This is a sample of the instructor materials for Jeffrey P. Harrison, *Essentials of Strategic Planning*, Second Edition.

The complete instructor materials include the following:

- Test bank
- Chapter questions and exercises
- PowerPoint slides
- Sample syllabus
- HAP Course Lesson Plans

This sample includes the questions, exercises, and PowerPoint slides for Chapter 3, "Fundamentals of Strategic Planning."

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Chapter 3

Review Questions

1. What roles do the board of directors, senior leaders, physicians, employees, and community organizations play in a healthcare organization's strategic planning process?

The board of directors should be involved in CEO succession planning as well as in supporting future leadership development. In addition, the board should approve new business service lines and monitor quality of care. The board also plays a large role in challenging assumptions made during the strategic planning process and in ensuring that new business initiatives meet the organization's mission and goals.

The senior leaders should use their technical knowledge and shareholder relationships to help make the organization's decisions. High-performing leaders use formal management processes to improve efficiency and quality.

Physicians should be part of the strategic planning process because they are instrumental in allocating resources and developing new clinical services. Physicians are critical to enhancing the quality of patient care and should use their leadership skills, innovation, and technical expertise to improve organizational performance. Physicians should also be part of the feedback loop to monitor quality.

Employees at the front line and managers in middle management positions can be valuable in identifying the strengths and weaknesses in the organization. They often know what is or is not working well, and leaders who listen to those perceptions will find themselves a step ahead in strategic planning.

Community organizations help identify the healthcare needs of the local population and can recommend new services to meet unfilled needs. These services should improve the well-being of the community and enhance the reputation of the healthcare organization.

2. Do you agree that healthcare organizations should monitor key business metrics throughout the year? Evaluate this idea and provide an example from the chapter that illustrates monitoring organizational performance.

Healthcare organization should monitor key business metrics throughout the year to ensure that the organization is on track. Organizational performance should be monitored on a quarterly basis, and changes in the external environment should be incorporated in the strategic planning process as rapidly as possible. The following measures should be monitored: patient satisfaction, mortality rates, re-admission rates, infection rates, quality indicators, and profit margin. The dashboard should include visual cues, with green representing favorable performance, yellow representing areas of growing concern, and red representing areas of poor performance.

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The chapter has illustrated a few examples for monitoring the performance of the healthcare organization. Key in this process are the development of process improvement teams and the use of real-time data to monitor performance on key metrics. Accurate data such as community demographics, market share, payer mix, DRG cost data, and medical staff profiles allow executives to make sound decisions. Monitoring personnel cost and productivity, when compared to competitor and industry-wide benchmarks, allows for the development of a sound strategic plan and financial targets.

3. **Should a healthcare organization do a community assessment as part of its strategic planning? Why or why not?**

Yes, a healthcare organization will greatly benefit from performing a community health assessment during the strategic planning process. In fact, the 2010 Affordable Care Act began requiring not-for-profit hospitals to conduct a community health needs assessment (CHNA) and adopt an implementation strategy at least once every three years effective in 2012. This CHNA gathers information on the health status of individuals and families within the community. The assessment should focus on local assets, resources, and activities as well as gaps, barriers, or emerging needs. The assessment will help the organization to identify the main healthcare services it wants to provide, the delivery mechanisms used to provide these services, the legal and regulatory environment under which the organization will operate facility location, etc.

Strategic planning is the process by which a healthcare organization determines its overall direction for future years. The community health assessment allows a healthcare organization to determine the services required in the local community.

There are several components to strategic planning process that require gathering information about the internal and external environment and having meaningful discussions on the future of the organization. By many accounts, healthcare in the United States is a local commodity produced to meet local demand. As a result, much of an organization's strategic plan is developed using local data.

By performing the community assessment, healthcare organizations can better allocate staffing and financial resources. The assessment can determine which resources create the greatest value within the community. The organization can also consider the local economic factors affect planning, such as individuals' ability to pay and the number of uninsured. Healthcare organizations' strategic plan should emphasize clinical service lines that enhance profitability while meeting demonstrated community needs.

4. **Does the diversity of a healthcare organization's staff have any impact on organizational performance?**

Yes, research shows that greater diversity within a healthcare organization's staff results in improved financial performance. In addition, there must be sufficient diversity to assist with any language that is represented within that community. Cultural diversity should be a high priority within a healthcare organization.

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Coastal Medical Center Exercise

According to Chapter 3 and the Coastal Medical Center case that appears at the beginning of the text, does Coastal Medical Center have the organizational capabilities for future success?

Yes, but it will take work to identify the strengths, weaknesses, opportunities, and threats; develop a strategic plan; and then implement the objectives.

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 based on these metrics. Outline a strategic planning process appropriate for CMC.

The questions below help to outline this process.

Coastal Medical Center Questions

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 Ron Henderson's performance was weak.**

    a. Planning
    b. Budget (costs, expenses, revenues)
    c. Market research / target market for programs launched
    d. Leadership (motivation, monitoring, assessment)
    e. Operational management

2. **Of the five areas of new business initiatives to improve performance, which one should be the first priority?**

    Unfortunately, CMC had no strategic plan for new business development. Mr. Henderson and the board just went ahead with whatever ideas were presented without any plan or analysis. Implementing a strategic planning process is essential for organizational survival and future success. Many areas would have benefited from a plan:

    - General operations: operational planning
    - Budget (expense/revenues): cost analysis, profit ratio, predicting financial statement to ensure funding will be at marginal
    - SWOT: to determine if this initiative have competitive advantage

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- Planning analysis: to ensure that new business initiatives will benefit the organization and to determine key factors
- Performance measures: benchmarking/dashboard

The following strategic planning process is appropriate for Coastal Medical Center:

Goals-based planning—because everyone involved needs to reevaluate and understand CMC's goals.

1. Renew/revise mission statement
2. Renew/revise vision and values
3. Strategic planning/development
    a. Internal analysis
        i. Organizational culture
        ii. Financial resources
        iii. Access to capital markets
        iv. Human resource / human capital
        v. Barriers to entry
    b. External analysis
        i. Economic factors
        ii. Regulatory environment
        iii. Patient demographics/socioeconomics
        iv. Competitor profile
4. Development of success factors
5. Gap analysis:
    a. Determining internal factors
    b. Determining external factors
6. SWOT analysis
7. Operational planning
8. Evaluation of performance / dashboard

3. How is CMC positioned relative to its competitors?

From a quality perspective, as shown in Appendix G, Value-Based Purchasing, of the six Emergency Department metrics, CMC performed below both state and national averages for all six. For the remaining 16 CMS quality scores, CMC rates below its competitors and below the state and national averages in most indicators. Appendix C shows a similar pattern for the HCAHPS (patient perception) scores.

