

Improving Performance Through Execution of Strategy

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Introduction

The world we live in is changing rapidly and is creating many opportunities for the healthcare leaders who are reexamining their company's strategies. The organization's environment today includes changes in information technologies, consumer trends, globalized markets, continued mergers and acquisitions, new competitors, new products, payor relationships, and a changing workforce. This is set in an economic environment that is reflected by low interest rates, lack of trust in major institutions (Arthur Andersen, Enron and WorldCom), and the effects of terrorism on our country from both national and international sources.

A shakeout of the healthcare industry is in process and at stake is the viability of those healthcare institutions that will continue to provide healthcare services while maintaining their corporate identities versus those that will be forced out of business or forced to merge with stronger organizations. Those organizations that look to the future, by planning and evolving to meet expected changes head on, will have a better chance of survival. Strategic planning has added value to hospitals that are looking for ways to protect their financial viability while adapting to the ever-changing environment around them. But not all hospitals are taking advantage of this process.

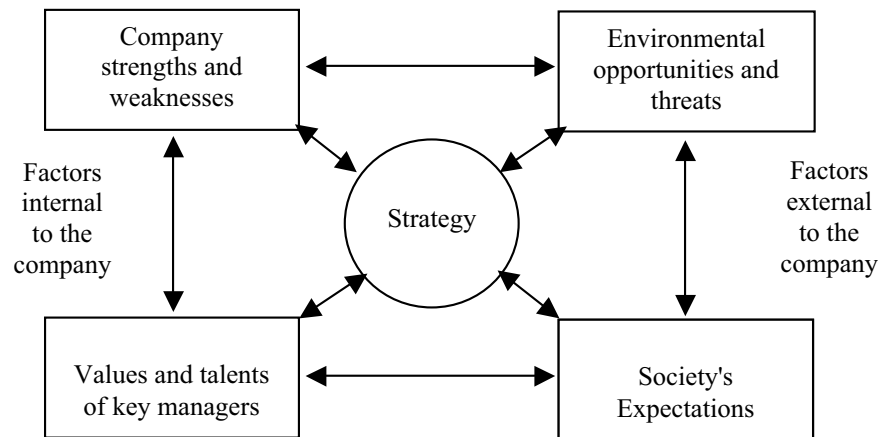
Strategic Planning Components

Strategic planning has as its basis three major components:

1. Definition of Strategy – Strategy is based on the objectives, purposes, and goals of the organization, and the major policies and plans for achieving those goals. These must be stated in such a way as to define what business the hospital is in and what kind of organization the hospital wants to become.
2. Strategy is composed of two core elements: formulation and execution.
3. The formulation of strategy requires the hospital executive to create a synergy between:
 - a. Strengths and weaknesses of the company
 - b. Opportunities and threats in the external environment
 - c. Values and talents of key managers
 - d. Societies expectations of the company

The idea of formulating a strategy is based upon the four concepts expressed in item 3 above. A hospital can succeed using different strategies if it matches the opportunities it faces with its own strengths and weaknesses and the values and talents of its key managers who are implementing the strategy (see Figure 1). Strategic management should be thought of as managing the hospital whereby the overall strategy of the hospital dominates decision making at all levels and in all functions of the hospital. Strategy must be communicated clearly so that it dominates action throughout the organization.

Figure 1. Formulating a Strategy



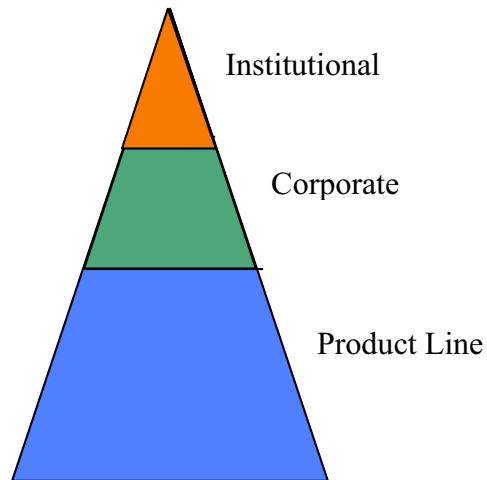
Definition of Strategy

Strategy involves analyzing many different considerations which affect the decision making process. Not only does a hospital have to consider what approach would lead to the most success, but also whether the hospital can afford the investment required for the strategy and how that strategy fits in to the overall concept of what the hospital is or wants to be. It is the presence of multiple strategic considerations that not only makes the job of healthcare leaders so difficult, but also leads to serious confusion about the definition of the word *strategy*.

