CHAPTER 3

FUNDAMENTALS OF STRATEGIC PLANNING

Experience is a hard teacher because she gives the test first, the lesson afterward.

—Vernon Law

If you can't measure it, you can't improve it.

—Peter Drucker

Learning Objectives

After you have studied this chapter, you should be able to

- assess actual strategic planning problems in healthcare and, using the various knowledge disciplines, develop comprehensive and practical solutions;
- exercise business planning techniques and demonstrate skills in professional writing and verbal communication;
- demonstrate a deeper understanding of the healthcare system and the management of costs, quality, and access;
- make sound business decisions, and develop a strategy for change;
- successfully participate in teamwork; and

- use critical-thinking skills and create an environment that supports innovation and an entrepreneurial spirit.

Key Terms and Concepts

- Ambulatory surgery centers
- Balanced scorecard
- Benchmarking
- Dashboard
- Efficiency frontier
- Fixed costs
- Gap analysis
- Healthy People 2030
- Medicare Payment Advisory Commission
- Payer mix
- Safety-net providers
- Total cost
- Variable cost

Introduction

In any business realm, strategic planning brings leaders and stakeholders together to position their organization for success in an environment of uncertainty. A healthcare organization engages in strategic planning to reduce costs, improve quality and service, and ensure access to care. Innovative strategic planning also helps an organization allocate resources more effectively to enhance the value of its services and better meet the community's healthcare needs.

The US healthcare environment is changing substantially. In 2019, the field employed 20.5 million people in the US workforce (BLS 2020), and in 2018, healthcare expenditures reached $3.6 trillion (CMS 2018). Also in 2018, healthcare reached 17.7 percent of GDP, double the percentage since 1980. During the same period (1980–2018), federal and state government funding for healthcare increased from 31 to 44 percent.

The rate of change in an organization's market factors or technological environment determines whether an organization's structure should be hierarchical or participatory. In a stable environment, a hierarchical structure with centralized decision making may improve overall efficiency if senior leaders and managers have sufficient information to make informed decisions. However, in unstable environments with rapid, constant change, the information required for innovation must be distributed throughout multiple levels in the organization. A greater flow of information combined with decentralized decision making fosters innovation. Such participatory organizational structures may be more appropriate in the current healthcare environment.

The Internal and External Considerations of Any Endeavor

To launch the strategic planning process, planners gather information about the internal and external environments and have in-depth discussions about the future of the organization. Keeping this information in mind, they develop organizational objectives and techniques for measuring the organization's ongoing performance. The critical components of the healthcare strategic planning model are illustrated in exhibit 3.1 and are discussed in the sections that follow. This model could be applicable to any business's strategic planning.

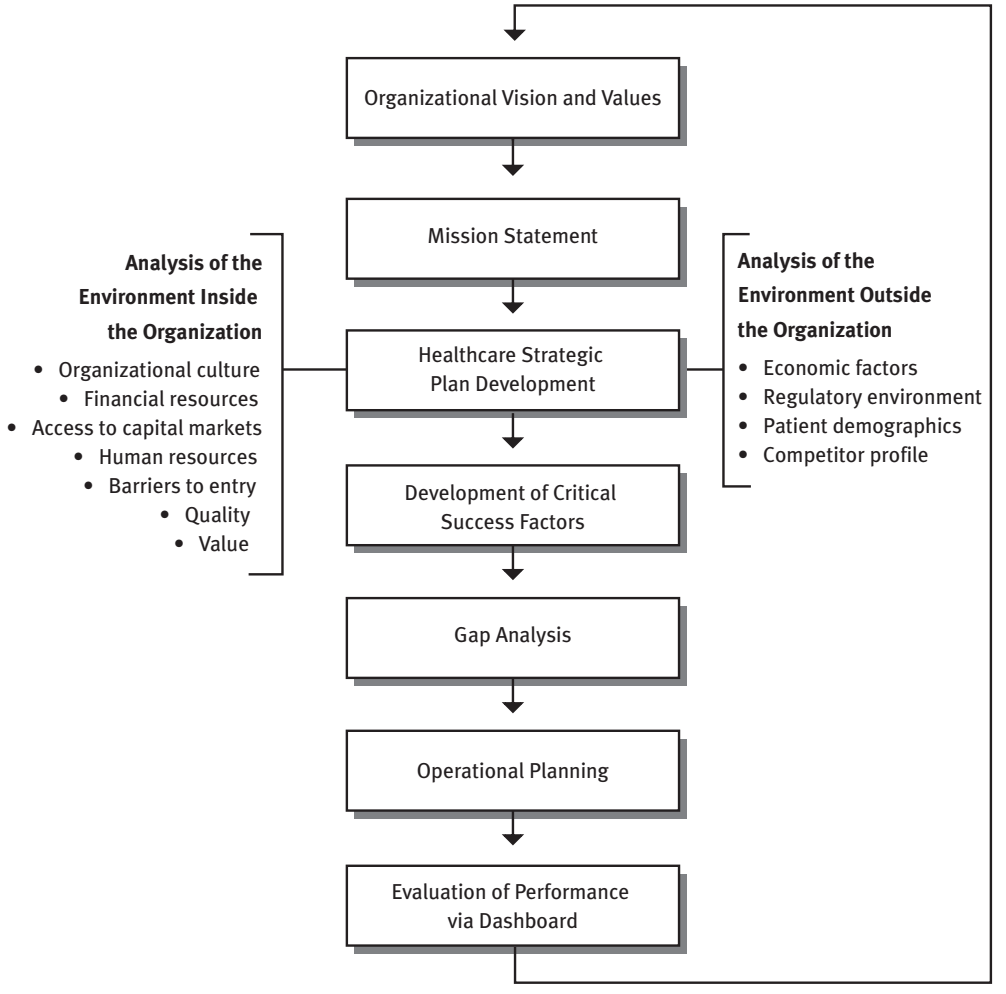

Exhibit 3.1 Healthcare Strategic Planning Model

The Environment Inside the Organization

Internal data focus on finances, personnel, key assets, and quality of care. A thorough analysis of internal data reveals an organization's strengths and weaknesses, both of which affect its ability to meet its mission.

