achieve “best in class” levels of care delivery, workplace environment, customer service, efficiency, safety, and overall quality.

INTEGRATE THE SYSTEM

- 4. Leverage unique system capabilities to create increased value for external and internal customers.

FINANCIAL STRENGTH

- 5. Maintain our financial strength in order to support the other strategic goals.

MAJOR PRIORITIES

- 1A) Expand drug and alcohol treatment programs
- 1B) School-based programs for children
- 1C) Programs for science
- 1D) Cultural diversity awareness
- 1E) Health Cities

- 2A) AHP/JV Initiatives:
 - P-3000 plus
 - Targeted community groups (e.g., seniors)
 - Horizon membership
- 2B) Obesity (diabetes, hypertension), cardiac pilot programs)
- 2C) Market to employers and payers

- 3A) Magnet status
- 3B) Baldrige
- 3C) NOVA
- 3D) Top 100 employers
- 3E) IHI impact
- 3F) Customer satisfaction
- 3G) Clinical outcomes

- 4A) IT strategic plan
- 4B) Community alliances
- 4C) Flatten organization
- 4D) Geographical expansion
- 4E) Transportation
- 4F) Productive physician relationships

- 5A) Revenue growth from existing business and service
- 5B) Revenue growth from new business and services
- 5C) Operating margin targets
- 5D) Days in accounts receivable
- 5E) Days cash-on-hand targets

INNOVATE

IMPROVE

INVEST

INFORM

INVOLVE

Figure 6.5: Cortland Memorial Hospital Strategic Planning, 2003

MISSION	GOALS
<p><i>(Organization's purpose—for internal and external audiences)</i></p> <p>Cortland Memorial Hospital provides <i>quality</i> healthcare with skill and compassion, meeting the lifelong health-care needs of all citizens of Cortland and the surrounding communities.</p>	<ul style="list-style-type: none"> • Adopt a product line approach to clinical and financial management, which includes a proactive approach to performance improvement. • Enhance the hospital's image, promote product lines, and increase market share. • Expand or develop new services and product lines to generate new revenue of \$5 million over five years. • Be an employer of choice and develop a culture of service excellence. Be ranked in the top 5 percent in patient and employee satisfaction. • Strengthen relationships with physicians. • Develop local solutions to insurance crisis.
VISION	
<p><i>(What Cortland Memorial Hospital aspires to be in five to ten years—for internal audiences)</i></p> <p>Cortland Memorial Hospital will be the best choice for quality healthcare.</p>	
STRATEGY STATEMENT	
<p><i>(Principal method to achieve the vision—primarily for internal audiences)</i></p> <p>"Patient centered and performance focused."</p>	

Source: Cortland Memorial Hospital 2003.

Further distribution of the report or executive summary is discretionary depending on the sensitivity of material included in the report, extent of competition and potential for strategy "leaks," and potential recipients' need to know.

Although it may only be a formality if the strategic planning process has proceeded smoothly, the procedure followed in nearly all health-care organizations is for the strategic planning committee to formally recommend adoption of the plan to the board. As noted above, the planning committee at its final committee meeting typically receives a draft document.

Usually, limited changes in wording or format may be suggested by the committee, with the main purpose of the meeting to recommend the plan to the board for approval. Occasionally, this final meeting is also used to discuss next steps and implementation and to outline how

the committee will be involved in subsequent strategic plan updating or implementation monitoring.

In hospitals and health systems that include hospitals as a major component, review of the strategic plan by medical staff leadership is usually a desirable step to take before the board formally considers the plan. Although there is substantial variation in how this step is carried out, some medical staff review and input to the board is almost always sought by board members.

Medical staff participation in this stage may range from one-on-one or small group consultations with a few carefully selected staff leaders (especially in highly competitive environments) to meetings with the medical executive committee or other medical leadership groups to broader based input in the most participative environments. The nature of the dialog with the staff is to seek out fairly high-level input as opposed to more detailed or parochial input, although some of that may be provided anyway. Finally, medical staff approval of the plan is rarely requested, so it is important to reinforce that input, not approval, is being requested.

Board Approval

In most healthcare organizations at least one complete presentation of the strategic plan to the board is provided prior to formal review by the board. This educational session, which may be conducted in a retreat format, provides an opportunity for the full board to review and question the plan's analyses, findings, and recommendations. This type of session is intended to increase the board's understanding of the plan and its implications for the organization and allow any important issues about the plan development process and subsequent implementation to surface and be discussed.

For most healthcare organizations one educational session of this type is the only major activity required before formal board consideration of the plan. However, some organizations may require a second educational session, small group discussions, or one-on-one meetings between board members and the CEO. Senior management and leadership of the strategic planning committee must do whatever is necessary to ensure that board members understand and support the strategic plan. Strategic planning leadership should be especially sensitive to board members' concerns, confusion, or discomfort and attempt to

address directly board member needs so that the full board is genuinely enthusiastic about strategic plan adoption and implementation.

The board review and approval process of the strategic plan may encompass a limited number of steps carried out over a few weeks or a significant number of steps over a few months. This is largely a function of the complexity of the plan, its recommendations, and organizational style, such as the degree of deliberateness in the review and approval process.

Rarely are strategic plans not approved, although there are undoubtedly instances in which the plan is rejected by the board at this point or returned to the planning staff or committee for major rework. If the staff and committee have done their jobs well, including gathering extensive input and communicating with all elements of organizational leadership, the board approval process should proceed without any serious roadblocks.

Adoption of the strategic plan by the board should be a mere formality. If this is not the case at the time the strategic plan is brought forward for formal consideration, undoubtedly either appropriate preparation did not occur or sensitivity to board concerns was lacking.

MONITORING AND UPDATING THE STRATEGIC PLAN

Ongoing Review and Revision

Approval of the strategic plan should not be viewed as the end of planning, but rather as the beginning of the next phase. In today's health-care delivery environment a comprehensive and thorough strategic planning process should result in a strategic plan that has a useful life of three to five years. The plan will need to be updated or fine-tuned during that period. In fact, strategic planning should be viewed as an ongoing activity of the organization (discussed and described further in Chapter 9). Even in years when a complete updating of the plan is not required, there should be an annual calendar of strategic planning activities, including limited update of the environmental assessment, modification of goals, and preparation of new or revised objectives and actions.

It is especially important to monitor progress in achieving strategic plan goals and objectives; in some cases it may be necessary to abandon goals or objectives because they are not achievable or no longer desirable. As a result of implementation activities or strategic plan

update analyses, secondary contingency strategies or actions may need to be deployed, with the primary strategy or action deemphasized or halted. Contingency plans are especially important for risky (financial and nonfinancial) strategies and should be developed early in implementation planning for potential deployment later.

Every organization should commit to a regular, formal progress tracking and monitoring process before completion of the strategic plan. In the first year following completion of a full plan, many organizations monitor progress monthly or bimonthly. Assuming good progress is being made and significant external or internal changes are not occurring, formal progress tracking and monitoring may be conducted with decreasing frequency later but probably need to occur at least quarterly if they are to remain effective.

Interim-Year Activities

At a minimum, two major planning-related activities should occur in the off years when a comprehensive strategic planning process is not underway: updating and implementing the plan. In some organizations responsibility for these activities is assigned to the same party, a group of senior management staff, or the strategic planning committee. Even if the responsibilities for carrying out these activities are separated, the activities need to be linked and communication must occur regularly between the responsible parties.

In those years in which a limited update of the strategic plan occurs, it is still important to create a record of the update process and output (e.g., Strategic Plan Update for [Year]) and, in some instances, to update the full board or formally modify the approved strategic plan. Many healthcare organizations now conduct an annual board retreat, which is a good forum for review of the year's progress and setting direction for the next year.

STRATEGIC PLAN COMMUNICATIONS AND ROLL OUT

Some organizations do an exceptionally good job of communicating the results of strategic planning and moving into the implementation phase, whereas others do not. Why is there such wide variation in attention to this task?

Few would argue against the importance of communicating the results of strategic planning and making an effective transition from planning to implementation. What appears to be at issue is the degree

of formality and extensiveness of the communications process as well as the rigor and need for structure in transitioning to implementation. Earlier in this chapter the case for rigor and structure in the implementation process was outlined and the pitfalls of a lack of leadership commitment to implementation were defined. Effective management of the implementation process will be discussed further in Chapter 9.

Another key element of effecting the successful transition from strategic planning to implementation is a strong communications process. Organizations that move smoothly and effectively from planning to implementation communicate broadly and use the completion of the strategic plan to signal to key stakeholders that a new era is beginning. The use of celebration as a communications element garners attention and interest and raises expectations.

The communications process should be designed to inform and involve constituents. By providing an opportunity to share strategic plan findings, recommendations, implementation priorities, and sequence with key individuals and groups, the prospects for plan acceptance and implementation support are enhanced. In many cases, as a result of a good communications process, the plan's recommendations may be embraced enthusiastically and implementation is aided greatly.

Fogg (1994) outlines some of the most important considerations in designing and effectively carrying out a strategic plan communications process. Four central aspects of the communications plan are:

1. Audiences that need to be addressed:
 - Senior management/boards,
 - Their subordinates, and
 - Other employees. In most healthcare organizations it is important to add medical staff members and key external constituencies.
2. How to determine what to tell each audience:
 - Tailor information to the jobs and positions of the audience
 - Take into account the information that it needs to carry out its part in the plan.
 - Be sensitive to the group's need to know proprietary information and/or the strategies agreed on.
 - As a general rule, the more people know about the vision and strategic plan, their role in it, and its effect on their job, the better. This helps direct spontaneous action, plans, and pro-

grams at lower levels in the organization. It also reduces working at cross-purposes and misunderstandings about what is strategically important (e.g., quality versus cost reductions).

3. The best method of communicating the plan:
 - Develop scripts and good visual aids for each major target audience so that a uniform message is conveyed.
 - Have a senior manager, preferably a member of the planning team, present the plan to each target group.
 - Leave time for employees (and others) to ask questions and get answers, preferably in small groups with managers facilitating them and recording issues.
4. Typical methods for communicating the mission statement for the first time include:
 - Sending it out, complete, in writing;
 - Making it “plaquable” (summarized in a few key words or sentences for desk or wall plaques);
 - Putting it on wallet-size cards—a popular and much-used method;
 - Producing a video featuring the CEO and top team explaining the mission. The video is useful for new employee indoctrination, for workers in remote locations, and for initial presentation of the mission.

Fogg (1994) also suggests that strategic plan communication is not a one-time event and that consistent effort and attention of the CEO and senior staff are necessary to carry out this communication successfully. While the planning process may be technically complete when the board approves the strategic plan, all of the hard and creative work may be for naught if a sustained effort is not carried through into implementation.

CONCLUSION

This chapter addresses a successful transition from planning to implementation and completion of the strategic plan. A thorough, structured approach to this transition is recommended in five key steps:

1. Assign implementation responsibilities
2. Communicate and roll out the plan
3. Complete additional detailed planning where necessary
4. Set up a system to monitor progress during implementation
5. Commit to regular plan updates

Because the transition from planning to implementation has been especially difficult for many healthcare organizations, a leadership-driven, carefully managed, and clearly articulated approach to this phase is required. The transition should be accomplished more smoothly and position healthcare organizations for a higher rate of implementation success.

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Chapter 7

Major Planning Process Considerations

“It is good to have an end to journey toward, but it is the journey that matters most in the end.”

—*Ursula K. LeGuin*

“The most important things a leader can bring to a changing organization are passion, conviction, and confidence in others. Too often executives announce a plan, launch a task force, and then simply hope that people find the answers—instead of offering a dream, stretching their horizons, and encouraging people to do the same. That is why we say, ‘leaders go first.’ ”

—*Rosabeth Moss Kanter (1999)*

NEARLY ALL EXPERTS agree that structuring and carrying out an effective process in strategic planning are more important to the organization and the success of strategic planning than the strategic plan itself. Why is this the case? The increasing complexity of the healthcare environment and the growing vulnerability of healthcare organizations to environmental and competitive threats has made it far more challenging to come up with effective strategic plans.

At the same time, the increasing size of healthcare organizations and the diversity and complexity of many of these organizations, especially the large, multientity systems, has significantly increased communications difficulties and rendered these unwieldy organizations difficult to manage. While it is possible to overdo the process and have too much process derail or overwhelm the capabilities of the organization to handle it, in general more process is better than less. As a rule, organizations should strive to maximize participation in the planning process within the limits of their capabilities to handle it and achieve the desired results.

Key to an effective planning process is developing shared understanding and, ultimately, consensus about four important elements of the strategic plan:

- 1 Environment, current and especially future
- 2 Critical issues that the organization faces
- 3 Mission and vision to guide the organization to the future
- 4 Major plan outputs, including priority strategies and alternatives considered

An effective process builds acceptance, facilitates approval, and expedites the transition from planning to action.

The planning process needs to link effectively the many constituencies involved in healthcare organizations and can facilitate better communication among staff as well as improved coherence in future operations. While the organization should certainly seek tangible outputs from strategic planning, the planning process presents important opportunities for improving communication across the organization and forging new and stronger bonds among stakeholder individuals and groups to help ensure the organization's future viability.

This chapter addresses some of the critical elements of the planning process. While many of these elements have been mentioned in passing in previous chapters, the importance of a strong planning process calls for more extended discussion.

FACILITATION

A critical element of a successful strategic planning process is facilitation. Someone needs to be primarily responsible for guiding the process throughout, ensuring that the important planning tasks are conducted and completed, assisting leadership and other key groups involved in the process to reach decisions and achieve consensus, and then directing the transition from planning to successful implementation. While many individuals involved in the strategic planning process will have specific responsibility for facilitating one or two aspects of the diverse group work, one person typically takes the lead throughout, with overriding responsibilities for the entire process.

What alternatives exist for strong facilitative support of the strategic planning process? In many healthcare organizations there is either a planning staff or an organizational development department (or occa-

sionally other internal resources) with one or more individuals who have the capabilities to direct the planning process. Some organizations retain consultants to fill this role. When evaluating possible consultants, organizations should look for individuals who are highly experienced, have industry and comparable organization experience, and possess a range of facilitation skills, described further below.

In some instances the CEO may consider serving as the process facilitator. Most CEOs will find this an extremely difficult job to carry out well, if for no other reason than it makes productive group discussion and consensus development difficult. Most CEOs inhibit free discussion because of their power and authority and tend to dominate meetings when put in charge. Avoid this alternative if at all possible.

Fogg (1994) suggests that the best facilitators have three types of skills (see Figure 7.1):

1. **Process:** Putting the planning process together and making it work
2. **Content:** Giving specific solutions to business and strategic problems
3. **Intervention:** Breaking personal, organization, and business decision blockages

He adds that all three types of skills may not be, and often are not, possessed by any single individual. The more of the three skills offered by one person or group, the more effective and efficient the strategic planning process will be. In nearly every strategic planning effort there is a need for all three types of skills, and the organization must be prepared to provide them at appropriate points in the process. Fogg believes that the lead facilitator must have certain basic process skills, especially a keen understanding of all parts of the planning and implementation process and how to weave them together successfully, knowledge of organizational behavior and the change process, and strong leadership capabilities.

TEAMWORK

Much of the strategic planning process occurs through the efforts of informally or formally constituted diverse groups. In the typical strategic planning process, important teamwork will occur through the strategic planning committee, board of trustees, senior management staff, and a variety of standing or ad hoc groups in the organization. How can the effectiveness of these many and varied groups be maximized?

Figure 7.1: Facilitator's Job Description

What the Facilitator Does		What the Facilitator Does Not Do
I. PROCESS	II. CONTENT	<ul style="list-style-type: none">❖ Develop the plan❖ Write the plan❖ Make decisions❖ Become a power point❖ Play politics❖ Execute the plan
<ul style="list-style-type: none">❖ Structure Structures the process Defines key analyses Produces the manual Handles documentation❖ Training Trains in planning and process❖ Facilitation Facilitates major meetings Teaches others to facilitate Gives private advice on process Schedules meetings❖ Resourcing Training Outside facilitators Content specialists	III. INTERVENTION	
	<ul style="list-style-type: none">❖ Solutions to specific strategic issues❖ Diagnostic interviewing<ul style="list-style-type: none">• Initial• In process❖ Private counsel, particularly CEO❖ Team interventions❖ Keeps process on time	When the Boss Facilitates; Is Part of the Team <ul style="list-style-type: none">❖ Be a member of the group❖ Speak last❖ Use good facilitator skills❖ Be neutral❖ Let the team come to consensus❖ Do not dominate or be authoritarian❖ You always have the deciding vote—use it sparingly

Source: Fogg 1994, p. 46. Used with permission.

