



Engaging the Board in Strategic Planning: Rationale, Tools, and Techniques

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Executive Summary

In today's regulatory environment, boards of not-for-profit organizations are being held accountable for appropriately fulfilling their fiduciary duties. The primary fiduciary duty of oversight requires, among other things, that boards help management set and monitor the organization's strategic direction. However, most of the governance effectiveness practices that have been published recently have not provided sufficient clarity regarding this crucial area of board responsibility.

Strategic direction-setting is an overarching responsibility that includes all longer-range thinking and decision making done on behalf of the organization. For most organizations, the principal representation of the strategic direction is the strategic plan—the document that articulates the organization's mission, core values, longer-term vision, and shorter-term goals. Thus, it is the strategic plan and planning process that are the primary focus of this white paper.

However, this is not meant to be a comprehensive exploration of how to do strategic planning. There are many other resources available on that topic. This paper addresses how best to engage the board in strategic planning. Hospital and health system boards across the country are involved in this process to varying degrees, from simply approving a strategic plan developed by management, to being an equal partner in the development of the strategic plan, and occasionally, driving the strategic planning process. Each board and its CEO must determine what level of board participation is sufficient and appropriate; however, with the increasing emphasis on accountability of non-profit boards, we expect to see more board engagement in the strategic planning process, rather than less.

The board's level of engagement should be consistent with its oversight role. Board members should provide input on the critical strategic issues and the proposed strategic direction; they should not attempt to usurp management's implementation role. More specifically, boards should be engaged in conversations about "what" will be accomplished (e.g., the mission, values, vision, and strategic goals), not "how" to achieve the results (e.g., the objectives and tactics).

Before engaging in strategic planning, boards must often enhance their ability to think and plan "strategically" and then come to an agreement with their senior management team on which issues are "strategic" for their organization. This paper includes tools for assessing the board's strategic planning capabilities and for defining strategic versus tactical issues for a specific organization.

Ultimately, boards should develop a written policy that articulates their expectations regarding who will be involved (including whether or not the strategic planning process should be overseen by the full board or a strategic planning committee of the board), and how and when they will be engaged in the process. There are many different methods for strategic planning engagement (e.g., discussions during board meetings, retreats, and educational sessions). Boards should proactively select their methods based on their own board's capabilities and the effectiveness of the methods. Results from a recent research poll on this issue are included in this white paper to help boards and their senior management teams make wise choices about the type, frequency, and duration of their board engagement methods.

This paper also provides sample retreat agendas, strategic planning exercises, guides for strategically-focused board input sessions and meetings, web-based questionnaires, and models used by CEOs to help describe their board's role in the strategic planning cycle. These tools and techniques are organized according to the stages of the process in which boards are most often engaged: overseeing the strategic planning process and participants; helping to identify critical strategic issues; developing the mission and core values; assisting in creating the vision and strategic goals; and monitoring progress toward implementation of the plan.

The last section includes a tool that helps boards assess and then enhance their ability to ensure that the strategic plan is implemented. It addresses issues such as ensuring alignment of the strategic plans with all other plans within the organization (departmental, entity, capital, financial, individual), linking incentive compensation to strategic plan achievement, and setting annual board goals to support the strategic plan. Guidance is provided regarding the amount of board meeting time that should be devoted to strategic issues and tools that can be used to keep the discussions at the strategic and governance levels (e.g., dashboards). The paper concludes with a challenge to all boards to think and plan strategically on an ongoing basis, not just during the formal strategic planning process.

The purpose of this white paper is to make the conversation about the appropriate level of board engagement richer and more focused. The practical tools and methods will enable boards to determine both their current and desired approaches to board involvement in strategic planning. These tools can be used as is, or they might stimulate other creative approaches. Ideally, this will be just the beginning of a long and fruitful exploration of how to best engage boards in strategic direction-setting.

Introduction

A Legal Duty

Now, more than ever before, boards of not-for-profit organizations are being challenged to fulfill their fiduciary duties more faithfully. The Senate Finance Committee, the Internal Revenue Service (IRS), and the state attorneys general, to name just a few of the interested parties, are pressuring executives and board members to attain higher levels of transparency and accountability. The recent calls for community benefit and charity care reform, the new IRS Form 990 Schedule H, and New Jersey's mandatory hospital trustee training all underscore a growing concern that boards of not-for-profit organizations may not be doing their jobs well enough. In fact, at least two derivative lawsuits have been filed by board members claiming their own boards are not living up to their fiduciary duties.

