



# The Strategy-Focused Hospital: Linking Strategy to Operations to Achieve Great Results

OAHHS Rural Hospital Summit

May 21, 2009

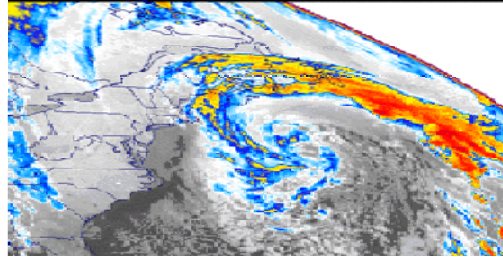
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## Overview

- The Perfect Storm: The need to be Strategy-Focused
- Background
- Strategy-Focused Hospitals
- The Strategy-Focused Hospital Creates Long Term Value
- The Balanced Scorecard and the Management Challenge
- Strategy-Focused Hospitals Map their Strategy
- The Strategy-Focused Hospital Links Long Term Strategy and Measures to Tactical Planning and Budgets
- Strengthening the Responsibilities of the Board
- Lessons Learned from a CEO's Perspective
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## The Perfect Storm: The Need to be Strategy-Focused



- Investment Income: the cushion is gone
- Capital Needs: growing aging plants, aging population, population growth, capital needs for IT and physician recruitment
- Reserves: depleted with decline in investments
- Operating Income: reduced due to higher debt costs, more uninsured, deferred procedures
- Philanthropy: difficult in the current economy

## Background

- **Performance Management Institute is working with over 200 hospitals and healthcare organizations on strategy execution using the Balanced Scorecard framework**
- **The Balanced Scorecard is best considered a toolbox for helping hospitals improve performance**
  - Assists Board in seeing performance as more than financial
  - Assists Executive Team promote teamwork across departments
  - Assists Department Managers in communicating with and involving staff
  - Assists Staff in understanding how their daily responsibilities connect to the “big picture” and reframes their job
    - The story of Nancy in Food and Nutritional Services
- **Potential for The Balanced Scorecard to help hospitals lies in three areas:**
  - Disciplined execution of strategy
    - Tool: Strategy Map
  - Optimizing performance measurement
    - Tools: Measures, Monthly/Quarterly Reports
  - Building capacity and accountability
    - Tools: Developing strategy awareness, selecting department-specific indicators, action planning

## Background

## Execution of Strategy Has Become the Corporate Challenge of Our Times!

- **“Strategy has never been more important”**  
*Business Week*
- **“Less than 10% of strategies effectively formulated are effectively executed”**  
*Fortune Magazine*
- **“The problem is that our age’s fascination with strategy and vision feeds the mistaken belief that developing the right strategy will enable a company to rocket past competitors. In reality, strategy is less than half the battle. .. In the majority of cases – we estimate 70% – the real problem isn’t [bad strategy].... It’s bad execution.”**  
*Why CEO’s Fail*  
*Ram Charan and Geoffrey Colvin*  
*Fortune (6/21/99)*

## Background

## Execution of Strategy Has Become the Corporate Challenge of Our Times!

- **73% of companies that outperform their peers have a formal process for communicating strategy to employees.**  
*2006 Balanced Scorecard Collaborative Survey*
- **Strategy execution is the #1 concern of CEOs worldwide.**  
*The Conference Board, 2007 CEO Challenge*
- **Only 12% of companies successfully execute their strategy.**  
*Balanced Scorecard Collaborative and Cognos joint study, 2006*

## Objectives of the Strategy-Focused Hospital

- **Create a framework for the design and articulation of the hospital's vision and strategy**
- **Utilize a methodology to ensure alignment and execution of the hospital's strategy across the organization**
- **Create a valid and logical approach to look at and learn from the hospital's strategic measures in an integrated, causally linked manner**
- **Provide an objective framework to evaluate and prioritize strategic initiatives quickly and efficiently**
- **Create guidelines to assess performance on a regular, proactive and iterative basis rather than during one-time strategic plan development events**
- **Institutionalize a "language" to communicate and build a common foundation for the understanding and execution of the hospital's strategy and strategic plan at all levels**