Fogg (1994) suggests that effective teams are “characterized by:

- Considerable discussion
- Open communication
- Debate, even conflict, on key issues
- Decision by consensus whenever possible
- Monitoring, measuring, and correcting of their own team behaviors”

Effective teams must also have a clear charge or objective to accomplish, good leadership by a chair who facilitates and directs but does not dominate, and accountability of the team and individual members for results. Among other qualities, individual team members must be good listeners, constructive participants, and willing to put aside their own self-interest for the sake of the group. All in all this is a tall order but one that is essential to the smooth and successful flow of activities in the strategic planning process.

The interaction of the facilitator(s) and team is a critical element of an effective strategic planning process. Fogg (1994) provides an extremely useful checklist (see Figure 7.2) of facilitation tips to keep teams on track and moving ahead.

PLANNING RETREATS

Almost every strategic planning process will have at least one planning retreat. The retreat will usually bring together board members, physicians and other clinicians, and management in an extended planning session. Some retreats are intended for board members exclusively, others for members of different leadership groups. Depending on the organization’s style and preferences, as well as the particular focus of the planning retreat, the retreat may be held off-site and may even be carried out in a remote location and combined with social and recreational activities. A review of the purposes of the different types of retreats that may be held during the strategic planning process is presented below.

Kickoff Retreat

Some organizations use a retreat at the beginning of strategic planning to jump-start the process and create enthusiasm and momentum. The agenda for this type of retreat may include some or all of the following:

- Rationale for strategic planning (purpose and expected benefits);
- Strategic planning orientation (per Chapter 2);

Figure 7.2: Team Interventions**Process**

- ❖ Facilitate team mission; roles, job description, and processes used
- ❖ Process checks during and at end of meetings—what is good and bad versus norms
- ❖ Redirect process when off track
- ❖ Point out dysfunctional team behavior

Meeting

- ❖ Off agenda or subject—get team back on track
- ❖ Summarize or crystallize key points; transitions
- ❖ Offer stand-up facilitation when team is bogged down
- ❖ Crystallize, facilitate, and resolve conflicts
- ❖ Missing the point—suggest it

Content

- ❖ Wrong decision—point out correct options or process to define correct decision
- ❖ Suggest expert outsiders
- ❖ Give specific content solutions

Individual

- ❖ Point out dysfunctional individual behavior or interactions
- ❖ Offer individual or pair counseling

Source: Fogg 1994, p. 52. Used with permission.

- Review of previous planning efforts, successes, and failures;
- Review of the organization's recent performance;
- Discussion of the organization's strengths, weaknesses, opportunities, and threats (SWOTs);
- Review of current major strategic initiatives; and
- Identification on a preliminary basis of major planning issues.

Often, one or more outside keynote speakers will be used to discuss potential critical issues or environmental challenges. This type of retreat is a good vehicle for underscoring the importance of strategic planning and creating heightened interest in the planning process from the outset.

Midprocess Retreat

At any number of points in the middle of the strategic planning process, retreats can be held to

- Focus on a particular issue of concern;
- Have extended discussion that is not possible within a regular planning committee session;
- Obtain broad-based input, including the members of the planning committee and other important leaders not represented on the committee; or
- Brainstorm about approaches to issues facing the organization.

External speakers may be used in midprocess retreats in a manner similar to kickoff retreats. The purpose of the midprocess retreat is information sharing, and it is rarely used for decision making or communicating "answers" to strategic planning issues at this stage in the process.

Concluding Retreat

At or near the end of the strategic planning process a retreat may be held to

- Obtain additional, broad-based input before finalizing the recommendations;
- Communicate the answers (i.e., the plan's key recommendations);
- Serve as a bridge to implementation, including strategizing about implementation opportunities and barriers; and

- Build a broader consensus on the plan and its recommendations than that represented within the planning committee alone.

Often, this type of retreat will be developed to expose all members of the board to the strategic plan before it is brought to this group for formal consideration of its adoption. This type of retreat may also be used to signal the organization that planning is (temporarily) over and implementation is about to begin.

Retreats may be held in off years, when a full strategic planning effort is not undertaken, to accomplish any of the purposes cited above and keep the planning process going even as the organization's efforts are primarily devoted to implementation. Increasingly, healthcare organizations are holding one or two planning retreats per year to review and revise the strategic plan, make important corrections to the direction and strategies, and obtain broad-based consensus on key initiatives to keep the organization moving forward. These retreats are an excellent vehicle to maintain planning momentum and organizational commitment in the face of constant day-to-day pressures that consume management and have the potential to take the organization off course.

RESEARCH APPROACHES

Much of the success of the strategic planning process is dependent on information gathering and involvement of key constituencies, which come through various research efforts. The importance of constructive involvement of key constituencies in the strategic planning process cannot be overstated; implementation is dependent on a broad base of support for the plan's recommendations and actions. This support is only likely to occur if stakeholders believe they have a true opportunity to shape the results. A brief review of the range of research approaches used in strategic planning follows.

Interviews

Interviewing is typically part of every strategic planning process. Individual or group interviews usually occur early in the strategic planning process to gather information and demonstrate sensitivity to the perspectives of internal parties, but also to accomplish one or both of these purposes with external parties. Occasionally, interviews may be carried out during the middle of the process to gather additional infor-

mation on issues of concern or involve select parties in review of alternative approaches for addressing particular issues.

Surveys

Surveys are the second most frequently employed technique, and they are often used for information gathering early in the strategic planning process. Surveys may be carried out internally to gather broad input in a less expensive way than is possible through other research approaches. Internal surveys may also allow each member of an affected group to be involved in the strategic planning process, and they accomplish this participation in an equitable and consistent manner. External surveys have similar purposes. The advantages and disadvantages of telephone versus written surveys as information-gathering techniques are best left to extended review in a market research text, such as *The Survey Research Handbook* (Alreck and Settle 1995).

Focus Groups

The focus group technique is the least frequently used of the three approaches, but it is becoming more commonplace in strategic planning processes. Focus groups may be convened at any point in the process to gather information on a particular issue. Such groups are becoming a popular activity in the strategy formulation stage of the planning process and provide excellent forums for multidisciplinary development of strategy on a given issue. Here too the advantages and disadvantages of focus groups versus other research approaches is a larger subject than can be addressed here (see, e.g., Greenbaum 1993).

Most strategic planning processes will employ more than one of the above approaches. With the growing recognition of the importance of a strong process in strategic planning, more extensive use of individual and group research approaches in strategic planning can be expected and should be encouraged in future planning efforts.

KEY STAKEHOLDER INVOLVEMENT

A brief review of the role and participation expectations for key stakeholder groups in the strategic planning process seems in order given the importance of a superior planning process to the success of strategic planning.

Board Members

The strategic planning committee is usually an ad hoc or standing committee of the board and therefore includes significant representation from this group. Board members will be important participants in retreats and subjects of internal research. The board should be concerned with the policy implications of strategic planning and is generally and appropriately focused on the organizational direction portion of the strategic planning output.

Physicians

In hospitals, health systems, and, obviously, medical groups, physicians should be well represented on the strategic planning committee. They will often be the group that is the subject of the most extensive research of the internal (and sometimes external) constituencies.

Physicians should be concerned with the clinical implications of strategic planning; in teaching hospitals and academic medical centers they will also be concerned about teaching and research interrelationships with clinical services and specific recommendations affecting the academic role of their organizations. Physicians may be most broadly affected by the outputs of the strategic planning process, but except in some of the second- or later-generation integrated delivery systems, they do not have direct approval authority or clear implementation responsibility.

Few topics are as hotly debated today as how to involve medical staff members in hospital and health system strategic planning. The escalation of competition between physicians and hospitals over provision of outpatient services—and, increasingly, entire high-margin clinical service lines—has created enormous complexity and confusion in this area.

While no single approach exists that will fit every situation, it is imperative to constructively and carefully involve physicians in the planning process if effective planning is to occur. Appropriate accommodations will need to be made for competitive considerations in many instances. Little or no involvement of physicians in strategic planning is not an option.

Senior Management

Senior management is almost always represented on the strategic planning committee, but generally in smaller number and “voice” than

either of the above groups. Management is the coordinator of the strategic planning process—structuring the process, staffing it, keeping it moving along, and overseeing its implementation. Senior management's role and responsibilities in the strategic planning process generally increase as it reaches its later stages.

Other Clinicians

Depending on the nature of the organization, other clinicians (e.g., nurses, physical therapists, psychologists) may play a major or minor role in the strategic planning process. In healthcare organizations not dominated by hospitals or physicians, other clinicians may have significant involvement, including participation on the strategic planning committee of the board. In hospital- or physician-dominated healthcare organizations, other clinicians will play a minimal role or have no role in the strategic planning process but will usually get involved when implementation begins or is near.

Other Management

In most cases other management members will only get involved in the strategic planning process prior to implementation if a significant issue or area of concern arises over which they have direct responsibility or expertise. Although some strategic planning experts advocate a bottom-up strategic planning process that would call for broad-based and extensive participation from all levels of the organization, few healthcare organizations practice such an approach.

A summary of the typical involvement of key stakeholder groups in major elements of the planning process appears as Figure 7.3. While every planning process is carried out somewhat differently, this chart summarizes the sections above and can be used as an initial framework for structuring involvement at the outset of strategic planning and then reconsidering it as the process moves along.

CONCLUSION

This chapter illustrates that the use of an effective strategic planning process is at least as important to organizational success as the actual plan itself. When structured and carried out with care, facilitation, planning retreats, research, and involvement of key stakeholders can lead to a highly successful planning process that maximizes participation and secures a commitment to plan implementation.

Figure 7.3: Typical Involvement of Key Stakeholder Groups

	Approval	Steering Committee	Interviews	Retreats	Strategy Development	Implementation
Entire board	✓			✓		Oversight
Planning committee of the board	✓	✓	✓	✓	✓	Oversight
Physicians		✓	✓	✓	✓	✓
Senior management	✓	✓	✓	✓	✓	✓
Other clinicians			✓			✓
Other management			✓			✓
Planning staff	Support entire process					

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Chapter 8

Realizing the Benefits from Strategic Planning

“... In a period of upheaval, such as the one we are living in, change is the norm. To be sure, it is painful and risky, and above all, it requires a great deal of very hard work. But unless an organization sees that its task is to *lead* change, that organization—whether a business, a university, or a hospital—will not survive.”

—*Peter F. Drucker (1999)*

“The true measure of your worth includes all the benefits others have gained from your success.”

—*Cullen Hightower*

WHY SHOULD AN organization carry out strategic planning? What benefits can be expected from this effort? How can the strategic planning process be structured and managed to maximize the likelihood of benefits realization? These and other related important questions are addressed in this chapter.

Chapter 1 discusses many of the typical reasons for and benefits of initiating a strategic planning process. In general, these involve financial improvement, consensus development within the organization regarding direction and priority initiatives, and facilitation of innovation and change. Chapter 2 argues that it is important to clearly define and describe the specific objectives for a particular organization as it approaches strategic planning. These efforts will help get the planning process off to a strong start and assist in aligning the stakeholders in the organization toward the ends that leadership believes need to be achieved through the process.

Unfortunately, while the case for clear articulation of the purpose and potential benefits to be derived from strategic planning may seem obvious, healthcare organizations and others have more often than not fallen short of stellar or even good performance in this area. Strategic plans regularly fail to achieve their promise.

This situation is reflected in the results of a survey of the healthcare and non-healthcare literature on the benefits of strategic planning. Bruton, Oviatt, and Kallas-Bruton (1995) conducted an extensive survey of the literature on this subject and found little conclusive evidence of the benefits of strategic planning. They cite some non-healthcare studies that suggest that service firms that carried out strategic planning performed worse than those that did no planning. They also reviewed 12 empirical studies, conducted over the previous 20 years, of the effectiveness of strategic planning in hospitals that show decidedly mixed results.

Experience over the past 30 years suggests that these findings are in part related to the failure of leadership to (1) clearly state at the outset of strategic planning what benefits should be achieved through the process and (2) keep benefits realization on the front burner throughout the process.

Some organizations plunge into strategic planning without ever identifying what may be gained through the process. Others state so many expected outcomes that it is difficult to interpret or remember what the main objectives are, whereas others provide only vague expectations so stakeholders are not really sure of strategic planning's purpose. Still others get off to a clear, good start but then veer off course during the process through inadequate, inconsistent, or contradictory communications about intended benefits.

IDENTIFYING STRATEGIC PLANNING BENEFITS

This chapter discusses the substantive (i.e., non-process related) strategic planning benefits that can be identified at the outset and may be pursued throughout the process. These benefits can fall into one or more of four categories:

1. Product or market improvement
2. Financial improvement
3. Operational improvement
4. Community improvement

The following sections review each category of benefit and describe what is desirable and possible to achieve.

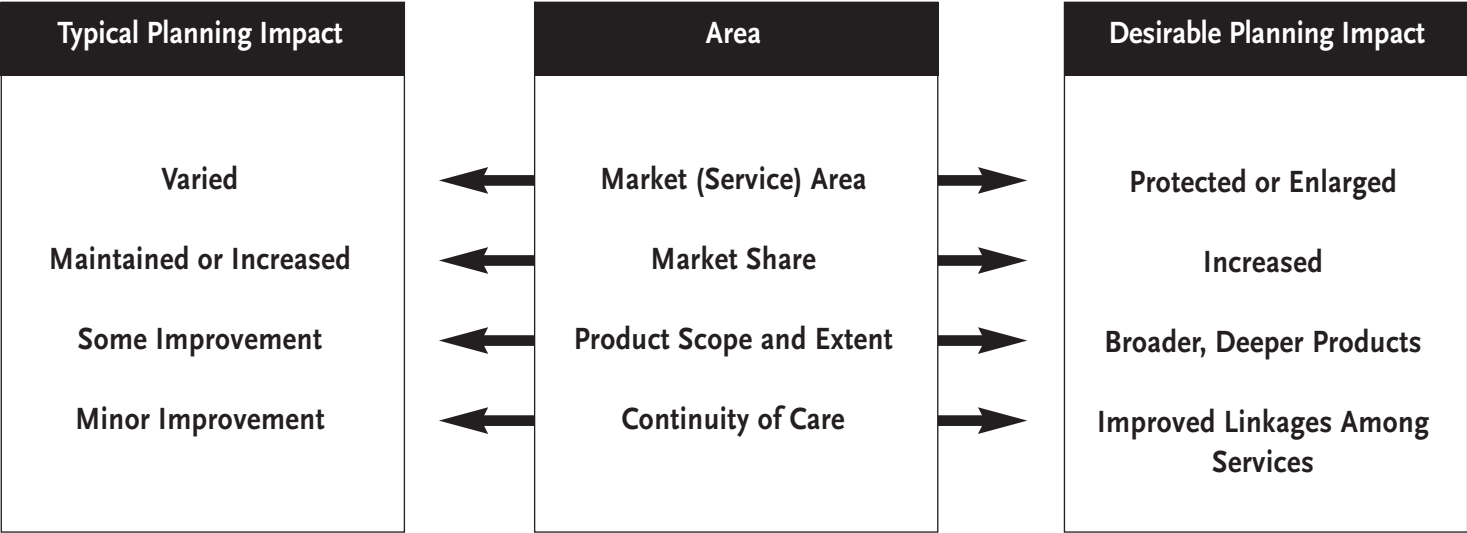
Product or Market Benefits

Historically, strategic planning has been oriented toward achieving product or market benefits. Larger service areas, higher market shares, more comprehensive products and services, and, recently, improved linkages among services leading to greater continuity of care have formed the core of healthcare strategic planning's concern. Relative to other areas of potential benefits, this category has been addressed fairly well by healthcare organizations.

Given better performance in this area than for the other three strategic planning benefits discussed here, a brief review of product or market benefits is provided below. Figure 8.1 presents an illustration of the most prevalent outcomes historically versus the desired planning impact for each subcategory.

- **Market (service) area.** Every healthcare strategic plan is at least somewhat focused on protection, if not expansion, of the market or service area of the organization. Even in the most rural areas of the United States, and certainly in all urban and suburban areas, the geographical area primarily served by the organization is at least partly of interest to competing providers and increasingly under significant attack from competitors. Because of the growing competitive nature of healthcare, offensive strategies that target new geographical markets outside the organization's traditional service area are quite common. Despite the primacy of this topic, strategic planning efforts have achieved mixed results with their attempts to grow or defend service areas.
- **Market share.** Equally prevalent are strategies to increase existing market shares. Most strategic plans conclude that market share increases are necessary and feasible. And in the majority of cases such conclusions and strategies do lead to increased shares.
- **Product scope and extent.** A growing number of healthcare organizations are recognizing that growth of products (i.e., programs and services) can no longer be handled in an unsystematic manner but needs to be explicitly addressed and managed. As a result, an increasing proportion of strategic plans deal with this issue directly by broadening the product mix, deepening the

Figure 8.1: What Product or Market Benefits Can and Should Be Achieved?



offerings of existing products, or both. Attempting to formally manage product scope and extent is a fairly new issue for health-care organizations; strategic planning results are only mildly positive to date.

