Advancing the State of the Art in Healthcare Strategic Planning

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Summary • A recent survey of the state of strategic planning among healthcare organizations indicates that planners and executives believe that healthcare strategic planning practices are effective and provide the appropriate focus and direction for their organizations. When compared to strategic planning practices employed outside of the healthcare field, however, most healthcare strategic planning processes have not evolved to the more advanced, state-of-the-art levels of planning being used successfully outside of healthcare. While organizations that operate in stable markets may be able to survive using basic strategic planning practices, the volatile healthcare market demands that providers be nimble competitors with advanced, ongoing planning processes that drive growth and organizational effectiveness. What should healthcare organizations do to increase the rigor and sophistication of their strategic planning practices? This article identifies ten current healthcare strategic planning best practices and recommends five additional innovative approaches from path-breaking companies outside of healthcare that have used advanced strategic planning practices to attain high levels of organizational success.

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Strategic planning has become an accepted and common management discipline, both inside and outside of healthcare. A relatively new management tool, strategic planning dates back to the 1960s outside of healthcare and the late 1970s within healthcare. Over the last 25 years, strategic planning in healthcare has matured in its approaches and is increasingly used by healthcare organizations of all sizes and types throughout the United States.

To gauge the state of the art in healthcare strategic planning, The Society for Healthcare Strategy and Market Development (SHSMD) of the American Hospital Association and Health Strategies & Solutions, Inc., an independent management consulting firm, carried out a study in 2005 and 2006 (see Appendix on page 14 for more information). This study included a survey of the provider-based members of SHSMD, case studies of healthcare organizations exhibiting advanced strategic planning approaches and/or best practices, and a review of the literature and case reports outside of healthcare for advanced approaches and best practices.

The results were both revealing and somewhat surprising. The overwhelming majority of respondents were senior executives in their organizations as indicated both by tenure in their organizations and in the healthcare field generally. The survey’s questions covered a broad range of topics related to strategic planning, including planning frequency, stakeholder involvement, core strategic planning tasks and outputs, and results achieved.

The study presents a mixed picture for healthcare strategic planning today. On the one hand, basic strategic planning practices employed by healthcare organizations appear to be sound and effective. Strategic planning seems to be well accepted, used regularly, and integrated increasingly well with other management functions; it carries out its main role of providing appropriate direction and focus to the development of healthcare organizations. On the other hand, strategic planning in healthcare has not progressed past a second stage of development, with the first stage being the most basic processes and activities characteristic of the first decade or two of healthcare strategic planning. This failure to evolve to more advanced levels leaves healthcare strategic planning quite far behind the state of the art outside of healthcare.

STATE OF THE ART IN HEALTHCARE STRATEGIC PLANNING

If the results of the SHSMD/Health Strategies & Solutions survey provide a picture of “what is” now, how can the outer reaches of what constitutes best practices in healthcare strategic planning today be characterized?

Based on research, analysis, and field experience, a list of ten best practices in healthcare strategic planning appears in Figure 1 and is described below. The first five practices relate to the product of strategic planning, while the second five address the process of strategic planning. Implementation of these practices will place any organization in the top tier of healthcare organizations practicing strategic planning nationally.

1. Establish a Unique, Far-Reaching Vision

Healthcare leaders tend to resist adopting the fundamentals of a good vision—one

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that is long range, a big stretch, and tangible rather than general. Driven by near-term pressures and a desire to get things done quickly, most tend to undershoot or not shoot at all. Healthcare executives must develop an understanding and appreciation of what a vision can help accomplish. According to the Rev. Theodore M. Hesburgh, president emeritus of the University of Notre Dame, “The very essence of leadership is [that] you have a vision. It’s got to be a vision you articulate clearly and forcefully on every occasion. You can’t blow an uncertain trumpet.” Sony’s vision in the early 1950s, to “become the company most known for changing the worldwide poor-quality image of Japanese products” is an outstanding example of a unique and far-reaching vision with a long-term commitment and a desire to have a truly transformational effect on an organization (Collins 2006).

