



Deriving More Value from the Role of Strategy in Healthcare

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Ask any number of healthcare leaders about the role of strategy or the process of strategic planning in their organization and you're likely to get a wide range of answers. Indeed, as observed over our decades of experience and in our conversations with health system executives, we find exactly that.



Some depict a textbook, linear approach of assessing strategic opportunities and vulnerabilities, linking goals and strategies to mission and vision, and creating tactics and resource requirements necessary to execute over a prescribed timeline—typically three to five years.



Others are less structured yet set in place a vision or strategy statement, design initiatives as guardrails, and are more focused on an analytics-based planning process to set priorities and drive annual budgets.



A few note that the organization's strategy resides in the CEO's head, played out in regular interactions with leaders and the board.



Still others, some with clear conviction and others somewhat blankly, state they do not engage in the formal process of strategy making, having abandoned it or perhaps never done it, as it doesn't fit with the nature of healthcare, or perhaps their experiences haven't been positive since the resulting plans "just sat on a shelf." Organizations in this last group may still engage in strategy—they just don't formally call it that or write it down.

The truth is that responses from leaders in other industries would likely follow a similar pattern.

Some academics and purveyors of strategy might muse at the diverse perspectives on the role and process of strategy. Think of Beatrice, the sweet elderly woman from the Allstate Esurance television commercial who, clearly not grasping Facebook, was literally posting photos to her living room wall, and her confused friend who just can't stand it anymore, stating "That's not how it works. That's not how any of this works!" They'd be both right and wrong.

This is not an indictment on the role of strategy or the process of strategic planning in healthcare organizations, but rather a recognition that healthcare is a unique industry and that organizations have adapted the concept of strategy and its process to work for them. Our aim is to understand why the concept of strategy—what it is, how it is done, what its value is to an organization—is approached in so many ways by leaders across the healthcare industry. What can we learn, and perhaps most importantly, how do we see the role of strategy in healthcare organizations evolving in the future?

The Origins of Contemporary Strategy in Healthcare

Planning as we know it today first appeared on the scene in healthcare in the 1960s as some states introduced certificate of need (CON) laws and others were incentivized to do so after Congress passed the National Health Planning and Resources Development Act (Public Law 93-641) in 1974. This law was intended to address unintended consequences of two earlier laws--the 1946 Hill-Burton Act, which funded new or existing hospitals, and the 1965 Medicare and Medicaid Act, which provided insurance for millions of citizens--by curbing escalating healthcare costs as well as controlling the expansion of hospitals and the perceived unnecessary duplication of services. As a result of these laws, participating hospitals were required to provide some level of uncompensated care and follow complex planning methodologies to justify certain capital expenditures and new clinical programs or services.

Hospitals quickly learned that a formal planning capability was necessary. Key drivers included demand fueled by a newly insured group of elderly citizens with an increasing life span, rapid advances in medical technology and treatments, the corollary need for hospital expansions, and the fact that first-mover advantage to secure a CON served as a barrier to entry for competitors. The irony of course is that many economists, antitrust attorneys, and health system leaders now believe CON laws to be anticompetitive, the very antithesis of strategy.

Mandated planning exercises to comply with federal and state laws eventually gave way to more formal strategic planning, with healthcare

organizations giving more systematic thought to long-range planning for demand, service mix and capacity, and financial needs. Prior to the 1980s, most hospital executives had little formal training in strategic planning, and the majority spent the entirety of their careers at one or two organizations, limiting their experience base and strategic perspective. Given that strategic planning was a new and developing function for many healthcare organizations, the void of strategy expertise was partially filled by subscription-based services that provided access to industry trends and outlooks, market analytics, and canned frameworks and templates for health systems to populate a strategic plan.

In the decades that followed, healthcare organizations increasingly adopted more traditional approaches, though it is our observation that healthcare still lags behind most other industries in terms of both the underlying analytics to inform strategy and sophistication at strategy making.

Strategy is a topic rich in thought leadership by the likes of famed authors and academics George Steiner, Michael Porter, Henry Mintzberg, Roger Martin, and Richard Rumelt, among many others. Much of their work emanated from personal experience in business and advising many of the world's top corporations as well as through academic research.

In the realm of healthcare strategy and related topics, notable authors and practitioners have also emerged from among the hundreds of authors focused on leadership and transformation in healthcare. While the body of work on strategy is too robust to address in this paper, sharing a few insights from selected foundational works from three of these leading thinkers will help set the tone for the discussion that follows.

MICHAEL PORTER: STRATEGIC POSITIONING

Michael Porter is well known for his work “How Competitive Forces Shape Strategy,” in which he advanced the concept of strategic positioning and defined five forces that shape strategy, and ultimately value and profitability. Fans of Porter see strategy as deliberate. The essence of strategy is positioning the company against competitors, influencing or mitigating the other strategic forces, anticipating shifts in the environment, and then responding to those shifts before—or at least better than—competitors. Those that can achieve a strategic advantage over competitors are favored to win. Not the least of the forces is mitigating threats of new entrants. Porter’s six barriers of entry—economies of scale; product (or service) differentiation; capital requirements; cost disadvantages independent of size; access to distribution channels; and government policy—have been a mainstay of healthcare strategy ever since.

HOW COMPETITIVE FORCES SHAPE STRATEGY



Figure 1: How Competitive Forces Shape Strategy

HENRY MINTZBERG: STRATEGIC THINKING VS. STRATEGIC PLANNING

In his 1994 book “The Rise and Fall of Strategic Planning,”² Henry Mintzberg critically notes that strategic planning is not strategic thinking, and that the most successful strategies are visions, not plans. He surgically deconstructs strategic planning into several pieces:

- **Planning**, which is always about analysis
- **Strategic programming**, the articulation and elaboration of strategies (or visions) that already exist
- **Strategic thinking**, the synthesis of analysis with creativity and intuition resulting in an integrated perspective of the enterprise, a not-too-precise vision of direction

Mintzberg has his own tools and methodologies and introduced the 5Ps (Strategy as Plan, Ploy, Pattern, Position, and Perspective),³ which place the emphasis on the competition and offer a useful tool (often with others, such as Porter’s five forces) to help an organization arrive at a strategy.