- **Continuity of care.** An even newer issue—basically a second-generation consequence of integrated delivery—is attempts to directly influence the ability of organizations to strengthen continuity of care through the strategic planning process. While most organizations that remain committed to vertical integration recognize that benefits realization depends on improved linkages among services, these benefits have proven difficult to achieve. There is increased understanding in integrated delivery systems that achieving such benefits takes time.

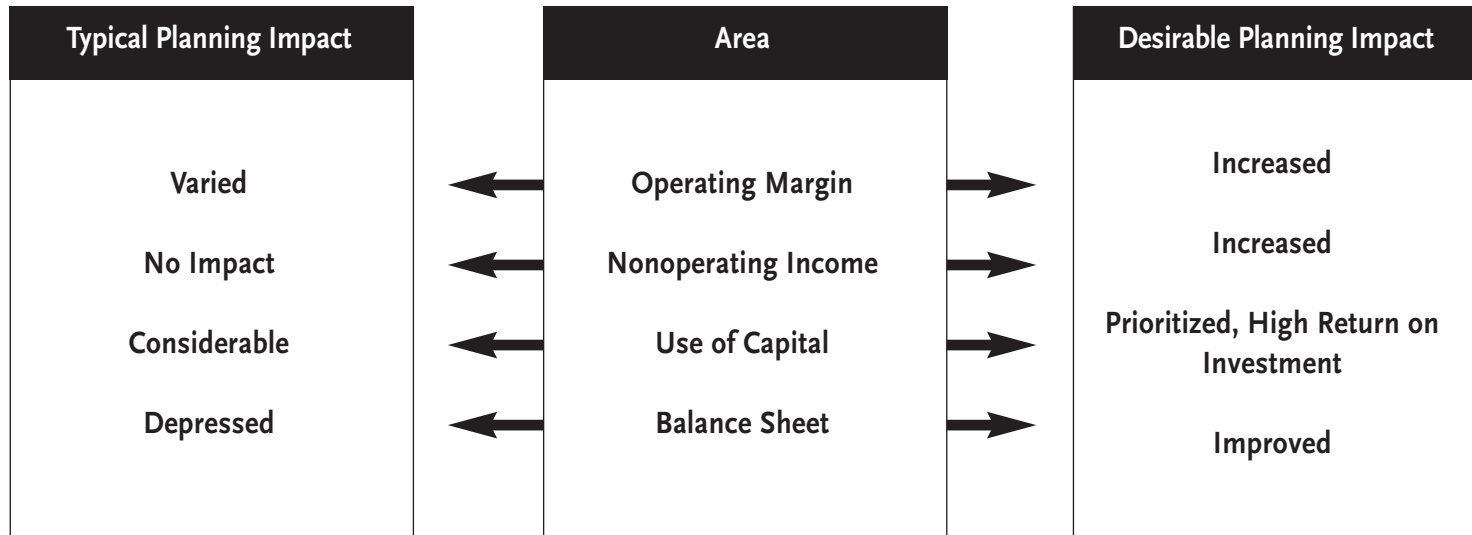
Financial Benefits

This category of likely substantive benefit is probably the most obvious and is applicable to all healthcare organizations. Nevertheless, benefits realization has been at best mixed in this category.

Figure 8.2 identifies four general areas of financial improvement benefit along with the historically most prevalent outcome versus the desired planning impact.

- **Operating margin.** Few, if any, healthcare organizations have such a high operating margin that they can ignore the need to maintain or increase it. For many organizations today, increasing the operating margin is the primary goal of strategic planning. Unfortunately, too often plans are developed to “meet community needs” or satisfy internal constituents without appropriate regard for the impact on operating margin. As a result, and consistent with the results of the literature on strategic planning, plans are just as likely to decrease operating margin as they are to increase it.
- **Nonoperating income.** This issue has not been a high-priority topic for many healthcare organizations until fairly recently. The bull market of the 1990s and the bear market of the early twenty-first century, however, raised the profile of this issue considerably. In addition to sound investment management, an increasing number of healthcare organizations have targeted philanthropy as a high-priority strategy. Such organizations have developed

Figure 8.2: What Financial Benefits Can and Should Be Achieved?



sophisticated, comprehensive fundraising programs and generated significant nonoperating income for use in capital projects, as seed money for clinical program investment, and to build endowments. A small number of organizations have developed large-scale clinical research enterprises, consulting practices, and other non-patient care ventures to tap into nonoperating income sources. However, the lessons of the 1980s suggest that diversification away from the core healthcare business can be disastrous and should be approached cautiously.

- **Use of capital.** Another typical reason for commencing strategic planning is to help structure capital-intensive facilities development. Strategic planning is commonly used outside healthcare for the purpose of making difficult choices among alternative capital and operating investment decisions. A small but growing number of healthcare organizations use the strategic planning process in a similar manner, which results in a prioritization of potential capital projects according to return on investment, both financial and nonfinancial. Unfortunately, even today, strategic plans lead to capital consumption without appropriate regard for the downstream financial impact.
- **Balance sheet.** Only rarely, despite the increasingly difficult financial climate in healthcare, is improvement of the balance sheet stated as a strategic planning goal. And, given the discussions above, it is easy to understand that the balance sheet can often deteriorate as a result of strategic planning. Nevertheless, few organizations today can afford to see their balance sheets suffer, even if important projects are carried out as a result of strategic planning. Balance sheet management has not been a priority in the planning process or among non-financially oriented staff and trustees in healthcare organizations, but it needs to be much more of a concern in the future.

Case Example

Catholic Health System (fictitious name) is a large integrated delivery system with 2003 revenues of about \$750 million. Operating in a metropolitan area, the system had been in severe financial distress, resulting in the replacement of the CEO early in 2000. The new CEO initiated a strategic planning process in the latter part of 2000, with the main goal being across-the-board financial improvement.

The results of the strategic planning process are impressive. Operating margin increased from -1 percent in 2000 to 6 percent in 2002, primarily as a result of strategic pricing increases, growth of high-yield services, focus on outpatient growth, and operational improvements, particularly in regard to managed care contracting and productivity.

The organization initiated a formal development program for the first time in its history, which resulted in completion of a \$20 million capital campaign and commencement of annual giving and bequest components. A major accomplishment was achieved in the area of capital prioritization: in 2000, capital requests and needs through 2005 were estimated to be nearly \$600 million (a considerable amount of catch-up deferred capital spending was on the table), and the strategic planning process eliminated certain projects and reduced others so that the capital budget was reduced to \$400 million. With improvement across the balance sheet toward an A-rated system underway by 2003, it has been, and will be, possible to finance capital needs without significant negative effects on the balance sheet.

Operational Benefits

In contrast to financial benefits, the operational benefits category is probably the least recognized category of potential strategic planning benefit. Yet it is applicable to nearly all healthcare organizations, and there is tremendous potential to realize operational improvements through strategic planning as many aspects of this category of concern increase in strategic importance over the next decade.

Figure 8.3 identifies four general areas of operational improvement benefits along with the historically most prevalent outcome versus the desired planning impact.

- **Patient satisfaction.** In a service industry like healthcare, few elements are as important to success as satisfied customers. Yet customer satisfaction has not been a major concern of healthcare organizations until the relatively new competitive era emerged in the 1990s, brought on by managed care and resulting excess supply and financial difficulties. Now, with the increasing availability of information comparing healthcare organizations to one another, customer satisfaction is moving from the background to the foreground in competitive, and therefore strategic, importance. Plans that do not acknowledge, or better yet address, this

Figure 8.3: What Operational Benefits Can and Should Be Achieved?



factor are likely to fall short of the mark in terms of critical benefit realization.

- **Quality.** Much as customer satisfaction has been an irritating issue to the general public, but a seemingly impossible problem to address until fairly recently, quality was also in the dark shadows of healthcare delivery until the late 1990s. With the publication of the Institute of Medicine's *To Err Is Human* report (1999), the problem of safety in healthcare organizations, and quality in general, came out of the closet. At the same time and continuing through the present, the first efforts to measure and publicize healthcare quality across like organizations are taking hold. The availability of comparable data on quality makes quality improvement a strategic imperative in the coming years. Tremendous gains in quality are likely to emerge, and strategic plans need to move beyond the traditional measures of volume and financial improvement in clinical programs to accommodate and influence the critical developments.
- **Emergency department and ambulatory care flow.** The overwhelming majority of healthcare consumers access services in an outpatient setting, yet hospitals and health systems are still primarily oriented to an inpatient-dominated business. Nearly all organizations have Byzantine and difficult operational processes that consumers face when they access emergency and other outpatient services. Because of the magnitude of problems in this area, its large and growing importance, and the capital and incremental operating expenditures required to address these issues, this topic has hit the radar screens of some strategic planners in the past few years, with modest success to date and much more needed in the future.
- **Staffing.** Emerging and growing shortages of nursing and certain allied health personnel have become one of the most widely acknowledged problems and threats to the success of healthcare organizations in the early twenty-first century. Despite the significance of this issue, it has remained largely off the strategic agenda of all but a handful of organizations, to be dealt with by the human resources department and various operational executives out of sight of strategic planners and the strategic planning process. The magnitude of the problem, its systemic nature, its

likely long-term duration, and its extension into some physician specialties are causing the staffing shortage to become an important strategic topic. The result of these staffing issues should be some strategically driven interventions and improvements in the coming years.

Case Example

Regional Hospital and Health System (RHHS; fictitious name) is a medium-sized hospital and diversified healthcare organization with 2003 revenues of about \$150 million. Operating in a small metropolitan area, RHHS competes with larger, financially stronger hospitals and systems, all of which have the resources to outspend and outflank most traditional strategic initiatives that RHHS undertakes.

RHHS's CEO determined that the organization's advantages in customer service and operating processes represented competitive advantages that could be leveraged more strategically. Accordingly, the 1998 and 2002 strategic plan updates focused on maximizing the benefits that could be obtained in these areas.

The results of the strategic planning efforts are especially impressive given the lack of interest and progress experienced throughout the industry to date. RHHS implemented a highly tailored, innovative customer service program and brought its patient satisfaction scores up from the top 25 percent of its peer group nationally in 1998 to the top 10 percent by 2001, and the score was nearing the top 5 percent by 2003. RHHS was the first hospital in its region and state to successfully pursue magnet status designation from the American Nurses Credentialing Center, gaining this recognition in 2002.

RHHS implemented a state-of-the-art emergency department redesign in both facilities and operations between 2001 and 2003, bringing online dedicated urgent care services and chest pain, stroke, and observation care programs. It used its magnet designation, strategic compensation program, and exemplary staff satisfaction and patient care environment to achieve tremendous success in staff recruitment and retention, resulting in the lowest attrition and vacancy rates in the region. All of its efforts have led to continued healthy volume growth each year for the past five years, solid financial performance, and an extremely positive environment and reputation for RHHS in its region.

Community Benefits

Traditionally, not-for-profit healthcare organizations have attempted to derive and demonstrate community benefits from their strategic planning. Often, however, this area of benefit is talked up more than it is actually addressed and affected. Not-for-profits need to be responsive to the communities they serve; however, as they have grown into larger, more complex businesses, often as part of expansive healthcare systems that operate in many communities (and in some instances states), they have grown distant and detached from the communities that originally spawned them. These large organizations have been unusually preoccupied with internal issues since the integration spurt of the 1990s, further separating them from community concerns and issues.

Figure 8.4 identifies four general areas of community benefits along with the historically most prevalent outcome versus the desired planning impact.

- **Needed services provided.** In strategic planning for healthcare organizations, providing needed services was the primary concern for many years and remains an appropriate and important concern today. Providing needed services is probably the area of benefit that healthcare organizations address most completely and best. All organizations recognize the importance of structuring service offerings that meet the needs of the constituents they are trying to serve. And healthcare provider competition has traditionally been focused on service breadth, depth, and unique or appealing features, thus heightening the importance of this area.
- **Improved ambulatory care, especially community based.** As noted in the previous section, the increasing prevalence of ambulatory care use has made improving its delivery a key competitive concern and important strategic battleground. The growth in ambulatory care demands generally, the increasing ability of organizations to deliver ever more complex services in community settings, and consumer lifestyles and preferences have resulted in a boon to ambulatory care center development since the early 1990s. In some instances hospitals and systems have strategically led this movement, whereas in others (even within the same organization) it has been met with resistance because of competing priorities and cost and control issues.

Figure 8.4: What Community Benefits Can and Should Be Achieved?



- **Community health improvement.** Many healthcare organizations have made community health improvement the centerpiece of their mission statements. Periodically, this area is actually an acknowledged strategic concern of organizations. More frequently, it is given lip service and addressed, if at all, indirectly. Especially for not-for-profits, contributing to community health improvement should be important and a key area of community benefit. Difficulties in demonstrating progress and the conflict of a business primarily oriented to treating illness episodically hinder constructive efforts in this area.
- **Partner of community.** All not-for-profit healthcare organizations collaborate with their communities to some degree. As healthcare has become a bigger and bigger business, most organizations have substantially moved away from community partnering. While the challenge of effectively carrying out the typical healthcare organization's mission of "effective caring" in an increasingly complex world might argue for more and better interrelationships with the vast array of community agencies and groups that could contribute to this end, the opposite has occurred and organizations have retreated to primarily doing what they can control (through ownership and operation). While strategic alliances are growing outside healthcare as a way to address complex situations and issues, they are infrequently considered in healthcare.

Case Example

Independent Catholic Hospital (ICH; fictitious name) is a relatively small community hospital, with 2003 revenues of about \$100 million, operating in a large metropolitan area. ICH has numerous competitors, including many large hospitals, healthcare systems, and university medical centers. ICH is located in a densely populated, somewhat poorer-than-average city neighborhood. The neighborhood has traditionally been Catholic and, while the population has changed dramatically in the past 10 to 15 years, it is still predominantly Catholic, albeit with residents of Latin American rather than European origin.

ICH directly and forcefully addressed the topic of community benefits through its strategic planning process in 2001. It reached out to the community through focus groups to better understand the new residents' issues and needs. ICH involved community residents in the strategic planning committee and in task forces formed to address spe-

cific issues. The organization subsequently implemented a broad and aggressive outreach program, especially involving the churches, to engage and include the community in the growth and development of the hospital.

Through these and related efforts, the strategic plan identified and targeted high-priority community health issues such as hypertension, stroke, and prenatal care for subsequent action. The hospital determined that it needed to rebuild its core services of emergency care, cardiology, and women's health to meet community needs. Furthermore, ICH began a multiyear effort to redesign ambulatory care, particularly to resolve operational and patient access problems, for both on- and off-site services. By 2003 ICH's volumes were slowly climbing and, even more important, its image and reputational scores had advanced considerably over the baseline levels determined at the outset of the 2001 strategic planning process.

CONCLUSION

Strategic planning must become more outcome oriented. Good process is, and will remain, important, but tangible benefits, not just a feel good ending, need to be achieved. Deriving benefits starts with identifying and communicating categories and types of benefits that could be realized through strategic planning at the outset of the process.

Four different types of substantive benefit—product or market, financial, operational, and community—and 16 subcategories of possible benefits within these broad categories are reviewed in this chapter. Whatever benefits leadership agrees should be realized through the strategic planning effort, the process needs to keep these benefits highly visible and continually drive toward their realization. The orientation to benefits realization will make future strategic planning more relevant and effective and help lead strategic planning into a new era of prominence as an accepted and important management discipline in healthcare organizations.

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Chapter 9

Making Planning Stick: From Implementation to Managing Strategically

“Plans are only good intentions unless they immediately degenerate into hard work.”

—Peter F. Drucker

“Good management consists in showing average people how to do the work of superior people.”

—John D. Rockefeller

STRATEGIC PLANNING HAS been criticized for its detachment from day-to-day operations and its inability to effect significant change in an organization. While comprehensive, well-designed plans may be prepared with exceptionally strong supporting documentation and using thorough, inclusive consensus development processes, implementation seems to be elusive and ultimately out of reach for many organizations.

Why is there such a high failure rate in the transition from planning to implementation? This failure appears to be a function of three main factors:

1. **Loss of energy and focus.** In many organizations strategic planning is an event that engages a broad spectrum of leadership. It is a high-level, high-visibility process that garners considerable attention and effort. Once the strategic plan has been completed and approved, the show is over and implementation occurs in a much less public and celebrated manner. This loss of energy and focus may ultimately cause implementation to be inconsistent and slowly dissipate over time.