From a financial perspective, CMC's net income dropped from $52,527,920 in 2012 to a negative $16,095,431 in 2015. This was due primarily to a significant loss in operating income while seeing an increase in expenses.

The case shows that CMC falls behind its competitors in almost all measures and is operating at a loss. However, with the new CEO and a renewed focus on the strategic planning process, CMC has the potential for future success.

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4. How should CMC create new and innovative approaches to community needs?

CMC can address community needs through goals-based planning. This requires everyone involved to reevaluate and understand CMC's goals through the following:

Step One:
The first step in the strategic planning process is to develop a clear mission and vision statement. This process will help CMC determine where they want to go, how are they going to get there, and how will they know if they get there. Strategic planning requires resource allocation, communication of goals to stakeholders, measurement of organizational performance, and measurement of quality.

Step Two:
The CEO should perform an assessment of the organization to address whether the leaders are truly committed to the effort, and whether everyone is able to devote the necessary attention to the "big picture." Five tasks need to be accomplished:
A. Identify specific issues or choices that the planning process should address.
B. Clarify roles (who does what).
C. Create a planning committee.
D. Develop an organizational profile.
E. Identify the information that must be collected to help make sound decisions.

Step Three:
Take a good look at current situation—make a database of quality information that can be used to make decisions and a list of the most critical issues that the organization needs to deal with.

Step Four:
Develop strategies, goals, and objectives to deal with the issues.

Step Five:
Develop a written strategic plan and communicate it to the organization's stakeholders.

5. What do you see as the future of strategic planning at CMC?

CMC must implement a more comprehensive and formalized strategic planning process. The board, executives, and staff should work together to develop a plan that will lead to future success. CMC should use the diversity of its staff as a catalyst to incorporate new and innovative ideas into the strategic plan**.** The new CEO appears to be an effective leader and is implementing the strategic processes necessary for future success.

Everyone should be involved with the strategic planning process. The leadership team should design a plan that will be presented to the board of directors. The board will review the strategic plan to ensure it is consistent with CMC's mission. Once the board has determined

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that the strategic plan reflects the direction in which they want CMC to go, the plan should be passed to the departments for input about operational aspects. Members in the department should review the strategic plan, including specific business proposals in their areas of interest, to determine whether the proposal will enhance the performance of the organization. Departments should be involved in planning for new business initiatives by participating in the SWOT analysis and establishing performance measures. These will be incorporated into the organization's day-to-day operation.

It is important that a diverse group be involved in the planning process because the individuals provide different perspectives and different levels of technical expertise. More importantly, it is critical that everyone understand the mission and vision of CMC so they know how their individual contributions lead to the desired outcome.

Some key factors of success include improved financial indicators, excellent patient satisfaction, strong national quality indicators, and improvement in other outcome measures that relate to the organization's mission.

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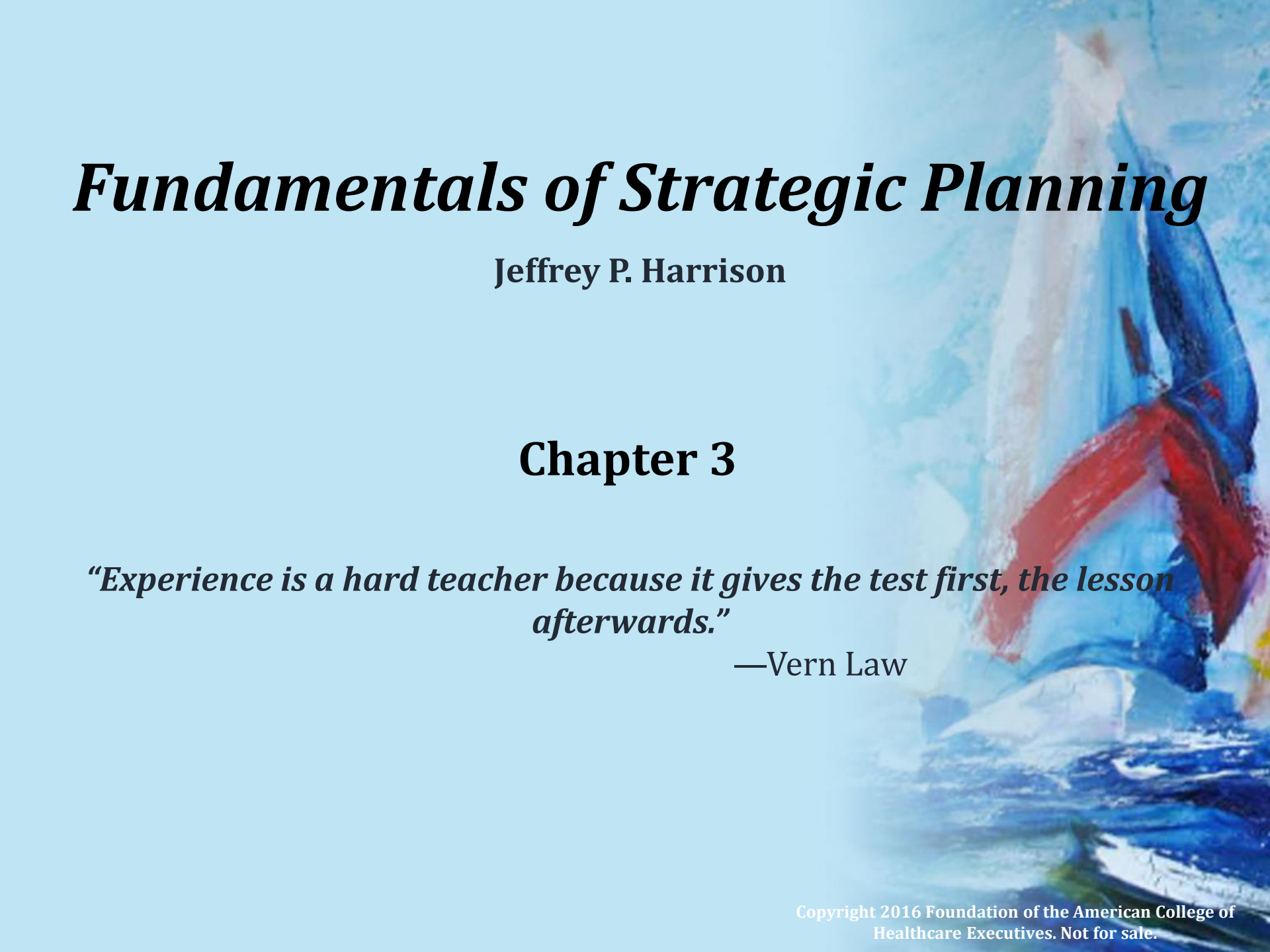
Fundamentals of Strategic Planning

Jeffrey P. Harrison

Chapter 3

"Experience is a hard teacher because it gives the test first, the lesson afterwards."