## Strategy-Focused Hospitals Institutionalize a Language

### Strategy Execution Terminology

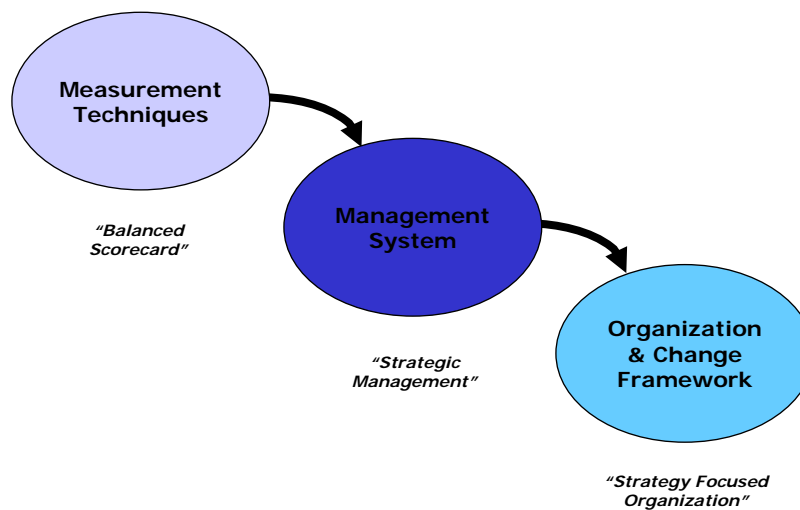
- **Perspectives**
  - A general area or category of performance used to divide the Strategy Map into four or more horizontal bands. The Strategy Map has generally has four perspectives: Customer; Clinical and Business Processes; Learning and Support; and Growth and Development.
- **Strategic Themes**
  - Strategic themes represent the broad categories of a hospital's strategic direction. Strategic themes may include: Quality and Service; Information System Solutions; Workforce Retention and Recruitment; Financial Health; Growth and Provider Relations; Service Excellence; Patient Safety and Clinical Excellence; Innovation; Operational Improvement; Best Place to Work; Organizational Culture; Physician Relations; Financial Strength and Growth; and Community Stewardship.
- **Objectives**
  - A specific, action-oriented goal that states a desired effect from an activity or project. Objectives are located within Strategies and provide a discrete area of performance to which a performance indicator can be linked. Most objectives involve an action statement structures as *verb-adjective-noun*.

## Strategy-Focused Hospitals Institutionalize a Language

### Strategy Execution Terminology

- **Indicators**
  - Specific performance measures that involve numbers/calculations. For example, Operating Profit Margin, which is expressed as a percentage (3.0%). All indicators on the Balanced Scorecard are linked to objectives.
- **Targets**
  - A specific number (or range of numbers) developed and agreed to internally that describe the desired level of performance. For example, the target for the indicator Operating Profit Margin may be 4.0%.
- **Benchmarks**
  - *External, publicly available* numbers, often used to develop or inform targets. Benchmarks are commonly available for financial indicators (e.g. Bond rating), clinical indicators (CMS Core Measure scores) or satisfaction indicators. Benchmarks and targets are similar, but targets are internal and are used to manage performance while benchmarks are external and are used to validate or compare performance.

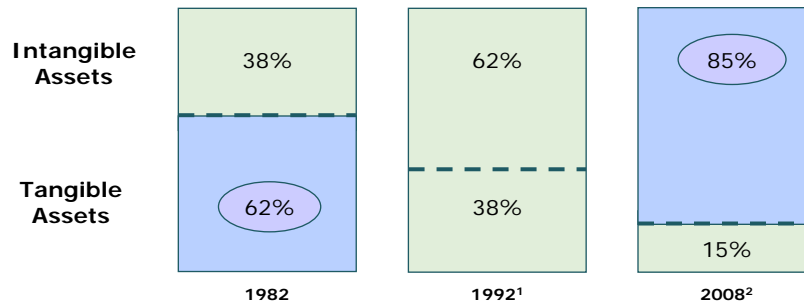
## Evolution of Strategy-Focused Hospitals



## Evolution of Strategy-Focused Hospitals

The Source of Value Has Shifted From Tangible to Intangible Assets

*percentage of market value related to...*



1. Brookings Institute
2. Baruch Lev analysis of S&P500 companies

## Characteristics of Strategy-Focused Hospitals

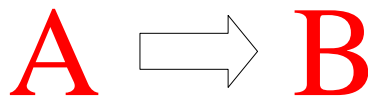
- Strategy-Focused hospitals challenge their assumptions.
- Strategy-Focused hospitals know how to get from A to B.
- EVERYONE sees the same preferred future and learns how to contribute to strategy.