2. **Lack of management.** As described further below, implementation needs to be actively managed. It does not just happen but requires a significant amount of hard work, direction, and oversight. Yet in the aftermath of many strategic planning efforts, implementation is assumed to occur rather than be actively managed; in this case the failure rate of implementation is high.
3. **Disconnect from operations.** Strategic planning can often be viewed as an add-on to day-to-day operations, and if done periodically, rather than in an ongoing manner, the fragmentation is aggravated. In these situations an output of strategic planning, the implementation plan, does not belong to anyone or is not a part of anything that routinely occurs in operation. This disconnect makes it difficult to maintain a focus on implementation after the plan is complete and regularly and consistently make progress in implementation.

This chapter describes methods and processes to achieve a higher rate of implementation success; better integrate strategic planning into regular, ongoing organizational management; and ultimately evolve from the periodic strategic planning processes of the last 10 to 20 years to the more effective strategic management processes of the twenty-first century.

ENSURING SUCCESS IN IMPLEMENTATION

Making a smooth, effective, and ultimately successful transition from planning to implementation starts with a sound, well-understood implementation plan. There is a tendency to rush into implementation at the conclusion of the strategic planning process and not prepare thorough, thoughtful implementation plans. In addition to preparing quality implementation plans, the roles, responsibilities, time frames, and interrelationships of implementation activities and staff need to be understood and accepted. Finally and possibly foremost, a management structure and approach to implementation needs to be put in place. This structure and approach includes, at a minimum, a designated overall implementation leader and regular progress reviews. These reviews could involve senior management, corporate staff (in a system), and the strategic planning committee of the board.

Fogg (1994) argues that successfully operationalizing the plan involves four other critical activities.

1. **Communicate the overall plan priorities and goals.** A high-level summary of the main outcomes of the strategic plan needs to be prepared and communicated regularly and effectively throughout the organization. People who have key roles in implementation may need all or most of the strategic plan rather than a high-level summary. In addition to written material, communication meetings with various audiences should occur as part of plan rollout to make sure the key messages are understood. Do not assume staff involved in implementation have the necessary context to carry out their roles—make sure they do.
2. **Identify the leverage people.** What positions, individuals, and functions will have the most impact on plan implementation and success? In most cases these key staff are those who will lead or play important roles as team members in implementing the action plan relating to the highest priority issues. Fogg (1994) suggests that, “Only 5–10 percent of the organization needs to be the movers, shakers, rattlers and rollers, and tough change agents. The remaining 90–95 percent are worker bees who, if reasonably skilled and well managed, will produce.”
3. **Make sure you have the right people with the right skills.** Fogg (1994) notes that, “If the strategic organization isn’t structured properly or your high-leverage people aren’t superior, the plan won’t work. To execute your plan, you need people with the highest level of leadership, technical, managerial, and teamwork skills. You cannot afford to settle for whoever is available.” Four aspects of this concept are critical:
 - When the organization does not have the talent inside it, because of technical deficiencies or an inability to lead and embrace change, go outside and get the talent; otherwise the priority initiatives are likely to fail or be implemented poorly.
 - For some critical initiatives, multifaceted teams may need to be assembled. These teams need to be put together with care so that they have the talent and chemistry to accomplish their objectives.
 - Individuals, rather than teams, may be appropriate to tackle certain issues under certain circumstances.
 - When resistance occurs from individuals who block progress, move them out of the way or out of the organization entirely.

4. **Drive the plan down into the organization.** This concept involves:
- Empowering the initiative leaders and support staff or teams to make appropriate progress;
 - Ensuring that all of the action plans are consistent with one another and resolving any conflicts at the outset;
 - Aligning strategic action plans with ongoing operating plans;
 - Budgeting appropriately for the action plans;
 - Making action plan objectives a part of individual performance objectives; and
 - Tracking and monitoring progress and making adjustments as necessary.

ONGOING REVIEW OF PROGRESS

Fogg (1994) suggests that ongoing review of progress “help[s] you keep the plan on track once implementation is under way, reallocate resources as you accomplish goals or your strategic situation changes, imbed accountability for program accomplishment with every implementer, and reward results to ensure commitment and continued top level performance.” He believes that the key to success in this is

- Review, review, review.
- Revise, revise, revise.
- Reward, reward, reward.

There are four main reasons for conducting regular progress reviews:

1. To encourage and motivate individuals and teams involved in implementing action plans through visibility, recognition, and praise;
2. To make sure that appropriate progress is being made and that priorities stay on track;
3. To discuss and resolve problems and internal obstacles to progress, particularly those that require interdisciplinary intervention; and
4. To allow reallocation of valuable resources to the areas that most need them.

Both formal and informal mechanisms can be used to effectively review ongoing progress. Regular meetings of senior management or

the strategic planning committee of the board are one common approach to this task. For many organizations it is a good idea to have monthly progress review meetings for the first year or two after completion of a major strategic planning effort. Frequent progress review meetings are the best way to ensure that implementation occurs and that timely adjustments to individual action plans occur.

Once the organization has accepted a disciplined approach to implementation, it may be possible and desirable to continue to achieve good results with less frequent meetings. Mature strategic planning organizations find that quarterly, or in some instances semiannual, progress review meetings are sufficient to keep implementation on track.

A structured approach to implementation progress reviews often yields the best results. Such structure involves taking action plan formats, such as those provided in Chapter 6, and marking them up in advance of each meeting, charting expectations versus actual results, schedules, resource consumption, and so on. Explanations of variances from expectations should be provided. New issues or concerns, or those that transcend individual action plans, can be noted in a "comments" section. Recommendations for changes to the implementation plan should also be noted. These progress reports should be circulated to all progress meeting attendees in advance of the meeting.

Key to making these progress review meetings effective is a structured approach to meeting conduct. An important consideration here is allowing enough dialog to occur about those action plans and issues that require group attention while minimizing discussion about things that do not require group discussion. In the absence of such focus the progress review meetings tend to be overly long and have diminished effectiveness as a result, or the meetings may be short and perfunctory in nature.

The meeting leader needs to carefully craft the agenda to balance competing concerns and needs, all within a time frame appropriate to the importance of the topics being discussed. Advance preparation and awareness of pitfalls in this process will help to ensure that the progress review meetings achieve the objectives intended for them and are a highly effective mechanism for ongoing plan implementation support.

A variety of other approaches exist to enhance the effectiveness of plan implementation. Individual performance reviews are one common way to carry out this activity. If the action plan objectives are built into individual performance objectives, these annual or semiannual

reviews provide another opportunity to review progress and make adjustments with individuals responsible for implementation.

Finally, informal progress reviews can and should occur on an ongoing basis. Contact among senior leadership, some of whom may have direct implementation responsibilities, and between senior leadership and other staff with implementation responsibilities should be frequent in most organizations. Such regular contact provides yet another opportunity for periodic, but less formal, review of progress against plan.

Even with the active monitoring process outlined above, it may be necessary for senior management to intervene directly in implementation to keep initiatives on track. Fogg (1994) notes that four types of intervention may be required:

1. Counseling an individual or team, providing advice for dealing with problems or problematic team members;
2. Exerting influence to remove obstacles or obtain the resources needed to move forward;
3. Skill development, such as training or enhancing functional expertise; and
4. Direction, especially to get an individual and group back on track.

Rewards also play an important role in facilitating achievement of implementation tasks. Individual and group performance may both be rewarded, and rewards can be both financial and nonfinancial in nature. Psychological rewards, including recognition, publicity, and establishing contests that yield winners, can play a key role in motivating individuals and teams to make good progress in implementing plans.

THE BALANCED SCORECARD

An emerging tool to assist with ongoing progress monitoring and implementation is the balanced scorecard. Developed in industry in the early 1990s by Robert Kaplan and David Norton, the balanced scorecard is intended to supplement traditional performance measurement systems by tracking “financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets [organizations] would need for future growth” (Kaplan and Norton 1996).

The balanced scorecard complements historically strong financial measurements with measurements of progress in three key areas: customer satisfaction, internal business processes, and learning and growth

(see Figure 9.1). Recent improvements in the balanced scorecard approach have rendered it a valuable tool for some companies that have used it as a key part of a strategic management system (see next section). Kaplan and Norton (1996) suggest that, “Used this way, the scorecard addresses a serious deficiency in traditional management systems: their inability to link a company’s long-term strategy with its short-term actions.”

A number of healthcare organizations have adopted the balanced scorecard as an aid in strategy implementation. Inamdar (2002) cites five potential benefits of this approach for healthcare organizations.

1. It aligns the organization around a more market-oriented, customer-focused strategy.
2. It facilitates, monitors, and assesses the implementation of strategy.
3. It provides a communication and collaboration mechanism.
4. It assigns accountability for performance at all levels of the organization.
5. It provides continual feedback on the strategy and promotes adjustments to marketplace and regulatory changes.

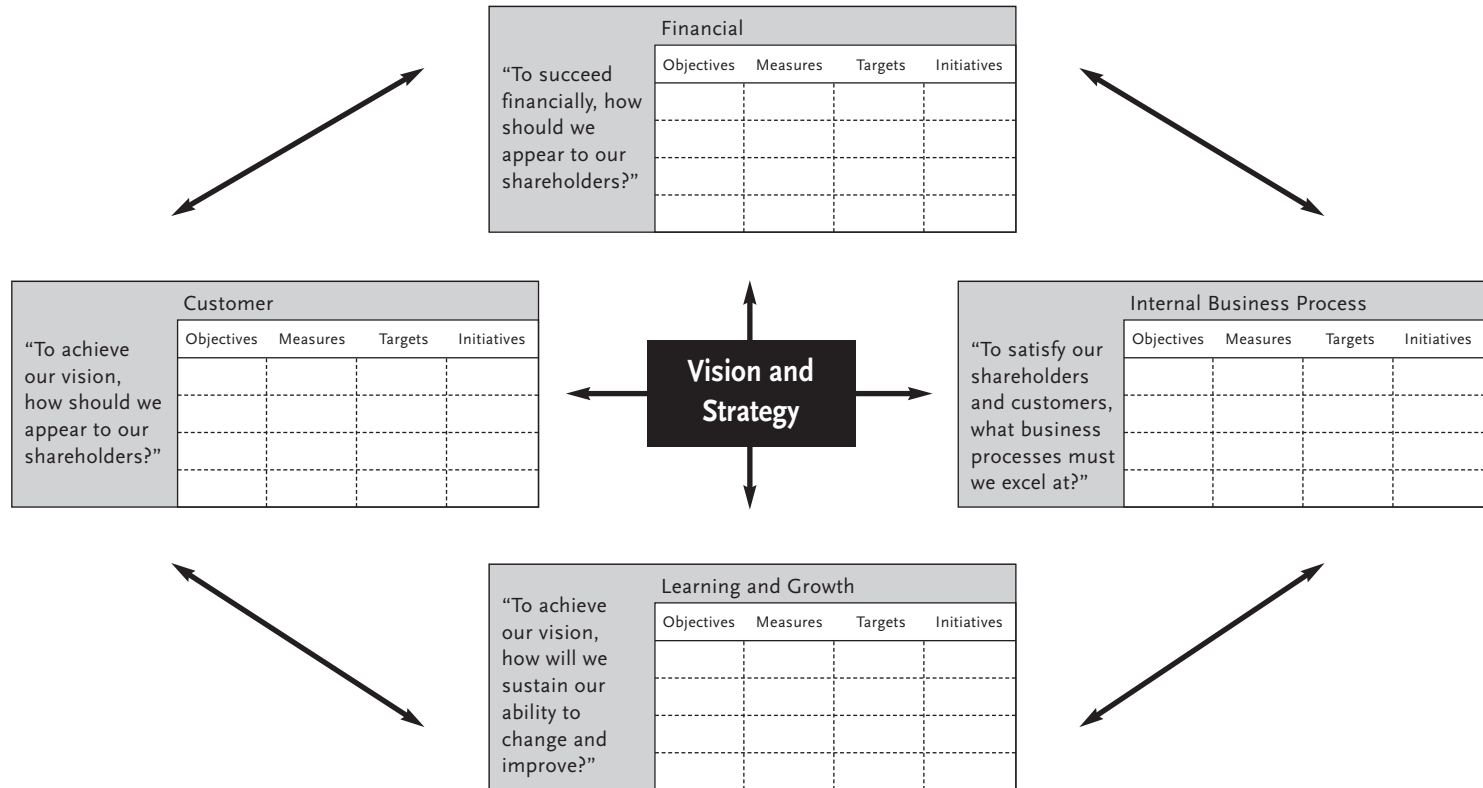
What is the balanced scorecard? How does it work? Griffith and Alexander (2002) describe it as

An integrated set of measures, driven by the organization’s vision and strategy, typically covering the following dimensions in health-care organizations

- Financial—financial performance and management of resources (including intangible resources such as workforce capability and supplier relations);
- Internal business processes—cost, quality, efficiency, and other characteristics of goods or services;
- Customer—measures of satisfaction, market share, and competitive position; and
- Learning and growth—measures of the ability to respond to changes in technology, customer attitudes, and economic environment.

In a review of the application of the balanced scorecard approach to healthcare organizations, Inamdar (2002) charted the steps involved

Figure 9.1: Translating Vision and Strategy: Four Perspectives



Note: For not-for-profits the word “shareholders” may be changed to “trustees” or “directors.”

Source: Kaplan and Norton 1996. Used with permission.

in developing and then implementing the balanced scorecard (see Figure 9.2). Kaplan and Norton (1996) suggest that the process of managing strategy via the balanced scorecard consists of four sequential steps (see Figure 9.3)

1. **Translating the vision.** The mission and vision are often too abstract to be useful to employees as an effective guide to day-to-day operations. Identifying concrete measures related to the mission and vision translates these lofty statements into a form that makes them more effective.
2. **Communicating and linking.** Involving employees from all levels of the organization in developing the scorecard initiates the process of integrating it into the organization. Ultimately, linking the scorecard measures to subgroup and individual performance measurement makes for the most effective approach.
3. **Business planning.** Here, the overall strategy is translated into the objectives, measures, targets, and initiatives that link the strategy with operations and implementation. Similarly, integration of strategic and budgeting or financial planning is inherent in creation of the scorecard.
4. **Feedback and learning.** This approach incorporates a process for review and evaluation of progress and modification of plans as necessary.

