

# Strategic Conversations

A board member’s job description sounds so simple: provide governance (oversight) and strategic direction for the organization. Oh, and stay out of operations. Needless to say, a large part of the oversight function of a board relates to oversight of operational performance. But at least the oversight function can be fairly easily understood—ensuring that management is executing in a way that the organization is achieving its performance goals.

**B**UT WHAT ABOUT THE SECOND PART OF THAT SIMPLE JOB description—setting strategic direction or making strategic decisions? This is an area that often becomes murky. The definitions of strategic and operational planning and decision making are fairly straightforward. Many issues or decisions fall clearly within either the strategic or operational domain. Most boards and CEOs, however, find that there is a large “gray zone” that makes it difficult, at times, to discern if an issue or decision is strategic.

**Strategic:** Determination of *what* the organization should achieve (mission, values, vision, goals).

**Operational:** Determination of *how* those goals will be accomplished.

(Source: Pamela R. Knecht “The Board’s Role in Strategic Planning: Eliminating the Confusion,” *BoardRoom Press*, August 2006.)

The characteristics that define issues as strategic or operational are provided in Figure 1.

**Figure 1: Strategic vs. Operational Issues**

	Clearly Operational	Gray Zone Not Clearly Operational or Strategic	Clearly Strategic
<b>Decision timeframe</b>	Shorter term		Longer term
<b>Resource requirements</b>	Modest (relative to capabilities)		Significant (relative to capabilities)
<b>Growth</b>	Service or site driven		Organization-wide
<b>Issue Focus</b>	Day to day		Overarching
<b>Nature of decision</b>	Who and how activities will be accomplished		Are we doing the right thing
<b>Impact on key stakeholders</b>	Not significant or impact is narrow (individual)		Significant for broad group (e.g., physicians, patients)
<b>Impact on the organization</b>	Doesn't affect organizational viability		Affects organizational viability
<b>Impact on ability to achieve mission</b>	No direct connection to mission		Directly connected to mission

**Decision timeframe.** The timeframe for an issue can suggest if it is strategic or operational. Generally, decisions that have a longer timeframe for achievement or where the choice will have a long-lasting impact fall into the strategic domain. Decisions that are shorter term in nature, or which won’t have ongoing impact on the overall organization, fall on the operational end of the decision continuum. According to Karl Gills, CEO at Yampa Valley Medical Center, “A longer-term horizon is key... strategic topics really center around the board positioning where they want the hospital to be long term.”

**Resource requirements.** Decisions that require a significant allocation of resources are fundamentally strategic in nature. “Significant” is not an absolute value, but it is related to the size and resource capability of the organization. The same opportunity may be more or less strategic for different organizations or for the same organization at different points in time. When allocating resources, the board (or management, depending on the significance) needs to consider not only financial outlays, but also the commitment of human capital.

**Growth.** Addressing the organization’s position regarding overall growth—in terms of services offered, geographic focus, and customer segments—is an essential strategic responsibility for a board. Growth tactics that focus on the specifics for a particular service line or site fall on the operational end of the spectrum.

**Issue focus.** Issues that are overarching and would affect the entire organization suggest a strategic perspective. Issues that affect the day-to-day activities of the organizations are clearly operational in nature.

**Nature of decision.** Decisions that call into question what the organization is seeking to accomplish are strategic. Decisions that address whom specifically in the organization should tackle an issue, or what action steps should be taken to achieve a targeted outcome, are operational decisions (the responsibility of management).

**Impact on key stakeholders.** The impact of an issue or decision for essential stakeholders of the organization can determine if an issue is strategic or operational. For healthcare enterprises, the critical stakeholders are physicians, patients, and employees.

**Impact on the organization.** The impact of a particular issue or decision on the long-term viability of the organization also falls into the strategic zone. Any issue that affects the overall health of the organization, either positively or negatively, calls for board consideration.

**Impact on ability to achieve mission.** At the heart of the board’s strategic direction setting is defining the organization’s mission—why the organization exists—and ensuring that the actions of the organization further mission success. If an issue or decision has a direct and meaningful impact on that mission success, it falls into the strategic domain. Issues or decisions that don’t have a direct impact on achieving the mission or where the impact is direct, but not meaningful, fall into the operational domain.

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### Parsing the Grey Zone

The eight decision parameters in Figure 1 provide a framework for testing if an issue is strategic or operational. Where an issue “fits” multiple parameters on the strategic end, it is fairly easy to identify the issue as strategic. If an issue clearly falls on the strategic end for just one of these parameters, it generally suggests that the board should consider the issue as strategic.

Some issues or decisions fall into that middle, grey zone where it’s not as clear if something is strategic or operational. Ensuring that the board stays out of things that fall too close to operations is the responsibility of the board chair with the counsel of the CEO. Management can help with this by providing the correct level of information to the board. As President and CEO Thomas Sadvary of Scottsdale Healthcare shared, “Recently, I had a discussion with the CFO because he was tempted to give the board a monthly financial report at the monthly board meetings. We decided that quarterly was better because it kept the board more ‘trend’ focused and kept them more strategic in their questions and discussion.”