Characteristics of Strategy-Focused Hospitals: A Riddle and Just a Warm-up

- **A husband and wife were born in Boston, Massachusetts.**
- **Their son was born in Boston but the son is not a citizen of the United States.**
- **How can this be?**

Strategy-Focused Hospitals Challenge Their Assumptions

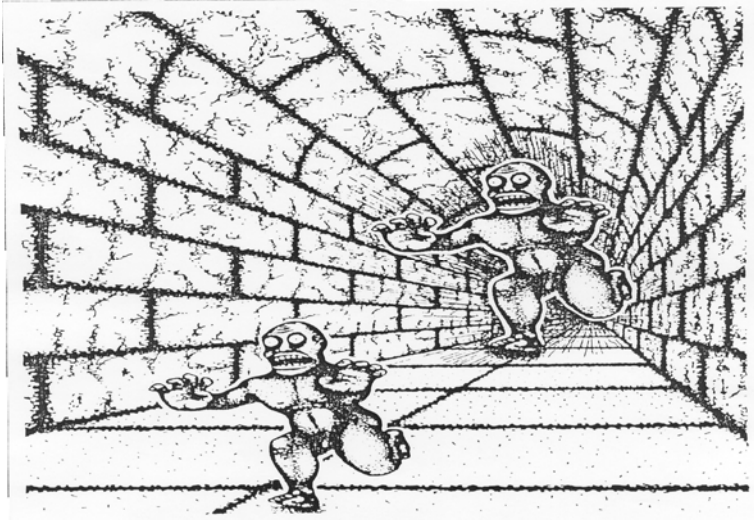
Strategy-Focused Hospitals Know How to Get From A to B



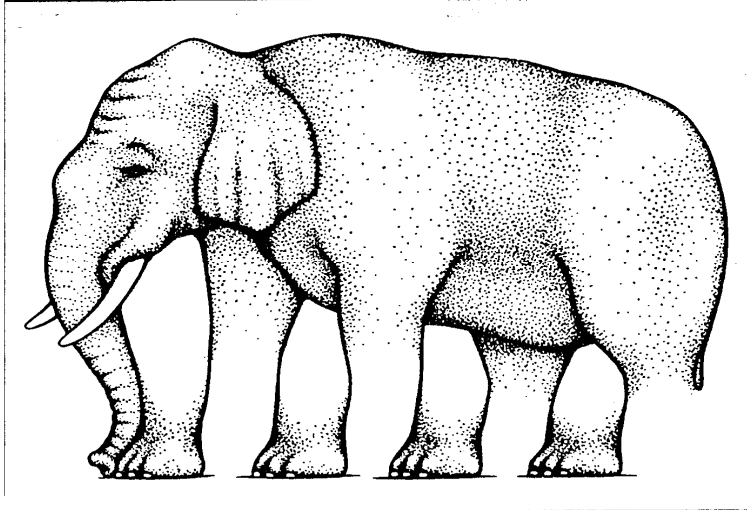
Everyone Sees the Same Preferred Future in Strategy-Focused Hospitals



Everyone Sees the Same Preferred Future in Strategy-Focused Hospitals



## Everyone Sees the Same Preferred Future in Strategy-Focused Hospitals



## Vision Options

- Vision Options
  - Our Clear Bet Future
  - Our Range of Predictability Future
  - Our Breakthrough Future
- Exercise I: Our Clear Bet Future. What our future looks like is some version of the past. When thinking about our future what would the clear bet look like?
- Exercise II: Our Breakthrough Future. If you want to create a breakthrough, what would our future look like?
- Which of the two futures would you choose? Exercise I or II?
- What would you need to do to achieve the preferred future?

### Exercise I: Our "Clear Bet" Future

- Assume you get in a time machine, what will community hospitals look like in 5 years? What would the "clear bet" future look like?
  - Don't write down what you hope for or what you would like your organization to be in 5 years but where you would bet it would be in 5 years.
- List your predictions and don't interpret your answers.
- Read the predictions and think of them as a mosaic. What picture starts to emerge? What do you see?
- Now ask where did the predictions come from?
  - From immediate experiences and the past.
  - Today's problems solved.
  - Today's problems continued.
  - Today's problems extended into the future.
- So our predictions are based on our past and what our future looks like is some version of the past.

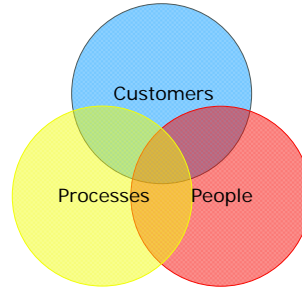
### Exercise II: Our Breakthrough Future

- For this exercise if you put the past in the past you get possibility. Look at one future that is discontinuous from the past. What would a breakthrough future look like? This is not a pipe dream.
  - Don't react to the past, just let it be.
- When you design something you need design criteria. Consider the following criteria when designing the breakthrough future:
  - Inspiring
  - Exciting
  - Challenging
  - Moving
  - Touching
  - Makes a difference
  - Calls to you
  - Unpredictable yet doable
- Assume you get in a time machine, what would community hospital look like in 5 years if you were to cause a breakthrough?