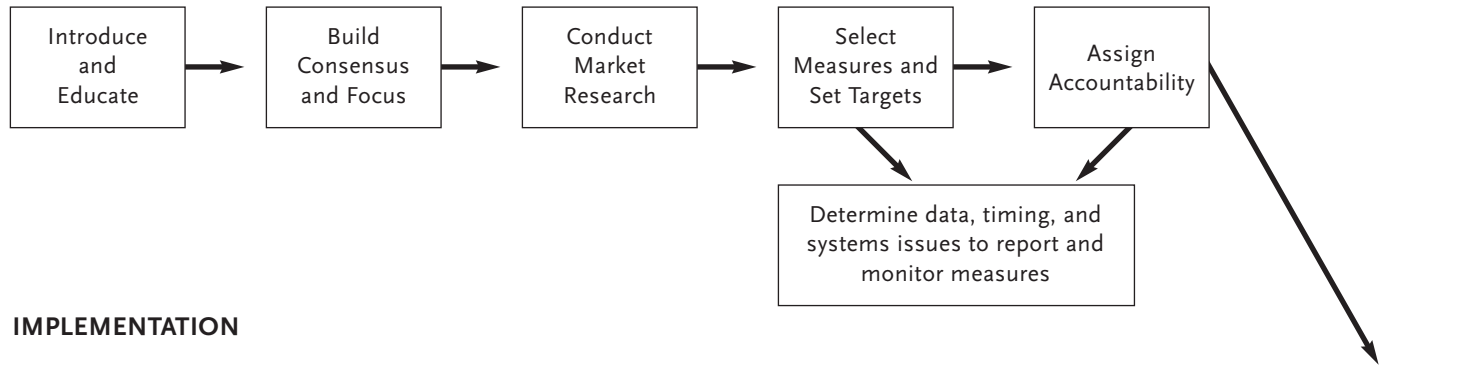
While using the balanced scorecard approach improves on previous performance measurement approaches, Kaplan and Norton (1996) argue that it is even more valuable “as the foundation of an integrated and iterative strategic management system.” In these situations,

Companies are using the scorecard to

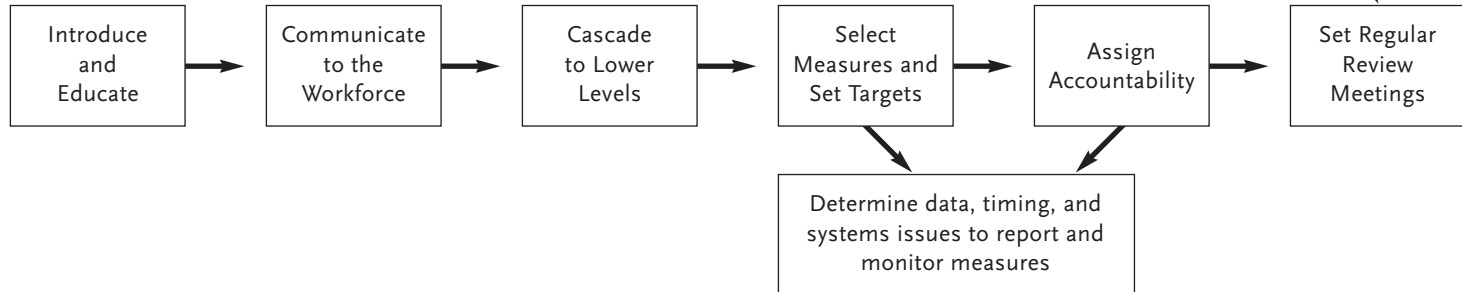
- clarify and update strategy,
- communicate strategy throughout the company,
- align unit and individual goals with the strategy,
- link strategic objectives to long-term targets and annual budgets,
- identify and align strategic initiatives, and
- conduct periodic performance reviews to learn about and improve strategy. (Kaplan and Norton 1996)

Figure 9.2: The Balanced Scorecard Development and Implementation Process

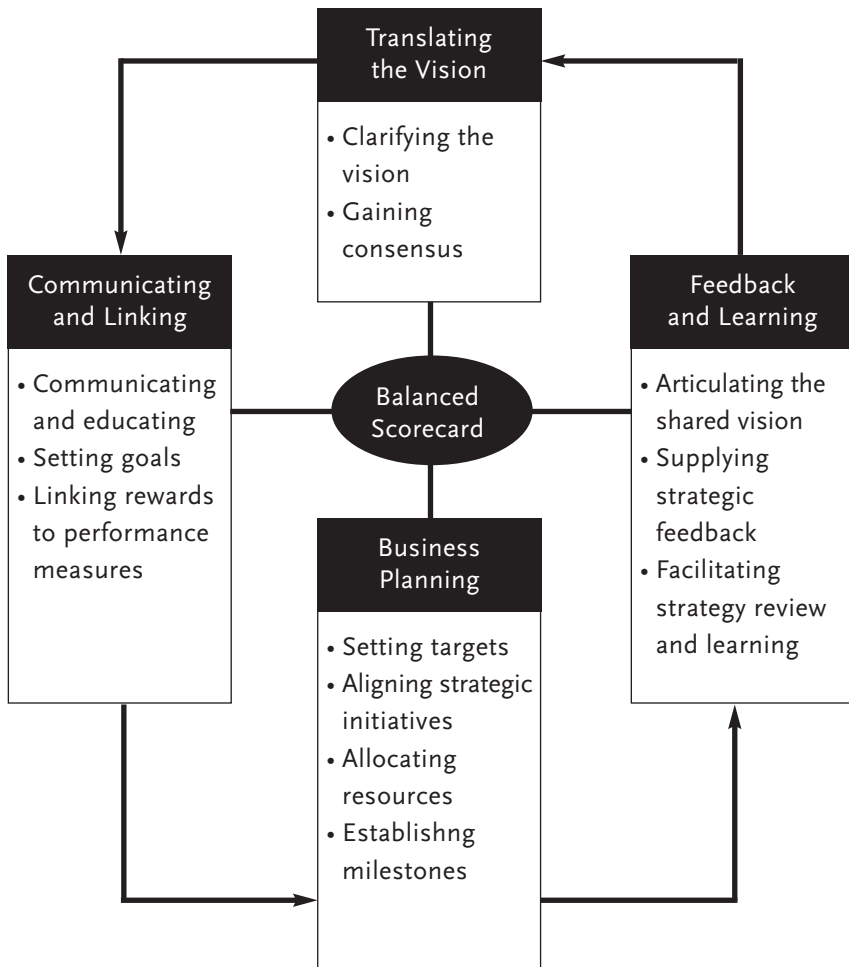
DEVELOPMENT



IMPLEMENTATION



Source: Inamdar 2002. Used with permission.

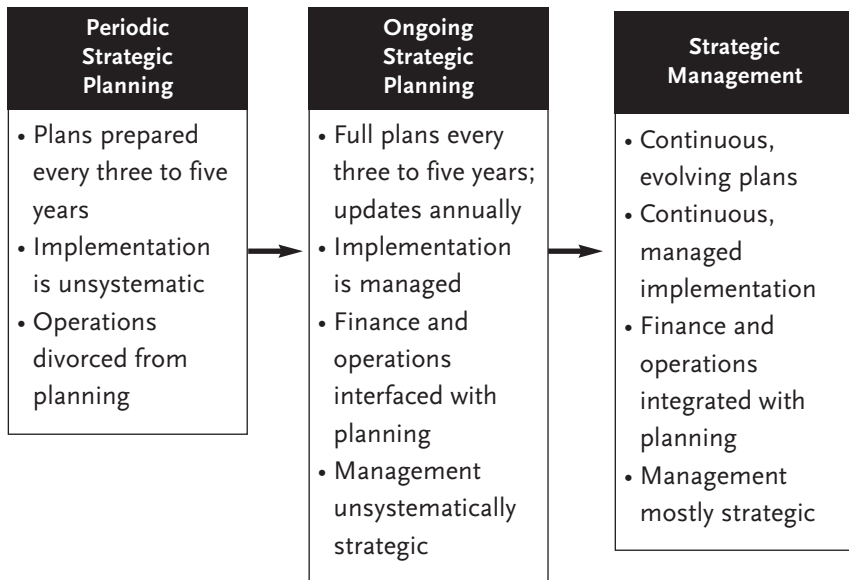
Figure 9.3: Managing Strategy: Four Processes

Source: Kaplan and Norton 1996. Used with permission.

FROM STRATEGIC PLANNING TO STRATEGIC MANAGEMENT

Increasingly, healthcare organizations are moving beyond periodic strategic planning to more systematic approaches carried out regularly rather than infrequently and integrated with other core management processes (see Figure 9.4). There are clear benefits to be derived in

Figure 9.4: Transitioning the Strategic Planning Process to Strategic Management



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implementation rigor and implementation success from ongoing strategic planning and strategic management. Also, the quality of strategic planning and implementation is improved as a result of better coordination with finance and operations in ongoing strategic planning processes. Additional benefits are obtained by those organizations that evolve to strategic management and integrate (versus coordinate) finances and operations with strategic planning as part of their regular management routines. Furthermore, in strategic management, day-to-day management is carried out within a largely strategic framework versus the traditional separate management processes for operations, finance, and planning.

What exactly is strategic management? According to Wells (1996), it is

- A systems approach to identifying and making the necessary changes and measuring the organization's performance as it moves toward its vision, and

- A management system that links strategic planning and decision making with the day-to-day business of operational management.

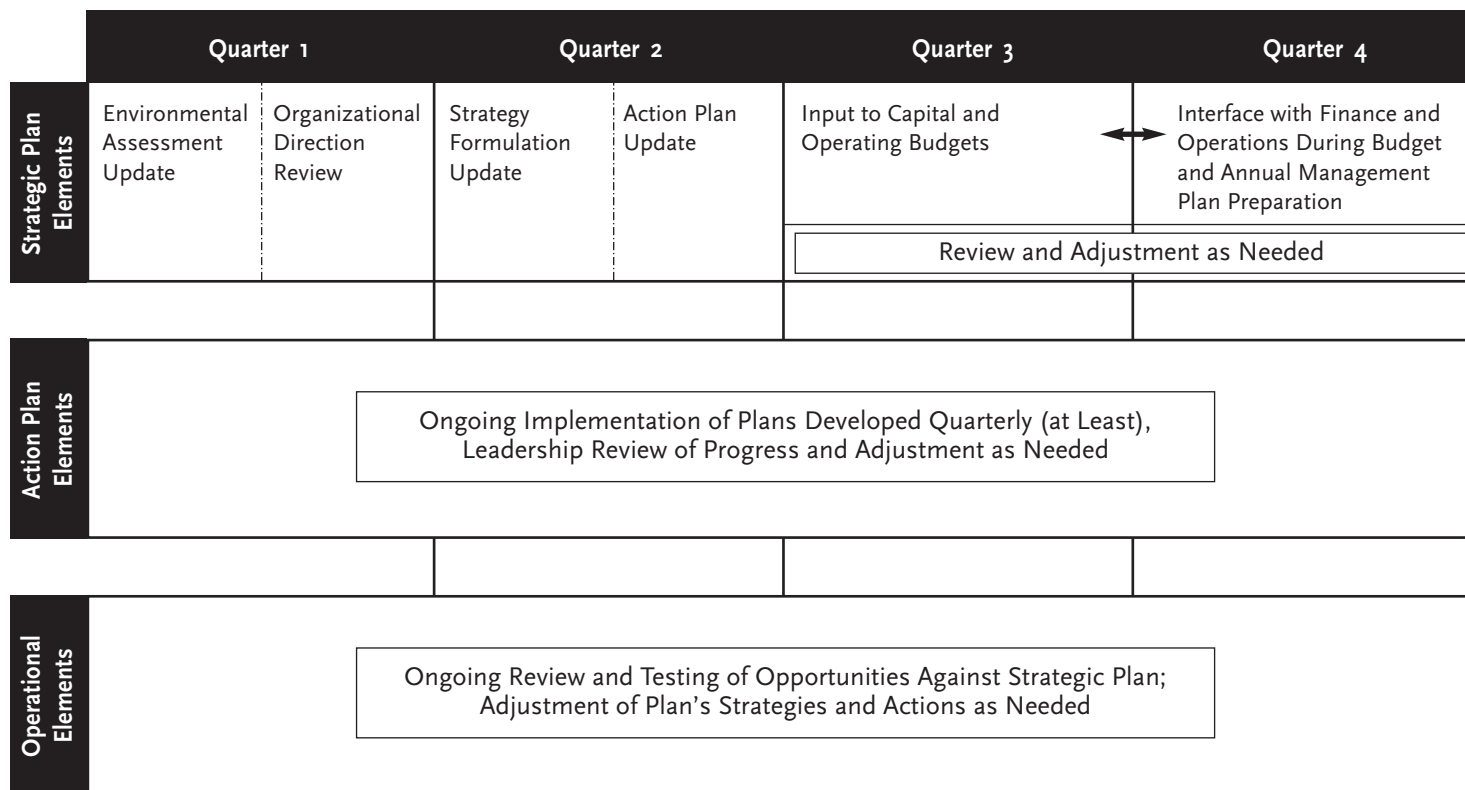
Wells (1996) believes that planning is the prelude to strategic management. Strategic planning is insufficient if not followed by the development and implementation of the plan and evaluation of the plan in action.

The balanced scorecard is one proven approach to strategic management. Figure 9.5 presents another approach used by healthcare organizations, which is a logical extension of a strong strategic planning process transitioning into strategic management. On an annual, ongoing basis three concurrent activities take place

1. The strategic plan is developed or, following a comprehensive strategic planning process, updated in subsequent years. The plan update typically occurs in the first half of the fiscal year. In the second half of the year, planning initiatives provide important inputs to capital and operating budgets and plans, and an iterative process that leads to the finalization of all budgets and plans takes place.
2. Throughout the year, implementation of the previously developed strategic plan is occurring. This is a managed process with ongoing support and oversight of implementation, including formal review of progress and adjustment of implementation as needed. Based on these reviews, implementation of contingency plans for certain initiatives may be required.
3. Operations proceed routinely throughout the year. The major changes from traditional practices relate to the management of implementation within regular management structures and processes and the ongoing review and testing of opportunities that arise (with great frequency in some organizations) against the strategic plan. Such reviews may dictate adjustment of the plan's strategies and actions to accommodate new, emerging initiatives.

Whatever process is employed, strategic management represents a powerful new development, with clear benefits for both a stronger strategic planning function and more successful implementation and integrated operations management function.

Figure 9.5: Annual Strategic Management Process Components



CONCLUSION

Effective implementation has proven to be a difficult activity for most organizations. A common misperception is that implementation just happens, when in fact it must be carefully managed to achieve a high rate of success with planning goals and objectives. Ongoing review of progress and new approaches, such as the balanced scorecard, should help keep implementation on track.

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Chapter 10

The Annual Strategic Plan Update

“Reasonable people adapt themselves to the world.
Unreasonable people attempt to adapt the world to
themselves.”

—*George Bernard Shaw*

“Greatness is not in where we stand, but in what direction we are moving. We must sail sometimes with the wind and sometimes against it—but sail we must and not drift, nor lie at anchor.”

—*Oliver Wendell Holmes*

AS MANY HEALTHCARE organizations move to more of a continuous strategic planning orientation, questions about the scope and extent of the annual strategic plan update arise. Typically, for a few years after a comprehensive strategic planning process has been completed, a far less extensive update is required. Fogg (1994) suggests that, on average, the update should require one-quarter of the effort of the first plan. But what is the minimum necessary amount of analysis and process, and what situations might dictate more than the minimum effort?

Despite their professed commitment to an ongoing strategic planning process, some healthcare organizations find that it is easy to postpone or more permanently put off following through on this commitment. The press of daily operations and operational difficulties makes it easy to delay or derail ongoing strategic planning. How can a continuous strategic planning process be hardwired into the organization to limit the potential to get off track and relegate strategic planning to the back burner?

Some healthcare organizations' annual strategic planning processes are robust but not time intensive. How do these organizations manage to invigorate the annual strategic planning effort and leverage its value?

Yet others have done a particularly good job of integrating strategic planning with operational and financial planning. What distinguishes those organizations that have more advanced, integrated processes from the large majority of others that do not?

These and other important questions are addressed in this chapter to enable healthcare organizations to carry out strategic plan updates more effectively and with better results in the future.

FOCUSING THE ANNUAL UPDATE

As in the complete strategic planning process, the annual update benefits from a preplanning stage (per Chapter 2) to focus the quantitative and qualitative work that will follow. Although probably less extensive than the process called for earlier in this book as a prelude to the complete strategic plan, the following—at a minimum—should be determined and appropriately communicated before the annual update begins:

- What are the objectives for this strategic planning process?
- What are the key elements of the proposed process and schedule?
- What will be the roles and responsibilities of leadership individuals and groups?
- How will the update be led and organized?

Here, too, a formal kickoff to the strategic planning process is beneficial to signal that the process is about to begin and to structure the effort that will follow. A leadership group meeting, written communication, or some combination of both is a good way to make sure that the update gets off to a strong and sound start.

In most cases the objectives for the annual update will follow naturally from the previous planning cycle. Typically, these objectives will involve reviewing and revising the key planning issues and approaches to these issues. In the absence of significant environmental change or organizational difficulties, broadening and deepening the organization's understanding of and approaches to the key issues and making modest midcourse corrections are sufficient to justify continued strategic planning effort.

In those cases where significant environmental changes occur, plan implementation is not proceeding well, or the organization is experiencing a crisis (usually financial, but also leadership turmoil and change), a routine annual update process is unlikely to be effective.

The objectives in these cases are generally far more extensive, and fine-tuning activities will prove to be insufficient.

Environmental Assessment

A review of environmental conditions and forecasts is an important part of the annual update. Assuming there are no major changes in external or internal conditions and prospects, Fogg (1994) suggests that the assessment be “surgically updated.” That is, aspects of the external and internal analysis where notable change has occurred should be brought into focus, and a review of the implications of the changes for current and future strategy is required.

Today, many healthcare organizations use national publications such as *Futurescan: Healthcare Trends and Implications* (Seymour 2005), which are updated annually, to kick off their review of changes in the external environment. Brief reviews of key local, regional, and state healthcare developments over the past year may also be prepared by the staff. Structured discussion about external and internal developments with senior management and the strategic planning committee is another important process element in the environmental assessment update.

In an approach parallel to the complete environmental assessment, the update typically produces three main outputs:

1. A revised set of competitive advantages and disadvantages;
2. A revised set of assumptions about the future; and
3. A revised list of critical planning issues.

Organizational Direction

Ordinarily, this component of the strategic plan will require the least attention in the annual update. Absent significant new developments (e.g., merger, major acquisition, major divestiture or closure), the organizational direction components should remain largely intact from update to update. The mission and values statements are the most timeless and least likely to require modification. Even in today’s tumultuous environment, the vision and principal strategy should last five to ten or more years in the vast majority of situations.

Strategy Formulation

Two potential paths may be followed here. If no change has occurred in the critical issues to be addressed, the focus of strategy formulation is exclusively on examining progress related to the plan’s goals and

objectives. Revisions may be warranted by actual implementation success or failure, including pace of progress, roadblocks encountered, and the like. Revisions may also be warranted by changes in environmental conditions.