One of Mintzberg’s key observations is that some strategy is emergent rather than deliberate, meaning that strategy becomes clearer over time as intentions collide with, and adjust to, a

changing reality. Of note, Mintzberg points out that conventional strategic planning employs a calculating style of management—it controls the process such that the direction is fixed and the path forward and the actions needed to get there are well defined, if not immutable. He observes that the conventional strategic planning process itself may be built upon fallacious assumptions: that the future can be predicted, that strategy can be detached from the learnings of operations, and that strategy can be formalized through systems in deference to human thinking. Contrast that with a committed style of management where leaders engage people on a journey around strategic thinking and infuse energy into the strategy as it evolves. His message is clear: strategic thinking and planning have value, just don’t overthink the process.

THE 5PS OF STRATEGY

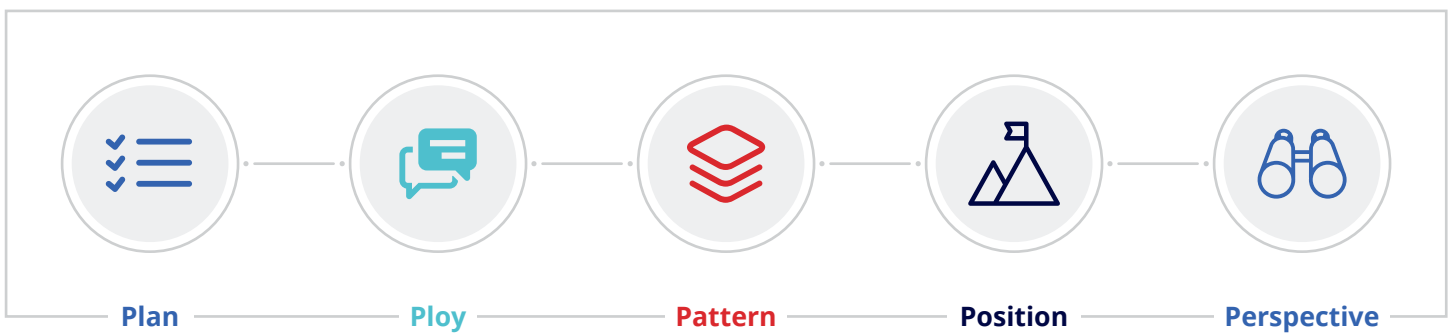


Figure 2: The 5Ps of Strategy

ROGER L. MARTIN: STRATEGY IS ABOUT MAKING CHOICES

A decade after Mintzberg's seminal work, Roger Martin penned "The Big Lie of Strategic Planning."⁴ He notes that true strategy is about placing bets and making hard choices. The objective is not to eliminate risk—as conventional strategic planning often aims to do—but to increase the odds of success. He advances a premise that may be startling to many leaders: that fear and discomfort are an essential part of strategy making, and that if you are entirely comfortable with your strategy, it probably isn't very good. Like Mintzberg, he notes that mistaking planning for strategy is a common trap, yet different from Mintzberg, he finds that one of the most critical traps is waiting for strategy to emerge once the future is sufficiently clear. Doing so becomes an easy excuse for avoiding difficult choices and following the lead of others.

Martin uses a simple framework called the strategic choice cascade, framed around five key strategy choices that were the basis of his

2013 book with coauthor A.G. Lafley, "Playing to Win: How Strategy Really Works."⁵ He posits that organizations that fail to address these questions might continue to survive due to industry circumstance, but they will never thrive. Of the five choices, where to play (which customers) and how to win (define a compelling value proposition) are the two that matter most. Absent assessment of these choices, organizations tend to define strategy based on what they know or already do, in essence justifying a static or at best incremental strategy. The bottom line for Martin is that strategy is not about competing, it is about winning; and winning in the business world is driven more by finding better solutions to drive revenue than by managing costs or capabilities. Of course, leaders need to manage them all, and the art in doing so is for planning to serve strategy rather than dominate it.



What is our winning aspiration?



Where will we play?



How will we win?



What capabilities must we have in place to win?



What management systems are required to support our choices?



The Role of Strategy in Healthcare Today

Students of strategy who follow Porter, Mintzberg, and Martin may quickly point out that all have written and lectured about healthcare, and specifically Mintzberg and Porter have authored books focused on transformation and the pursuit of value in healthcare.^{6,7} Despite their differing schools of thought on strategy, there is also a fair bit of similarity, as Porter and Mintzberg share a view that the role of strategy in healthcare should be reframed because of the uniqueness of the industry. Neither offers a “how to” on developing strategy in healthcare, but healthcare strategists should be familiar with the strategic considerations that both raise.

Many healthcare leaders reading the above recap of various strategy schools of thought would agree with both Porter and/or Mintzberg and might also respond, “but healthcare is different...” Indeed, hence our underlying questions: how do healthcare organizations approach strategy? What works and what doesn’t work in healthcare regarding the role of strategy, and by extension the practice of planning? And are there notable or perhaps necessary differences in the strategy function across different types healthcare organizations?

Prior research on the role of strategic planning in healthcare is somewhat scarce. The most compelling work in our view was completed by Alan M. Zuckerman, who concisely defined 10 best practices in healthcare strategic planning and set forth recommendations for advancing the practice of strategy in healthcare.⁸ Our work aligns with Zuckerman’s findings, and we believe his best practices continue to stand the test of time.

10 BEST PRACTICES IN HEALTHCARE STRATEGIC PLANNING STRATEGY

- 1 Establish a unique, far-reaching vision.
- 2 Attack critical issues.
- 3 Develop focused, clear strategies.
- 4 Differentiate from competition.
- 5 Achieve real benefit.
- 6 Organize preplanning.
- 7 Structure effective participation.
- 8 Think strategically.
- 9 Manage implementation.
- 10 Manage strategically.