Mission, Vision, and Values

As described in chapter 1, an organization's mission, vision, and values provide the foundation for its strategic plan. Consistency in an organization's mission, vision, and values and clear links between all three enhance the strategic planning process and increase the chance of improving performance. The entire workforce must also buy into the mission, vision, and values, or the execution of the planned strategy will be difficult.

Culture

As introduced in chapter 1, organizational culture serves as a set of guiding beliefs and ways of thinking that is shared by the people in an organization and is taught to new staff. It also drives employee engagement, patient experience, communication, quality, safety, and efficiency. Therefore, organizational culture becomes the invisible architecture of the organization. This invisible architecture or culture is as important as the physical facilities. Culture to an organization is as personality is to an individual (Tye, Dent, and Tye 2017).

An organization's distinctive beliefs provide a framework for behavior. Social values in its surrounding communities shape this behavior. For example, many people believe that access to healthcare is a right, not a privilege, and patients want to be a healthcare organization's priority. Healthcare leaders need to incorporate these social values of their organizational culture in their strategic planning.

Culture also guides an organization's decisions about allocating resources and establishing priorities. For example, consumers and health professionals want access to the best technology available. An organization that emphasizes innovation and technological advancement needs to allocate its resources carefully to fund this costly priority. If the organization promotes lifelong learning, you would expect to see budget allocations to education and professional development.

Critical Success Factors

An organization's strategic plan should address improvement in five core areas:

1. Healthcare quality
2. Patient access

3. Employee retention
4. Differentiation in the market
5. Alignment of resources

Successful strategic planning in healthcare should also include a clear connection between current projects and programs, those related to regulatory requirements (e.g., preventive services, community wellness), the strategic objectives of the organization (e.g., evaluation of joint ventures, participation in a health system), and the measurements being used to track success. Tracking success will reflect organizational competency and appropriate use of information technology. Implementation of the strategic plan will also require attention to staff: collaboration between physicians and the hospital and, sometimes, employee training to upgrade skill levels. Finally, healthcare leaders must prepare annual operating goals and update the strategic plan every three years.

The Environment Outside the Organization

The healthcare strategic planning process is subject to considerable outside control and rapid change. Federal and state legislation, physician involvement, third-party payers' actions, and competitors' actions all affect operations. In addition, as healthcare organizations focus more on illness prevention and community wellness, they will need to consider educational, behavioral, and social interventions that have not been a part of the traditional, episodic system of medical treatment. In short, healthcare organizations need to focus on the external environment and future changes to the field. By gathering information from external sources, healthcare organizations increase their likelihood of achieving success.

External information describes the market position, local demographics, competitors, payers, and the local business environment. Such data is available through online databases maintained by hospital associations, regional health planning groups, the US Census Bureau, and the US Department of Health & Human Services.

Trends in the External Environment

Hospitals planning strategically need to be mindful of changing trends in healthcare. These changes include the role of accountable care organizations (ACOs), expanded insurance coverage, hospitals' increasing membership in healthcare systems, the impact of specialty hospitals, and the rise of **ambulatory surgery centers (ASCs)**.

ambulatory surgery center (ASC) Facility at which outpatient surgeries (i.e., surgeries not requiring an overnight stay) are performed, often at a price that is less than that charged by hospitals.

The Role of Accountable Care Organizations

As a part of the Affordable Care Act (ACA), the Centers for Medicare & Medicaid Services (CMS) promoted the ACO. Many ACOs create a partnership between a clinic, a hospital, a rehabilitation center, and a nursing home. An ACO may also be a joint venture between

a group of doctors or hospitals and other healthcare providers who collaborate on providing high-quality care at reduced costs. Harrison, Spaulding, and Harrison (2018) found that ACOs with hospital and physician networks are an effective mechanism to control healthcare costs and reduce medical errors. ACOs are using strategies such as population health (the health outcomes of a group of individuals, including the distribution of such outcomes in the group) to manage a growing primary care base. Organizations need to consider the pros and cons of including participation in an ACO in their strategic plan. See chapter 9 for more information about ACOs, and chapter 13 for a discussion of population health.

Expanded Insurance Coverage

An estimated 22 million Americans are newly insured through the ACA exchanges and Medicaid expansion (CBO 2019). These increases were observed among minorities, young adults, and unemployed people younger than 65. The ACA also increased the focus on preventive health and community well-being. On a positive note, in 2018, only 8.5 percent of the US population remained uninsured (US Census Bureau 2019). This uninsured segment depends on **safety-net providers** such as public hospitals, not-for-profit hospitals, community health centers, and local health departments. With this many people lining up for safety-net care, uninsured people may have long waiting periods and may therefore choose to go without healthcare.

safety-net providers Healthcare providers that deliver a significant amount of care to uninsured, Medicaid, and other disadvantaged patients.

Increased Participation in Healthcare Systems

Faced with lower Medicare reimbursement rates and the responsibility of providing care for uninsured people, independent hospitals are experiencing weak profit margins and a growing need for capital. As a result, they are under increasing pressure to become part of healthcare systems. Some of the benefits of system membership include lower interest rates on loans, greater negotiating power with third-party payers, and savings through group purchasing. However, in evaluating the benefits of system membership, independent hospitals should consider maintaining fiduciary control as well as local involvement in strategic planning to ensure that the strategic plan prioritizes and meets consumer needs in the community.