The Strategy-Focused Hospital Creates Long Term Value

The Strategy-Focused Hospital Spends Time on Factors that Create Long-Term Value

- **Traditional financial reports look backward**
  - Reflect only the past: spending incurred and revenues earned
  - Do not measure creation or destruction of future economic value
  
- **Strategy-Focused Hospitals identify the factors that create long-term economic value in an organization, for example:**
  - Customer Focus: satisfy, retain and acquire customers in targeted segments
  - Clinical/Business Processes: deliver the value proposition to targeted customers
  - Organizational Learning & Growth



The Strategy-Focused Hospital Creates Long Term Value

Organizations Often Have A Gap Between Strategy and Action

**Strategy Is a Step In a Continuum**



## The Strategy-Focused Hospital Creates Long Term Value

The Balanced Scorecard Is A Bridge To Close That Gap

### *Strategy Is a Step In a Continuum*



The Balanced Scorecard Collaborative

## What is a Balanced Scorecard?

*The Balanced Scorecard is a **framework** that helps organizations **translate strategy** into **operational objectives** that drive both behavior and **performance**.*

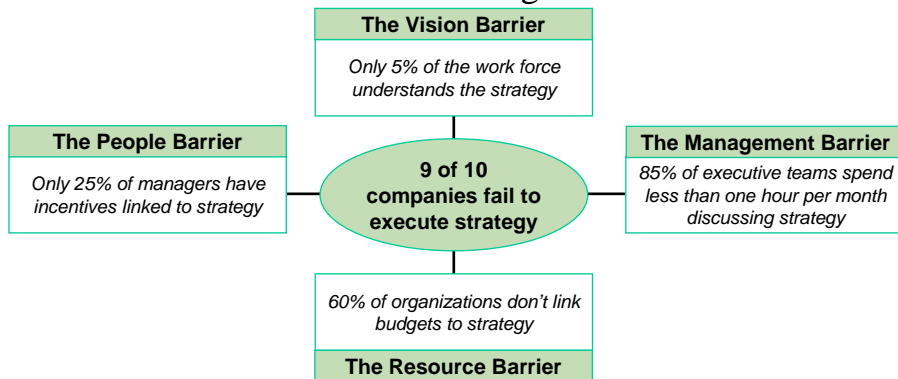


The Balanced Scorecard is a way to collect data and information that helps organizations move from strategies to action that improves performance.

Adapted from Kaplan and Norton's *The Strategy Focused Organization*

The Management Challenge for Strategy-Focused Hospitals

Research Has Identified Four Barriers to Strategic Execution



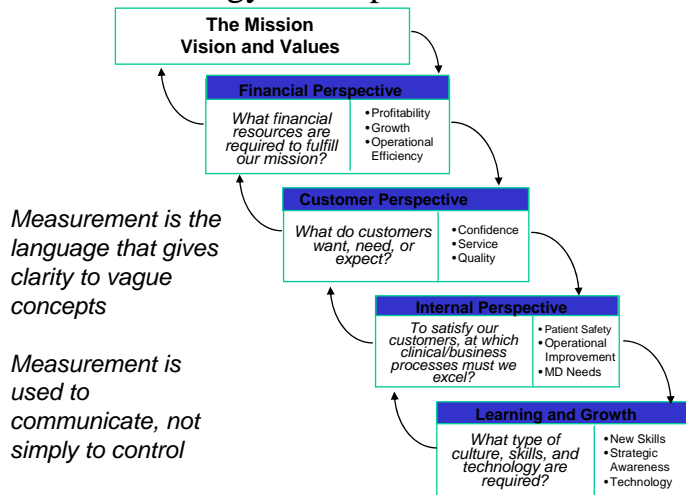
**You Can't Manage Strategy With a System Designed for Tactics**

### Examples of Client Barriers

- *“Our leadership team doesn’t make decisions, they just react to what’s going on in the environment.”*
- *“People have to change the way they work if we are to succeed with our strategy - they don’t even know where we are headed as an organization”*
- *“The strategy exists on a book shelf in our CEO’s office. I have read it, but nobody who really does the work knows what it means or how we can impact it, so we just keep doing our job – same as always”*
- *“Each year we spend four months preparing the plan and somehow it always ends up the same as last year”*
- *“Our strategic targets have doubled in the past three years but our expense budget has stayed flat”*
- *“Initiatives are prioritized according to the loudest Physician and/or Board member voice.”*
- *“We never talk about planning for the future - skills, infrastructure, etc.”*
- *“As department directors and supervisors we are not involved in strategy formulation”*

### Strategy Focused-Hospitals Map Their Strategy

The Strategy Map Provides a Four Perspective Framework to Translate Strategy Into Operational Terms