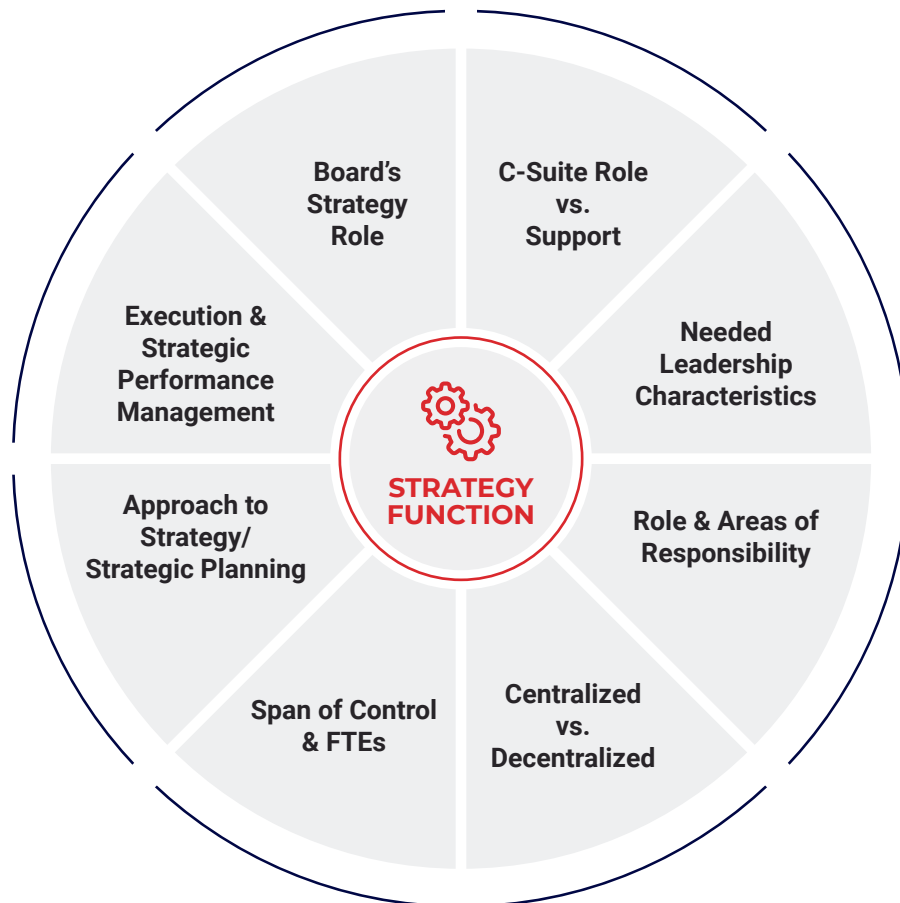
Figure 3: 10 Best Practices in Healthcare Strategic Planning

In this paper, we hope to move the dial even further to define how the role of strategy can drive more value for healthcare organizations.

OUR RESEARCH

ECG conducted interviews with 38 healthcare organizations, and specifically with leaders or leadership teams with responsibility for the strategy function. This research was intended to only be qualitatively based and was designed around a series of questions as illustrated in figure 4. Our findings from these interviews are supplemented with the authors' own insights and observations from recent experience with other health systems that inform our view on the evolving role of strategy in healthcare.

EVOLUTION OF THE ROLE OF STRATEGY IN HEALTHCARE INTERVIEW FRAMEWORK



- ?** *How effective is the strategy function today?*
- ?** *How is the strategy function aligned with planning/ analytics, business development, and related roles?*
- ?** *Is strategic thinking pervasive throughout the organization?*
- ?** *What are best practices in terms of strategy function role/scope and organization?*
- ?** *How is strategy connected with operations, finance, legal, etc.?*
- ?** *How might the strategy function evolve in the future?*

Figure 4: Evolution of the Role of Strategy in Healthcare Interview Framework

Participant organizations included a range of independent community hospitals, regional health systems, national systems, children's hospitals, and academic health systems, representing a

cross-section of the major geographic regions of the United States. Additional characteristics of these organizations are shown in table 1.

HOW COMPETITIVE FORCES SHAPE STRATEGY

HEALTH SYSTEM TYPE	PARTICIPANT ORGANIZATIONS	RANGE OF HOSPITALS	RANGE OF NET PATIENT REVENUES
INDEPENDENT COMMUNITY	8	1-2	\$167M – \$1.1B
REGIONAL COMMUNITY	20	4-38	\$554M – \$9.7B
NATIONAL SYSTEM	2	68-133	\$15.5B – \$22.6B
CHILDREN'S (INDEPENDENT)	2	1	\$715M – \$733M
ACADEMIC HEALTH SYSTEM	6	3-20	\$1.5B – \$5.6B

Table 1. ECG Strategy Research Participant Organization Profile. Source: Definitive Healthcare, 2021–2022.

The scope and mix of functions reporting to the strategy leaders we spoke with is quite diverse. In addition to strategy, the three most common functions were business development, planning, and business intelligence/analytics; but with the exception of planning, the other functions were just as likely to report up through a different leader. Only at a few organizations did functions such as mergers and acquisitions, marketing and communications, strategic capital planning, government affairs, and physician alignment report to the strategy leader.

The size of the strategy team and supporting functions across our interview base was also highly variable, ranging from just a few FTEs

to as many as 20. Interestingly, some of the larger organizations had rather small strategy teams, frequently using external support from consultants or membership services to supplant the need for additional FTEs.

Given that our initial interviews occurred a year into the COVID-19 pandemic, some leaders acknowledged that responses were colored by their organization's response to the pandemic, although most noted that their viewpoints were agnostic of the pandemic. A few indicated their organizations had grown weary of traditional strategic planning having spent the prior decade spending significant time and expense preparing for the industry transformation promised by the Affordable Care Act, which remains elusive in many markets.

KEY FINDINGS FROM STRATEGY LEADER INTERVIEWS

Taken together, our findings reveal a strikingly Mintzberg-like take on the role of strategy in healthcare organizations, and we submit an overarching conclusion that the role of strategy in healthcare has generally not lived up to its potential. This can be attributed to macro industry dynamics, the local or regional nature of healthcare delivery, and/or the skills or sophistication of leadership and governance.

However, we posit that the most significant driver is that many healthcare organizations do not distinguish the process of strategic planning from strategic thinking. As a result, health system strategic plans are often fairly vanilla, almost indistinguishable from one organization to the next. The corollary of this: organizations that do invest in building a robust strategy function, and where strategic thinking is pervasive, are universally more satisfied with their strategic direction, drive stronger performance, and tend to push the boundaries of their business and take greater risks.