As a result of these and other demands, concerned hospital and health system boards and their CEOs are undertaking many initiatives aimed at identifying and correcting weaknesses in their organizations in general and in their governance in particular. The governance assessments range from reviews of the board's overall structure and functioning to much more targeted analyses regarding specific areas such as conflict-of-interest policies and procedures.

One important area that has not received enough focused attention during these governance reviews is the level of board involvement in setting and monitoring organizational strategy. And yet, according to the law, as articulated in the fiduciary duty of oversight, this is one of the board's main responsibilities.

The duty of oversight requires that boards:

- Formulate strategy
- Establish policies, norms, and procedures
- Carefully select competent senior management
- Delegate work to senior management
- Monitor the performance of the organization and senior management

The Distinction between Strategic Direction-Setting and Strategic Planning

In a previous white paper published by The Governance Institute, *Setting Strategic Direction: The Key to Board Performance* (Fall 2003), we argued that "formulating strategy," or strategic direction-setting, is an overarching responsibility that includes all longer-range thinking and decision making done on behalf of the organization. This includes discussions about how to grow service lines, how to respond to physician competition, and how to ensure sufficient facilities and equipment, among other topics. These strategic direction-setting discussions happen in a

variety of venues: board and committee meetings, educational sessions, and retreats.

However, for most hospitals and health systems, the principal expression of the organization's overall strategic direction is its strategic plan. It is for that reason this white paper will focus on strategic planning. In short, strategic planning entails determining the organization's mission, core values, longer-term vision, and shorter-term goals, or priorities.

Strategic Planning Entails:

- Assessing the internal and external environments, using qualitative and quantitative analyses
- Drawing conclusions about the implications of the situational assessment for the hospital or health system
- Stating assumptions about the future
- Identifying the critical strategic issues that must be addressed over the longer-term
- Articulating or refining the mission—the fundamental reason the organization exists
- Agreeing on a set of core values, or guidelines for behavior for all internal stakeholders
- Creating a concrete vision of what will be accomplished in the longer-term future
- Choosing a limited number of measurable strategic goals, or areas of priority and focus
- Developing objectives, or shorter-term, organization-wide initiatives that describe how to accomplish the mission, vision, and goals
- Developing plans for communicating, monitoring, and updating the strategic plan

The Debate on the Board's Role

According to the law, one of the board's main responsibilities is to help set strategic direction. Few board members or executives would argue with this assertion. According to new (as yet unpublished) data from The Governance Institute's 2007 Biennial Survey of Hospitals and Health Systems, 94.4 percent of the 718 respondents stated their board "is (generally) actively involved in establishing the organization's strategic direction such as creating a longer-range vision, setting priorities, and developing/approving the strategic plan." And, another 4.9 percent of the respondents said they were considering or working on actively involving the board in strategic direction setting (for a total of 99.3 percent).

Why, then, does The Governance Institute (and other governance experts) continually receive requests from both CEOs and board members for clarification of the board's role in strategic planning? The (sometimes heated) debate is not about *whether* boards should be involved in strategic planning; it is about *when, how much, and in what ways* boards should be engaged. Below are some of the perspectives on this issue, as articulated during CEO roundtable discussions at The Governance Institute's Leadership Conferences on April 3 and May 22, 2007.

Some CEOs (and some boards) believe the strategic planning process should be management led: "My philosophy is that management has to take the lead in bringing forward the options and recommendations to the board—that is, prioritizing so the board can react, respond, and challenge. For most of those folks, this is not their knitting; this is not their business."

Other CEOs think the board should be an equal partner in the strategic planning process: "I try to frame up the question and then allow the board to understand the issues. Usually, if I come to the board with 'the answer,' I'm wrong. But if I put up the issue and allow the board, in its collective wisdom, to come to a decision, we get there. And the art of doing that is challenging because my natural tendency is to come in with the solution."

Yet others state that in some cases, the board drives the strategic planning process: "Our initial strategic planning 'bible' was developed out of the board finance committee's audit subcommittee...there was a perceived crisis situation and the board jumped in the middle of that and used the auditor as an outside

facilitator to provide advice...that was the original document that has been modified over the last five to six years."