—Vern Law



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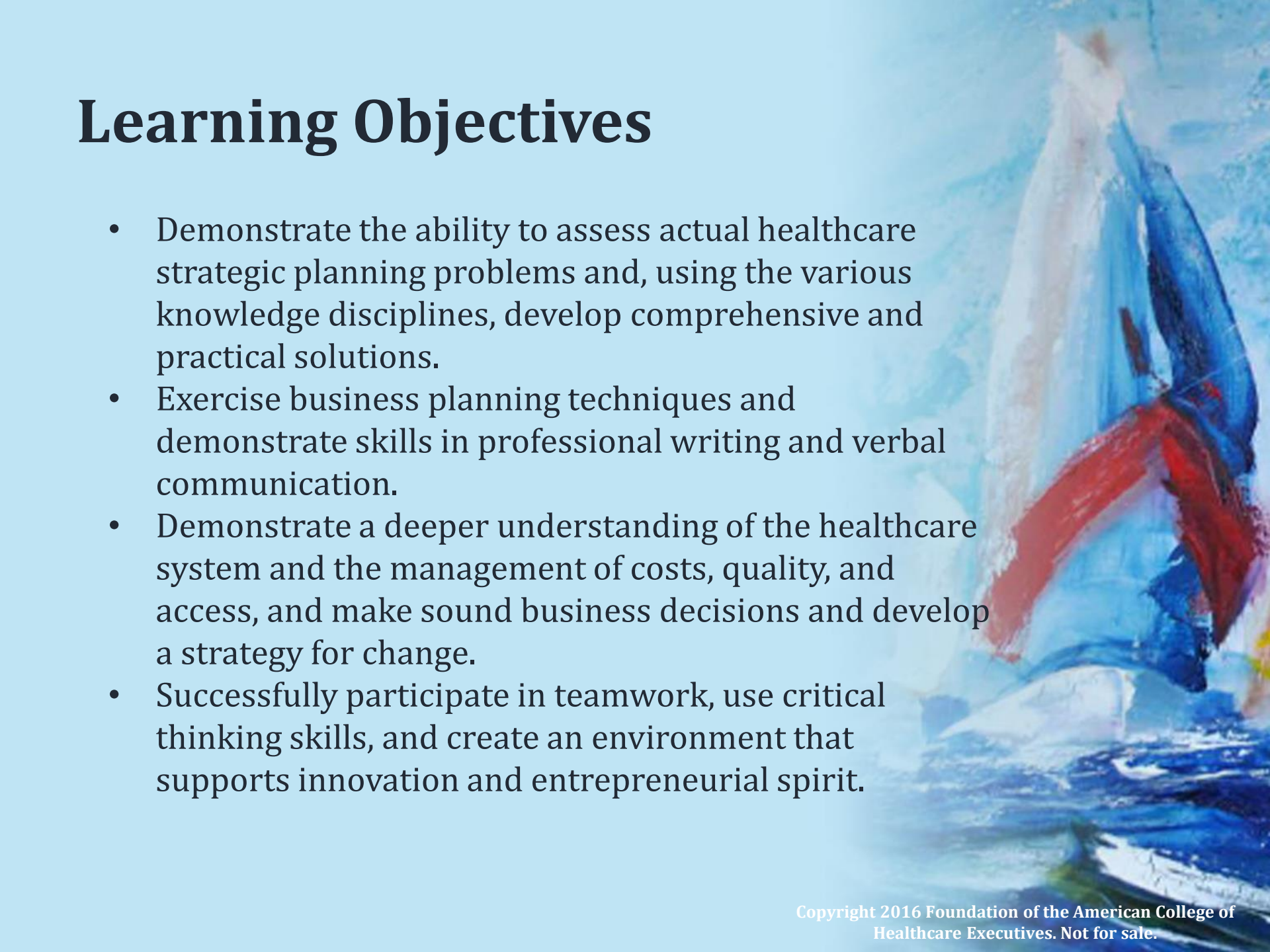
Learning Objectives

- Demonstrate the ability to assess actual healthcare strategic planning problems 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, and make sound business decisions and develop a strategy for change.
- Successfully participate in teamwork, use critical thinking skills, and create an environment that supports innovation and entrepreneurial spirit.



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Key Terms and Concepts

- Ambulatory surgery center (ASC)
- Benchmarking
- Dashboard
- Balanced score card
- Efficiency frontier
- Gap analysis
- *Healthy People 2020*
- Medicare Payment Advisory Commission (MedPAC)
- Payer mix
- Safety-net providers
- Strategic planning
- Total cost
- Variable cost

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Introduction

- Strategic planning brings leaders and stakeholders together to successfully position an organization in an environment of uncertainty.
- Healthcare organizations engage in strategic planning to reduce costs, improve quality and service, and ensure access to care.
- An innovative strategic planning process also helps an organization to more effectively allocate its resources, which will enhance the value of healthcare services and better meet the community's healthcare needs.

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Introduction

- The rate of change in an organization's environment associated with technology and market factors determines whether an organizational structure is hierarchical or participatory.
- By 2011, healthcare employed 15.7 percent of the US workforce with expenditures of $2.7 trillion (Moses et al. 2013).
- Healthcare as a percentage of GDP has doubled since 1980 to its current level of 17.9 percent of GDP.
- Government spending for healthcare has increased from 31 percent in 1980 to 43 percent in 2011.