**2. Attack Critical Issues**
Strategic plans usually lack focus because organizations identify and attempt to address too many issues. This problem is compounded by having both strategic and operational issues put in the mix and aggravated further by a failure to clearly specify what the exact problems are that the organization is trying to address. Good strategic plans recognize that, as Michael Porter noted, “a sustainable strategic position requires trade-offs” and choices must be made explicitly so that resources can be applied to the areas where they will yield the greatest return (Porter 1996). It all starts with prioritization of the most important issues and a commitment to direct organizational energy and resources to address them.

**3. Develop Focused, Clear Strategies**
Prioritization must be followed by strategy development. Attacking issues effectively requires a clear means (the “how”) leading to a tangible end (the “what”). The means must directly and forcefully address the critical issue identified, while incorporating contingency plans and recognizing likely barriers and constraints. The ends must be definable targets at a point in the future so it is possible to measure progress, make adjustments along the way, and facilitate accountability. A near laserlike focus is required to attack the truly critical issues.
For example, health systems frequently set goals to develop premier clinical programs. One such organization's goal—“Be recognized in the region by 2010 for the best (as measured by volumes and the results of blinded consumer research) cardiovascular program”—was driven by a strategy related primarily to quality outcomes, innovative care, and star physicians.

4. Differentiate from Competition
The concept of differentiation is slowly catching on among not for profits in healthcare. The challenge is to be significantly different from competitors in a way that consumers truly value. For profits outside of healthcare, such as Wal-Mart, the low-cost price leader, and Nordstrom, with its outstanding customer service, have recognized the benefit of effective differentiation. Many for profits in healthcare, particularly niche firms like Concentra, Inc., in occupational medicine, and Curative Health Services, in wound care, are differentiated, too. In an increasingly competitive market, differentiation may be critical to survival.

5. Achieve Real Benefits
Many strategic plans fail to achieve significant, measurable benefits for their organizations. In some cases, particularly for those organizations with too many resource-intensive strategies, the results of the plan may have a negative impact, especially financially. Benefits may ordinarily be derived in four general areas: products/markets, finances, operations, and meeting community needs. Strategic plans should target benefits realization from the outset and drive toward achieving more benefits throughout the process and into implementation.

In the clinical program example cited in number 3 (“Develop focused, clear strategies”), two principal benefits were desired for the cardiovascular program: direct financial improvement resulting from more volume in the most profitable service line, cardiovascular care, and direct and indirect effects for the overall quality improvement strategy of the system. In both cases these benefits are being realized. Contribution margin is up about $10 million on cardiovascular services after the third full year of implementation of the plan, and outcome measures have experienced similar improvements, most noticeably in cardiovascular services but also in the lines that serve the most critically ill patients.

6. Organize Preplanning
Some strategic planning efforts stray off course early on or lose momentum later because of the failure to adequately prepare the organization and its leaders for the strategic planning process. Before actually beginning strategic planning, at a minimum identify objectives, describe the planning process to be used, prepare a schedule, describe roles and responsibilities of organizational leaders, and identify the strategic planning facilitator. This information should then be communicated to affected parties clearly and consistently, potentially through an orientation meeting. Only then should the real work begin.

7. Structure Effective Participation
Time spent at the outset of strategic planning thinking about the scope and extent of participation required will set
the stage for maximizing effective participation throughout the process. Identifying who the key participants are and where their contributions will be needed should be followed by a review of where leaders will want to provide their input, whether or not it is substantively needed. These two activities help create the best possible plan with the broadest degree of support. Also important are the participative mechanisms—interviews, surveys, focus groups, task forces, review meetings, and retreats—and figuring out which meet participant and overall process requirements. Smart process managers use participant involvement to build buy-in and consensus on whatever will result from strategic planning right from the start.

8. Think Strategically
Much dissatisfaction exists both inside and outside of healthcare with many of the results of strategic planning. Most planning efforts suffer from a lack of future-oriented, revolutionary, or at least highly provocative thinking and dialog. Farsighted strategic thinking is most helpful when applied to developing assumptions about the future, visioning, and strategy formulation, but need not be limited to these areas. Because strategic thinking is alien territory for most, articles, books, and research reports should be consulted and a highly skilled facilitator used to ensure that a forward-thinking and creative orientation characterizes the planning process.