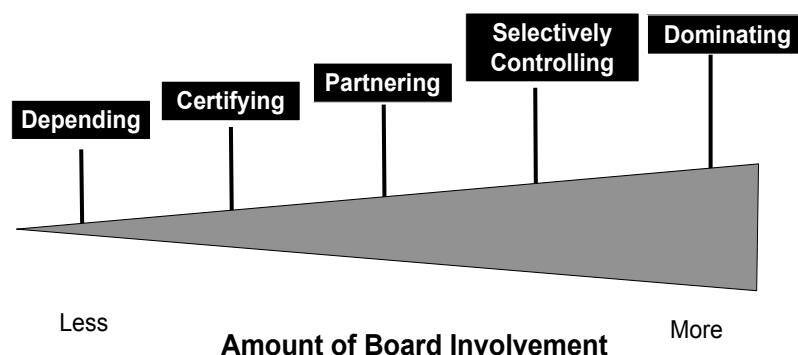
These three opinions represent different points on a continuum of the board's involvement in strategic planning. (See **Exhibit 1**.) The boards at the far left of the continuum ("Depending") depend entirely on management to develop the strategic plan. They only become involved when it is time to approve the final plan. "Certifying" boards ensure that management has used the right process and reviewed the appropriate types of information before they approve the plan, but they do not often become engaged in debates about the pros and cons of potential strategies. In a "Partnering" approach, the board and management work together to identify the issues and develop appropriate strategies. "Selectively Controlling" boards become highly involved in strategic planning, oftentimes because they are uncertain of management's ability to lead the process (e.g., there is a new, relatively inexperienced CEO.) The dominating board most often occurs because of a crisis situation like the one described in the third quote above.

Over the years, each of these approaches has been used by hospital and health system boards. In fact, many boards have used multiple approaches, depending on the state of the organization, the board, and the management team.

Too Much Delegation of Responsibility

However, given the greater calls for transparency and accountability described above, there has been and will continue to be a shift away from the far left-hand side of this continuum. The "depending" boards have delegated too much of their legal responsibility for strategic planning to management.

Exhibit 1:
Board Strategic Planning Engagement Continuum



Source: Modified from "Building Better Boards," David Nadler, *Harvard Business Review*, May 2004. ©**ACCORD LIMITED** 1990–2007. All Rights Reserved.

A highly-publicized example of this hands-off approach was the Allegheny Health, Education, and Research Foundation (AHERF) board's decision to allow the former CEO to expand the health system across the entire state of Pennsylvania. This strategic decision was one of the main reasons for the eventual bankruptcy of AHERF.

This hands-off approach is similar to the situation in which many boards have delegated legal responsibility for the oversight of quality and patient safety to the medical staff. Most board members do not see themselves as experts in the delivery of medical care, so they depend on the medical staff to determine which processes and outcomes are appropriate. However, regulators, payers, and patients have begun to hold boards accountable for a higher level of knowledge about their organization's clinical quality processes and outcomes. So, boards, CEOs, and medical staff leaders have been forced to find ways to educate and involve board members in this important task. The same is beginning to happen regarding board engagement in strategic planning.

Because of AHERF and other lapses in board oversight of strategic direction-setting, organizations that assess hospitals and health systems have become more inquisitive about the role the board plays in guiding management's strategies. For instance, some bond rating agencies have declared that they will look more closely at the board's knowledge of its own organization's strategic plan as one factor in determining credit worthiness. In *The Governance of Not-For-Profit Healthcare Organizations* (Special Comment, June 2005), Moody's Investors Service stated, "We will look to ensure that there is some degree of oversight of management's activities by the board and full board knowledge of various strategies and their potential impact on financial performance."

Moody's seems to be saying that boards should have genuine opportunities to ask questions early enough in the strategic planning process so they can help steer the organization's strategic direction. They should be able to change the direction in which management is headed, if they sincerely believe a proposed strategy is not in the best interests of the organization and/or the communities it serves.

A positive example of the power of board involvement occurred at a recent strategic governance retreat at a large health system.

A senior vice president said that during this retreat, a physician leader who served on one of the boards suggested the need for the system to be "relentless in its commitment to excellence in clinical and service performance." As a result of that comment and the ensuing, rich discussion, the system made a significant change in the emphasis of its strategic plan.

Increased Commitment and Clarification

To have this level of input and influence, each board member must be committed to a higher standard regarding their own education, attendance, and participation. Uninformed boards that are highly engaged in strategic planning could lead to poorly conceived strategic decisions.