Growth in Ambulatory Surgery Centers and Outpatient Surgery

When considering the external environment, hospitals must consider the trends of a growing outpatient surgery practice. The location of outpatient surgery has varied over time and shifts with reimbursement trends. ASCs were established almost 40 years ago and saw a great increase in the years between 2000 and 2010. They are distinct entities that furnish ambulatory surgical services not requiring an overnight stay in a hospital. The most common

ASC procedures are cataract removal with lens insertion, upper gastrointestinal endoscopy, colonoscopy, and joint injections. As ASCs grew, hospitals saw an opportunity to benefit from doing outpatient surgery, as there was a reimbursement advantage. Medicare bases its payment rates on average cost of care, the acuity of patients, and other factors. According to those calculations, hospitals were paid almost double what ASCs were paid for the same procedure. In its 2019 report to Congress, the **Medicare Payment Advisory Commission (MedPAC)** found that by 2017, outpatient procedures in hospitals accounted for 46 percent of payments by Medicare but only 14 percent of the volume. Consequently, the growth of freestanding outpatient ASCs slowed between 2011 and 2017.

Medicare Payment Advisory Commission (MedPAC)
Government agency composed of 17 members and established by the Balanced Budget Act of 1997 to advise Congress on issues that affect the Medicare program.

More recently, in the era of value-based care, paying more for the same service has caught the attention of Medicare. CMS is now considering site-neutral payments to compress hospital outpatient department rates while also modifying payment rate increases to make ASCs more attractive (Kimmel 2019). Hospitals need to carefully consider in their strategic planning their costs and reimbursement related to performing outpatient surgical procedures.

Gap Analysis

In **gap analysis**, an organization compares its internal and external environments to reveal, as the name suggests, the gaps. These gaps, which represent the differences between the organization's current standing and its target performance, become the focal points of the strategic plan.

gap analysis
Comparison of an organization's current standing and its target performance.

For example, say an organization's analysis of its internal environment reveals that its mission, vision, and values don't align with one another. A primary strategic goal, then, would be to make these elements consistent with each other. Imagine that the organization finds that one of the critical success factors discussed in an earlier section is not in place—for example, its staff lacks certain skills. Organizational strategy would need to include plans for employee training to bring the staff up to speed.

Two of the most important gaps in organizations today are in information technology and diversity. These elements are discussed in the following sections.

Health Information Technology As a Competitive Advantage

Investments in health information technology (HIT) in the United States have been steadily increasing from $2.8 billion in 2013 to $7.1 billion in 2017 (Morse 2018). This investment promises to increase efficiency in the healthcare system and improve quality through care coordination. Currently, 95 percent of US hospitals have electronic health records (EHRs) and are spending an average of 3 percent of total expenditures on HIT. EHRs offer an opportunity for the seamless exchange of clinical information. Studies of the use of these records have found, in general, that they have increased the quality of care, reduced

medication-related errors, improved follow-up on test results, and improved care coordination and communication in the care team (e.g., Nguyen, Bellucci, and Nguyen 2014; McKenna, Dwyer, and Rizzo 2018).

EHRs allow the simultaneous sharing of real-time information to multiple users and timely feedback, both of which can foster care coordination, leading to efficiency and improvement in quality. Users can also pull information from a centralized database to supplement evidence-based research on clinical treatments. EHRs ease administrative decision making and the allocation of healthcare resources. For example, an EHR provides detailed information on patient services and current **payer mix**. This information can be linked to billing software to project reimbursement levels and measure the profitability of new business initiatives. These improvements can provide competitive advantage. To encourage the adoption of electronic information systems in the healthcare field, the Health Insurance Portability and Accountability Act (HIPAA) designated a standard electronic framework for electronic claims submission (see highlight 3.1).

payer mix
Percentage of revenue coming from private insurance, government insurance, and individuals. The *mix* is important because Medicare and Medicaid often pay hospitals less than what it costs to treat patients.

As consolidation of healthcare organizations increases, integrated delivery systems require more-effective linkages. From a risk management perspective, EHRs and supporting clinical information systems have the potential to reduce medical malpractice costs. Disjointed communication and incomplete records could become things of the past.

Diversity in the Workplace As Competitive Advantage

As stated earlier, healthcare is the fastest-growing sector of the US economy and employed 20.8 million workers in early 2020. From a diversity perspective, in 2018 some 75 percent of these workers were women, 12.6 percent were black, 9.9 percent were Asian, and 8.5 percent were Hispanic (BLS 2020).

Demographic evidence shows that the US population is becoming more diverse. In 2002, the Institute of Medicine released a report titled *Unequal Treatment: Confronting Racial and Ethnic Disparities in Health Care* (Smedley, Stith, and Nelson 2002). Since then, healthcare organizations have made significant efforts to improve their cultural competence. The goal is to create a healthcare system that mirrors the US population and can deliver the highest quality of care to every patient, regardless of race, ethnicity, culture, or language proficiency. The American College of Healthcare Executives believes that diversity in healthcare management is both an ethical and a business imperative (ACHE 2020). Thus, to improve profitability and the health status of the community, healthcare organizations should diversify their workforces. By integrating diversity into the strategic planning process, hospitals could reduce health disparities in the communities they serve.