Measurement is the language that gives clarity to vague concepts

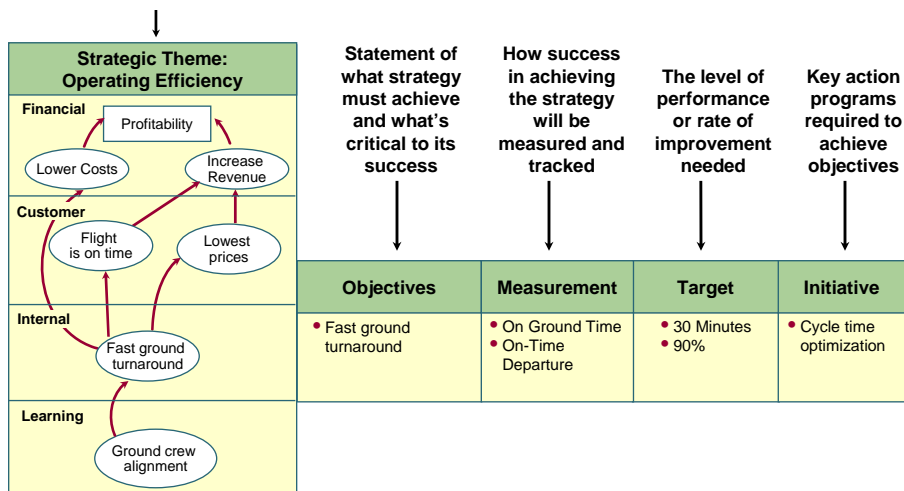
Measurement is used to communicate, not simply to control

## Strategy-Focused Hospitals Map Their Strategy

- Strategy maps force the consideration of how different strategies are connected
  - If we are going to implement strategies successfully, it is important to know “if we do A, then we expect it to result in B” (for example)
  - These *cause and effect relationships* help strategy “come alive” because it creates a visual picture of how the organization will be successful
- Develop a strategy map by organizing goals into four perspectives, as summarized below
  - Financial (Sustainability) – What resources are required to meet the mission? How are revenue generating strategies balanced with expense management?
  - Customer (Patients, Physicians, and Community) – How do we meet customer needs and exceed expectations? What do we want the community to say about us? Who are our customers?
  - Internal Processes (Clinical and Business) – What must we excel at in order to satisfy our customers? How do we meet their needs consistently?
  - Learning and growth (Staff and Infrastructure) – What resources skills, training, and support do staff have in order to work effectively?

## Example of a Strategy Map–Southwest Airlines

**Strategy Map: Diagram of the cause-and-effect relationships between strategic objectives**

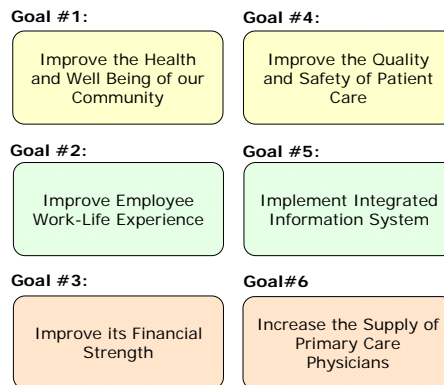


### Example of a Strategy Map–Southwest Airlines

Strategic Theme: Operating Efficiency		Objectives	Measurement	Target	Initiative
Financial	<p>Profitability</p> <p>Lower costs</p> <p>Increased Revenue</p>	<ul style="list-style-type: none"> <li>Profitability</li> <li>More Customers</li> <li>Fewer planes</li> </ul>	<ul style="list-style-type: none"> <li>Market Value</li> <li>Seat Revenue</li> <li>Plane Lease Cost</li> </ul>	<ul style="list-style-type: none"> <li>30% CAGR</li> <li>20% CAGR</li> <li>5% CAGR</li> </ul>	
Customer	<p>Flight is on Time</p> <p>Lowest Prices</p>	<ul style="list-style-type: none"> <li>Flight is on - time</li> <li>Lowest prices</li> </ul>	<ul style="list-style-type: none"> <li>FAA On Time Arrival Rating</li> <li>Customer Ranking (Market Survey)</li> </ul>	<ul style="list-style-type: none"> <li>#1</li> <li>#1</li> </ul>	<ul style="list-style-type: none"> <li>Quality management</li> <li>Customer loyalty program</li> </ul>
Internal	<p>Fast Ground Turnaround</p>	<ul style="list-style-type: none"> <li>Fast ground turnaround</li> </ul>	<ul style="list-style-type: none"> <li>On Ground Time</li> <li>On-Time Departure</li> </ul>	<ul style="list-style-type: none"> <li>30 Minutes</li> <li>90%</li> </ul>	<ul style="list-style-type: none"> <li>Cycle time optimization program</li> </ul>
Learning	<p>Ground Crew Alignment</p>	<ul style="list-style-type: none"> <li>Ground crew alignment</li> </ul>	<ul style="list-style-type: none"> <li>% Ground crew stockholders</li> <li>% Ground crew trained</li> </ul>	<ul style="list-style-type: none"> <li>yr. 1 70%</li> <li>yr. 3 90%</li> <li>yr. 5 100%</li> </ul>	<ul style="list-style-type: none"> <li>ESOP</li> <li>Ground crew training</li> </ul>