The term *strategy* is one of the most widely abused terms in business today. It can be related to many areas and functions such as marketing, business, corporate and relationship strategies. A common area of confusion is the relationship between *financial goals* and *strategy*. There have been many discussions about which one comes first, but the truth of the matter is that they exist in a dynamic and interdependent relationship. Strategy both shapes and is shaped by financial goals. For example, a financial goal to grow at a rapid rate will stimulate strategies to enter markets that are in a growth stage. On the other hand, commitment to a strategy of building a dominant share in a particular market will result in financial goals that reflect conditions within that market.

Strategy can be comprised of various levels that comprise the overall strategy of a hospital: *product line strategy*, *corporate strategy*, and *institutional strategy*. The relationships of the three levels of strategy are depicted in Figure 2.

Figure 2. Levels of Strategy



Product line strategy is at the lowest level and relates to the product lines (business units) a hospital is in and how it wants to compete within the industry within those product lines. Goals are developed for each product line based upon profitability, growth, market share and dominance desired in that product line. Around each goal there must be discreet functional policy statements that will be employed to achieve that goal. These functional policy statements relate to product development, use of technologies, marketing efforts, labor complements, and target markets to name a few.

Corporate strategy is defined as determining which product lines a hospital wants to compete in and the allocation of resources within those product lines. Therefore, corporate strategy decisions will include analysis of exit strategies for under-performing product lines, acquisitions, new product line development projects, reengineering and above all, the allocation of resources to each product line.

Institutional strategy refers to the mission, vision and values of the hospital. This level of strategy provides the basic concepts and beliefs that guide the organization's choices and behaviors.

Based upon the levels of strategy discussed above, the following is a precise definition of strategy:

Strategy is based on the objectives, purposes, and goals of the organization, and the major policies and plans for achieving those goals. These must be stated in such a way as to define what business the hospital is in and what kind of organization the hospital wants to become.