HIGHLIGHT 3.1 Health Insurance Portability and Accountability Act and Patient Information

HIPAA was passed in 1996 to protect the privacy and security of patient health information, particularly that which could be used to discover a patient's identity. To this end, the act provides for several measures:

- Setting national standards for the security of health information stored electronically
- Permitting the confidential use of health information so that healthcare providers can analyze patient safety events and improve patient care
- Affirming that patients own their health records and have the right to access their records

Under HIPAA, all hospitals and healthcare providers must meet minimum standards for information security and privacy. These standards allow data to be transferred between providers and other health-related entities, but the information must be coded securely and the parties doing the sharing must meet a list of administrative, physical, and technical (CMS 2013). The rules regulating information exchange are called HIPAA transactions and codes sets and are based on electronic data interchange standards. The rules apply to healthcare providers, retail pharmacies, health plans, healthcare clearinghouses (organizations that do not provide care but do standardize information for providers), and covered entities (separate healthcare providers that are under one ownership). HIPAA has set rules for many types of transactions, including these:

- Submitting claims to payers (e.g., insurance companies)
- Requesting information about a patient's eligibility for certain treatments and responding to such requests
- Obtaining referrals for additional care from specialists and authorization to ensure that the additional care will be covered by the payer
- Enrolling members in a health plan
- Supplying information on patient demographics, diagnoses, or treatment plans for a healthcare services review

Planning Areas

Strategic plans, at a minimum, need to address certain core areas in healthcare. These core areas include the following:

- Financial planning
- Efficiency
- Value
- Management of healthcare personnel
- Current and long-term strategies
- Mix of products and services
- Operational planning

Each of these areas is addressed in the following sections.

Financial Planning

The healthcare environment has become more competitive, and healthcare leaders must improve their ability to manage resources and reduce costs. Faced with inadequate reimbursement, greater price competition, and a growing shortage of professional staff, healthcare organizations are forced to improve their financial performance to gain greater access to capital and remain competitive. Hospitals are responding to these challenges by trying to provide higher volumes of care with limited financial resources. In addition, many hospitals are **benchmarking** against exceptional organizations, examining these organizations' business practices and products to compare and improve their own. Through this comparison, the hospitals aim to improve their internal operating procedures, their quality of care, their efficiency, and the value of their healthcare services.

benchmarking
Examination of other organizations' business practices and products for purposes of comparing and improving one's own company.

The strategic planning team needs to ensure that proposed new services will attract a sufficient volume of patients to support an investment in new facilities. Before a proposal is approved, the organization should conduct a detailed study to determine whether the new service is likely to generate enough revenue to justify the investment. This study should clearly define the new service line to be implemented; accurately forecast the volume of patients who will use the new service; and project construction costs, revenue, operating expenses, and overall profitability. Poor forecasting of clinical workload can lead to the approval of unnecessary and unprofitable projects.

As discussed in chapter 1, an organization's status—for-profit or not-for-profit—affects its strategic financial planning. In general, not-for-profit hospitals have a lower

return on assets, lower debt, higher occupancy rates, older facilities, and higher operating expenses per discharged patient. They also are larger and offer more clinical services. Although for-profit hospitals have higher long-term debt, they are more profitable because they use the money to invest in newer facilities. Not-for-profit hospitals have lower levels of debt because they often have difficulty borrowing money to fund facility improvements and technological advancements. Because they do a significant amount of charity care and earn lower revenues, not-for-profit facilities have difficulty paying back debt.

The strategic planning team should review key financial and hospital operations data to ensure an efficient use of hospital resources, including personnel. Healthcare organizations can improve incoming cash flow by developing procedures for the timely submission of correctly executed claims, the rapid review of claim denials, and compliance with the organization's policy on charity care. Specifically, an organization should review its policies on charity care to make sure they are consistent with its mission and then monitor the level of charity care provided annually. The organization should also annually confirm that the prices it charges for procedures are higher than the authorized reimbursement rates so that it receives at least the maximum authorized reimbursement. This price analysis will also ensure that the reimbursement will cover the organization's **fixed costs**. Another important financial-planning consideration is an audit program that reviews the accuracy of the organization's billing and coding systems (RevCycle 2019). Such a program ensures the accuracy of financial information used in the strategic planning process.

By 2015, payments from the federal Medicare program as well as from the combined state and federal Medicaid program were providing 30 percent of total hospital revenue (Harrison, Spaulding, and Mouhalis 2015). This level of government reimbursement is significant because it is set by regulation rather than market factors. As a result, much of a hospital's reimbursement for care does not adjust according to supply-and-demand factors. More important, in many states, Medicaid payments do not meet the **variable cost** of care or the total average cost (**total cost**) of care.

fixed cost
Cost incurred despite volume or use of a particular service. Examples of fixed costs include buildings, equipment, and some salaried labor.

variable cost
Cost that changes with volume or use and can be saved by the hospital if a service is not provided. Examples include medication, test reagents, and disposable supplies.

total cost
All hospital expenditures, including facility operating costs.

Efficiency

As the population continues to age and more Americans become insured, the healthcare field is under growing pressure to improve both efficiency and profitability. An efficient organization reduces its use of resources without worsening the outcomes of healthcare services (Harrison, Spaulding, and Mouhalis 2015). In evaluating its efficiency, an organization compares itself with other organizations that share some characteristics in both clinical and administrative areas. For example, a comparison of two for-profit hospitals would be appropriate because they have similar missions. Individual hospital performance can be benchmarked against the **efficiency frontier** of best-in-class facilities, which model the best use of inputs (investment of resources) for the best possible outputs (profits and outcomes of care).

efficiency frontier
The best investment of resources for the best possible profits and outcomes of care.

Efficiency increases with greater hospital size (Harrison, Spaulding, and Mouhalis 2015). As listed in exhibit 1.2, there were 192 large (400 or more beds) not-for-profit hospitals in 2019. The same year saw 145 large for-profit hospitals. Because of economies of scale, these larger hospitals enjoy greater efficiency combined with improved quality. The result—greater value for healthcare services—brings important benefits to the healthcare field, as reimbursement for hospital services moves from a volume-based to a value-based model, as laid forth in the ACA.