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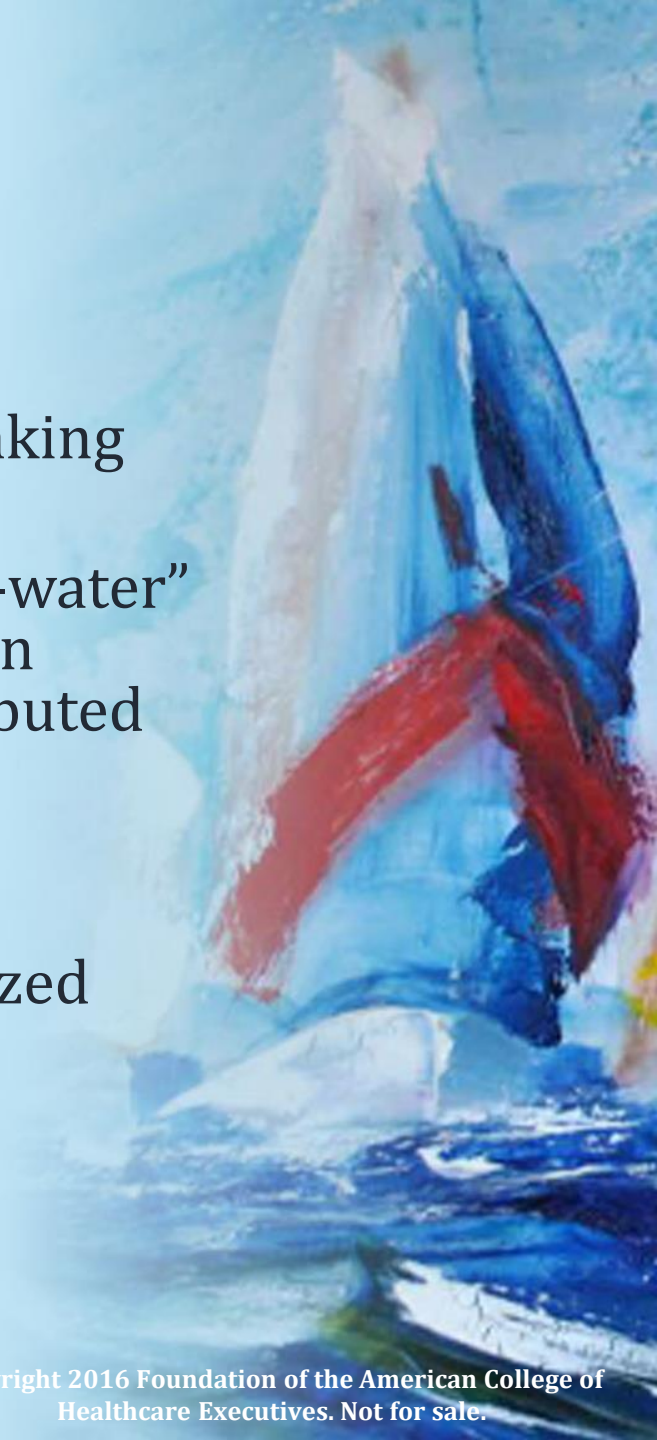
Introduction

- In a stable environment, a hierarchical structure with centralized decision making may improve overall efficiency.
- In unstable environments with “white-water” change, the knowledge and information required for innovation must be distributed throughout multiple levels within the organization.
- Research shows that a greater flow of information combined with decentralized decision-making fosters innovation.



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Definition

Strategic planning

- A process of defining and managing actions that will shape an organization; the development of organizational objectives and measurement of ongoing performance.

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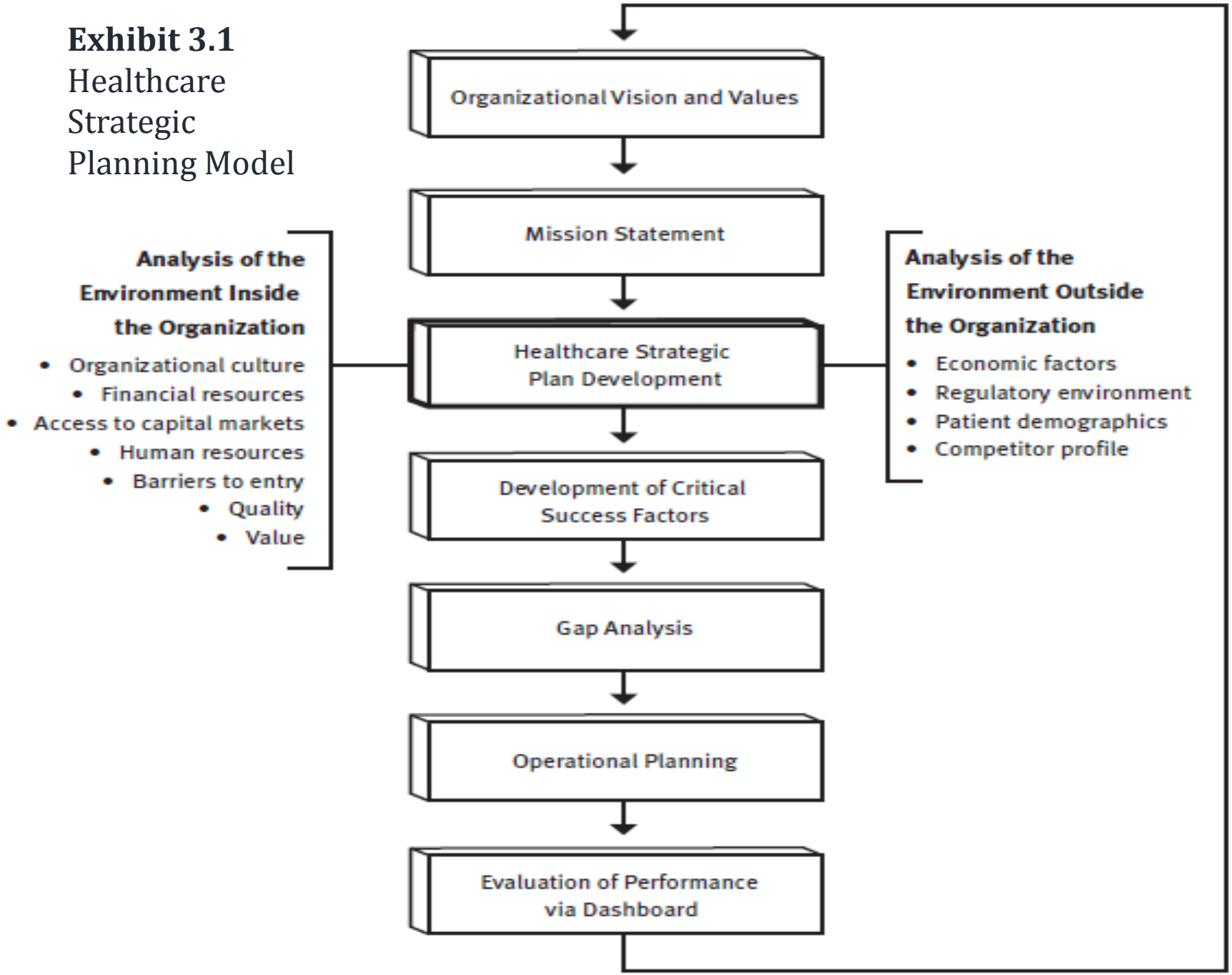
Exhibit 3.1
Healthcare Strategic Planning Model



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Analysis of the Internal Environment

- The development of the mission and vision is key to the success of healthcare strategic planning.
- A clear link between the values/mission and the strategic plan increases the likelihood of improved organizational performance.
- Due to the critical nature of this process, it is essential to get early involvement from the board of directors as well as the leadership team.
- Internal data:
  - Finances
  - Personnel
  - Key assets
  - Quality of care

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Analyzing the External Environment

- By gathering information from external sources, healthcare organizations increase their likelihood of achieving success.
- External information:
  - Market position
  - Local demographics
  - Competitors
  - Payers
  - Local business environment

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Analyzing the External Environment

Trends in the External Environment

Major trends include growth in the following areas:

- Accountable care organizations (ACOs) and population health (see Chapter 9)
- Expanded insurance coverage under the ACA
  - An estimated 10.3 million Americans
- Increased participation in healthcare systems
- The impact of specialty hospitals
- The rise of ambulatory surgery centers and outpatient surgery

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Analyzing the External Environment

Increased Participation in Healthcare Systems

- Increased mergers and acquisitions are being driven by weak balance sheets among independent hospitals as well as by a growing demand for financial capital.
- Benefits:
  - Lower interest rates
  - More bargaining power
- It is important that they maintain fiduciary control as well as local involvement in the strategic planning process.
- As independent hospitals face lower Medicare reimbursement rates and a growing uninsured population, there is an increasing likelihood of merger or acquisition.