A somewhat different approach is called for if new issues have been identified. In this case strategy formulation also needs to include some processing of the new issue(s). This activity may be done in a manner similar to that followed in the complete planning process or, depending on current circumstances, in a less or more process-intensive fashion.

Much as in the environmental assessment, structured discussion and review of strategy by senior management is a minimum process requirement. Typically, at least a briefing for and review by the strategic planning committee are also carried out.

Implementation Planning

This step proceeds in a manner similar to strategy formulation. If no new critical issues have been identified, the past year's action plans are reviewed and extended for another year, accounting for actual progress made, changed conditions, and so forth. Any new critical issue(s) and new goals and objectives will require development of an action plan for the next year with appropriate specificity (similar to the other action plans already in existence) and through appropriate processes similar to those used in the initial action planning.

At the conclusion of the annual update, board ratification of the new strategic plan is usually required. Here, too, the scope and extent of the changes to the plan will ordinarily dictate how involved the approval process needs to be.

PROCESS OPTIONS FOR THE ANNUAL UPDATE

In nearly all cases the process used in the annual update will be far less extensive than that employed in the initial development of the strategic plan or in a complete update that would occur when the plan has been accomplished or when circumstances dictate that a complete review and rethinking of the strategic plan is required.

Experience and observation suggest that the less turbulent the environment and the more the complete plan is on target and serving as a good road map for the organization to continue to follow, the less extensive the annual update process needs to be. When significant environmental change and concerns about the continuing relevance of key

elements of the strategic plan have emerged, a more extensive update process is required.

While there are seemingly infinite options for what to include in and how to carry out the annual update process, the options can be categorized into three general alternatives that represent points on the continuum of alternatives available.

1. **Least process.** Even in a relatively low-intensity update, some attention needs to be paid to each of the four strategic planning activities. At the minimalist end of the continuum, senior management and staff take responsibility for the overwhelming majority of update activities, with modest input or participation from others. In this option some outside input is generally sought in the external component of the environmental assessment to assist in validating the nature of current and expected future external conditions. Some internal input may also be sought in strategy formulation to fine-tune approaches to certain key issues. Planning committee involvement in the strategic planning process is also typically modest, limited to a few interactions with staff as they bring forward aspects of the updated plan.
2. **Moderate process.** In this option more senior management and staff effort is required to complete the update, and more input and participation is needed. This type of process usually results from one or more looming environmental threats (which have not occurred yet) or emerging concerns about the continued appropriateness of one or a few key strategies. A deeper, more thorough review of the environment typically will be called for, or focused review and analysis of one or a few of the strategy elements in question may occur. More input and participation from those inside the organization, and potentially outside, is necessary. The planning committee's involvement in the update process is also greater.
3. **Most process.** With this option, something short of a complete update is needed to address one or more major environmental changes that often are accompanied by additional threats of further change. Such change will typically call into question key elements of the strategy, or elements of the strategy may have already failed. In these situations the update process will involve a fairly hard look at the environment, strategy, and implementation

plans but also may require a review of the organizational direction. Input and participation here is fairly extensive, often involving one or more task forces in strategy formulation and implementation planning and oversight by the planning committee throughout the update process.

Many organizations have found that planning retreats (see Chapter 7) are an excellent vehicle to garner a significant portion of the input and participation called for in the annual strategic plan update. Obviously, the need for and desirability of planning retreats will vary somewhat depending on the scope and extent of the update required. Nevertheless, a growing number of healthcare organizations plan at least one annual strategic planning retreat as an important element of the annual update process.

LINKING THE ANNUAL UPDATE TO OTHER MANAGEMENT PROCESSES

As seen in Chapter 9 (see Figure 9.5), the annual strategic plan update should be integrated with financial and operational planning, ongoing strategic plan implementation, and opportunity testing. For most healthcare organizations the annual update will occur during the first half of the fiscal year. When first beginning an annual update process, many healthcare organizations will delay the start (and completion) of the process until later in the year and then find that the necessary inputs for the budgeting process are not available in a timely manner. Experience indicates that an early start in the fiscal year for strategic planning updating provides for smoother integration with financial planning.

As a practical matter, the work flow needs to be staged and sequenced throughout the year so all elements of the management plans receive appropriate and thorough attention. Typically, the bulk of the work on the strategic plan update should be completed before financial and operational planning begin. But some flexibility must also be built into the process so revisions of all plans can be made as necessary before finalization, depending on the results of each element of this interdependent management process. During the third and (principally) fourth quarters, iterative revisions to the strategic, financial, and operating plans typically take place.

The annual update needs to interrelate to implementation of the previous year's strategic plan and ideas and opportunities that arise reg-

ularly between updates. As implementation occurs throughout the year, variation from what was envisioned will be called for and operationalized. These variations comprise an important input to the following year's plan, and the output of the annual update will undoubtedly result in modifications to the existing implementation plans as well.

Similarly, throughout the year new ideas and opportunities emerge on a routine basis to be tested for their consistency with and relevance to the strategic plan. Some of these ideas and opportunities may be so compelling or emergent that they are implemented before the next plan update occurs. Others may be held for consideration at the time of the update. In any event, this routine management process could have some effect on the annual update.

A FEW EXAMPLES

High Point Regional Health System

High Point Regional Health System (HPRHS) in High Point, North Carolina, has been using the annual update process for a number of years and illustrates well the many considerations that must be thought through in the update process. HPRHS consists of a 350-bed community and tertiary hospital, a number of ambulatory facilities, and other health services. Its annual budget is nearly \$200 million (fiscal year 2004). HPRHS operates in the Greensboro–Winston Salem–High Point metropolitan market and competes primarily against three larger and quite successful systems: Novant Health, North Carolina Baptist Hospital, and Moses Cone Health System.

HPRHS has employed the annual strategic planning process to stave off regular competitive thrusts by these well-heeled systems and identify opportunities to exploit that play off their weaknesses and HPRHS's strengths. Judging by its success over the past ten years, HPRHS has done well, a fact that management attributes, at least in part, to its ongoing strategic planning efforts.

HPRHS's annual strategic plan update consists of three main process elements. First, senior management has an extended meeting shortly after the beginning of the fiscal year (October 1) to review and evaluate progress on the previous year's plan, analyze current and expected environmental conditions, and begin to formulate issues to be addressed in the annual update.

Second, following these activities a half-day mini-retreat is held with members of the strategic planning and finance committees of the board, typically in early December. This meeting results in confirmation of the issues to be dealt with in this planning cycle. The third major process element occurs about three months later and consists of a two-day retreat of the board, medical leadership, and management of HPRHS. In the time between the retreats HPRHS's planning staff and senior management team complete elements of the organizational direction and strategy formulation phases of the strategic planning process. The second retreat is used to present a draft of the plan to assembled leadership and, through a combination of large- and small-group review during the retreat, refine and extend the draft plan. After the retreat, planning staff and senior management complete the implementation plan and receive formal board approval of the update.

Covenant Healthcare System, Inc.

A somewhat different approach is followed by Covenant Healthcare System, Inc. (CHSI), located in Milwaukee, Wisconsin, and the largest member of the Wheaton Franciscan System. CHSI consists of four hospitals, part ownership of a heart hospital, three long-term care facilities, a medical group, numerous ambulatory care facilities, and a variety of other services. CHSI's annual budget is approximately \$850 million (fiscal year 2004). The Milwaukee metropolitan market is quite competitive, with four other strong systems, including the nationally recognized Aurora Health Care.

CHSI's current strategic planning process was initiated with the arrival of a new CEO in 2000. In his first year a complete strategic planning process that began to reenergize CHSI in the Milwaukee market was carried out. In 2001 and each subsequent year an update of the strategic plan was completed.

While all aspects of the previous strategic plan and all parts of the CHSI organization are included in the update, each year the focus of the update has been on one main component or theme. For example, in 2001 the update delved into the situation of the hospitals and resulted in significant recasting of the plans and strategies developed in the initial plan. In 2002 integration was the central theme, and five principal mechanisms to promote additional integration across the system and create market advantage as a result emerged from the update.

In each year CHSI has progressed to improve alignment of the

strategic planning process with its capital and financial planning and operational planning processes. By 2003 strategic planning was providing direct, necessary input to all financial planning activities, and financial and strategic planning had evolved into a tightly linked, iterative annual completion process. A similar relationship is developing between strategic and operational planning.

Stillwater Medical Center

For medium-sized and large organizations operating in moderately to highly competitive environments, the annual update process can be somewhat complex, as the previous two examples suggest. For many smaller organizations and those operating in rural areas or less intensely competitive urban and suburban areas, the annual update process can be carried out more simply. A good example is Stillwater Medical Center (SMC) in Stillwater, Oklahoma. SMC consists primarily of a 100-bed sole community hospital located about 75 miles from Tulsa and Oklahoma City. Although SMC competes against the large medical centers in both of these metropolitan areas, its primary competitors are the other hospitals in small towns 10 to 30 miles from Stillwater.

With the arrival of a new CEO in 1994, SMC implemented a new, ongoing strategic planning process. Comprehensive strategic plans were completed in 1994, 1998, and 2002. In each of the years between these major initiatives an annual update was carried out. The update process is centered on the annual two-day board retreat in September. Management prepares for the retreat by reviewing progress versus plan over the past year and identifying current issues and tentative approaches for dealing with them. All of this information is processed at the retreat, and a framework for the updated plan results from the retreat.

After the retreat, management completes the plan update document for board review and approval, prepares the implementation plan, and begins implementation. Use of this process has contributed tremendously to SMC's growth over the past decade, as evidenced by a greatly expanded scope of services, rapid revenue growth, and a strong balance sheet.

CONCLUSION

How frequently are complete strategic planning efforts required versus the less intensive annual updates? The answer depends on the organization, its environment, its particular circumstances, and its style

and culture. Over the past decade most healthcare organizations have prepared a comprehensive strategic plan about every three to five years, with the annual updates serving as the bridge between these larger efforts. As the examples illustrate, SMC is about average, with four years between plans, and HPRHS has gone either four or five years between its last few comprehensive strategic plan efforts.

Most organizations recognize when the annual update is no longer sufficient to carry them forward effectively because the environment has changed markedly, the planning process has started to become stale, the organization has largely completed (or is substantially underway with) the major initiatives recommended in the last complete plan, or some combination of all three. Fogg (1994) indicates that a comprehensive update is required about every four to five years in the general business world, and healthcare organizations seem to be right in step with this timing, too.

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Chapter 11

Encouraging Strategic Thinking

“Beware of the ‘Flavor of the Month.’”

—*Linus Pauling*

“Pursuing incremental improvement while rivals reinvent the industry is like fiddling while Rome burns.”

—*Gary Hamel (1996)*

“The hallmark of great companies is an ability to recognize the game has changed and to adapt.”

—*Arthur Martinez (quoted in Brown and Eisenhardt 1998)*

WHAT IS STRATEGIC THINKING?

This question is puzzling to most, if not all, healthcare executives and even strategic planning professionals. Only in the past decade has this question been addressed successfully outside healthcare.

Henry Mintzberg (1994), in his landmark devastating critique of strategic planning, said, “Strategic planning isn’t strategic thinking. One is analysis, and the other is synthesis. . . . [Strategic thinking] involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise, a not-too-precisely articulated vision of direction . . .”

Garratt (1995) suggests that

Strategic thinking is essentially a process . . . to see, hear and use ingeniously the . . . signals which can give competitive advantage. . . . It requires the ability to create a “holistic” view of the interconnections between apparently contradictory trends in [the] environment . . . and reframe the current mindsets which you and your

competitors hold. . . . “Strategic thinking” is the process by which an organization’s direction-givers can rise above the daily managerial processes and crises to gain different perspectives of the internal and external dynamics causing change in their environment and thereby giving more effective direction to their organization.

Porter (1987) notes that, “Strategic thinking rarely occurs spontaneously. Without formal planning systems, day-to-day concerns prevail. The future is forgotten. Formal planning provides the discipline to pause occasionally to think about strategic issues.”

Hanford (1995) adds that, “‘Strategic thinking’ in essence amounts to a richer and more creative way of thinking about and managing key issues and opportunities facing your organization. . . . Strategic thinking underscores both the formulation and implementation of your organization’s effective strategy” (see Figure 11.1).

While executives and board members may have a thorough understanding of and strong skills in operational thinking, Hanford (1995) argues that the needs are great for strong strategic thinking skills (see Figure 11.2), and far less has been done to develop these skills.

Mintzberg (1994) concludes that if strategic planning is to become truly effective and provoke serious organizational change, it needs to move beyond “preservation and rearrangement of established categories . . . and invent new ones. . . . Formal planning has promoted strategies that are extrapolated from the past or copied from others. . . . Strategy making needs to function beyond the boxes, to encourage the informal learning that produces new perspectives and new combinations.”

How does an organization break out of the box and insert creativity, intuition, a future orientation, new perspectives, and new categories into its processes for and results from strategic planning? How can strategic planning better rise to Mintzberg’s challenge and be a catalyst for critical organizational change?

Strategic Thinking Versus Strategic Planning

Robert (1998) suggests that, “The strategic thinking process . . . can be described as the type of thinking that attempts to determine *what* an organization should look like in the future.” Strategic planning, historically, has been primarily concerned with *how* to get there, and operations is all about “how.” Robert comments further: “Strategic thinking

Figure 11.1: Purposes of Strategic Thinking

In direction setting	“Locating, attracting, and holding customers is the purpose of strategic thinking” (Hickman and Silva 1984).
In establishing “the change agenda”	“Most organizations are effective in many of the things they do and deliver. Strategic thinking is about identifying what to change, modify, add, delete or acquire” (Kaufman 1991).
In resource allocation	“Strategic thinking is about making the best use of what will always be a limited amount and quality of resources” (Hanford 1983).

Hanford, P. 1983. “Managing for Results.” Unpublished paper written for the Public Service Board, Queensland State Government, Brisbane, Australia.

Hickman C., and M. Silva. 1984. “On Becoming a Strategic Thinker.” In *Creating Excellence: Managing Corporate Culture, Strategy and Change in the New Age*. London: George Allen and Unwin.

Kaufman, R. 1991. *Strategic Planning Plus: An Organization Guide*. Newbury Park, CA: Sage Publications.

Source: Garratt. 1995. *Developing Strategic Thought*. Reproduced with permission of The McGraw-Hill Companies.

... identifies the key factors that dictate the direction of an organization, and it is a *process* that the organization’s management uses to set direction and articulate their vision.”

Robert (1998) believes there are four types of companies, as represented by the matrix in Figure 11.3.

Figure 11.2: Distinguishing Between Strategic and Operational Thinking

Strategic Thinking	Operational Thinking
<ul style="list-style-type: none"> • Longer term • Conceptual • Reflective or learning • Identification of key issues and opportunities • Breaking new ground • Effectiveness • “Hands off” approach • “Helicopter” perspective 	<ul style="list-style-type: none"> • Immediate term • Concrete • Action or doing • Resolution of existing performance problems • Routine and ongoing • Efficiency • “Hands on” approach • “On the ground” perspective

Source: Hanford. 1995 in Garratt. 1995. *Developing Strategic Thought*. Reproduced with permission The McGraw-Hill Companies.

1. Companies in the upper left quadrant exhibit strong strategic thinking and manage their operations well. Robert (1998) cites Wal-Mart, Sony, and Johnson & Johnson as examples in this group.
2. Companies in the upper right quadrant have been successful through good operational management, but they cannot articulate where they are going. Robert believes that most U.S. companies are in this group, as are 70 to 80 percent of all companies worldwide.
3. Companies in the lower left quadrant are excellent strategic thinkers, but they cannot implement their visions and generally are weak operationally. Robert believes that many personal computer manufacturers have historically fit into this category and are now, as a result, defunct or merged into other companies.
4. Companies in the lower right quadrant exhibit the worst of both dimensions and usually do not survive very long. It is difficult to name very many of these organizations. Robert cites Kmart as one example.

Figure 11.3: The Strategic Thinking Matrix

		STRATEGY (What)	
		+	—
OPERATIONS (How)	+	<p>EXPLICIT STRATEGIC VISION</p> <p>Operationally Competent</p>	<p>UNCERTAIN STRATEGIC VISION</p> <p>Operationally Competent</p>
	—	<p>EXPLICIT STRATEGIC VISION</p> <p>Operationally Incompetent</p>	<p>UNCERTAIN STRATEGIC VISION</p> <p>Operationally Incompetent</p>

Source: Robert. 1998. *Strategy Pure and Simple II*. Reproduced with permission of The McGraw-Hill Companies.