Value

Strategic planning in healthcare is often conducted by administrators focused on the business end and by clinicians focused on the patient end. Successful organizations need to strike a balance between the volume-driven approach and the value-driven approach to service delivery. These two approaches often conflict with one another. Especially in times of economic strain, organizations may be tempted to focus on volume over quality. However, now more than ever, quality and safety cannot be ignored in the strategic plan. The importance of publicly reported quality measures and patient experience scores will continue to increase and will be tied to reimbursement).

Leaders in strategic planning often struggle with finding a unique way to deliver quality as a differentiating factor. Everyone is striving to be "the best," but doing so will require more than developing a quality scorecard. Thoughtful brainstorming about what clients need or want can help healthcare leaders consider quality and value. Areas for consideration include access and patient flow, lean processes to improve efficiencies in care, the use of technology, provider alignment, population health, and improved patient experience. See chapter 12 for more information on quality and pay for performance.

Management of Healthcare Personnel

Healthcare organizations should continually monitor personnel costs and productivity against industry benchmarks. They should routinely conduct surveys to compare their salary rates with those of local and state peers. Hospitals require adequate numbers of well-trained and highly credentialed healthcare professionals. Research has shown a strong relationship between adequate nurse-to-patient ratios and safe patient outcomes (Driscoll et al. 2018). Adequate staffing has been shown to reduce medication and other medical errors, decrease patient complications, decrease mortality, and improve patient satisfaction. Yet 54 percent of nurses report excessive workload. One in three nurses report inadequate staffing levels. Two in five units are short-staffed (ANA 2015). In an era of nursing shortages, hospitals will need innovative models of care.

Short- and Long-Term Strategies

Strategic planning provides a framework for integrating marketing, efficiency, personnel management, and outstanding clinical quality while ensuring financial performance. Process improvement teams rely on accurate real-time data to monitor performance on key metrics. Accurate data on community demographics, market share, payer mix, costs, and medical staff performance allows executives to make sound decisions.

By comparing this internal data with competitor and industry-wide benchmarks, leaders can develop sound strategic long-term plans and financial targets. Good data enables them to accurately forecast future demand over the next five to ten years. In addition to performance measurement, creativity and a focus on community needs are important to long-range strategic planning.

Short-term performance also must be monitored for consistency with the organization's long-term vision. Once new business initiatives become fully operational (typically 24 months after start-up), the organization should evaluate them to ensure that they are fulfilling the objectives of the strategic plan. (Performance measurement and evaluation will be covered in detail later in the chapter.)

Mix of Products and Services

Many hospitals located in growing communities are expanding their inpatient and outpatient service lines. They are also consolidating unprofitable services such as obstetrics, pediatrics, and emergency services. As a result, many of these hospitals are participating in joint ventures with physicians to improve clinical quality and develop a more varied product mix. Healthcare organizations should routinely monitor their medical staff network to maximize clinical services while ensuring a profitable mix. Such an assessment should examine changing community demographics and needs and the product mixes that competitors offer. Information on community needs can come from community leaders, board members, hospital employees, and physicians on the medical staff.

Joint ventures enable organizations to preserve capital, expand services, and better meet community healthcare needs. A healthcare organization seeking a joint venture should identify potential partners that demonstrate ethical, cultural, and quality-of-care approaches consistent with its strategic plan. Once these prospective partners have been identified, the strategic planning process can pinpoint clinical areas in which joint ventures may be the most appropriate. Such areas could be new service lines, the development of facilities that are more convenient for patients, or high-level services that enhance the hospital's reputation. Any new service should be financially profitable and provide long-term value to the organization. Value may take the form of increased clinical volume, greater market share, or limited competition from other hospitals.

Operational Planning

Operational plans set strategic plans in motion and carry out the tasks prescribed. The responsibility and accountability for each operational plan should be assigned to a senior leader and linked to specific activities with deadlines. By pushing operational goals down the ranks of the organization, leaders make the strategic plan a reality for all staff and help create a unified endeavor. The strategic plan should prioritize operational goals according to the resources available to the organization at any given point in time.

Evaluation of Performance

Once strategic plans are in operation, organizations must evaluate the results of the strategic actions. To make sure that the actions reflect strategic goals, evaluators must link their measurement of outcomes with organizational goals. Organizations that can create such an alignment are more likely to be successful, but they should monitor their performance routinely. For example, performance data could be collected monthly and then evaluated over time.

dashboard
Tool that links strategic goals to operating performance.

One useful tool for linking strategic goals to annual operating performance is called a **dashboard**. Like the gas gauge, speedometer, and temperature gauge on a car's dashboard, an organizational dashboard contains numerous indicators of performance. Just as all the automobile's indicators must reflect good performance for the car to reach its destination, an organization's strategic success depends on the collective performance shown by the indicators on its dashboard. An example of a hospital dashboard is shown in exhibit 3.2.

Dashboard measures might include quality of care (e.g., nosocomial infection rates,[1] 30-day readmission rates),[2] patient satisfaction, market penetration, operating efficiency (e.g., emergency wait time, average length of stay, cost per procedure, Medicare spending per beneficiary), and financial performance (e.g., net operating income, cash on hand). The dashboard should include visual cues, such as green for favorable performance, yellow for areas of growing concern, and red for poor performance.

In the light of these indicators, the organization can modify its strategy to improve areas of poor performance. For example, say a hospital wants to build a service line, but its dashboard shows that it lacks sufficient staffing to do so. The hospital would then need to focus on recruiting and training additional staff while ensuring that it can afford to compensate the new staff and still make a profit.