### Strategy Maps and their Structure

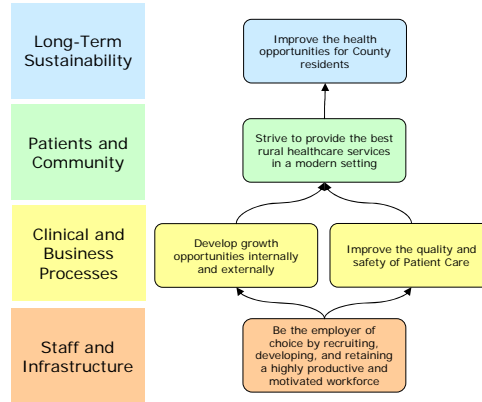
- Example of Rural Hospital Goals are summarized as follows:



- The goal statements are clear and reflect the hospitals progressive nature, e.g., including community health improvement as a goal
- Execution of goals can be improved by linking them in a “strategy map”

## Strategy Maps and their Structure

- Example of Strategy Map Structure



Strategy narrative:

"Through long term sustainability (including financial), we will seek to improve the health opportunities for county residents"

"In order to achieve long term sustainability, we will meet patient and community needs by providing the best rural health care services in a modern setting."

"In order to provide the best services, we will develop business growth opportunities and provide the highest quality clinical and operation services."

"In order to support our processes for growing services and providing high quality care, we will be the employer of choice for a highly productive and motivated workforce."

## The Strategy-Focused Hospital Links Long and Short Term Planning

### Links Long Term Strategy and Measures to More Tactical Planning and Budgeting

Longer Term (3-5 year) View					Shorter Term (Annual) View				
Vision	Mission	Themes	Objectives	Measures	Targets	Initiatives	Milestones	Accountable	Resource Alloc.
Desired Future State	Purpose	<ul style="list-style-type: none"> <li>• Attain Significant Growth</li> <li>• Operational Efficiency</li> </ul>	Financial	<ul style="list-style-type: none"> <li>• High Margin Services</li> <li>• New Net Revenue</li> </ul>	<ul style="list-style-type: none"> <li>• '09 \$xxx</li> <li>• '10 \$xxx+</li> </ul>				
			Customer						
			Internal						
			Team						

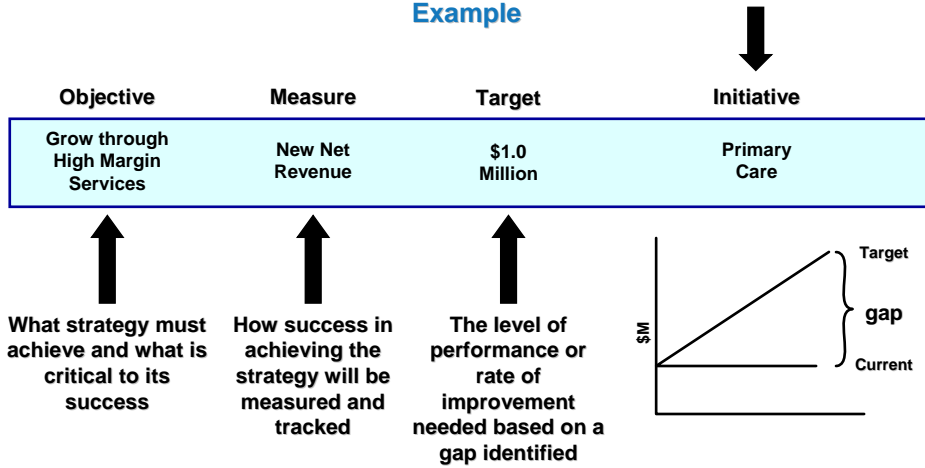
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Strategic
Tactical