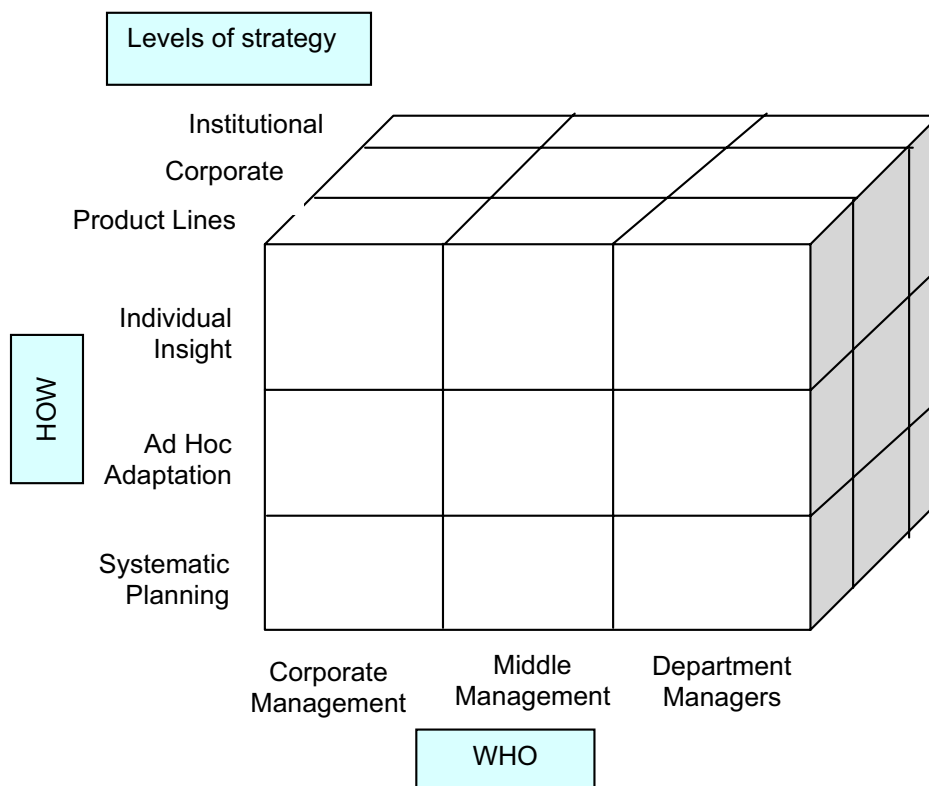
Strategy Formulation and Execution

Strategies are constantly changing. Once a strategy is adopted, managers begin to implement it. As problems or new opportunities arise, the strategy is revised. Thus the processes of strategy formulation and execution are continual and interrelated and the three levels of strategy are simultaneously and constantly influencing each other.

Strategy Formulation

Strategy formulation refers to the processes by which each of the three levels of strategy are developed. There are usually three ways that strategies are developed: individual insight, ad hoc adaptation, and systematic planning. The process also will involve different people, from the chief executive down to the department manager. As shown in Figure 3, the combination of how strategy is developed and who develops it provides a more complete description of the strategy formulation process.

Figure 3. Development of the three levels of strategy.

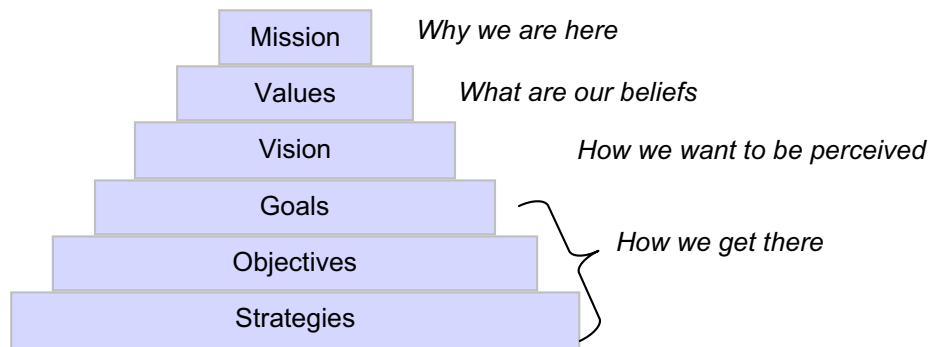


It is important to recognize that each of the levels of strategy will require development and often these processes are different. The three factors-- how, who, and at what level -- combine to describe the entire strategy formulation process. For example, in one

hospital the institutional strategy for the hospital may be set by the CEO using individual insight, while planning teams at the department manager level set product line strategy.