As shown in exhibit 3.1, evaluation of performance ends the strategic planning cycle, but not the strategic planning process. Strategic planning is a continuous activity. In healthcare, change occurs rapidly, both internally and externally. Once a strategy has been implemented and evaluated, the cycle begins again. An organization modifies its strategy as needed, implements it again, and reevaluates it, and new strategies are developed in response to the changing environment.

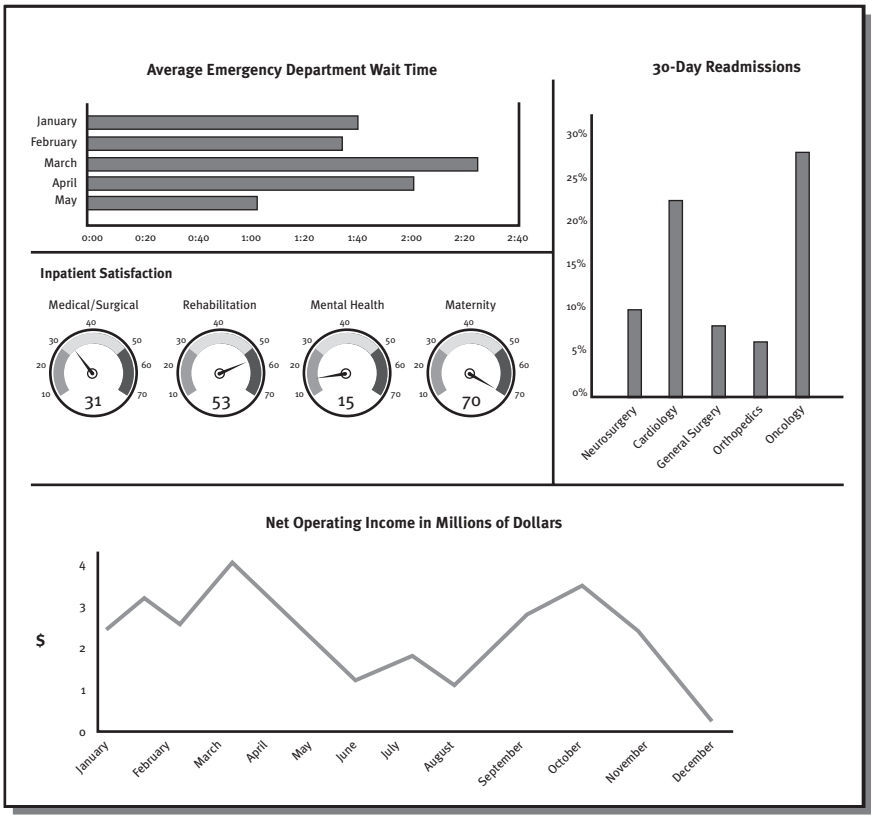

EXHIBIT 3.2
Sample Hospital Dashboard

Another evaluation tool is the **balanced scorecard**, which allows a corporation to view its performance. The balanced scorecard is a strategy and management system that focuses an organization on several areas of performance measurement. Before the introduction of this tool, performance was usually measured according to financial achievements alone.

balanced scorecard
Tool that allows organizations to assess their missions by evaluating specific objectives and metrics across multiple domains.

The balanced scorecard shows, at a glance, an organization's goals and how it aims to achieve them. The scorecard is divided into several areas that the organization considers important to achieving its mission—for example, human resources, patient satisfaction, financial position, quality and safety outcomes, and employee professional development. For each area, the organization states objectives and identifies how it will measure progress in that area. Target results are also listed to indicate what an organization hopes or expects to achieve. For example, the human resources section of the balanced scorecard might measure and list targets for employee turnover: the turnover rate, cost per hire, length of employment, and so forth. The scorecard allows everyone in the organization to easily see the organization's priorities and the areas needing improvement.

Scorecard metrics should address the following criteria: (1) importance to organization and staff, (2) measurability, (3) data validity, and (4) actionability. The scorecard is balanced because it meets four goals. First, it provides a broad view of performance. It also creates transparency and accountability. Third, it communicates goals and engages staff. And finally, it ensures the use of data in strategic planning.

Planning at the Local, Regional, and National Levels

Organizational planning at the local level is different from regional and national healthcare planning. Because of today's unprecedented growth in health systems, many healthcare organizations are doing more regional and national planning.

Local Planning

In general, healthcare in the United States is a local commodity produced to meet local demand. For this reason, an organization bases much of its strategic plan on local data. Organizations need a good understanding of community needs to succeed in local healthcare planning. More important, local governmental entities and other organizations in the community can provide additional funding and thus significantly influence the allocation of healthcare resources.

Measuring the availability of physicians, allied healthcare providers, hospital beds, and long-term care resources in the local geographic area is a responsibility of the local health planning council. State government also assesses the effect of its communities' economic status on the availability of healthcare services in the area. Economic factors affect individuals' ability to pay for healthcare services, the number of uninsured, and, ultimately, the community's overall health. Common economic factors affecting local planning include per capita income and the unemployment rate in the community.

Regional Planning

As healthcare complexity increases in the United States, a case can be made for allocating healthcare resources at the regional (e.g., state) level. Such an approach could reduce costs through improved efficiency and ensure a consistently high level of healthcare quality.

Regional planning at the state level includes an analysis of population demographics and the development of mathematical models designed to determine the need for health services in local communities. These activities address a variety of questions associated with regional health planning, such as the location of hospitals, the number of hospital beds, the development of ACOs, and the availability of post-acute care. Harrison, Spaulding, and Harrison (2018) found that healthcare organizations that expand their footprint

across larger geographic areas achieve greater efficiencies and enhance the development of new clinical services. Additionally, these regional organizations can better allocate scarce resources while improving the quality of care.