The Purpose

Of Objectives, Measures, Targets and Initiatives

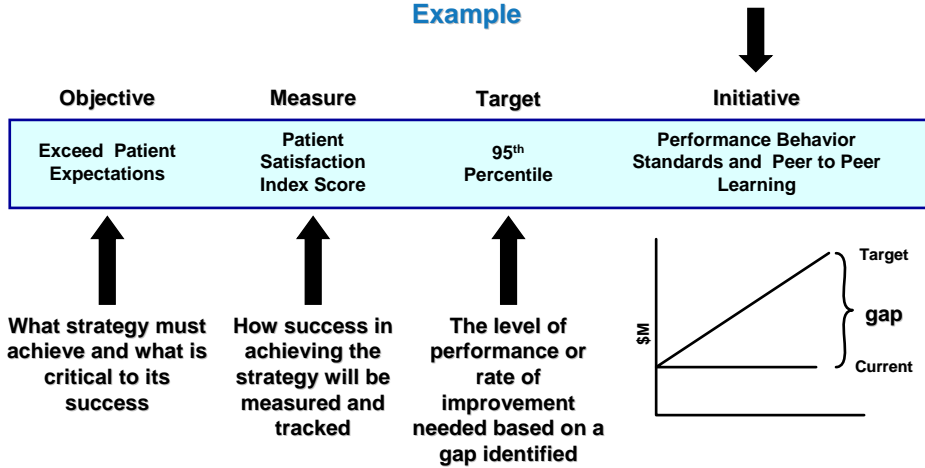
Example



The Purpose

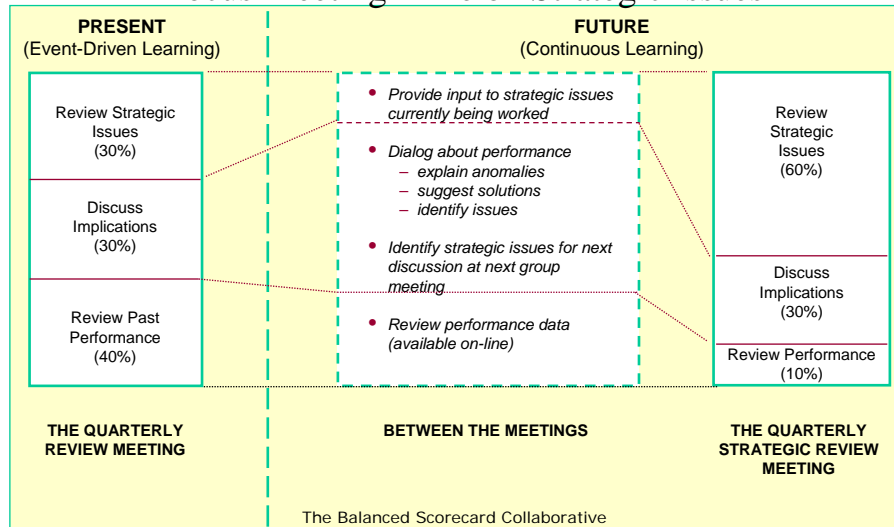
Of Objectives, Measures, Targets and Initiatives

Example



## The Key to The Strategy-Focused Hospital

### Enable Management and the Board to Focus Meeting Time on Strategic Issues



## Strategy Execution and The Strategy-Focused Hospital

### A Framework for the Strategic Plan

- Provides the link between Strategy and Budget
- Ensures that the execution of strategy is driven by the strategy, not the budget
- Ensures that execution of strategy is an ongoing process, not a one time event
- Enables ongoing initiative management/ resource allocation to objectively reflect the strategy

*An organization's strategy is only as good as the ability to execute on that strategy*

## A Strategy-Focused Hospital Strengthens the Responsibilities of the Board

- The Five major responsibilities of the Board of Trustees are strengthened by adopting a Strategy-Focus:
  1. Adopt a Strategic Direction;
  2. Provide Financial Oversight;
  3. Ensure Compliance;
  4. Pledge Community Stewardship; and
  5. Recruit and Advise the CEO.
- It clarifies the strategic information required by the Board for it to discharge its duties successfully.
- This framework creates an environment where the Board spends more time on strategy and little time on less important operational minutia.

## Lessons Learned from a CEO's Perspective

1. This is not about fad surfing, it is about a strategic framework that drives individual and organizational performance.
2. The CEO and the Executive Team must own a focus on strategy and understand that this is a forever agenda.
3. It will not be easy at the beginning. It will be easier to fall back into the old ways of doing things.
4. Successful implementation means that you change everything you do.
5. It is fun to work in a strategy focused organization.
  - The story of Nancy in housekeeping and food and nutritional services.
6. You must walk the talk because everyone will be watching.
  - The story of the employee performance standards.
7. Setting the right measures and targets is absolutely critical.
  - The story of the primary care initiative or can we really hit this target?
8. It absolutely should result in financial improvement or else you not executing the right initiatives.
9. You will lose less sleep!