Before we discuss our views on this dynamic in more detail, four key lessons from our interviews provide important context.

Organizations that invest in building a robust strategy function are more satisfied with their strategic direction, drive stronger performance, and tend to push the boundaries of their business.



LESSON ONE:

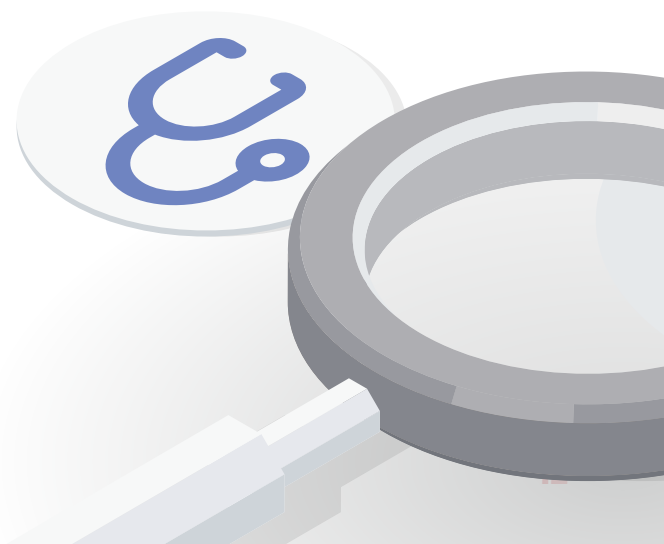
**STRATEGIC THINKING IS
FOUNDATIONAL TO
EFFECTIVE STRATEGY**

Regardless of organization scale, few of those we interviewed believe that strategic thinking is pervasive throughout their organization. A common refrain is that strategy lives in the C-suite, senior leadership sets the strategic direction, and the operators are supposed to execute it. In addition, there is often a disconnect between strategy, finance, and/or operations, which leads to an absence of accountability and challenges in execution. Some organizations are in a constant state of planning and analysis, but never really get to implementation. Thus, we hear the terms static, predictable, and even reactive used in reference to their strategy. These situations do not lend themselves to nurture an environment of strategic learning, which is the basis for strategic thinking.

On the other hand, our interviews did yield a few examples of pervasive strategic thinking, and we find these organizations are characterized by a strategy function that is hardwired with finance and operations. The strategy-making approach includes both “top down” and “bottom up” aspects, with strategic goals cascaded throughout the organization. There is also a keen focus on prioritization and execution, with accountable owners of initiatives and performance goals for executives and the entire management team that tie back to the organization’s strategic goals. While a formal strategy process may or may not be in place, there seems to be a key leadership and cultural distinction in their approach around inclusivity and iteration. Strategic thinking isn’t scheduled—it happens organically and is embedded in the organization’s DNA. As a result, their strategy process is more likely to be described as agile or dynamic.

Organizations that demonstrate pervasive strategic thinking are characterized by a strategy function that is hardwired with finance and operations.

Where strategic thinking is pervasive, we also see maturity around strategic management. Formal strategic plans are updated regularly (i.e., every three to five years), while strategic initiatives are revisited more frequently, at least annually and sometimes throughout the year. Leadership rigorously manages implementation, making decisions to drop initiatives that do not pencil out or have too much execution risk for the desired return and replacing them with others that will advance the strategic agenda. For these organizations, strategy making is not an event—it is an ongoing functional process akin to finance, operations, quality management, etc.



LESSON TWO:**EFFECTIVENESS OF STRATEGIC PLANNING IS NOT CORRELATED WITH SCALE**

Our research suggests that a healthcare organization's size and complexity does not necessarily impact the perceived effectiveness of its strategy. As one would expect, smaller independent community hospitals have fewer resources available to support strategy making, and the strategy process tends to be more traditional. Yet, both from our interviews and in practice, we find that smaller systems have greater satisfaction with their strategy. Perhaps this is due to the simplicity of their plans, which are often distilled to one page, and environmental circumstances where there may be less competition and a greater ability to anticipate and adapt to opportunities.

In larger health systems, we find more resources available in support of strategy, but also much greater organizational complexity and market challenges, and more mixed reviews on strategy and the strategy-making process. We also note a distinction at the corporate or system level of the largest health systems where the role of strategy is more about ideation and long-range visioning. In larger health systems, our findings indicate a greater propensity to see a modest set of broad

A healthcare organization's size and complexity does not necessarily impact the perceived effectiveness of its strategy.

goals (or pillars) and strategies (or initiatives) set at the system level that are pushed down to the regional or local level as the framework for strategic planning, with the understanding that some local customization is necessary, especially around tactics and execution. At the same time, there is much greater ability among large systems to leverage system scale to design and manage the execution of complex strategic initiatives (e.g., digital health, Medicare Advantage), and to think about, and invest in, new markets and/or alternative sources of revenue.

Universally, the primary driver of a strategic plan's effectiveness is whether it is actually executed, and this is highly dependent upon the degree of strategic thinking in the organization. The level of stakeholder engagement in the planning process, the presence of sound strategic management principles, and the flexibility and adaptability in responding to changing market dynamics are key indicators of more pervasive strategic thinking.