National Planning

A framework for healthcare strategic planning at the national level is important. The passage of the ACA provided the foundation of a national strategic healthcare plan that integrates the priorities of key stakeholders, including patients, employers, plans, healthcare providers, and medical suppliers. The strategic plan was developed by the federal government and then implemented by governmental authorities at the local and regional levels.

According to the National Health Interview Survey completed by the Centers for Disease Control and Prevention (CDC), the percentage of persons who reported excellent or very good health has remained stable. In 2018, the survey reported that 68.2 percent of all respondents of all ages said that their health was excellent or very good (CDC 2019). Additionally, research demonstrates that minorities have a disproportionately greater incidence of many diseases (Artiga, Orgera, and Pham 2020). As a result, federal and state governments are working to reduce these disparities through such projects as the **Healthy People 2030** Framework. This project, produced by the US Department of Health & Human Services, presents a statement of healthcare objectives around which local and regional planning can take place. Every decade, the Healthy People initiative develops a new set of science-based, ten-year national objectives with the goal of improving the health of all Americans. This comprehensive analysis of the US population's healthcare needs specifies healthcare improvement goals and measures by which progress toward those goals can be monitored (Astho Brief 2019).

Healthy People 2030
A comprehensive US Department of Health & Human Services analysis of the US population's healthcare needs and a statement of goals and measures around which local and regional planning can take place from 2020 through 2030; also, the name of a ten-year effort to achieve the goals it outlines.

Healthy People 2020 contained 42 topic areas, with more than 1,200 objectives. The Healthy People 2030 objectives will be a smaller, more focused set of objectives that reflect national actionable priorities to improve health. The updated framework includes three objective types: core, developmental, and research. The core objectives use fundamental health statistics through the US Census, national surveys, registries, billing and administrative healthcare data sets, and other data sources. The Healthy People 2030 section titled "Social Determinants of Health" includes six core objectives and one research objective. There is also a Health Opportunity and Equity Initiative, which includes indicators measuring systems and policies that affect health equity. The initiative tracks 28 indicators along five measures: health outcomes, socioeconomic factors, the social environment, the physical environment, and access to healthcare. The 2030 objectives were still up for review in 2020 and will be published sometime in 2021 (Astho Brief 2019).

Great strides have been made over the past decade: life expectancy at birth has increased, and rates of death from coronary heart disease and stroke have decreased. Nonetheless, public health challenges remain, and significant health disparities persist. Renewed

emphasis will be placed on overcoming these challenges as the healthcare community tracks progress up to the year 2030. Many believe local communities have the greatest understanding of healthcare needs and therefore should have significant influence over healthcare planning decisions. Consequently, local communities should be included in strategic planning and in any national healthcare reform initiative (Astho Brief 2019).

Summary

Strategic planning is a process by which healthcare organizations determine their future direction. An important part of strategic planning is the allocation of resources to maximize the delivery of healthcare services. Research suggests that good strategic planning leads to lower healthcare costs, improved quality of care, and greater patient satisfaction.

Healthcare strategic planning is grounded in an organization's mission, vision, and values. Building on this foundation, the organization develops a strategic plan that is based on analyses of the internal environment of the organization and the external environment in which it operates.

As part of strategic planning, organizations identify what is needed for outstanding performance and, through gap analysis, identify where the organization must improve. At the operational level, healthcare organizations need to develop programs and services that support the overall strategic plan and turn plan objectives into action. An effective tool for linking the strategic plan to operating performance is a dashboard analysis. Measurement of performance via a dashboard is part of an ongoing feedback process that drives future strategic planning. Programs are implemented, performance is measured, and any remaining performance gaps prompt the cycle to begin again.

Exercises

Review Questions

1. What roles do boards of directors, senior leaders, physicians, employees, and community organizations play in a healthcare organization's strategic planning process?
2. Do you agree that healthcare organizations should monitor key business metrics throughout the year? Evaluate this idea and use an example from the chapter to illustrate the monitoring of organizational performance.
3. Should a healthcare organization do a community health assessment as part of its strategic planning? Why or why not?
4. Does the diversity of a healthcare organization's staff have any impact on organizational performance?

Coastal Medical Center Questions and Exercises

According to this chapter and the Coast Medical Center (CMC) case study, does CMC have the organizational capabilities for future success?

Richard Reynolds, the newly hired CEO, has been actively investigating the declining performance of CMC. During the hiring process, the board of directors assigned him the responsibility of getting the organization back on track. Help Mr. Reynolds develop a strategic planning process that will place CMC on a new road to success by considering five new business initiatives, creating a dashboard, and evaluating CMC according to the metrics shown on the dashboard. Outline a strategic planning process appropriate for CMC.

1. Many stakeholders described the past CEO of CMC, Don Wilson, as a visionary who helped the organization grow and prosper for more than 20 years. His successor, Ron Henderson, took the organization from profitability to significant financial losses within two years and was fired as a result. Name five areas in which Mr. Henderson's performance was weak.
2. Of the five areas of new business initiatives to improve performance, which one should be the first priority?
3. How is CMC positioned relative to its competitors?
4. How should CMC create new and innovative approaches to community needs?
5. What do you see as the future of strategic planning at CMC?

Online Exercise

Epworth HealthCare (2018) describes its strategic plan for 2018–2022 in a self-published video: www.youtube.com/watch?v=MfWDk5MjiVo. The video is an example of the communication effort by a large not-for-profit private hospital group in Australia.