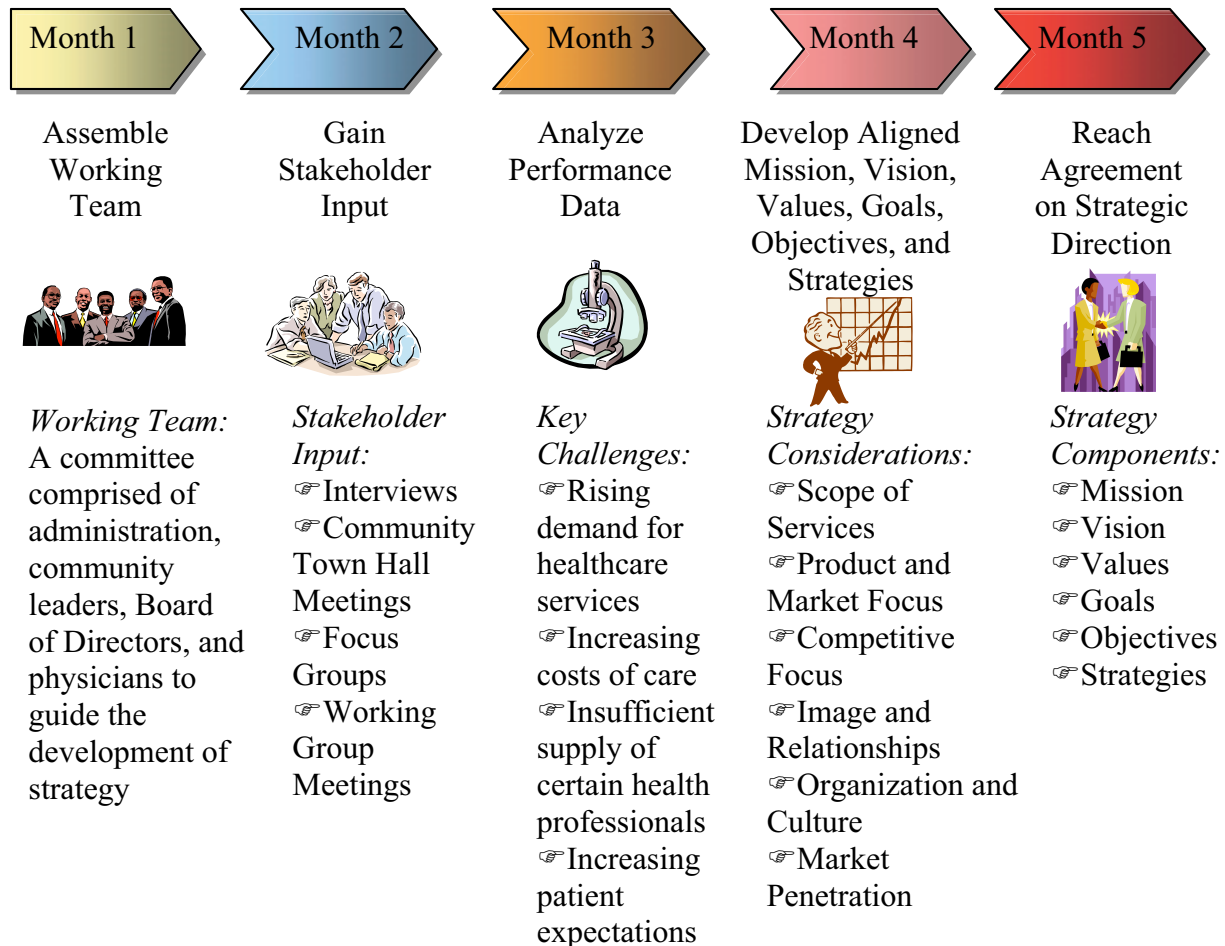
There are certain key outputs to the strategy formulation process, which includes mission, values, vision, goals, objectives and strategies and tactics. There is a hierarchy to these terms, where the *mission* tells the hospital why they exist and at the “foundation” level, the *strategies* tell the hospital the things they need to do. It is important to envision the development of these key outputs from the top down. You would want to develop the overall mission statement first in order to know “why you exist”. Values tell you “what you believe in” and vision tells you “what you want to be”. Then the goals, objectives and strategies tell you “what you need to do” to implement the mission, vision and values. The development of these outputs should take place at each level of strategy. Therefore, product lines would have mission, value and vision statements with goals, objectives and strategies to support them. This would be the same for corporate and institutional levels of strategy. The only thing that would be different between the three levels would be the amount of granularity that would exist in the development of the outputs. Institutional strategies would be at a higher level of granularity and product line strategies would be very detailed and specific.

Figure 4. Key Outputs of the Formulation Process



There is also a detailed planning process that can be used in developing the key outputs. This process can take a considerable amount of time and effort and therefore should be started early. The key components of this process are articulated in Figure 5.