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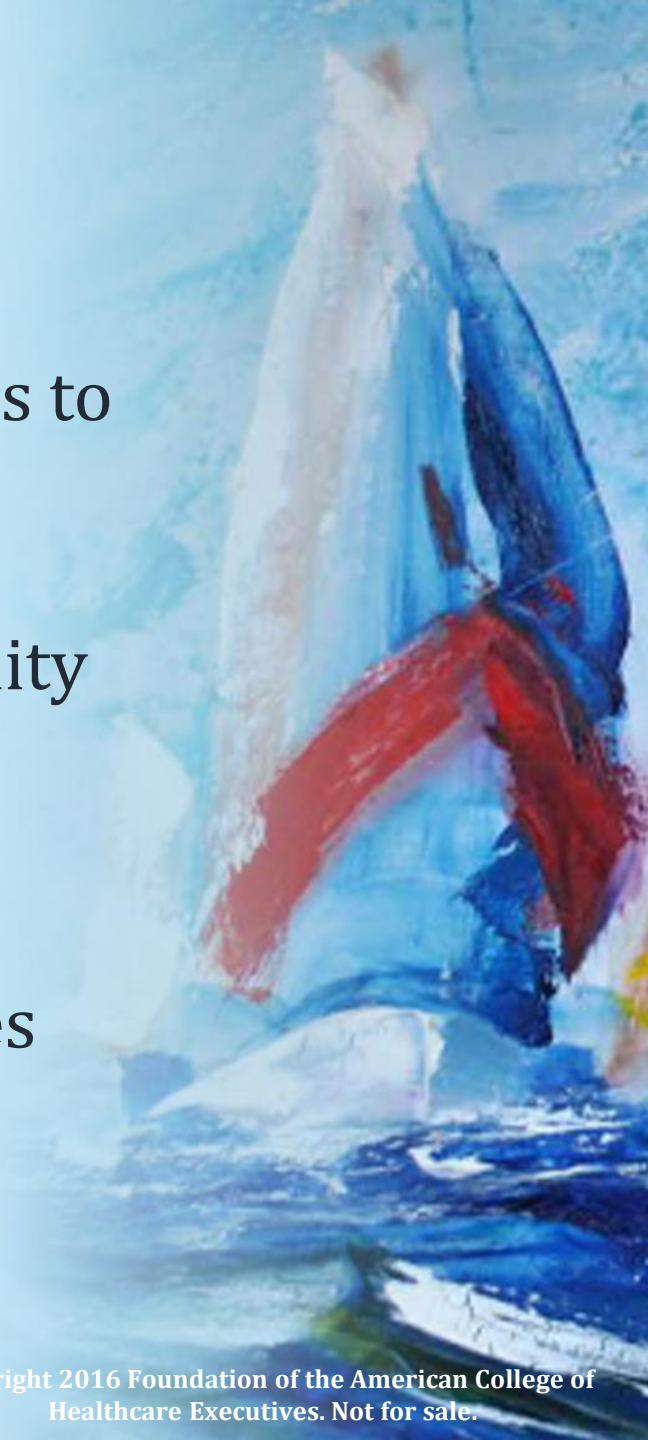
Critical Success Factors

An organization's strategic plan needs to address the following core areas:

- Improvement of healthcare quality
- Increased patient access
- Improved employee retention
- Differentiation in the market
- Improved alignment of resources



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Other Important Factors

- Regulatory issues—e.g., preventive services and community wellness
- Strategic objectives of the organization—e.g., evaluation of joint ventures or participation in a health system
- Focus on organizational competency and use of health information technology
- Collaboration between physicians and hospitals
- Investment in employee recruitment and training to upgrade the organizations skill level
- Updating the strategic plan at least every three years (create annual operating goals)

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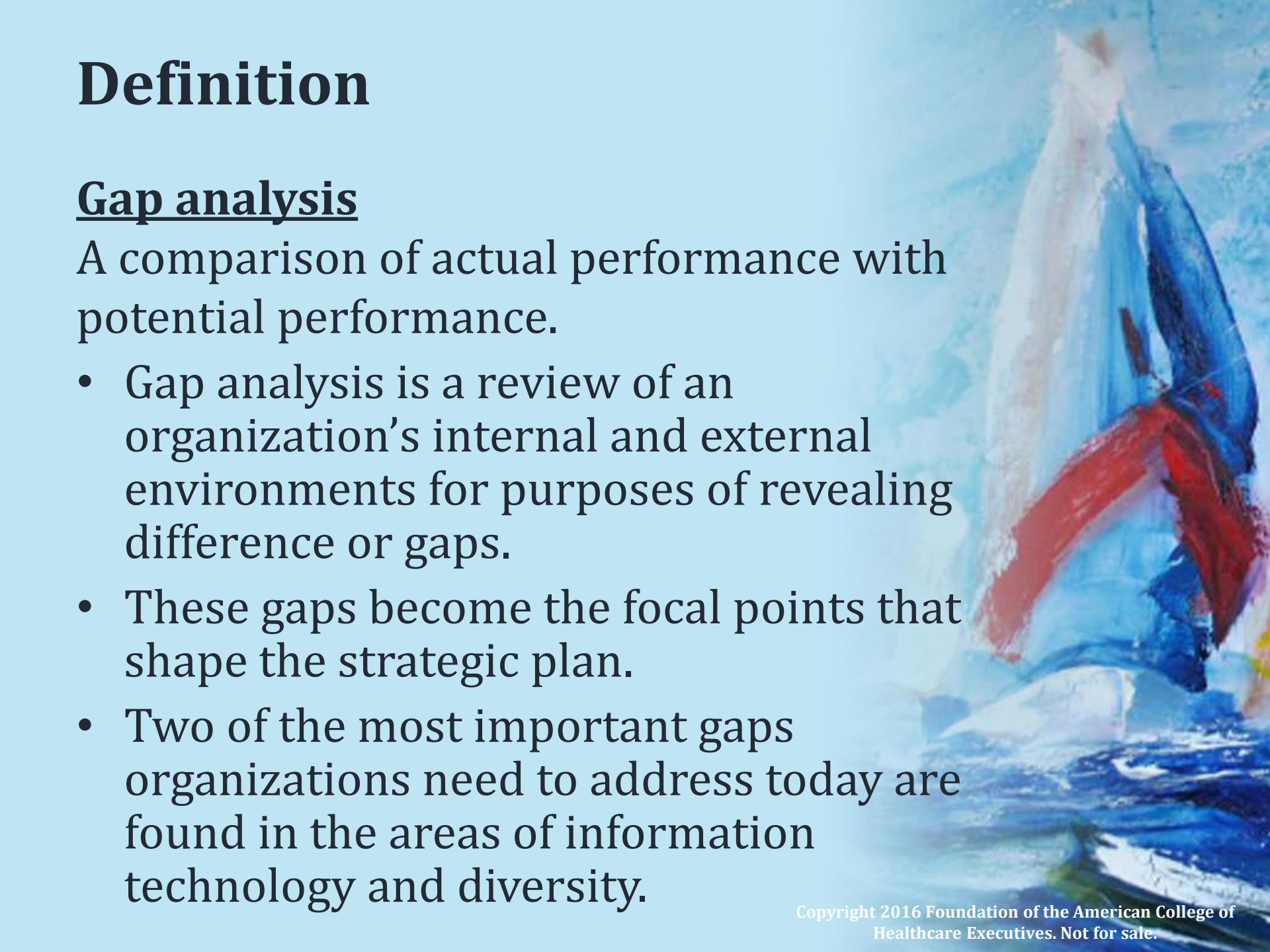
Definition