9. Manage Implementation
Many healthcare organizations report that although their strategic plans are quite good, they experience a high rate of failure in implementing the plans. Research shows that the transition from planning to implementation is susceptible to pitfalls such as a loss of energy and focus, lack of management of the transition, and subsequent disconnect from operations. Successful organizations not only manage the transition well but also manage implementation and retain the dual linkages to ongoing strategic planning and operations. Strong, effective management and tight linkages result in a high rate of successful implementation.

Both research and concrete examples of organizations that are especially adept at implementing their plans show that there are five keys to successful implementation.

1. Communicate the plan’s priorities.
2. Assign responsibilities for implementation and hold individuals accountable for progress.
3. Make sure the right people with the right skills are involved in implementation.
4. Drive the plan down into the organization so that the plan is real and meaningful to everyone.
5. Establish and use a structured progress monitoring system.

10. Manage Strategically
The most advanced organizations evolve to a planning process that is neither episodic nor just ongoing but interrelated in a continuous manner to operations and finance. Outside of healthcare, but also now within it, the concept of strategic management is gaining traction. Strategic management is characterized by continuously evolving plans; sustained, managed implementation; finance and operations integrated with planning; and daily management with a strong strategic orientation. Strategic management increases the
likelihood of breakthrough thinking about the future while supporting an organizational culture that adapts easily to change.

Healthcare CEOs who practice strategic management report that their plans are living and dynamic. At these organizations the strategic plan is formally updated annually, but revisions occur throughout the year, and implementation occurs continuously, driven by the plan’s priorities. The strategic plan is used to review and test opportunities that arise frequently throughout the year, and the plan's strategies and actions may be adjusted, as warranted, as a result. Truly, in these situations, strategic planning is no longer episodic and a project but a legitimate management process akin to operations, finance, and the like.

If the current state of the art in healthcare strategic planning can be described as a stage-two level of development, then strategic management would be stage three. Outside of healthcare, as noted earlier, strategic planning practices are even more highly evolved (stage four) and the key aspects of these approaches are described in the next section.

State of the Art in Strategic Planning Outside of Healthcare

Stage-four strategic planning, as practiced by some pathbreaking companies outside of healthcare, embodies the advanced characteristics described in this article. More significantly, it is characterized by aspects of some or all of the following five qualities.

1. Systematic, ongoing data gathering, leading to use of knowledge management practices
2. Encouragement of innovation and creativity in strategic approaches
3. More bottom-up than top-down strategic planning
4. Evolving, flexible, continuously improving planning processes
5. A shift from static to dynamic strategic planning

Use Knowledge Management

Data assembly and analysis in healthcare are still largely done in an ad hoc and unsystematic manner. Rarely does an organization bring much structure to the information-gathering part of the process, and those organizations that do largely confine that structure to internal data assembly.

The best companies outside of healthcare are far more systematic in their use of information to drive strategic planning.

- Strategic planning starts with having regular, formal, structured systems for data compilation covering both key internal as well as external elements. Probably the two most critical parts of this activity are the breadth and depth of the data collection effort and the regularity of data assembly, so that data are always available when needed.
- Building on the strength of the data is the range of analytic capabilities available and used. Much of the analysis found in healthcare is quite simplistic, involving linear techniques, correlations, and the like. Progressive strategic planning companies have and use a range of nonlinear methods, including sophisticated modeling, game theory, and other advanced analytic approaches.
- The primary research capabilities available in-house are similarly extensive and impressive. Surveying (often ongoing),
focus groups, and so forth are regularly employed to provide fresh and up-to-date information.

- Finally, some of the leading companies have taken all of this effort to another level through the use of knowledge management programs. Such programs sort information into structured databases that allow easy access and use by personnel throughout the organization. These databases become a readily available asset, not just to “those in the know” but to all involved in management and planning anywhere in the company. Knowledge management programs facilitate planning throughout the organization, as described further in the sections that follow.