Figure 5. The Planning Process



Another key component of the planning process is how to quantify financially the key strategies that are being developed. Currently, if a hospital does any strategic financial planning today, it is mostly done at the institutional level. Sensitivities run at that level may analyze the impact of a 5% increase in cases, but not really tell you where that increase is or accurately reflect the financial implications of that increase.

Strategic financial planning at the product line level can be very informative in providing healthcare leaders a better understanding of the financial implications of certain strategies and can lead to decisions regarding expansion of a product line or whether the hospital needs to get completely out of a line of business. Most hospitals have detailed product line specific data in their current decision support systems. There are currently available very powerful financial planning software applications that make it very easy to model the product line data. The main issue is for the hospital to have confidence in the data that is being captured by its systems.

Once the data is captured, it is relatively easy to develop a product line financial planning system. One method used is to group DRGs from the inpatient data into 45 segments that then are grouped into 15 product lines. You would want to include the following data

elements: cases, days, los, gross revenue, net revenue, direct fixed and variable costs, and indirect fixed and variable costs. It is important to note that all revenue and expenses are allocated between inpatients and outpatients, either directly based upon the service provided or indirectly based upon allocation methodologies.

Once financial analysis is developed for the product lines, they can then be rolled up to the corporate level of strategies. At this level different product lines are compared to each other in order to develop strategies for expansion, contraction or consolidation of product lines based upon the mission, values and vision established at the corporate level.

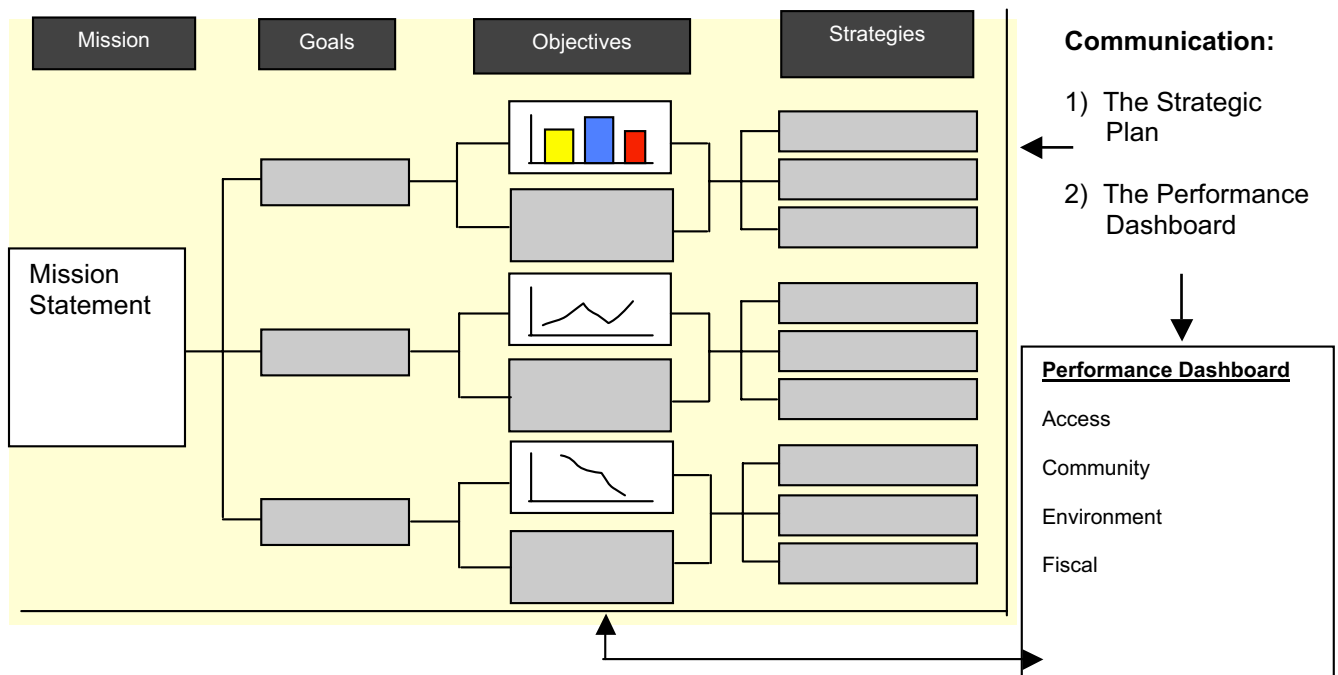
Strategy Execution

Strategy execution is the process of ensuring that strategy is embodied in all that the hospital does. The main purpose of execution is the synergy between strategic goals and objectives and the hospital’s daily activities. To create that synergy requires four essential elements:

