



STRATEGIC PLANNING

Put Yourself in the Picture: Planning by Strategy Development

by David Miller and John Hill

Some things in health care never change. Take strategic planning, which many executives still approach the same way they did 20 years ago. Ongoing processes for strategy development and evaluation are often nonexistent. The result, all too often, is a plan that is linear in nature and not as flexible as it needs to be.

In looking at the process of strategy development, there are seven key barriers to effective planning:

Barrier 1: Assuming You Know the Future

Too often, strategies are based on a single view of the future. This view may be linear in nature—i.e., believing that the future will be an extension of the past or the present. It may assume that all customers will want integrated systems or that the United States will have national health care reform.

Scenarios are the most helpful way to deal with an uncertain environment. These descriptions of possible futures are useful as windows through which executives can view proposed strategies. They foster discussions that help decisionmakers assign varying degrees of likelihood to different scenarios.

Barrier 2: Copying Industry Successes

From staff-model HMOs to TQM to physician integration and integrated delivery systems, the health care field often shows a herd mentality.

Part of this has to do with risk management—it is better to be wrong with everyone else than to be wrong and alone. Part of it is assuming that what happens in Southern California or Minnesota will surely happen in Virginia or Ohio. And part of the problem is board

education programs that focus on “hot” new trends.

Learning from what other people do well is not inherently bad—it’s only bad if applied without proper analysis, thought, and review. When looking for answers is substituted for critical thinking the end result is often failure.

The recent christening of integration as the strategy of choice is one example of this. It has worked well in some situa-

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tions, but more often it’s led to steep losses from physician practices and managed care ventures. It has often provided no advantage in the marketplace. The use of scenarios would have provided the different perspectives needed to more adequately evaluate this strategy.

Barrier 3: Not Differentiating Your Organization

Hospitals are often faced with a significant dilemma. Despite their best efforts, they are selling a commodity. They cannot control prices in a market where many hospitals look alike and successful managed care networks can be constructed while excluding many organizations.

To a degree, being unable to control prices relates to the supply of hospital beds. But even in badly overbedded communities, some are able to command higher prices. How? These organizations are uniquely positioned in the minds of consumers and insurers. They may have superior location, be a children’s hospital, be a leader in heart care, or be known as a center of excellence.

Michael Porter, the Harvard Business School strategy guru, defines strategy as differentiation. In his 1996 article, “What Is Strategy?” he asserts that the essence of strategy is choosing to perform activities differently than competitors do—a difference that is valued by the marketplace and can be preserved.

To do this, organizations must be willing to make trade-offs. They must focus resources and management attention on building their key strengths. Then they must develop and reinforce their brand to communicate these priorities to the market. This approach is risky. But so is remaining a generic hospital.

Barrier 4: Strategy as Reaction

All too often, strategy is reactive. Strategies are often driven by factors that, while important, should not be drivers. Key among these is political pressure. This is particularly true in community-owned not-for-profit hospitals, as many constituencies demand input into the process. This is unavoidable and not necessarily bad. But without a board educated in strategy development, it can be an inappropriate driver.

A second reactive approach is dependence on experts. Again, experts have their place, but they cannot be substituted for clear thought and analysis. The use of consultants must be tempered with the understanding that the management team will be held accountable for any failures.

At the same time, opportunities should be evaluated carefully. Analysis should evaluate a venture not just as a stand-alone business, but also how it may affect the organization’s strategy and the provision of its core business.

Barrier 5: Limiting Innovation

Innovation and strategy are generally not linked in the health care industry. Most organizations don't focus on innovation, but, rather, depend on creative people within the organization to innovate for the entire organization.

Part of the problem is that health care executives are not trained to foster innovation. Meetings on innovation often deteriorate into critiques of each new idea. And innovation, of course, involves risks. Untried strategies can fail, injuring the organization and its leaders.

Educating a board to support innovation is difficult, but it is the key to developing transformational strategies. Those strategies will be necessary if organizations are to succeed (instead of just survive) over the long haul.

One key is to be very selective in evaluating innovations. Pilot programs should be encouraged before major commitments are made. Additionally, organizations should be careful not to get too far removed from their strengths.

Barrier 6: Financial Disconnect

One limiting factor to strategy development is the leadership's failure to tie it to the financial plan. Organizational visions are proclaimed and goals articulated, but limited financial analysis is completed.

Every strategic plan should incor-

porate this critical step. A financial baseline must be developed and the new strategies quantified. Capital plans should be completed and income statements projected.

In doing this, the philosophy behind the scenarios must also be used. While the plan will reflect the goal, financial planning must account for the fact that plans tend to be optimistic. Boards must understand not only the financial impact of achieving all goals, but the financial implications of partially achieving them.

Barrier 7: Strategy Development as an Event

Perhaps the most limiting philosophy for strategy development is viewing it as an event. A consultant is engaged, a board retreats, a management team writes it all down, a notebook is created. There is nothing inherently bad about these steps, but they must be supplemented by other actions that support successful strategy development.

In total quality management (TQM) there is the simple philosophy of plan, do, check, act. The first step is to plan your actions in detail to help ensure they are appropriate and executed well. Implementation follows, then results are checked through measurement. Finally, action is taken to correct any deficiencies. It is these last two steps that health care executives often omit in

strategic planning.

Checking should take place at two levels. Level one, the most obvious, is asking whether the strategy and its supporting actions are achieving the results that were expected.

A second level of checking relates to checking the underlying assumptions used in the planning process. What are the underlying assumptions of each scenario? The environment will give you clues as to which worldview is developing, what scenario is unfolding. This can be incredibly valuable as executives and boards decide how plans must be adjusted.

Conclusions

Historically, strategic planning has received mixed reaction from health care executives. When it works, it has provided value by focusing the organization and fostering discussions among its various stakeholders.

By guarding against the seven barriers listed above, executives can vastly increase the effectiveness of such a process. Risks can be reduced, boards can be better educated, and the effectiveness of management actions can be increased. **T**

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