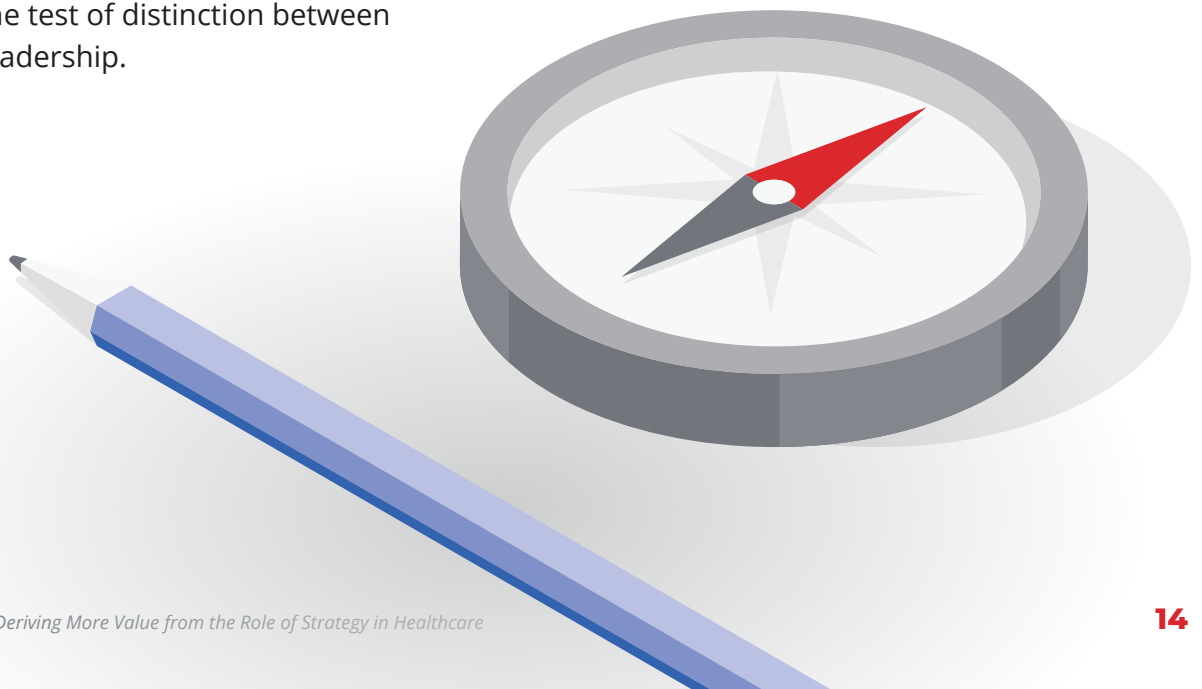
LESSON THREE:**LEADERS DRIVE STRATEGY, BUT BOARDS ULTIMATELY OWN IT**

At a significant majority of the organizations we spoke with, the board or board strategy committee has a limited yet defined role in developing the strategic plan. This group includes health systems large and small; independent, regional, and national; community based and academic. Those organizations that self-describe their strategic planning process as effective engage their boards to provide oversight to the strategic planning process and, in particular, affirm the vision, strategic goals, and key performance metrics (which are often linked to executive incentive compensation plans). In practice, board members are commonly engaged in planning retreats, receiving quarterly updates, and discussing critical issues or topics through regular board meetings or education sessions.

In a minority of organizations, and most commonly in smaller ones, strategy leaders described boards with a much greater influence on organizational strategy and more participation and engagement in planning processes. These boards were also apt to be characterized as micro-managing executive leaders and unduly influencing operations, which, in our view, fails the test of distinction between governance and leadership.

At most organizations, the board has a limited yet defined role in developing the strategic plan.

The delicate balance for healthcare leaders and strategists is engaging boards with sufficient process and education for board members to approve a strategic plan with meaningful goals and strategic objectives that leadership must then execute, with the reality that the board has the ultimate fiduciary responsibility for the organization. Many CEOs, often with support from their strategy leaders, spend considerable time with board members both during structured strategic planning processes and as a matter of regular interaction to ensure support for the strategic direction of the organization.



LESSON FOUR:**CHIEF STRATEGY OFFICERS MUST BE DYNAMIC LEADERS**

When we asked about essential leadership traits and skill sets for strategy leaders, the responses coalesced around several key themes/categories. Although the specific combinations varied by organization, interviewees typically mentioned at least one characteristic in each category.

**FUTURE ORIENTED**

Forward looking and forward thinking with an eye on the market and key trends and a perspective on forces that will impact the industry.

**CRITICAL THINKER**

Thinking freely, drawing strategic insights, synthesizing complex topics, and remaining prospective versus reactive.

**COLLABORATIVE**

A relationship orientation with the ability to bring different groups together, manage across teams, and collaborate across functional areas.

**EXCELLENT COMMUNICATOR**

A storyteller who can translate the vision into tangible strategy and bring people along; able to facilitate various groups to drive to a decision.

**DATA DRIVEN**

Qualitative and quantitative analytical skills to help drive the strategy and break through the clutter; financial acumen and savvy.

Views were considerably more mixed regarding the knowledge base that a chief strategy officer should have. Several felt strongly that strategy leaders must have deep experience in healthcare and industry-specific dynamics, particularly related to finance, policy, regulation and legal issues, and deal-making, and must be well versed in topics such as value-based care and quality. Others thought that a healthcare background was not necessary and that an understanding of other business models and industries, consumer behavior, and consumer experience were valuable.

 OBSERVATIONS

Our Insights on the Role of Strategy in Healthcare Organizations

The role of strategy in healthcare today is strongly influenced by three interdependent dynamics:

DAY-TO-DAY OPERATIONS
CONSUME LEADERSHIP'S
ENERGY AND FOCUS.

THE HEALTHCARE
ENVIRONMENT
COMPLICATES STRATEGY
MAKING.

MOST ORGANIZATIONS
COMPETE AS MARKET
PLAYERS.

CHALLENGES SEPARATING STRATEGY MAKING FROM OPERATIONS

A key insight from our interviews is that most healthcare organizations build their approach to strategy making around their core business (e.g., hospitals, physician enterprise) and not the buyers (i.e., patients, consumers, employers). The result is typified by health system strategic plans that are laden with goals, initiatives, and tactics related to patient retention and incremental growth, and striving to improve quality, safety, and business operations in order to achieve a sustainable, if only marginally so, financial position.

We observe that many organizations adopt this approach because the underlying operational challenges are so significant that, by default, they are strategic issues. And, apart from occasional regulatory shifts and modest evolution toward risk-based reimbursement models, the environment remains fairly stagnant with a predominant focus on fee-for-service activity, and some might say, an industry orthodoxy that consumers will accept a mediocre product. Sounds a lot like a utility. In fact, the concept of consumerism in healthcare, while widely written about and generally accepted as an essential aspect of any growth strategy, remains elusive for many healthcare organizations, as most consumers don't think about healthcare until they need it and are still largely insulated from the true costs of healthcare when they do, thanks to third-party insurance.