- Communication – to the entire organization
- Alignment – of processes, capabilities, and resources with the strategy
- Accountability – between performance and rewards
- Feedback – developing a management reporting system to monitor progress and report back to key stakeholders.

A performance measurement system enables the execution of a hospital’s strategy by translating it into operational terms that can be measured, communicated and used to develop analysis, reporting and decision-making at both the product line, organizational and institutional levels. Many hospitals are using the Performance Dashboard framework as an effective tool for developing a sound performance measurement system (Figure 6).

Figure 6. Communication of Strategy



The Performance Dashboard helps communicate the strategy to the organization and measures business performance aligned with strategic and operational performance targets. It is an effective tool to bridge the gap between mission, vision, strategy and execution. Performance Dashboards are organized based upon the core goals and objectives that are measurable and can include patient satisfaction, community focus, employee relations, and financial stewardship among others. The importance is that the Dashboard measures the strategy you have in place at your hospital. An example of a Performance Dashboard is depicted in Figure 7.

Figure 7. Performance Dashboard

Performance Dashboard			
	2002 Target	Q3 Actual	Prior Quarter
ACCESS			
Patient Satisfaction			
Cycle Times			
Appointment Wait Times			
Volume Trends			
COMMUNITY FOCUS			
Number of Positive Media Mentions			
Number of Speaking Engagements			
Contributions			
Board Activity			
CULTURE AND ENVIRONMENT			
Employee Satisfaction			
Employee Turnover Rate			
Performance Appraisal Scores			
FISCAL STEWARDSHIP			
Cost per Adjusted Discharge			
Case Mix Index			
Operating Margin			
Total Margin			
EBIDTA			
FTE's per Adjusted Discharge			

A Performance Dashboard includes both financial and non-financial indicators and targets to assess both strategic and operational performance. It depicts both short-term and long-term strategic goals as measures. The Performance Dashboard requires hospital leadership to evaluate and select those initiatives, such as patient satisfaction surveys, employee turnover rates, and cost/margin indicators to achieve targeted performance levels. One of the major benefits of the Performance Dashboard is that by constantly having targets and indicators in front of the leadership team, they learn about their strategic performance and understand the dynamics of where their strategies are taking

them and how to adjust when the operating performance is below the standards. The Performance Dashboard identifies the critical drivers and provides feedback on the execution of strategies.

Summary and Conclusions

Strategy is doing the right things, and execution is doing those things right. Having a well-designed strategic planning system in place is the basis for translating strategies into targeted performance, thereby protecting the financial viability of your hospital and providing quality care to your patients. In our experience, many hospitals have no strategic planning process at all or use the annual budgeting process as their main focus on “strategic planning”. Many CFOs operate under the “tyranny of the urgent” philosophy where they address the most pressing needs and issues at the time without taking a step back and looking at the whole picture over a number of years.

Hospital CFOs can learn to develop strategies that work by:

Understanding the three levels of strategy

Knowing how strategies at each of those levels are developed

Developing the key outputs of the formulations process including:

- Mission
- Values
- Vision
- Goals
- Objectives
- Strategy

Implementing a planning process that drives strategic direction

Executing the strategic direction through

- Communication
- Alignment
- Accountability
- Feedback

The development and use of a Performance Dashboard.

It should be clear that each of the elements of strategic planning is necessary and that they should not be developed in a vacuum, but should be considered in the whole. This comprehensive process will lead CFOs to successfully develop and achieve their strategies and meet the desires and expectations of their Boards, management, employees and patients.