**Encourage Innovation and Creativity in Strategic Approaches**

Healthcare is still a predominately risk-averse industry. Few truly pathbreaking companies exist, especially in the not-for-profit sector. Being second or third to market, followership, and mimicry still characterize the overwhelming majority of healthcare organizations. Given this proclivity, the cultural norm of risk avoidance is diametrically opposite to what leading non-healthcare strategic firms practice. The concepts of innovation and creativity are not hard to understand. Employing them is another matter.

Innovation and creativity commonly manifest themselves in a number of ways in strategic planning: input is sought and is valued from all parts of the organization; a climate of receptivity for new ideas is present; emphasis is placed on looking at alternatives and generating options that are new and innovative; a high priority is given to developing ideas that create “new market space”; and the planning process employed is relatively simple and ongoing so as to make contributing to it fairly easy and clearly important.

The key issue here for healthcare organizations is less one of “what to do” than “how to do it”—how to create a climate where innovation and creativity are valued, how to move from followership to leadership, and how to move from risk averse to (at least somewhat) risk tolerant. Only under these circumstances can the “what” of innovation and creativity assume an important place in the strategic planning process.

**Emphasize Bottom-Up Versus Top-Down Strategic Planning**

Strategic planning in healthcare is still very much a top-down process. Dominated by senior management, and to some degree, the board, planning in most organizations engenders very little participation, awareness, and ultimately support from the majority of employees, and even less from customers. Strategic planning in large healthcare organizations is still very corporate driven, with business units and other subsidiary entities reacting and responding to edicts and directives from on high.

Practices in leading firms outside of healthcare are almost exactly the opposite. While corporate leadership provides high-level direction and guidance, planning is increasingly focused in the business units or other subsidiary parts of the company and driven up, rather than down, the organization. This approach has many benefits: it allows broader-based, more substantial, and more meaningful participation in the planning process; generally encourages creativity and innovation; has the “real action” of
planning taking place closer to the customer; facilitates organizational support for what results from the planning process; and leads to greater implementation success. In addition to senior management providing vision and direction and championing the process, such organizations must have a culture of trust and accountability, outstanding communication including formal and informal networks, and sound strategic skills across the organization.

A decentralized planning process is much harder to manage than a centralized one, and, of course, such a process risks loss of control. However, leading companies have found the benefits of a decentralized process far outweigh the negatives and that it delivers much more overall value. Some healthcare organizations are beginning to move in this direction, but as an industry, we have a long way to go to approach this best practice outside of healthcare.

Use an Evolving, Flexible, and Continuously Improving Process

Even today, too many healthcare organizations are wedded to a process that has worked well historically and are reluctant to make any significant changes. “Why fix what isn’t broken?” some ask. While there is value and security in the tried and true, regular advances in approaches and methods are occurring in strategic planning in healthcare and outside of it. Therefore, aspects of a process that is five or ten years old—or even one year—may not be current enough to keep the organization in the forefront. Executives certainly aren’t content with yesterday’s operational processes or financial planning and management approaches, so why shouldn’t strategic processes be evolving too?

Examining the quality and continuous improvement orientation of an organization’s strategic planning process can be carried out by examining the process at three increasingly challenging levels of inquiry.

• First and most basic, is the current process comprehensive, objective, timely, and highly participatory throughout the organization (and does it meet the stage-two process requirements described earlier)?

• Second, does the process link effectively to operations and to individual and group performance objectives in the organization (and does it meet the stage-three process requirements described earlier)?

• Third, does the process include continuous learning so that process deficiencies are identified and corrected before the next planning cycle begins (and does it have the stage-four process characteristics described in this section)?

Organizations with flexible, continuously improving planning processes are able to adapt more readily to the changing environment that is certainly characteristic of healthcare today. These organizations employ planning processes that are far more externally oriented than the typical healthcare organization. They use external factors and forces to create the platform for change that is necessary to keep strategic planning alive and vital as a key asset for the continuously improving organizations.
Shift from Static to Dynamic Strategic Planning

For firms operating in the most rapidly changing industries where change is constant and revolutionary (healthcare being the exception), strategic planning is not just continuously improving but dynamic. Some of the key aspects of dynamic strategic planning include:

- Greater use of vision statements that inspire and stretch the organization versus more static mission statements
- Development of revolutionary goals to achieve the vision
- A more horizontal approach to the planning process, where input and participation are equalized throughout the organization
- Use of dynamic (nonlinear) learning processing, including training, information systems, and rewards to increase the strategic IQ of the entire organization
- Encouragement and cultivation of strategic thinking at all levels of the organization
- The driving of strategic decision making down to all levels of the organization
- The embedding of strategic planning in the culture of the organization, so that it is both ongoing and everyone’s job

The overall vision and corporate values provide the company-wide strategic framework. The strategic planning process of the firm is also managed corporately. However, business unit leaders, managers, and staff, who are closer to the customer and to the external environment in which the firm operates, are critical in determining whether and how to pursue new markets, products, services, locations, and breakthrough technologies and other innovations. Strategic planning in these settings is truly everyone’s job, every day, not just that of the board and executive leadership annually or periodically. Only by driving strategic planning down, into, and throughout the organization and practicing it in a continuous manner can companies operating in the most rapidly changing environments not merely survive, but flourish.

Motorola’s Advanced Techniques

Motorola exhibits many of the qualities of pathbreaking companies that employ advanced strategic planning techniques. For both the short-range (one-year) and long-range (three-year) planning horizons, a broad range of data is gathered and analyzed for use in the strategic planning process, including customer and market needs and expectations, the competitive environment, technological changes, human resource and operational capabilities, and financial, societal, and technical risks. Sources for this information are as varied as customer surveys, regional operations reviews and strategy meetings, and customer and industry forums (Motorola 2002).

Strategic objectives are then developed and reflected in a Performance Excellence Scorecard. This scorecard is used to develop subsequent scorecards for all groups and functions so that strategic objectives cascade down throughout the company until they reach individual employee scorecards worldwide. All scorecards include action plans and measures that are aligned with corporate strategies. Human resource planning is then fully aligned with the overall strategic planning process (Motorola 2002).

The strategic planning process is overseen by a corporate strategy council that...
meets quarterly to review progress with the Performance Excellence Scorecard and the overall planning process to ensure that it is continuously adapting and improving. This dynamic planning process has enabled the company to move nimbly when needed. For example, in China, Motorola learned that its strategy was just coasting on momentum. The company took a hard look at different scenarios and decided to increase their investment, go after more market share, and solidify their position as a market leader rather than letting momentum fizzle and miss out on massive market opportunity (Motorola 2002).

**Making Strategic Planning and Corporate Success Everyone’s Job**

Motorola has strategically adapted to its volatile environment. Knowing that it is in a turbulent, highly competitive industry, it has a fully decentralized bottom-up structure (Halal 1998). No titles are allowed on Motorola’s intranet so that suggestions and ideas are evaluated on merits rather than the status of the person making the suggestion (Pasternack, Williams, and Anderson 1998). Workers are organized into self-managed units that are held accountable for performance and given wide latitude to choose coworkers, hours, and other approaches to their work. This flatter organizational structure is empowered to solve problems more directly and quickly (Halal 1998).

Motorola also understands that having the right people in place is crucial to developing and executing strategies. Motorola spends over $100 million annually on education and training and has determined that a return of $3 in sales is realized for every education dollar spent (Pasternack and Viscio 1998). The company has developed an innovative approach to employee issues—the Individual Dignity Entitlement Program. Each quarter, employees are asked to answer a set of questions about whether they feel their job contributes to the success of the company and other similar items. For every no answer to a question, there is an established process for bringing the issue to the attention of senior management (Pasternack, Keller, and Viscio 1998).

Motorola’s outlook for 2006 and beyond looks bright, with a strong balance sheet and healthy cash flow. Over 50 million of Motorola’s ultrathin RAZR phones have been sold, with sales expected to stay steady (Lashinsky 2006). The company also unveiled its Q handset in May 2006, which runs Windows software and competes head to head with Blackberry. A workforce reduction in the company’s networks division is expected to give the company more flexibility in pursuing strategic acquisitions (Roney 2006). In May 2006, the Motorola board approved a 25 percent increase in the quarterly dividend (Motorola 2006). Increased operating earnings, decreased working capital requirements, and reduced capital spending were approaches used to get the company back on track after several lackluster years and a subsequent change in key leadership positions.