Apart from occasional regulatory shifts and modest evolution toward risk-based reimbursement models, healthcare remains fairly stagnant with a focus on fee-for-service activity, and some might say, an industry orthodoxy that consumers will accept a mediocre product. Sounds a lot like a utility.

STRATEGY COMPLICATED BY BROADER HEALTHCARE INDUSTRY DYNAMICS

So, if strategy hasn't served its potential, it is quite likely that the healthcare industry in the United States, hampered by how it is organized and funded, hasn't either. The majority of health systems are not-for-profit or government organizations with a mission to serve the needs of their local or regional communities, especially vulnerable patient populations. This often leads to a business model of trying to "be all things to all people" within a narrow geographic and population base.

Couple this with a financial model whereby commercial revenue is relied on to offset payment shortfalls from government payers that account for over 60% of reimbursement nationally. After factoring in other variables like the labor-intensive nature of healthcare, high costs for pharmaceuticals and other supply chain expenses, an excessive regulatory environment, and the highly capital-intensive nature of equipment and facilities, one can easily see why strategy making in healthcare would be a complex undertaking.

In this environment, developing clearly defined and actionable priorities is typically the biggest challenge, especially since day-to-day operational activities often cloud strategic thinking and impair leaders' focus on mid- to long-term strategic direction. Some leaders suggest that the industry model itself makes strategic planning a useless exercise, leading to malaise about the process, if not an outright lack of interest or patience for the process of strategic planning. Our intent in this paper is to define how strategy making can help organizations chart their future despite the significant underlying industry challenges, and perhaps think differently about their approach to strategic planning.

DEFINING SUCCESS AS A MARKET PLAYER VERSUS A MARKET MAKER

We find that most healthcare organizations behave as a "market player," defining success through generally standardized performance metrics such as market share, quality or safety, patient experience, physician and employee engagement, and financial performance. While all are very important measures, the strategic initiatives to achieve these metrics are typically very general and lack bold thinking, which is one of the primary reasons that most health system strategic plans are very much alike. As shown in the exhibit below, nearly every market-player healthcare organization focuses on four areas:

- 1 Revenue and cost optimization, including patient acquisition (growth) and payer contracting
- 2 Delivery network development and redesign informed by evaluations of the clinical portfolio and continuum of care
- 3 Alignment and integration with both employed and independent physicians and advanced practitioners
- 4 Success under payment risk, distinguishing between value-based care and population health

Together, these focus areas demonstrate that the organization's "value" is better than, or at least as good as, their competitors'. Certainly, there is more to health system strategy, but these are foundational for most organizations.

MARKET PLAYER/MARKET MAKER CONSTRUCT

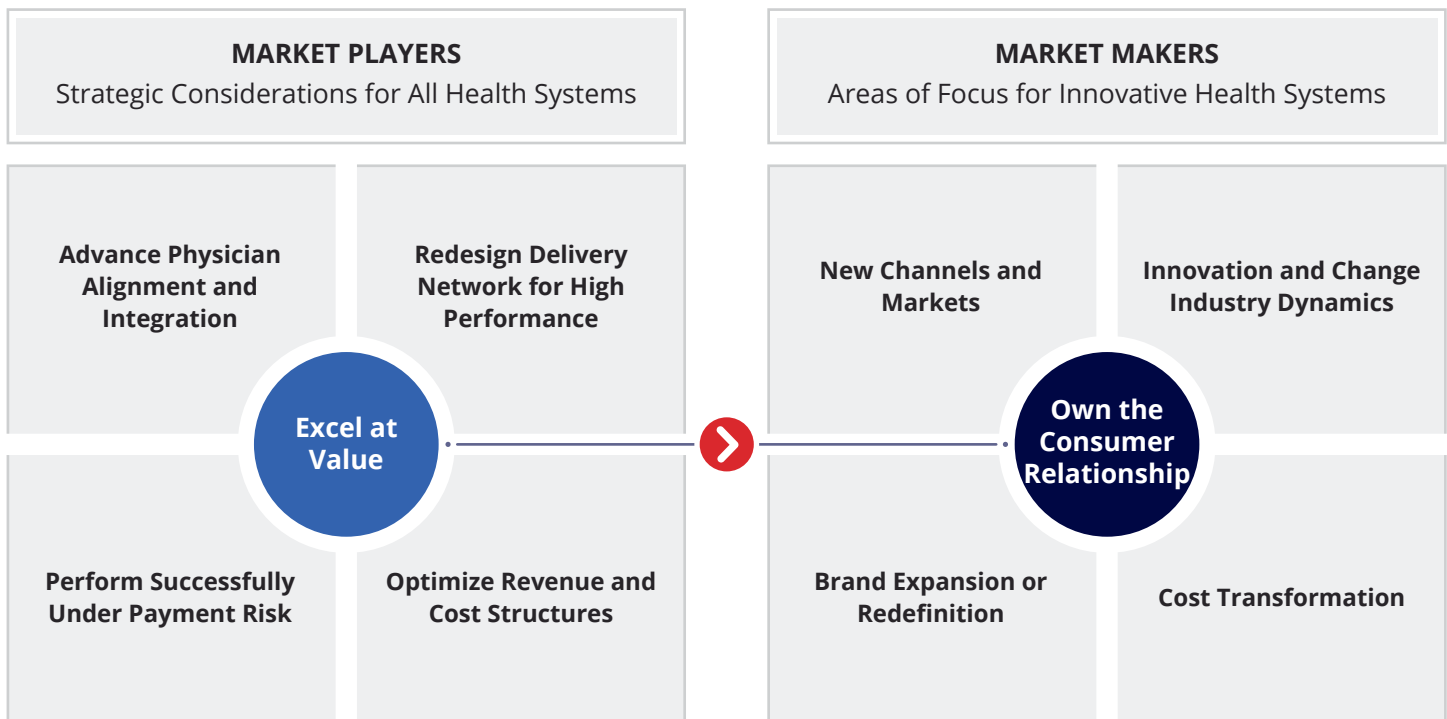


Figure 5: Market Player/Market Maker Construct

In contrast, market makers have already mastered their strategy as a market player or at least hold a significant strategic advantage over competitors. Some are true disruptors that bring bolder and novel business models or innovations to market, generally on a niche basis or in a focused market segment, driving new demand and new sources of revenue. The market-maker concept is directly related to blue ocean strategy, a concept introduced by W. Chan Kim and Renée Mauborgne in their 2005 book of the same name.⁹ Their research found that successful companies do not succeed by competing only in “red oceans” where the industry is saturated with competitors and the market rules and boundaries are somewhat rigidly defined, but rather by creating “blue oceans” of uncontested market space to define new sources of customers and revenue.