## Benefits of Becoming Strategy-Focused

- Improves management effectiveness by having a shared and actionable view of the strategy
- Optimizes and ensures strategic outcomes for a given set of resources
- Enables employees to work in a coordinated, collaborative fashion towards organizational goals
- Speeds time to value through faster more informed decision-making on time and resource allocation
- Accelerates the approach and its accuracy to the strategic destination

## Becoming a Strategy-Focused Hospital: Five Steps

**The Strategy Focused Hospital**

Pre-Implementation Clarify Vision, Mission and Strategy	Quarter 1 Strategy Map, Metrics and Leadership Alignment	Quarter 2 Risk Register, Targets and Initiatives	Quarter 3 Coaching and Department Integration	Quarter 4 Planning, Reporting and Performance Evaluation
<p><b>Pre-Implementation</b> Clarify Vision, Mission and Strategy</p> <p>The Balanced Scorecard (BSC) focuses on strategy. There are four perspectives: Financial, Customer, Internal Business Processes, and Learning &amp; Growth. The BSC is a tool for translating the organization's strategy into a set of performance measures. It is used to monitor and improve performance. The BSC is a tool for translating the organization's strategy into a set of performance measures. It is used to monitor and improve performance.</p>	<p><b>Quarter 1</b> Strategy Map, Metrics and Leadership Alignment</p> <p><b>Strategy Map:</b> This is used as an overview of translating the strategic strategy plan into a Balanced Scorecard. It is used to monitor and improve performance. The BSC is a tool for translating the organization's strategy into a set of performance measures. It is used to monitor and improve performance.</p>	<p><b>Quarter 2</b> Risk Register, Targets and Initiatives</p> <p><b>Risk Register:</b> This is used to identify and manage risks. It is used to monitor and improve performance. The BSC is a tool for translating the organization's strategy into a set of performance measures. It is used to monitor and improve performance.</p>	<p><b>Quarter 3</b> Coaching and Department Integration</p> <p><b>Coaching:</b> This is used to provide support and guidance. It is used to monitor and improve performance. The BSC is a tool for translating the organization's strategy into a set of performance measures. It is used to monitor and improve performance.</p>	<p><b>Quarter 4</b> Planning, Reporting and Performance Evaluation</p> <p><b>Reporting:</b> This is used to track progress and performance. It is used to monitor and improve performance. The BSC is a tool for translating the organization's strategy into a set of performance measures. It is used to monitor and improve performance.</p>
<p><b>CEO/Adviser - Checklist</b></p> <ul style="list-style-type: none"> <li>Leadership Beliefs and Core Values</li> <li>Strategy Map developed by Strategy Map</li> <li>Strategy Map endorsed by Board of Trustees</li> <li>Leadership Beliefs and Core Values</li> <li>Strategy Initiatives - identified</li> <li>Financial Objectives assigned to Strategy Themes</li> <li>BSC data collection process implemented</li> <li>Management Agreements established</li> <li>Board Agreements - formalized</li> <li>Other</li> <li>Other</li> </ul>	<p><b>CEO/Adviser - Checklist</b></p> <ul style="list-style-type: none"> <li>Review and Approve First Success Report</li> <li>Assign Targets to all Balanced Scorecard Initiatives</li> <li>Link Initiatives to Strategy Map</li> <li>Present First Success Report to Board of Trustees</li> <li>Present First Success Report to Medical Staff Leadership</li> <li>Implement "Strategy Focused" Board Agenda</li> <li>Implement "Strategy Focused" Management Agenda</li> <li>Other</li> <li>Other</li> </ul>	<p><b>CEO/Adviser - Checklist</b></p> <ul style="list-style-type: none"> <li>Identify Departments for Coaching</li> <li>Establish Coaching Targets</li> <li>Link Initiatives to Strategy Map</li> <li>Present First Success Report to Board of Trustees</li> <li>Present First Success Report to Medical Staff Leadership</li> <li>Implement "Strategy Focused" Board Agenda</li> <li>Implement "Strategy Focused" Management Agenda</li> <li>Other</li> <li>Other</li> </ul>	<p><b>CEO/Adviser - Checklist</b></p> <ul style="list-style-type: none"> <li>Develop annual strategic planning process and calendar</li> <li>Review Performance Report and evaluate</li> <li>Establish the Balanced Scorecard and show the budget by department</li> <li>Develop Initiatives to Address the Targets</li> <li>Link Performance Review to Strategy Map</li> <li>Link Compensation to Performance Review</li> <li>Other</li> <li>Other</li> </ul>	