**Conclusion**

The results of the SHSMD and Health Strategies & Solutions’ strategic planning survey demonstrate that healthcare organizations appear to be using strategic planning regularly and effectively. However, sizable gaps appear in the level of rigor and sophistication of strategic planning processes being used by hospitals and systems when compared to the advanced
stages of strategic planning occurring outside of the healthcare sphere. With widespread forecasts of continuing and increasing competition among healthcare providers, healthcare leaders must look outside their field to learn about strategic planning best practices in other competitive industries that can move their organizations to higher levels of growth and success. Incorporating knowledge management systems, encouraging innovation and creativity, promoting bottom-up participation, and ensuring that planning processes are continuously improving and dynamic should be the key areas of focus for healthcare leaders and planners.

**References**


Appendix: Summary of Strategic Planning Survey Conducted by the Society for Healthcare Strategy and Market Development and Health Strategies & Solutions, Inc.

The Society for Healthcare Strategy and Market Development (SHSMD) of the American Hospital Association and Health Strategies & Solutions, Inc., an independent management consulting firm, carried out a study in 2005 and 2006. This study included a survey of the provider-based members of SHSMD, case studies of healthcare organizations exhibiting advanced strategic planning approaches and/or best practices, and a review of the literature and case reports outside of healthcare for advanced approaches and best practices. The survey garnered 440 responses from about 3,000 potential total respondents.

Planning Frequency
Survey results indicate that strategic planning is carried out regularly by healthcare organizations. Over 75 percent indicated that they develop a strategic plan at least every three years. Over 80 percent responded that strategic planning has evolved from a periodic project to a regular, ongoing management discipline (termed strategic management and akin to the evolution of financial planning to financial management). Over half said that strategic planning regularly occurs both organization-wide and for most significant components (that is, subsidiaries, clinical programs, etc.) of their organizations.

Stakeholder Involvement
Respondents characterized senior management as most involved by far of various constituent groups in the strategic planning process and the driver of strategic planning in their healthcare organizations. In contrast, board members were judged, on average, to be only moderately involved participants. Other managers, physicians, other clinicians, and those outside the organization were judged to be moderate to limited participants in the strategic planning process.

Core Strategic Planning Tasks and Output
Nearly all core strategic tasks were rated by respondents as carried out very well by their organizations. Development of the mission statement and goals were rated highest by respondents, but completion of the environmental assessment, carrying out of other key aspects of the analysis, and preparation of a strong implementation plan were also deemed well done.

Results
Respondents were less positive about strategic planning effectiveness. Respondents gave themselves fairly high marks for following through on identified strategic priorities with capital and operating funding support. However, respondents judged their overall success in strategic plan implementation and benefits their organization realizes lower than nearly all other strategic planning attributes, although still in the reasonably good category. They also rated satisfaction of key stakeholder groups in the organization with their strategic planning as similarly low, especially as perceived by clinical leadership.

Other Important Findings
Findings relative to two other aspects of strategic planning in healthcare
organizations are worth noting. One of the survey questions asked respondents to judge how farsighted and creative their organization’s strategic plan is. This question received one of the lowest ratings by respondents, but still in the fairly good range. Two other questions asked about flexibility and adaptability in plan development, implementation, and revision. These attributes also received low ratings, but still in the good range.

At the conclusion of the survey, respondents were asked to comment on whether they felt that aspects of their organization’s strategic planning included what they considered to be best practices or advanced approaches and indicate their willingness to share their processes with the industry via a case study report. Nearly 40 respondents indicated that they had a best practice or advanced approach and would be interested in sharing this with their colleagues. From this group, about 20 case studies were completed.

Many of the case studies highlighted methods that optimized participation in the planning process, especially that of physicians, but also employees at various levels of the organization. Diverse participative approaches were described, with significant, broad-based input viewed as very important to strategic planning success. A second theme of the case studies was the development of structured action plans to implement strategic plan recommendations. Many commented on their action plan formats, including how they rolled out the action plans in their organization, and occasionally about ongoing monitoring and revisions. A third theme of the case studies was the strength of the linkages between strategic planning and other core management functions, especially finance, as well as to the operational and capital budgeting processes.