Gap analysis

A comparison of actual performance with potential performance.

- Gap analysis is a review of an organization's internal and external environments for purposes of revealing difference or gaps.
- These gaps become the focal points that shape the strategic plan.
- Two of the most important gaps organizations need to address today are found in the areas of information technology and diversity.



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Health Information Technology as a Competitive Advantage

- Investments in healthcare IT have been steadily increasing over the past 10 years, reaching $33 billion in 2011 (Moses et al. 2013).
- This investment promises to increase efficiency of the healthcare system as well as improve the quality of care through better coordination.
- Currently, 95 percent of US hospitals have electronic medical records (EMRs) and are spending an average of 3 percent of total expenditures on HIT (Nguyen et al. 2014).
- EMRs offer an opportunity for seamless exchange of clinical information.
- Studies show increased quality of care, reduced medication-related errors, improved follow-up on test results, and improved care coordination and communication within the care team.

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Health Information Technology as a Competitive Advantage

- EMRs also facilitate administrative decision making and the allocation of healthcare resources—e.g. payer mix.
- This information can be linked to billing software to project reimbursement levels and measure the profitability of new business initiatives.
- To encourage the adoption of clinical information systems in the healthcare industry, the Health Insurance Portability and Accountability Act (HIPAA) designated a standard electronic framework for electronic claims submission (see Highlight 3.1).
- As part of the 2009 stimulus plan, President Obama called for a nationwide EMR system to be implemented by 2014. CMS is managing the incentive program called “Meaningful Use. “
- In 2013, approximately 80 percent of eligible hospitals and more than 50 percent of eligible professionals adopted EMRs and received incentive payments from Medicare or Medicaid.

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Highlight 3.1: HIPAA

The Health Insurance Portability and Accountability Act (HIPAA) was passed in 1996 to protect the privacy and security of patient health information, particularly health information that can be used to discover a patient's identity, by the following methods:

- Setting national standards for the security of health information that has been 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, the 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 certain criteria.

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Diversity in the Workplace

- Healthcare is the fastest growing sector of the US economy and currently employs 18 million workers.
- This represents an annual growth rate of 2.1 percent in the US hospital workforce since 2000, when it totaled 17 million (Moses et al. 2013).
- Women currently represent 80 percent of the healthcare workforce (CDC 2015).
- Much demographic evidence shows that the US population is becoming more diverse and multicultural.
- A goal of cultural competence is to create a healthcare system and workforce that are capable of delivering the highest quality of care to every patient, regardless of race, ethnicity, culture, or language proficiency.

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Strategic Planning Areas

As discussed in the earlier sections on goals, strategies, and critical success factors, strategic plans, at a minimum, need to address certain core areas. These core areas include:

- Financial planning
- Efficiency
- Quality
- Value
- Management of healthcare personnel
- Current versus long-term strategy
- Product/service mix
- Operational planning

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Strategic 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 financial performance to gain greater access to capital and remain competitive
- Higher volumes are needed with limited financial constraints.
- Benchmarking against outstanding organizations can improve internal operating procedures, enhance quality, maximize efficiency and improve the value of healthcare services.

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Managing Healthcare Personnel

- Hospitals should routinely perform salary surveys to compare their salary rates to local and state peers.
- Research shows a strong relationship between adequate nurse-to-patient ratios and safe patient care, along with improved patient satisfaction.
- Patient satisfaction is also improved when healthcare professionals communicate clearly, express empathy, and demonstrate good listening skills.
- Good communication skills can be taught, and healthcare organizations must foster an environment in which good provider–patient communication is a priority.

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Current and Long-Term Strategies

- Short-term performance must be monitored to make sure it is consistent 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.
- In addition to performance measurement, creativity and a focus on community needs are important to long-range strategic planning.

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Mix of Products and Services

- Healthcare leaders should find ways to redirect current resources to create more effective growth strategies. Growth is paramount in this very tumultuous time (Clark and Lindsey 2013).
- Joint ventures enable organizations to preserve capital, expand services, and better meet community healthcare needs.
- Strategies include new service lines, the development of facilities that are more convenient or easier for patients to access, and high-level services that enhance the hospital's reputation.

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Evaluation of Performance

- Once strategic plans are in operation, organizations must evaluate the results of strategic actions.
- One useful tool for linking strategic goals to annual operating performance is called a **dashboard**.
- Dashboards could include the following:
  - Quality of care (e.g., hospital-acquired infection rates and 30-day readmission rates)
  - Patient satisfaction
  - Market penetration
  - Operating efficiency (e.g., emergency wait time, average length of stay, cost per procedure)
  - Financial performance (net operating income and cash on hand)