Every industry has market makers that are characterized by a focus on one or more of the following:

- Transforming costs through scale, clarity around the service portfolio, and use of technology and automation, adopting the key business principle that lowering costs and improving quality or value are not mutually exclusive
- Changing market or industry dynamics, often through clinical or technological innovation
- Entering new markets and/or lines of business while exiting underperforming ones
- Encompassing their visionary view of their role in healthcare in an expanded or redefined brand identity

Market makers are also far more consumer oriented, even defining their strategy around consumer segments, in addition to or instead of traditional business lines.

Traditionally, healthcare systems like Mayo Clinic and Cleveland Clinic are viewed as top innovators in healthcare, if not market makers, given innovations in disease-specific treatments and therapies. While we often think of academic and children's health systems being at the forefront of extraordinary advances in medicine, several regional and national health systems are also bringing forward innovations in healthcare processes, technology, and care models. In adjacent healthcare provider spaces, UnitedHealthcare's Optum or Amazon Care might be seen as market makers, along with dozens of others in the start-up and scale-up areas of digital health and virtual care, artificial intelligence, big data, and genomics, among others.

However, innovation alone cannot guarantee success, as many of the nation's leading health systems experience similar challenges in defining and advancing their strategic direction. We submit that the vast majority of health systems will never be market makers, and there is no criticism in that given the industry dynamics and challenges noted above. Where then do we turn, and how can healthcare organizations derive more value from their strategy-making efforts?

Fundamentally, the essence of strategy is about making choices—deciding what to do and what not to do—to advance an organization toward an aspirational future articulated by a crisp vision and several strategic, measurable objectives that define success.




 RECOMMENDATIONS

Deriving More Value from Strategic Planning in Healthcare Organizations

Fundamentally, the essence of strategy is about making choices—deciding what to do and what not to do—to advance an organization toward an aspirational future articulated by a crisp vision and several strategic, measurable objectives that define success. Strategy making is not about finding definitively right answers; rather, it is about framing the right assumptions about the future, asking the right questions to prioritize critical challenges, and then defining a directional path forward that brings value to consumers, creates differentiation from competitors, and drives continuous improvement.

Our research and our own experiences with health systems across the US provide a practical learning laboratory to advance the role of strategy in healthcare. In the balance of this paper, we define three critical success factors for healthcare organizations to derive more value from their strategy function.

1. SHIFT FROM STATIC TO DYNAMIC STRATEGIC PLANNING

The formality and rigidity of traditional strategic planning processes, which are largely driven from the C-suite and pushed down to the organization, must give way to a process that is more fluid, more participatory, and more frequent. Citing industry dynamics, saturated markets, a healthcare business model that changes at glacial speed, and a high propensity for risk aversion across most health systems is a false cover for maintaining a stagnant strategic planning approach. In our view, that is precisely why strategic planning should happen with more rigor.

The strategic planning process itself needs to be designed to raise critical questions—both about the organization as it exists today and how it could be different in the future. This entails a thorough and ongoing planning mechanism for evaluating the organization's current business, its strategic position, and the effectiveness of its strategic initiatives. It also requires a forward-looking perspective on the forces shaping the health system's future environment, a definition of what success looks like in that future, and a clear articulation of the risks the organization is willing to take to achieve that success, before determining the initiatives that

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will advance and ultimately realize its vision and long-range objectives. We define the ideal enterprise strategic planning process as one that is iterative, embraces strategic thinking on a continual basis, and drives toward a plan developed more by inspiration than perspiration, with fewer high-impact goals and initiatives, and a roadmap for execution with clear priorities, timelines, and accountability. Figure 6 illustrates this framework.

ITERATIVE STRATEGIC PLANNING/STRATEGIC THINKING FRAMEWORK



Figure 6: Iterative Strategic Planning/Strategic Thinking Framework

We find that there are a few best practices related to each component of the strategic planning process that drive greater value to organizations.

PLANNING FOUNDATION

Every strategic planning process needs a solid fact base from which to plan, if for no other reason than to ensure a common understanding of the challenges and opportunities facing the organization. Many organizations short-shrift the planning process by employing simplistic analyses and conducting just enough qualitative fact finding to pass the sniff test of stakeholder engagement. Too many organizations also rely on external subscription sources for identifying trends and developing forecasts that may or may not be relevant for their market.

Health systems that are knowledge-based with strong planning and decision-support capabilities can readily tap a variety of market and internal data sources to inform comprehensive situation and strategic position assessments instead of examining only narrow windows into specific segments of their business, such as inpatient or hospital-based care. Sophisticated planning processes link strategy and finance in this initial stage, either on parallel tracks or via integrated processes to prepare 5- to 10-year baseline forecasts for demand as well as financial performance.

The outcome of this phase of work is critical to inform strategy. Various tools can be used to discern opportunities and vulnerabilities, like the SWOT, NOISE, or SCORE analyses, or our preferred framework, the goals grid. Regardless of the approach used, what matters most is prioritizing the most critical issues and opportunities facing the organization and framing the questions that must be addressed through the balance of the strategic planning process.

SCENARIO PLANNING AND VISIONING

In traditional strategic plans, the framework for the future is based on expectations that market

Every strategic planning process needs a solid fact base from which to plan.

assumptions will carry forward on a fairly linear basis, resulting in a relatively certain or consensus-based picture. Dynamic strategic planning processes consider future environments as a world of uncertainty and unpredictable events and employ scenario planning to understand the potential impact of that uncertainty and unpredictability and to identify intended responses. The uncertain events commonly played out in scenario planning include significant reimbursement shifts, market consolidation, new competitor entrants, and dramatic shifts in care delivery models due to technology or clinical innovations.