Robert (1998) suggests that strategic thinking skills are underdeveloped because most managers and board members have risen to the top ranks based on their skills in operations. In the course of their career development these individuals did not naturally develop the strategic skills necessary to help lead their companies, nor was much training or support provided to them to do so.

Thinking Differently

Hamel and Prahalad (1995) state that,

To have a share in the future, a company must learn to think differently about three things: 1. the meaning of competitiveness, 2. the measuring of strategy, and 3. the meaning of organization. . . . In many companies, strategic planning is essentially incremental tactical planning punctuated by heroic, and usually ill-conceived, investments. . . . To avoid this situation, we need a concept of strategy that goes beyond form filling and blank cheque writing.

Hamel and Prahalad (1995) argue that strategic planning, as practiced in nearly all organizations, leads to incremental change at best, small gains in market share, and pursuit of modestly profitable niches. Strategic planning is far too focused on what is, rather than what could be. It rarely involves deep debates, serious consideration of radical expansion of the boundaries of existing businesses, or stretches far enough or questions fundamental assumptions of the company and its senior staff. Given the rapid rate of change in most industries, strategic planning as described above is of marginal benefit. Hamel and Prahalad (1995) call for a more exploratory and less ritualistic planning process.

Hamel (1998) suggests five ways in which more insightful strategy might be brought forth.

1. Involve new voices in the conversation about strategy, including younger employees, new employees, and others outside the inner circle of senior leadership.
2. Create new conversations about strategy, involving diverse perspectives that cut across the usual organizational boundaries.
3. Ignite new passions among individuals involved in the change process that relate to their desires to grow professionally, share in the rewards of success, and have an instrumental role in creating a unique and exciting future.
4. Develop new perspectives about the company, its businesses, its competitors, and its customers that encourage new opportunities to emerge.
5. Encourage new experiments, particularly small-scale forays into new markets and businesses, to gain insights and learning about what strategies might work and which will not.

Above all, Hamel (1998) believes that senior staff must spend less time working on developing the perfect strategy and more time creating the conditions that could lead to strategy innovation: "In a discontinuous world, strategy innovation is the key to wealth creation. Strategy innovation is the capacity to reconceive the existing industry model in ways that create new value for customers, wrong-foot competitors, and produce new wealth for shareholders." The companies that have grown most successfully in the past decade or so have either invented new industries or dramatically reinvented existing ones. Their strategy is nonlinear.

Hamel (1996) characterizes linear strategy as ritualistic, reductionist, extrapolative, positioning, elitist, and easy. In exceptional (and unusual) companies the strategy is inquisitive, expansive, prescient, inventive, inclusive, and demanding. Hamel suggests that strategy making must become subversive and lead to revolution, not evolution, if it is to be an effective mechanism for leading change in all but the most static situations.

Eric Beinhocker and Sarah Kaplan (2002) provide a similar attack on conventional strategic planning and a call for new ways to reinvigorate strategic planning through improved strategic thinking processes. In an article whose title, “Tired of Strategic Planning,” resonates with many senior executives, they note that, “Many CEOs complain that their strategic-planning process yields few new ideas and is often fraught with politics” (Beinhocker and Kaplan 2002). They suggest, consistent with Hamel’s (1996) observations, that a new process to make strategy is required. This process should have two primary goals.

1. **To build prepared minds.** If senior leaders gain a strong understanding of the business, the current and possible future environment, and the rationale for the organizational direction agreed on through the strategic planning process, they are more likely to be able to respond swiftly and effectively to challenges and opportunities that emerge.
2. **To build creative minds.** Beinhocker and Kaplan (2002) agree with Hamel (1996) that strategic experimentation is appropriate and will allow controlled testing about where future opportunities may be found. They also agree that many of the issues that companies face today are best addressed in multidisciplinary, cross-cutting forums that demand new voices, discussions, and perspectives.

NEW APPROACHES TO PROMOTE STRATEGIC THINKING

Businesses outside healthcare are years ahead of the healthcare industry in adopting approaches to promote strategic thinking in their organizations. Many companies have been using:

- **Contingency planning** to address a single uncertainty in a given situation;

- **Sensitivity analysis** to examine the effect of a change in one variable while all other variables remain constant; and
- **Simulation** to analyze the effects of simultaneous change in multiple variables.

Scenario Planning

An even more robust approach beginning to be employed in health-care is scenario planning. In contrast to the above techniques, *scenario planning* allows for multiple changes in variables, incorporating both the objective analysis, which characterizes simulation, and subjective considerations more commonly found in the narrower approaches of contingency planning and sensitivity analysis.

According to Schoemaker (1995), “Scenario planning attempts to capture the richness and range of possibilities, stimulating decision makers to consider changes they would otherwise ignore. At the same time, it organizes those possibilities into narratives that are easier to grasp and use than great volumes of data.”

Schoemaker (1995) indicates that scenario planning is particularly beneficial for organizations facing the following conditions:

- Uncertainty is high relative to managers’ ability to predict or adjust.
- Too many costly surprises have occurred in the past.
- The company does not perceive or generate new opportunities.
- The quality of strategic thinking is low (i.e., too routine or bureaucratic).
- The industry has experienced significant change or is about to.
- The company wants a common language and framework, without stifling diversity.
- There are strong differences of opinion, with multiple opinions having merit.
- Your competitors are using scenario planning.

Schoemaker (1995) suggests that because scenarios are designed to construct possible futures but not specific strategies for dealing with them, some organizations will find it beneficial to involve outsiders, such as major customers, key suppliers, regulators, consultants, and academics, in the scenario development process. The objective is “to build a shared framework for strategic thinking that encourages diversity and sharper perceptions about external changes and opportunities.”

Schoemaker (1995) suggests a ten-step approach to scenario development:

1. Define the scope of scenarios to be developed, including time horizon and range. Look at past sources of uncertainty and volatility as a guide to the range dimension.
2. Identify the major stakeholders who could influence the range of considerations defined in step 1.
3. Describe key future trends likely to affect the issues identified in step 1.
4. Identify major uncertainties that could significantly affect each issue.
5. Construct initial scenario themes.
6. Check for consistency and plausibility and revise scenario outlines as necessary.
7. Develop learning scenarios or the first full-scale version of the scenarios themselves.
8. Identify research needs to allow fleshing out of uncertainties, trends, and blind spots in the learning scenarios.
9. Develop quantitative models, as appropriate, to better examine the interactions of certain variables.
10. Evolve toward discussion scenarios, through an iterative process, to converge on the final scenarios that will be used to test strategies and develop new ideas.

Schoemaker (1995) believes that good scenarios meet four tests: they are relevant, are internally consistent, describe clearly different futures, and are long term in perspective.

Decision Analysis and Game Theory

Jennings, Clay, and Carr (2000) advocate the use of decision analysis and game theory as two additional techniques that have been used in business for many years to address future uncertainties creatively. While scenario planning is an excellent approach to address a large number of uncertainties, *decision analysis* works well when a limited number of possible alternatives exist. *Game theory* allows understanding of interdependencies among affected parties as a result of pursuit of strategic initiatives, especially the reactions of competitors, strategic alliance partners, customers, and suppliers. These approaches are appropriate in many instances routinely encountered in strategic analysis and should become basic tools in the near future.

ADVANCED STRATEGIC THINKING

Academic and business journals present a growing body of literature on what could be characterized as advanced strategic thinking for those professionals who have a desire to learn more about this topic. Representative of this body of knowledge is the work of Hanford (1995). Hanford developed a program called Tools for Thinking Strategically (TTS), which is a skills-building and training program on this topic for both trustees and executives. Hanford's program is designed to

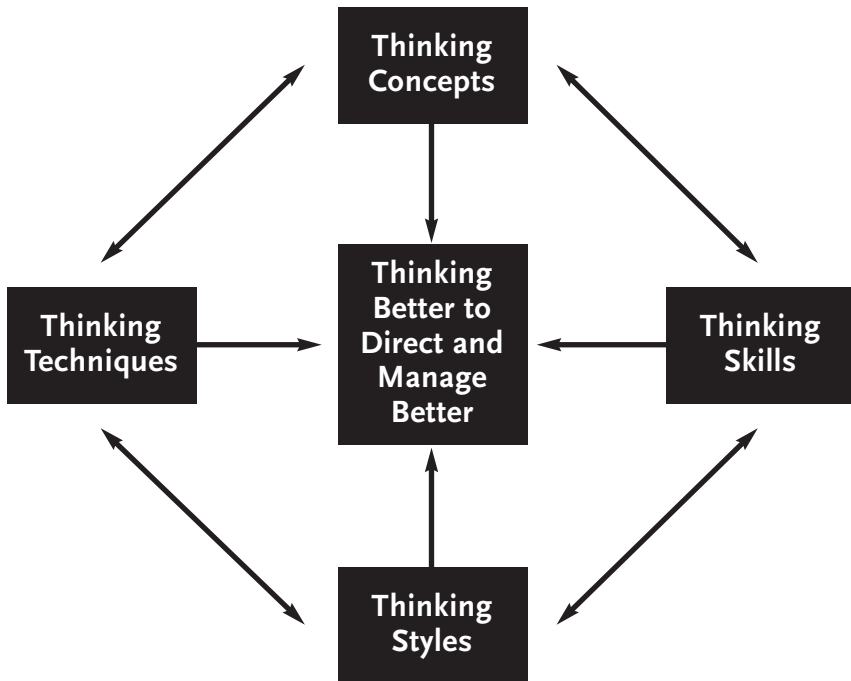
- Redefine or confirm the director's and executive's high-level role of setting direction by looking "outward, upward and forward" to implement major changes and improvements;
- Establish skills to formulate and successfully implement effective policies and strategies;
- Develop a comfort level with assuming radically different behaviors;
- Develop agility and adeptness to move between strategic and operational behaviors by knowing when to be "in your helicopter" (acting strategically) versus be "on the ground" (acting operationally);
- Assist individuals in becoming more personally effective in a variety of strategic support skill areas;
- Build confidence about the ability to think strategically; and
- Achieve constancy in strategic thinking as a result of more competence and confidence.

Hanford (1995) identifies four basic strategic thinking tools that are available to trustees and executives to enable them to think better in order to direct and manage better (see Figure 11.4).

1. **Thinking skills**, in which Hanford (1995) identifies four subtools:

- Reframing, or developing one or more optional approaches to address an issue or opportunity (often by shifting the focus) rather than falling victim to "there's only one way to go."
- Map making, a deliberate approach to develop a full range of alternatives to address an issue before deciding what to do about it; this activity is accompanied by a more collaborative

Figure 11.4: Tools for Thinking Strategically



Source: Hanford. 1995 in Garratt. 1995. *Developing Strategic Thought*. Reproduced with permission of The McGraw-Hill Companies.

approach rather than the typical adversarial senior group discussion and decision-making process, which includes developing the map and then deciding what to do about it.

- Using searching questions to stimulate discussion of the “what ifs” and “why nots” in confronting the big issues facing the organization.
 - Asking effective questions when reviewing issues to enhance creativity, increase commitment to organizational goals, and empower others to maximize their contributions to organizational success and their own job satisfaction.
2. **Thinking concepts**, in which Hanford identifies three subtools:
- Holistic thinking to expand the breadth of individual and group thinking, based on the premise that the more fully you think about a situation, the better you can manage it.

- Increased depth of thinking through the realization that results are dependent not only on effective actions but also on values, beliefs, and assumptions.
 - Most director and executive content thinking can be categorized as “either/or” thinking (“it is either X or it is Y”); expand the range of alternatives to include “more/less” and “both/and” thinking. Similarly, most director and executive process thinking is “stay put” thinking, which is fine for straightforward issues in stable situations; expand the range of alternatives to include “minor from/to” and “major from/to” thinking.
3. **Thinking techniques**, in which Hanford identifies four subtools:
- “Both/and” thinking, or explicit recognition of potential inconsistencies or tradeoffs in decision making and attempting to map the dilemma and then generate some approaches to resolve it.
 - Mind mapping, or identifying the essential elements in achieving a strategic challenge and the interrelationships among the elements to facilitate planning to meet the challenge.
 - Effective prioritization to reduce the number of important issues to deal with, based on urgency, relevance, growth, and ease of implementation, and refocusing organizational resources to these actual priorities.
 - Choices and consequences thinking (also known as “more/less” thinking), which involves purposefully identifying alternative courses of action and then determining the relative merit of each alternative.
4. **Thinking styles**, in which Hanford identifies three subtools:
- Revealing thinking intentions (or how you go about thinking), which generically consist of only one of three objectives: realize some new idea, describe what is true, or judge what is right. Recognizing this form of tunnel thinking allows development of an enriched and more balanced style for better decision making.
 - Identifying the kind of member a leader is, generally one of five types—synthesist, idealist, pragmatist, analyst, or realist—and expanding thinking behavior to enhance decision making.
 - Understanding learning styles to improve how leaders learn and promote continuous improvement based on continuous learning.

Hanford's (1995) work, which is representative of this field, has been presented in the most summary form above. Those who desire to know more about these concepts would benefit greatly from reading the source material on which this synopsis is based and then experimenting with one or more of the subtools in their organizations.

CONCLUSION

Material presented in this chapter represents new thinking and behaviors for healthcare organizations and should be considered for adoption but approached carefully and cautiously. Hanford (1995) suggests that in today's and tomorrow's increasingly difficult environment, directors and executives would be well advised to take "time out to increase your strategic thinking competencies. *Time spent thinking and learning how to think better is time well spent!*"

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Future Challenges for Strategic Planning and Planners

“Change is the law of life. And those who look only to the past or present are certain to miss the future.”

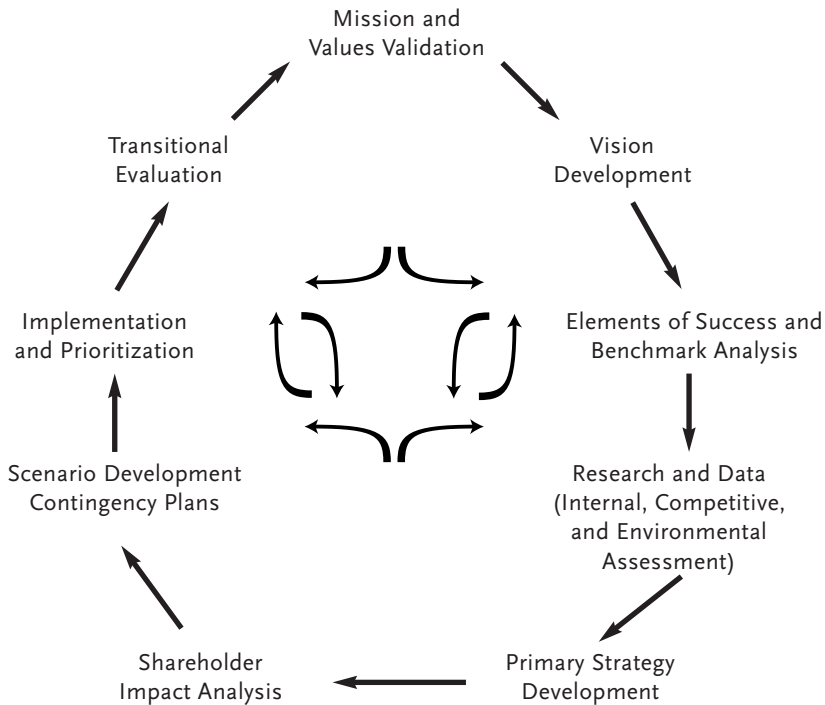
—*John F. Kennedy*

CONTINUOUS, ITERATIVE STRATEGIC PLANNING

In addition to all of its other deficiencies, traditional strategic planning has been disparaged for being too static and linear in its processes. Today's faster pace of change and more turbulent environments render conventional approaches obsolete according to critics. Part of this criticism has been addressed in Chapter 9, which describes the need to move organizations toward continuous strategic planning or, preferably, a strategic management process in contrast to periodic strategic planning. Criticisms about the linear nature of strategic planning are addressed below.

Begun and Heatwole (1999) and Krentz and Young (2000) advocate nonlinear or iterative strategic planning approaches (see Figures 12.1 and 12.2). In contrast to the traditional approach, where one step leads into the next and then the next and the next, with no backtracking, these authors suggest that the steps are so interrelated that strategic planning should proceed in a more iterative and, at times, nonlinear fashion.