Using this video or another one you choose on hospital strategic planning, write a one- or two-paragraph reflection about the following observations:

- Whether the mission, vision, and values were clear
- Whether the leadership style seemed transformational
- Whether the strategic plan was evident and communicated well

Endnotes

1. Nosocomial infections are infections that are not caused by a patient's condition but are acquired in hospitals and other healthcare facilities.
2. A 30-day readmission rate is the percentage of patients who were treated for a condition and discharged from the hospital but who had to be readmitted to the same or another hospital within 30 days of the initial discharge.

References

American College of Healthcare Executives (ACHE). 2020. "Diversity and Inclusion." www.ache.org/about-ache/our-story/diversity-and-inclusion.

American Nurses Association (ANA). 2015. "Nurse Staffing." Accessed August 12. www.nursingworld.org/nursestaffing.

———. 2014. "Safe Staffing Literature Review." Published August. www.nursingworld.org/MainMenuCategories/ThePracticeofProfessionalNursing/NurseStaffing/Nurse/2014-Nurse-Staffing-Updated-Literature-Review.pdf.

Artiga, S., K. Orgera, and O. Pham. 2020. "Disparities in Health and Health Care: Five Key Questions and Answers." Kaiser Family Foundation. Published March 4. www.kff.org/disparities-policy/issue-brief/disparities-in-health-and-health-care-five-key-questions-and-answers.

Astho Brief. 2019. "From Healthy People 2020 to Healthy People 2030." Centers for Disease Control and Prevention. Published April. www.astho.org/ASTHOBriefs/From-Healthy-People-2020-to-Healthy-People-2030.

Beckham, D. 2014. "Differentiating Physicians for Competitive Advantage." *H&HN Daily*. Published June 17. www.hhnmag.com/Daily/2014/Jun/061714-beckham-physician-differentiation.

Centers for Disease Control and Prevention (CDC). 2019. "Tables of Summary Health Statistics." National Health Interview Survey. Published November 5. www.cdc.gov/nchs/nhis/shs/tables.htm.

Centers for Medicare & Medicaid Services (CMS). 2018. "National Health Expenditures 2018 Highlights." www.cms.gov/files/document/highlights.pdf.

———. 2013. "Privacy and Security Standards." Last modified April 2. www.cms.gov/Regulations-and-Guidance/HIPAA-Administrative-Simplification/HIPAAGenInfo/PrivacyandSecurityStandards.html.

Daft, R. L. 2000. *Organization Theory and Design*. Mason, OH: South Western College Publishing.

Driscoll, A., M. J. Grant, D. Carroll, S. Dalton, C. Deaton, I. Jones, D. Lehwaldt, G. McKee, T. Munyombwe, and F. Astin. 2018. "The Effect of Nurse-to-Patient Ratios on Nurse-Sensitive Patient Outcomes in Acute Specialist Units: A Systematic Review and Meta-Analysis." *European Journal of Cardiovascular Nursing* 17(1): 6.

Epworth HealthCare. 2018. "Epworth HealthCare Strategic Plan 2018–2022." YouTube, December 4. www.youtube.com/watch?v=MfWDk5MjiVo.

Harrison, J. P., A. Spaulding, and D. Harrison. 2018. "Accountable Care Organizations: A Strategy for Future Success?" *International Journal of Organization Theory & Behavior* 21 (2): 113–21. https://doi.org/10.1108/IJOTB-03-2018-0019.

Harrison, J. P., A. Spaulding, and P. Mouhalis. 2015. "The Efficiency Frontier of For-Profit Hospitals." *Journal of Health Care Finance* 41 (4): 1–23.

Kimmell, J. 2019. "ASCs Are Growing Even Faster Than You Think. How Can Hospitals Respond?" *Advisory Board Daily Briefing*. Published March 5. www.advisory.com/daily-briefing/2019/03/05/asc-shift.

McKenna, R. M., D. Dwyer, and J.A. Rizzo. 2018. "Is HIT a Hit? The Impact of Health Information Technology on Inpatient Hospital Outcomes." *Applied Economics* 50 (27): 3016–28.

Medicare Payment Advisory Commission (MedPAC). 2019. *Health Care Spending and the Medicare Program*. www.medpac.gov/docs/default-source/data-book/jun19_databook_entirereport_sec.pdf?sfvrsn=0.

Morse, S. 2018. "US Health IT Investment Skyrockets to $7.1 Billion." *Healthcare IT News*. Published January 26. www.healthcareitnews.com/news/us-health-it-investment-skyrockets-71-billion.

Nguyen, L., E. Bellucci, and L. T. Nguyen. 2014. "Electronic Health Records Implementation: An Evaluation of Information System Impact and Contingency Factors." *International Journal of Medical Informatics* 83 (11): 779–96.

RevCycle. 2019. "External Claim Audits Key to Strong Hospital Compliance Programs." RevCycle Intelligence. Published September 16. https://revcycleintelligence.com/news/external-claim-audits-key-to-strong-hospital-compliance-programs.

Smedley B. D., A. Y. Stith, and A. R. Nelson. 2002. *Unequal Treatment: Confronting Racial and Ethnic Disparities in Health Care*. Institute of Medicine. Washington, DC: National Academy of Sciences.

Tye, J., B. Dent, and D. Tye. 2017. *Building a Culture of Ownership in Healthcare*. Indianapolis, IN: Sigma Theta Tau International.

US Bureau of Labor Statistics (BLS). 2020. "Health Care and Social Assistance: NAICS 62." Accessed January 13. www.bls.gov/iag/tgs/iag62.htm.

US Census Bureau. 2018. "American Community Surveys, 1-Year Estimates." www.census.gov/programs-surveys/acs.

US Congressional Budget Office (CBO). 2019. "Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2019 to 2029." CBO.gov. Published May 2.