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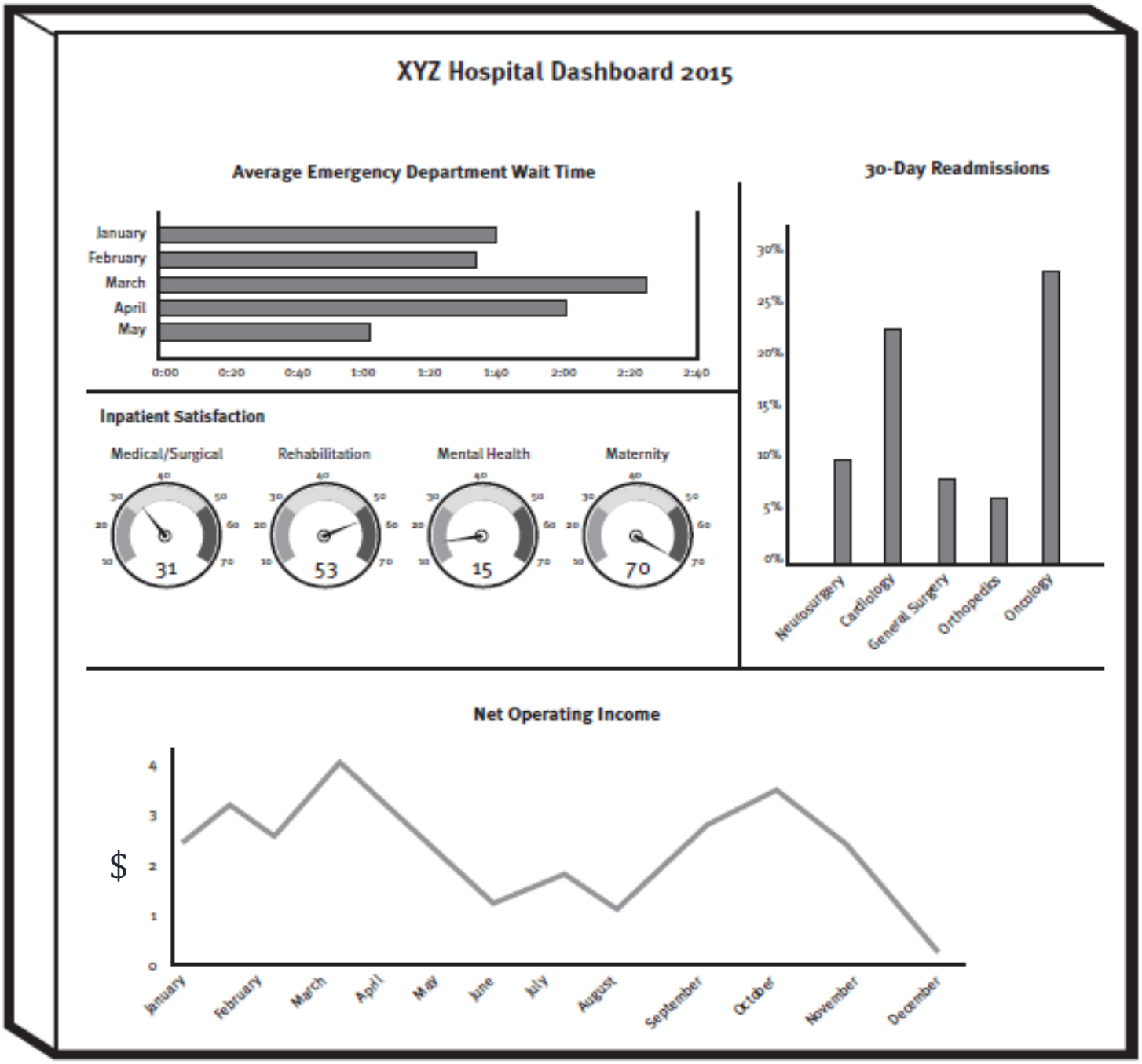
Exhibit 3.2
Hospital
Dashboard



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Balanced Scorecard

- At a glance, the scorecard shows an organization's goals and how to achieve them.
- The scorecard is usually 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
  - Employee professional development
- Objectives and specific measurements will demonstrate how the goal is progressing. Target results indicate what an organization hopes or expects to achieve.
- Specific metrics should meet the following criteria: (1) importance to organization and staff, (2) measurability, (3) data validity, and (4) action ability.

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Local Planning

- In general, healthcare in the United States is a local commodity produced to meet local demand. For the most part, the strategic plan is based on local data.
- Local governmental entities and other organizations in the community can provide additional funding and thus significantly influence the allocation of healthcare resources.
- Economic factors affect an individual's 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 percentage of unemployed in the community.

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Regional Planning

- As healthcare complexity increases in the United States, a case could be made for allocating healthcare resources at the regional (e.g., state) level to reduce costs through efficiency.
- Includes an analysis of population demographics and the development of mathematical models designed to determine the need for health services in local communities.
- Typically, academic medical centers generate the strongest presence on a regional level, followed by larger tertiary community hospitals.
- Because of the increased Medicaid coverage provided in the ACA, the low-income population and its increased access to medical care should be considered in the planning process depending on the state's position on Medicaid.

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National Planning

- A framework for healthcare strategic planning at the national level is important.
- The United States has experienced significant improvement in the health status of its population over the past decade. However, research demonstrates that minorities suffer disproportionately from many diseases.
- The federal and state governments are working to reduce these disparities through such projects as the *Healthy People 2020* report.

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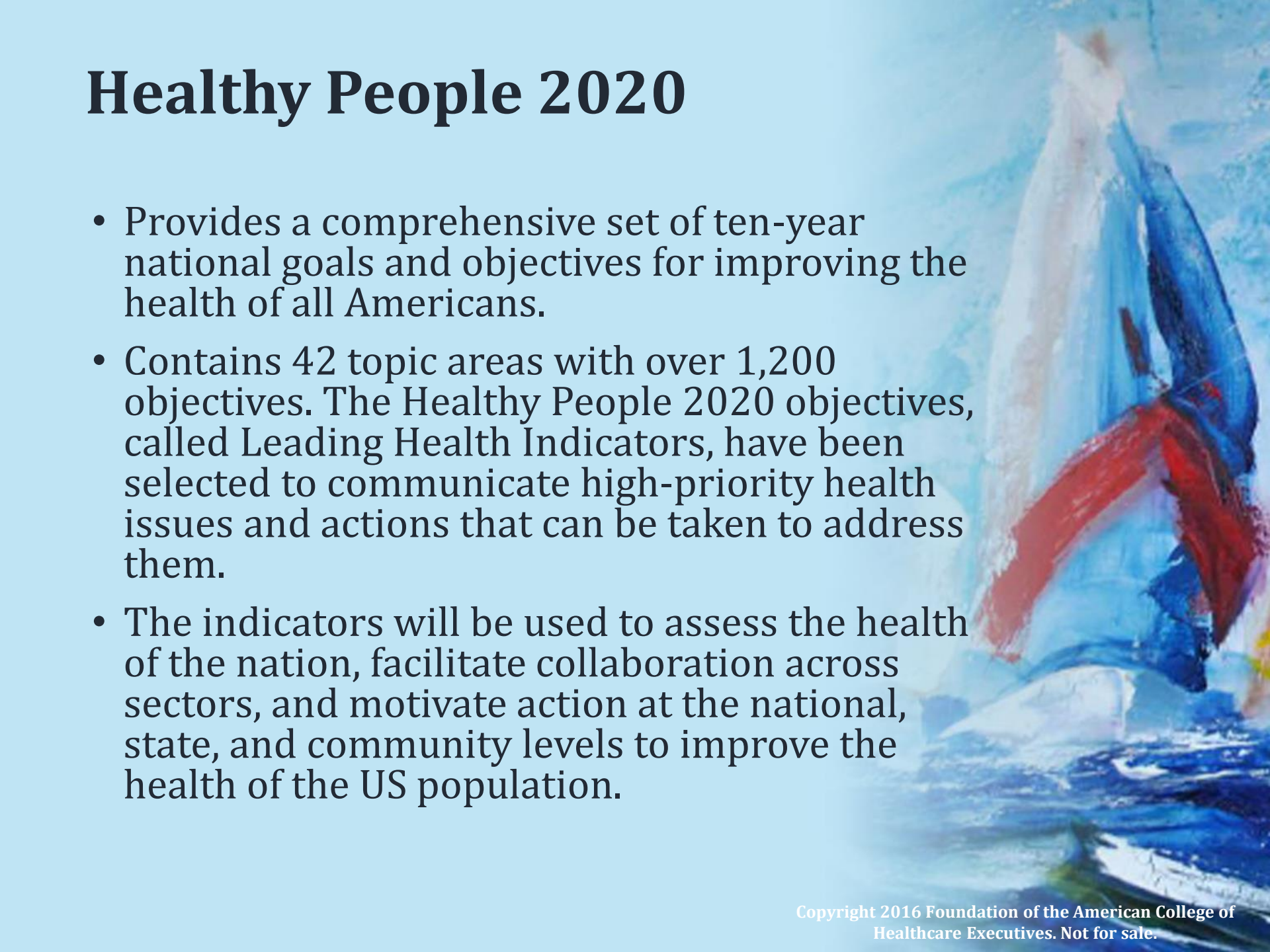
Healthy People 2020

