



A SERVICE OF

nrc
HEALTH

JANUARY 2024

System Focus

Driving More Value from the Role of Strategy in Healthcare

By Andrew Bachrodt, Partner, and Maria Finarelli, Principal, *ECG Management Consultants*

Ask any number of healthcare leaders about the role of strategy in their organization and you're likely to get a wide range of answers.

Healthcare is a unique industry, and organizations have adapted and defined the role of strategy *to work for them*. Indeed, even famed authors on the topic of strategy, such as Michael Porter and Henry Mintzberg, share a view that the role of strategy in healthcare should be reframed because of the uniqueness of the industry.

We find that the role of strategy in healthcare today is strongly influenced by three interdependent dynamics.

1. Operational Challenges Often Impair Strategic Focus

Most healthcare organizations design their approach to strategy around their core business (i.e., hospitals, ambulatory network) and not the buyers (i.e., patients, employers/payers). The fact that healthcare is predominantly an asset-heavy industry is unquestionably one of the reasons for this approach—health systems have a vested interest in optimizing the use of their physical assets to generate revenue. The result is typified by health system strategic plans that are more incremental than bold. Another reality is that some operational challenges in healthcare are so significant that by default they *are* strategic issues. It is not unusual to see some healthcare strategic plans laden with operational initiatives, often taking a greater spotlight than bolder growth or transformation initiatives.

2. Strategy Is Complicated by Broader Healthcare Industry Dynamics

The majority of health systems are community-based with a mission to serve the needs of their local or regional communities. This often leads to a business model of trying to

“be all things to all people” within a narrow geographic area and population base. Couple this with a financial model whereby commercial revenue is relied upon to offset payment shortfalls from government payers, 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, and one can easily see why strategy making in healthcare is a complex undertaking. And despite innovations in business models, clinical care delivery, and technology, the underlying healthcare business model has remained fairly stagnant, with a continued focus on fee-for-service activity—and, some might say, an industry orthodoxy that consumers will accept a mediocre product.

3. The Healthcare Industry Is Saturated with Market Players, and Few Market Makers

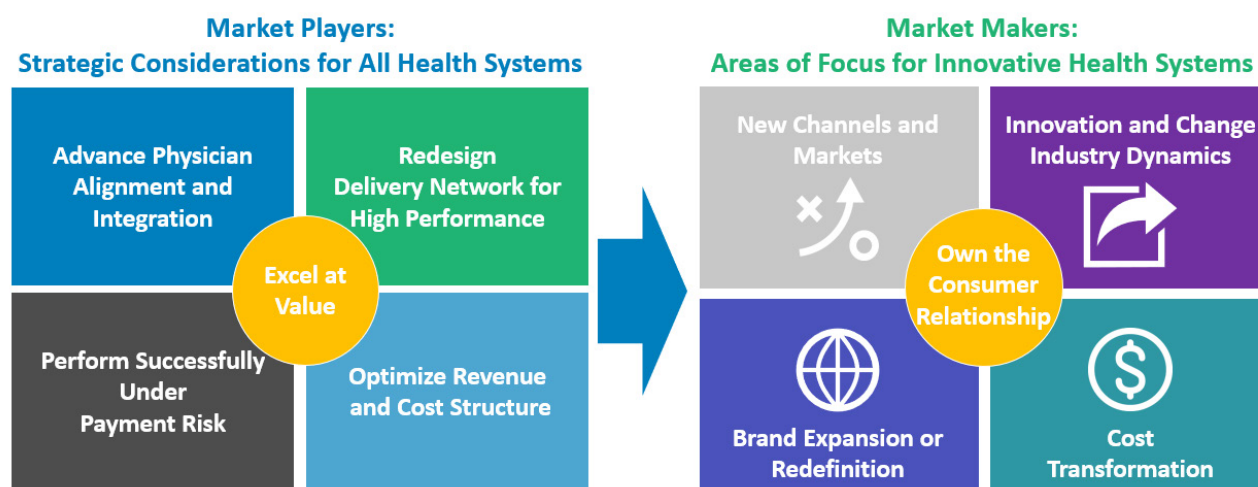
In many respects, healthcare can be seen as a commodity; indeed, many payers seem to treat it as such. Accordingly, most healthcare organizations behave as just another market player, with their strategy virtually indistinguishable from one organization to the next.

Nearly every market-player strategy in healthcare focuses on four areas:

- Optimizing revenue growth and cost optimization
- Advancing high-performing areas of the clinical portfolio
- Advancing alignment and integration with both employed and independent physicians
- Achieving success under payment risk

The degree to which each lever is pulled will necessarily vary by organization and market, though the overarching goal is to 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.

Exhibit 1: Market Player/Market Maker Construct



In contrast, market makers have already mastered their strategy as a market player and hold a significant strategic advantage over their competitors. In addition, they focus on creating new services and new markets of uncontested market space, and with that, 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, being early adopters of technology, and adopting the key business principle that lowering costs and improving quality or value are not mutually exclusive
- Changing market or industry dynamics, often through breakthrough 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 also define key elements of their strategy around consumer segments, in addition to or instead of traditional business lines.

We submit that the vast majority of health systems will never be market makers on their own, though for some, strategic partnerships may help shift their strategy in this direction. Where then do we turn, and how can healthcare organizations drive more value from their strategy-making efforts?

Driving 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. Below are 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 must give way to a process that is more fluid, more participatory, and more frequent. The ideal enterprise strategic planning process is one that is iterative, embraces strategic thinking on a continual basis, has four to six high-impact goals and initiatives, and has a roadmap for execution with clear priorities and a framework for rapid cycling of strategic initiatives (see **Exhibit 2**).

Exhibit 2: Iterative Strategic Planning/Strategic Thinking Framework



2. Integrate Strategic Thinking and Strategic Management

Healthcare organizations must adopt a strategic management framework where strategic thinking becomes embedded in the organizational culture. Strategic thinking occurs at the juncture of planning, strategy development, operations, and finance. CEOs may lead vision and strategy and boards must own it, but it is management, frontline caregivers, and staff who must execute it. Therefore, they should not just understand strategy, but help inform it. These organizations will evolve toward a higher plane of strategy, one where strategic direction is dynamic and agile. **Exhibit 3** illustrates a best practice model for strategic management.

Exhibit 3: Strategic Management Framework



Several characteristics of high-performing organizations where strategic thinking is pervasive include the following:

- Vision, goals, and key initiatives are clear, concise, and widely communicated.
- Strategy, operations, and finance are hardwired.
- The strategic plan is fluid, with key initiatives reviewed and refreshed as needed.
- Execution planning follows a rapid-cycle model to reach go/no-go decisions.

3. Learn from Adjacent or Similar Industries

One criticism of the healthcare field is that it has historically been very inwardly focused. 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.

Healthcare can increasingly take lessons from the retail, media, banking, education, and hospitality industries, which are increasingly intertwined. In doing so, the healthcare sector would learn to deliver more consistent quality, reasonable prices, and predictable experiences.

Conclusion

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. If there was ever a time for strategy, that time is now.

The Governance Institute thanks Andrew Bachrodt, Partner, and Maria Finarelli, Principal, ECG Management Consultants, for contributing this article. They can be reached at akbachrodt@ecgmc.com and mfinarelli@ecgmc.com.