**Figure 2: Examples of Strategic vs. Operational Decisions for Key Issue Areas**

	Operational Decisions	Strategic Decisions
<b>Physician resource plan</b>	Exact number of physicians needed in each specialty	Strategic priorities for recruitment
<b>Physician alignment strategy</b>	Details of individual physician contracts	Policy on employment of physicians
<b>Finance</b>	<ul style="list-style-type: none"> <li>Budget numbers for departments, programs</li> <li>Statement of operations</li> </ul>	<ul style="list-style-type: none"> <li>Resource allocation</li> <li>Balance sheet</li> </ul>
<b>Quality</b>	Improvement of a single patient safety indicator	Macro level patient safety goals vis à vis national benchmarks
<b>Investments</b>	Specific investment vehicles	Investment policies
<b>Workforce</b>	Specific individuals who will be terminated	Major reduction in force
<b>Planning</b>	Specific programs or services	Overall organization; mission and vision; goals, strategic metrics, key strategies
<b>Organizational relationships</b>	<ul style="list-style-type: none"> <li>Service line agreement contracts</li> <li>Post-merger integration planning</li> </ul>	<ul style="list-style-type: none"> <li>Strategic partnerships</li> <li>Organization-wide affiliation or merger agreement</li> </ul>

### Operational Discussion Traps

What topics tend to lure a board into operational discussions?

**Organizational distress.** When the organization is in some type of distress, boards tend to move into more active discussion about operational issues. This distress may be poor financial performance, a senior management crisis, or other “negative” factors such as a vocal group of dissatisfied physicians.

**Personal interest.** It is human nature to get more involved in detailed discussions of operational issues when the area is of personal interest or within someone’s professional domain. For example, a board member

who is a cancer survivor may naturally be interested in being engaged in every detail of a new cancer service line. Or if a board member is a property developer, there may be a tendency to want to provide advice on real estate contracts. Of course, boards are purposely designed to include individuals with relevant professional backgrounds. The key to keeping discussions strategic is to recognize which discussions should happen in the boardroom as part of governance, and which are more appropriate as a conversation with the CEO or another senior administrator who would like to call upon a board member’s expertise as an individual advisor.

**Finance.** Financial issues may be the area where board members most often become too operational. This happens because many individuals serving on boards are businesspeople with strong expertise in financial matters. Or board members may have very specific thoughts about which investment vehicles should be used and they push harder than they ought for a certain route.

**Quality.** Quality is also an area where board members may dive too deeply into operations. In part, this is in response to a more concerted effort by many boards to take more active responsibility for quality oversight. However, there can be a temptation to try to fix specific problems, especially if a board member has received a complaint from a friend, relative, or community member.

**Planning.** Another area in which boards can become too operational is planning. Once the organization’s strategic plan has been developed, there is a tendency for boards to want to become involved in looking at action plans for specific programs or facilities, instead of staying at a strategic level.

For instance, one Governance Institute member commented, “Where we get operational is in the specifics of physician practice management and details around the contracts, or where these physicians would practice, etc. Those should be left to management.”

### Techniques for Staying Strategic

What are ways for helping board discussions stay at the right level? Experience at many hospitals would suggest the following five techniques:

1. Address the differences in strategic and operational issues during board orientation.
2. Educate about strategic issues facing the industry to help frame board members’ thinking.
3. Make sure management brings the right information to the board formatted in a way to focus on trends and key performance indicators.
4. Use a consent agenda and “open” agenda time.
5. Continually ask, “Why did we make that decision? Is it/isn’t it important? Is it at the 30,000-foot level?”

### Strategic Thinking

The true value of a board is a result of focusing on the right issues and decisions. As a board tackles strategic issues, remember that topics evolve over time. Issues that start strategic will evolve and become tactical/

operational decisions for implementation. A board needs to remember that there is a time to stop working on an issue and stand aside to let management do its job.

Even boards that have stayed out of operational decisions don't always know how to address broader strategic thinking. The Checklist for Board Strategic Thinking (see sidebar) provides tips for making the most of a board's strategic conversations.

In today's environment, boards must be willing and able to continuously engage in strategic thinking and planning. As President and CEO David Whitehead of The William W. Backus Hospital said, "Strategic discussions are a daily occurrence in this new environment. We all—boards, committees, and management—need to be more nimble and flexible, and strategic planning and discussions have to be more fluid and immediate."

### Checklist for Board Strategic Thinking

- ✓ Focus on the future—and its possible scenarios, not on just one single future.
- ✓ Connect the dots between all the reports and analyses you receive to create the big picture.
- ✓ Frame issues with regional, national, and global contexts.
- ✓ Challenge conventional or obsolete thinking.
- ✓ Look for the leaps, not just the tweaks.
- ✓ Be familiar with what the "customer" needs/wants, but don't take a narrow view in responding to what they say they need.
- ✓ Evaluate the pros and cons of proposed ideas.
- ✓ Assess financial implications, but remember that some of the biggest innovations won't pass a traditional financial return analysis.
- ✓ Articulate your assumptions.
- ✓ Understand your organization's risk tolerance.

### Conclusion

During turbulent times, the board's ability to stay focused on strategic issues is essential to an organization's health. As tempting as it can be, it is important for boards to leave operations to management and to continually ask the 'big' questions that will ensure excellent healthcare for the long term.

The Governance Institute thanks Susanna E. Krentz, president, Krentz Consulting, LLC, and Pamela R. Knecht, president, **ACCORD LIMITED**, for contributing this article. They can be reached at [skrentz@krentzconsulting.com](mailto:skrentz@krentzconsulting.com) and [pknecht@accordlimited.com](mailto:pknecht@accordlimited.com), respectively. The authors thank the Governance Institute members quoted in this article for their input. This article has been shortened from its original version to allow for space. To view the complete article with figures, please refer to the online version of this article at [GovernanceInstitute.com](http://GovernanceInstitute.com).