- Provides a comprehensive set of ten-year national goals and objectives for improving the health of all Americans.
- Contains 42 topic areas with over 1,200 objectives. The Healthy People 2020 objectives, called Leading Health Indicators, have been selected to communicate high-priority health issues and actions that can be taken to address them.
- The indicators will be used to assess the health of the nation, facilitate collaboration across sectors, and motivate action at the national, state, and community levels to improve the health of the US population.



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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 based on analyses of the internal environment of the organization and the external environment in which it operates.

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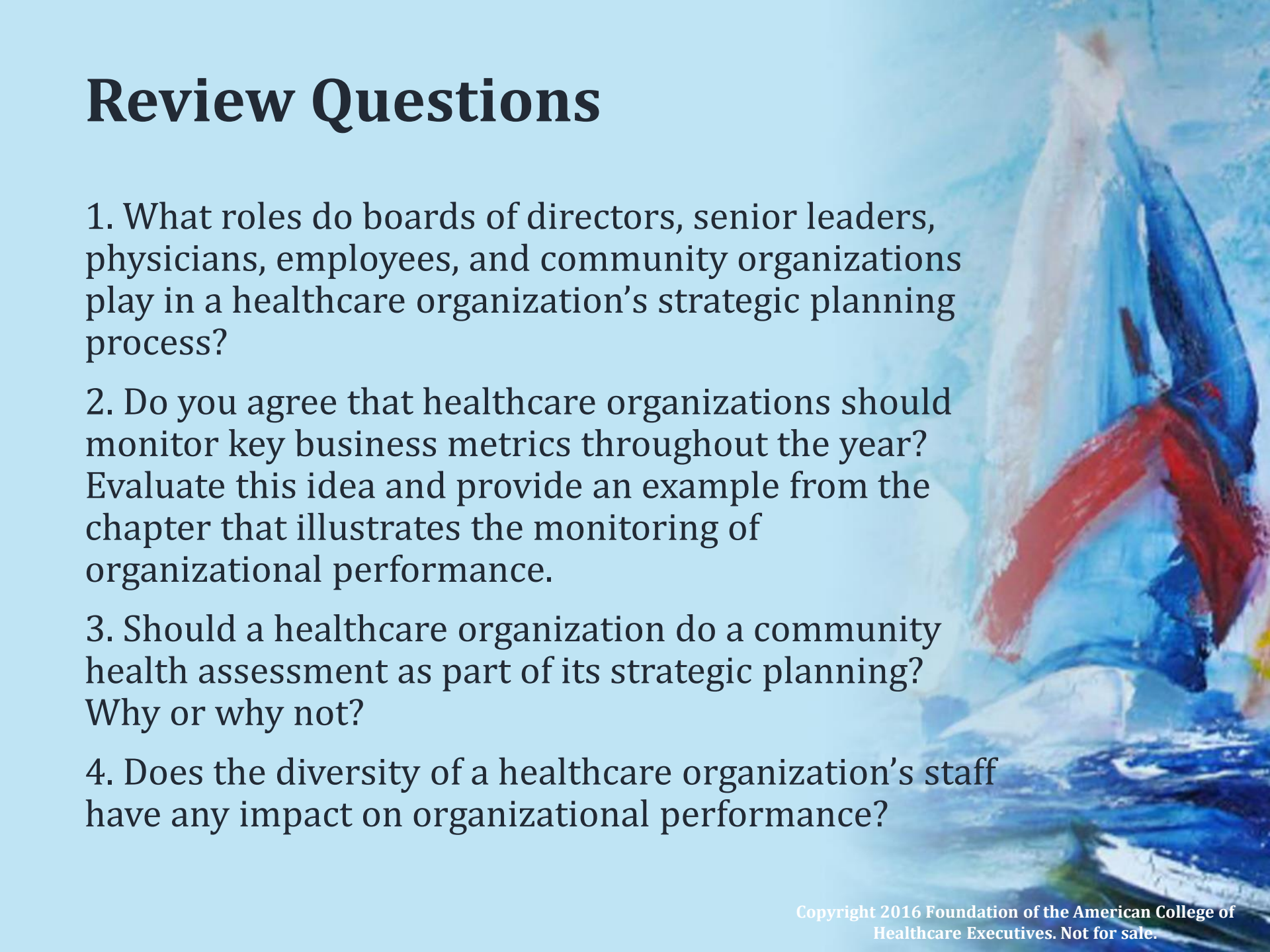
Review Questions

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 provide an example from the chapter that illustrates 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?



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Coastal Medical Center Case Study

Exercise 3A

According to Chapter 3 and the Coastal Medical Center case that appears at the beginning of the text, does Coastal Medical Center have the organizational capabilities for future success?

Exercise 3B

Richard Reynolds is the newly hired CEO and has been actively investigating the declining performance of Coastal Medical Center. During the hiring process, the board of directors assigned him the responsibility of getting the organization back on track. Help Reynolds develop a strategic planning process that will place Coastal Medical Center on a new road to success.

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Coastal Medical Center Questions

1. Many stakeholders described the original 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?

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Questions

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