Begun and Heatwole (1999) comment that their “strategic cycling model . . . differs from other contemporary frameworks in its emphasis

Figure 12.1: Strategic Cycling Model

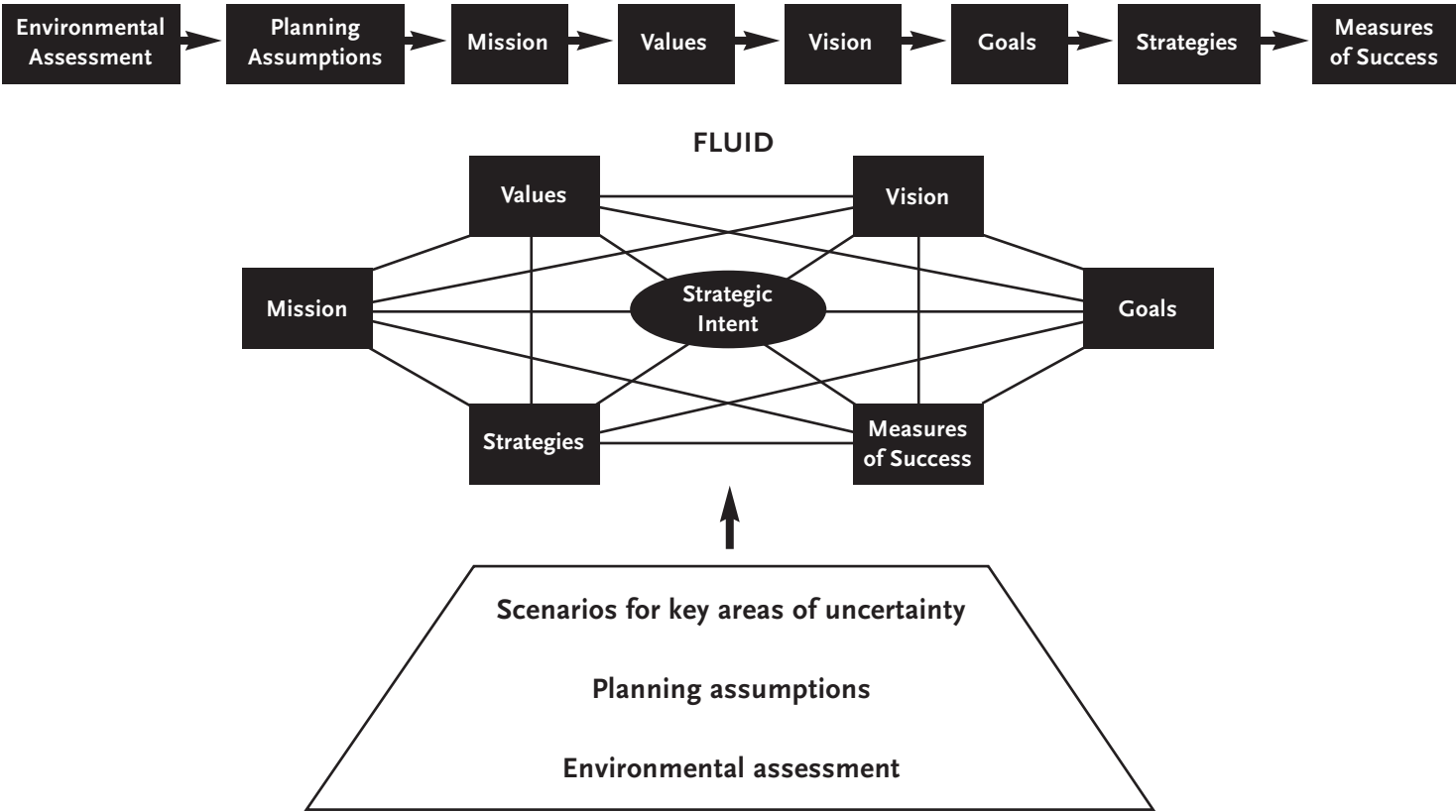
Source: Begun and Heatwole 1999. Used with permission.

on planning as a continuous feedback process rather than a set of stages that result in a relatively permanent and institutionalized plan. . . . It represents a moving and flowing process of analysis and evaluation to continuously monitor the environment and adapt the organization.”

Krentz and Young (2000) note that, “The steps in the process are likely to be intertwined. Although the organization ends up with outcomes that can be labeled ‘the plan,’ its thinking and deliberations are not linear, but more fluid in nature. . . .”

As the environment grows more dynamic and unpredictable, there is little doubt that strategic planning will need to evolve in the ways described by Begun and Heatwole (1999) and Krentz and Young (2000) in order to be more effective and useful. The approaches and processes described in this book move the traditional strategic planning methods a long way along the continuum toward the nonlinear and continuous end. In the evolution of their strategic planning approaches,

Figure 12.2: Linear Versus Fluid Planning Processes



Source: Krentz and Young 2000.

healthcare organizations will need to be more iterative within a given cycle (per Begun and Heatwole and Krentz and Young) and merge planning into day-to-day operations so that regular and ongoing strategic management occurs, as discussed in Chapter 9.

THE NEW STRATEGIC PLANNER

These new perspectives about healthcare strategic planning argue for careful reconsideration of the role of the strategic planner in guiding and shaping the strategic planning process. Hiam (1993) notes that

A recent survey by Business International found that planners currently perform ten principal functions, which range from gathering information for top managers to serving as “guardians” of the planning process. These can be divided into three basic categories: information functions, facilitation functions, and process management functions. . . . Unfortunately, this list of current planning functions doesn’t dovetail too well with the strategy needs of organizations in highly turbulent environments.

Hiam (1993) believes that planners need to take on a new role that is “participative, missionary and aggressively iconoclastic . . . and [become] active participants and leaders in the transformation of management” and their organizations (see Figure 12.3).

Mintzberg (1994) argues similarly that the new role of strategic planners consists of three elements:

1. **Planners as strategy finders.** Planners need to be active searchers for key strategies that emerge within top management, often unintentionally or even without management awareness. Planners need to be constantly on the prowl to discover these “amid the ruin of failed experiments, seemingly random activities, and messy learning” (Mintzberg 1994). Planners should be alert to activities both inside and outside their organizations that can lead to new, important strategies.
2. **Planners as analysts.** This role of analysis is one that planners have performed traditionally and are quite comfortable with. However, Mintzberg (1994) suggests that planners need to have a broader view of their role in analytical support to offer new models, conceptual approaches, and processes to address problems.

Figure 12.3: The Old Guard Versus The New Breed

The Old Guard	The New Breed
<p><i>Strategic planners' traditional functions, according to a Business International survey, were well defined:</i></p> <p>Information functions:</p> <ul style="list-style-type: none"> • Compile information for top managers. • Research competitors. • Prepare forecasts. <p>Facilitation functions:</p> <ul style="list-style-type: none"> • Consult with divisions on how to prepare plans and strategies. • Standardize reporting formats and create common terms of reference. • Help senior managers convey corporate culture by working cultural factors into the planning process. • Communicate corporate objectives. • Organize and lead planning teams. <p>Process management functions:</p> <ul style="list-style-type: none"> • Manage the planning process. • Develop new planning methods. 	<p><i>It can be a struggle for organizations to keep up with an increasingly complex business world. The role of strategic planners should therefore evolve within the framework of traditional functions and be updated with new functions designed to teach organizations to transform themselves:</i></p> <p>Information functions:</p> <ul style="list-style-type: none"> • Compile information for all strategy-oriented teams. • Research competitors and best-in-class benchmarks, including noncompetitors. • Prepare forecasts, especially on internal changes in culture and management style and their effects on environment and performance. <p>Facilitation functions:</p> <ul style="list-style-type: none"> • Consult with divisions on how to improve performance through education, innovation, process management, and total quality management. • Help divisions measure cost of quality, management effectiveness, and team progress. • Help senior managers implement changes in corporate culture and measure the impact on performance. <p>Process management functions:</p> <ul style="list-style-type: none"> • Manage the expansion of the planning process and encourage intelligent employee participation. • Develop a process-management methodology and oversee its application to all business processes. <p>Transformation functions:</p> <ul style="list-style-type: none"> • Add an internal element (one that asks <i>how</i> to improve as well as <i>what</i> to focus on) to the traditional, externally focused strategic plan. The plan should identify needs and set goals in areas such as management development, benchmarking, process improvement, culture change, and employee participation. • Push for recognition that the annual planning cycle is too long, and forecasts too weak, to permit pursuit of a single strategy. Build mechanisms for reassessment into the strategic plan and the organization as a whole. • Develop new ways to measure organizational capabilities and performance, focusing on sources of strategic advantage, such as organizational learning rate.

Source: Hiam 1993. Used with permission.

3. **Planners as catalysts.** Similar to Hiam's (1993) recommendation that planners assume a management and organizational transformation role, Mintzberg (1994) believes that planners need to "encourage managers to think about the future in creative ways. Such planners see their job as getting others to question conventional wisdom and especially helping people out of conceptual ruts."

Finally, Beckham (2000) writes that the successful CEO of the future needs to be a "master strategist" or have such a person as a key staff member. Whether a strategic planner or the CEO assumes this role directly, Beckham (2000) believes the effective strategist exhibits five principal qualities:

1. **A high percentage of right calls.** While all senior managers need to pitch in when predicting the future, one or more may have a better track record and clearer crystal ball than others and should be relied on as a primary resource.
2. **Innovativeness.** An ability to break away from current thinking and embrace a new view.
3. **Introspection and learning.** An ability to learn from experience, both successes and failures.
4. **Confidence, resolve, and patience.** An ability to let strategies play out, through various ups and downs as they are emerging, to realize the potential benefits of change.
5. **Watchfulness and listening.** An ability to carefully watch and listen and not feel the need to dominate or steer every conversation or discussion.

The effective strategic planner and strategist of the future is much more than an information gatherer or guardian of the planning process. He or she is a leader in management and organizational transformation, a multidimensional catalyst of organizational change, and a strategy finder, enabler, and leader. This transformational agenda is ambitious for many healthcare strategic planners but carries huge potential for personal and professional growth and success.

HEALTHCARE DELIVERY CHALLENGES: 2005 TO 2015

The evolution of strategic planning and the role of the planner will take place in an environment of unrelenting and ever faster change.

Some of the major external challenges healthcare organizations will face in development and execution of their strategic plans in the next decade are discussed below.

1. **Cost control.** As healthcare's share of the gross domestic product continues to rise, the pressure to economize and potentially ration care will increase. Nothing on the horizon will mitigate the pressure on healthcare organizations to control costs.
2. **Aging population.** The graying of America will lead to increasing needs for healthcare services and a greater focus on geriatric services.
3. **Technological advances.** More sophisticated technology will allow better diagnosis and treatment while continuing to increase costs, unless these technologies replace existing technologies or significant productivity gains accrue from new technology.
4. **Pharmaceutical advances.** Also holding the promise of significantly improved disease management or prevention, pharmaceutical advances will lead to major increases in survival rates and, eventually, life expectancy.
5. **Labor shortages.** Nursing and allied health personnel shortages are unlikely to abate, and spot physician shortages are increasing in certain specialties and geographical regions.
6. **Alternative medicine.** The growth of alternatives to conventional medicine, such as chiropractic, acupuncture, homeopathy, and nutrition treatments, bears watching.
7. **Information explosion.** More information that is readily available will have both positive and negative consequences, including improving providers' ability to deliver and manage care but also increasing capital needs to acquire and maintain the new hardware and software.
8. **Consumerism.** As consumers become more knowledgeable about their health and healthcare delivery, they will demand more and better information from healthcare providers and more sophisticated management of their healthcare.
9. **Competition.** The size, growth, and complexity of the industry continue to attract more for-profit and niche providers and will lead to escalating competitive battles.
10. **Government regulation.** Increased regulation at the federal and state levels is a response to the growth and disorder within the healthcare industry.

These 10 major challenges could easily be expanded to a list of 20 or even 100. However, this brief list serves as a starting point for any healthcare organization planning for the next decade by defining some of the potential environmental challenges that will be common across the industry and that increasingly sophisticated strategic planning and planners will need to confront.

HOW TO GET THERE FROM HERE: GUIDELINES FOR LEADERSHIP

Whether organizations use the strategic planning process described in this book or an entirely different process, the following guidelines should increase the likelihood of successful strategic planning and future organization vitality in the new environment.

Be Flexible

In contrast to the “one forecast—one future” model that has characterized healthcare strategic planning until the present, we need to move to a more flexible model. Consideration of alternative scenarios is one good example of this heightened flexibility, as are decision analysis and game theory. Moving from strategic planning to strategic management and continuous, iterative strategic planning represents further evolution to more flexible models. Strategic planning cannot be so open ended as to allow for any possibility, but it must become far more responsive to rapid and unanticipated change so that organizations can cope with a more complex environment and prevent their strategic plans from being outdated or useless within 12 to 24 months of completion.

Increase Rigor

Healthcare strategic planning is, at best, in its infancy and as a discipline needs to become far more sophisticated in its approaches and processes to consistently deliver value to healthcare organizations. Analytical methods need to improve considerably to adequately address the current and future environment.

Previous chapters address such topics as competitive analysis, forecasting models, and the links between strategic planning and financial planning. These and other areas suffer from a paucity of analytically rigorous approaches and processes, usually rendering these subcomponent outputs inadequate or misleading. Healthcare strategic plans

need to greatly improve the rigor of these analyses, adopting approaches and processes used in other industries and not hiding behind inadequate data as an excuse for failure to execute this aspect of strategic planning properly.

Increased rigor is also required in the nonquantitative areas of strategic planning. More disciplined processes, better strategic thinking, and strong management of implementation are three critical areas in which improvement is necessary.

Assimilate Information Effectively

Lack of data, flawed data, too much irrelevant data, and failure to use information technology effectively characterize healthcare strategic planning today and handicap planners' abilities to be analytically rigorous and apply appropriate process techniques. Data problems can be an excuse for avoiding new and complex analytical techniques.

Healthcare leaders must demand more from their staffs and improve information and information processing while at the same time improving the analytical and process approaches to which they relate. By assimilating information more effectively, strategic planning can increasingly focus on what is important, that is, the implications of data for strategy.

Improve Process

Much of this book is devoted to process approaches and techniques to use in healthcare strategic planning because successful healthcare strategic planning is overwhelmingly dependent on good process. With the growing complexity of the healthcare environment and challenges, the importance of a solid planning process is unlikely to diminish in the foreseeable future.

Good process enables the organization to move forward and manage the challenges it encounters and the changes it creates effectively. One of the principal opportunities for healthcare strategic planning in the next decade is to increase the application of proven, more sophisticated process approaches used in other industries, including those involving information technology. Process improvements need to occur in input gathering in all aspects of strategic planning, in consensus building and decision making, in the transition from planning to implementation, and in ongoing strategic planning and management.

CONCLUSION

The good old days of the relatively calm and stable healthcare environment are long gone. Intuition and educated guesses are no longer viable substitutes for sound planning methods. Change is occurring so rapidly that it is impossible to fully understand its scope and impact. With organizations no longer able to rely on the accuracy of long-range forecasts, they must improve their ability to respond to unanticipated changes in the market.

The question is, How will change be experienced? According to Hamel and Prahalad (1994), organizations have two choices.

Given that change is inevitable, the real issue for managers is whether that change will happen belatedly, in a crisis atmosphere, or with foresight, in a calm and considered manner; whether the transformation agenda will be set by a company's more prescient competitors or by its own point of view; whether the transformation will be spasmodic and brutal or continuous and peaceful.

To quote George Bernard Shaw, "To be in hell is to drift, to be in heaven is to steer." Strategic planning is the vehicle that enables healthcare organizations to steer and have control over their future. Yet strategic planning is a journey without a specific destination. It will take soul searching, courage, and commitment to face a future full of uncertainty and potential threats. Strategic planning can provide the road map to guide organizations through the unknown, balancing the need for articulated and compelling vision and direction with the flexibility to adapt and respond as healthcare is transformed for the twenty-first century.

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About the Author

Alan M. Zuckerman, FACHE, FAAHC, is a founding partner and director of Health Strategies & Solutions, Inc., a leading national healthcare consulting firm. Mr. Zuckerman has been a management consultant for 30 years, working exclusively for healthcare providers across the United States.

During his career, Mr. Zuckerman's consulting work has focused on strategic planning; this book is an outgrowth of his experience with hundreds of diverse healthcare organizations. Among his strategic planning clients have been large and small community hospitals, academic medical centers, single- and multispecialty physician groups, nursing homes, retirement centers, hospices, home care agencies, and psychiatric and rehabilitation specialty centers. In recent years, he has been involved in the development of increasingly sophisticated competitive strategies for leading hospitals, health systems, and academic medical centers.

Mr. Zuckerman is widely published and a frequent speaker at national healthcare conferences. His book *Healthcare Strategic Planning: Approaches for the 21st Century* won the 1999 American College of Healthcare Executives' James A. Hamilton book-of-the-year award. Mr. Zuckerman is a Fellow of the American College of Healthcare Executives and of the American Association of Healthcare Consultants and a member of the Society for Healthcare Strategy and Market Development.