Scenario planning is an important aspect of strategy making because it encourages strategic thinking, creates discomfort, and compels deliberation about risk tolerance. Scenarios need not be polar opposites of each other, and in fact, multiples scenarios could play out at once. The idea is to give thoughtful consideration to the future, as only then can a vision statement that is aspirational and encapsulates what winning looks like be advanced.

Health systems have a tendency to overcomplicate their vision, and it's not unusual to see vision statements that are a paragraph in length and read more like a mission statement. No one likes a wordsmithing exercise jammed into a strategic planning process, so here the CEO, perhaps with support from an expert facilitator, needs to lead and articulate the strategic path forward

A strategic plan without an implementation roadmap isn't likely to have much of an impact.

using a few inspiring words. Some organizations will advance a single-sentence vision that is aspirational and then support it with a short strategy statement of perhaps two or three sentences that serve as the elevator speech.

Once the vision is articulated, the health system's long-range strategic objectives (which we refer to as True North metrics) should be established, as these will provide important guardrails for strategy formulation.

STRATEGY FORMULATION

Many strategic planning processes founder when goals and strategic initiatives are developed. This is most likely to occur when leadership doesn't spend the time prioritizing the critical issues they face as well as the potential opportunities in the market and those discovered through scenario planning. Operational issues also creep into the strategic plan at this point, often due to a squeaky wheel and/or because the organization is too internally focused. As noted above, some operational issues—patient access or elevating the health system's quality signature are two examples—can be so significant that by definition they become strategic. However, we generally advise organizations to keep operational issues within the realm of their annual operating plans.

As a general rule of thumb, we advocate that goals be few in number and high in impact, perhaps four to six goals with no more than three to four strategic initiatives supporting each goal. Leadership teams only have so much bandwidth

to execute, and strategic plans that contain dozens of initiatives and hundreds of supporting tactics are not strategic at all.

EXECUTION

A strategic plan without an implementation roadmap and the support structure to monitor and evaluate results isn't likely to have much of an impact. It's often said that the process of strategic planning can be as important as the plan itself, but without question, execution matters most. Before beginning implementation, health systems must prioritize the final set of initiatives and then communicate the strategic plan and cascade it throughout the organization.

Strategic plan implementation is most successful when organizations invest in strategic management infrastructure and link planning, finance, and operations to oversee execution. While this can manifest in a variety of ways, the most common approach is to assign each strategic initiative to an executive sponsor who then charters an implementation team. Alternatives include utilizing a Project Management Office (PMO) team and creating an Office of Strategic Management.

A best practice during the execution stage is employing rapid cycle planning to vet a strategic initiative or supporting tactic quickly, perhaps over just 90 to 120 days. Frequently, a decision is made to move forward and implementation begins during that period, but occasionally, the initiative or tactic is abandoned or modified due to market circumstances and/or because the costs, return, or required resources make it impractical to proceed. Health systems that are strategically agile will not get bogged down, learning to say "no" or "not now."

2. INTEGRATE STRATEGIC THINKING AND STRATEGIC MANAGEMENT

Earlier we advanced a premise that a key shortcoming of healthcare strategy is that strategic thinking is frequently absent or not pervasive, noting that this is often independent of how formal the strategic planning approach is. For healthcare organizations to get more value from their strategy process, they must adopt a strategic management framework where strategic thinking becomes embedded in the organizational culture.

Organizations that employ an irregular cycle of strategic planning are more likely to have a plan that gathers dust, whereas those that embrace a regular, structured approach to strategic planning and a formal strategic management process will evolve toward a higher plane of strategy, one where strategic direction is dynamic and agile. Health systems that foster strategic thinking throughout their organization will engage more stakeholders at every stage of strategic plan development and evaluation and gain the benefit of insights from physicians, healthcare

Organizations that employ an irregular cycle of strategic planning are more likely to have a plan that gathers dust.

professionals, and frontline managers on a recurring basis instead of only once every three to five years. This is true even when the enterprise strategy framework (i.e., vision, objectives, goals) is driven by senior leadership with board guidance. Strategic thinking occurs at the juncture of strategy development, planning, operations, and finance. Figure 7 illustrates a best practice model for strategic management.



Figure 7: Strategic Management Framework

3. LEARN FROM ADJACENT OR SIMILAR INDUSTRIES

One criticism of the healthcare field is that it has historically been very inwardly focused. While it's true that healthcare has many unique aspects not seen or not as pronounced as in other industries, we can learn from other business models.

For decades, healthcare functioned as a wholesale, supply-side-driven, narrow-channel industry where more patients, utilization, and services rendered drove profitability, and unmitigated growth covered a multitude of operational flaws. Today, healthcare is a highly competitive, demand-driven, multichannel, knowledge-based industry where consumer choice, costs, and value matter a great deal.

In an insightful blog,¹⁰ Molly Gamble notes that 21st century healthcare can increasingly take lessons from the retail, media, banking, education, and hospitality industries, which are increasingly intertwined. Her blog also references Atul Guwande's¹¹ stark comparison of healthcare's

failure to deliver the consistent quality, reasonable prices, and predictable experiences that chains like the Cheesecake Factory do.

Healthcare leaders, and particularly strategists, need to constantly learn from innovations across other industries; numerous examples already exist, including consumerism, standardization, high reliability, branding and communication, and using data as a strategic asset. Health systems invest a lot in board development and educating board members about how healthcare works. They should similarly invest time and effort keeping abreast of other industries and looking for parallels that can become change agents in their own strategy. There is certainly opportunity to learn from other industries, though healthcare executives and strategists need to carefully discern what lessons can be applied to healthcare.

Conclusions

As the US healthcare delivery and funding model has evolved, so too has the role of the strategy function for healthcare organizations. The industry has come a long way, yet may be in one of its most heightened periods of uncertainty. If there was ever a time for strategy, that time is now.

Our research demonstrates a strong desire in healthcare to drive greater value from the strategy-making process. Doing so requires institutional fortitude, leadership commitment, and a willingness to change. Absent that, healthcare organizations will be plagued by incrementalism and perhaps succumb to market forces they made little or no effort to confront.

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