In addition, boards and their CEOs must agree on the role the board will play in strategic planning. There is often a fine line between helpful board involvement and micromanaging. The key question, then, is how to get the board engaged in strategic planning in a meaningful, yet appropriate way.

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Each board and its CEO must determine what level of board participation is sufficient and appropriate for their organization. This white paper was developed to make that conversation richer and more focused. It provides practical tools and methods that will enable boards to determine both their current and desired approaches to board involvement in strategic planning.

Building on Setting Strategic Direction: The Key to Board Performance

This white paper is based on the practices found in the first Governance Institute white paper on this topic (*Setting Strategic Direction: The Key to Board Performance*, Fall 2003). That paper describes three foundational governance practices for board involvement in strategic planning and two key strategic planning practices. (See **Exhibit 2** on the next page.) In essence, it lays the groundwork for this white paper because it asserts that for boards to be active participants in strategic planning, they must have strong governance in general (e.g., knowledgeable, engaged board members and a healthy board culture). In addition, that white paper provides more detail on the components of a comprehensive strategic plan.

Exhibit 2:
Foundational Strategic Direction-Setting Practices

Governance Practices	Strategic Planning Practices
Educated Board Members: <ul style="list-style-type: none"> • Orientation • Continuing Education • Budget 	Clear Expectations: <ul style="list-style-type: none"> • Policies and Procedures • Strategic Plan Framework • Plan Alignment
Active Board Involvement: <ul style="list-style-type: none"> • Environmental Trends Discussions • Board Meetings • Board Retreats • Board Culture and Dynamics 	Accountability: <ul style="list-style-type: none"> • Specific and Mensurable Components • Investment Evaluation Criteria • Financial Plan Linkage • Senior Management Goals, Evaluation, and Compensation • Board Goals and Self-Evaluation • Monitoring the Strategic Plan
Stakeholder Engagement	

Source: *Setting Strategic Direction: The Key to Board Performance*, The Governance Institute, Fall 2003.

By contrast, this document is focused entirely on engaging the board in meaningful conversations about the future direction of the organization. It goes into much more detail on the board's role vis-à-vis management's role.

Neither white paper is intended to be a strategic planning primer. There are many other books and articles that address the basics of strategic planning. The Governance Institute can assist readers who are looking for more details on exactly how to develop a comprehensive strategic plan.

The purpose of this white paper is to frame the issues and provide practical tools and ideas for boards and senior management teams that want to be more intentional about board engagement in strategic planning. The first half of the document is primarily devoted to an explanation of the rationale for engaging boards in strategic planning. There are some tools in those pages, but the majority of the sample procedures and processes are included in the section entitled Sample Tools and Techniques. All of the tools can be used as is, or they might stimulate other creative approaches. Ideally, this will be just the beginning of a long and fruitful exploration of how to engage boards effectively in helping to set strategic direction.

"It is key for the board to be involved;
 this creates more buy-in from the
 board and the medical staff."

—Dennis Reilly, President & CEO,
 Little Company of Mary Hospital & Healthcare Centers, Evergreen Park, IL

Strategic Planning Definitions

Before launching into a description of how boards become appropriately engaged in strategy, it is necessary to clarify some strategic planning terms and concepts. Specifically, the following will be addressed:

- “Strategic” definition refresher
- Organization-specific definition of strategic issues
- The distinction between role and responsibility

“Strategic” Definition Refresher

In preparation for this white paper, we interviewed several hospital and health system CEOs about their experiences involving board members in strategic planning. A common refrain was that too many board members do not fully understand how to think and/or plan “strategically.” As one CEO put it, “As much as we try to educate them, they tend to regress based on who came to them yesterday and said, ‘There’s a problem with the OR schedule’ and now that’s coming up at your board meeting.”

In some cases, those board members are small business people, community leaders, or homemakers who have not previously engaged in true “strategic” planning. Their experience with planning has often been more operational or tactical than strategic. And, as experts in other fields, they are often less knowledgeable about which issues are “strategic” in the healthcare industry.

Those CEOs who are committed to engaging these boards in strategic thinking and planning have found it helpful to provide a refresher course on the definition of “strategic.” They set aside time during a board meeting or a retreat for an interactive education session that explains the distinction between bigger-picture, longer-term issues and shorter-term tactics that are just one part of the whole picture. They explain that, in general, the following are strategic-level healthcare issues:

- Market position and reputation
- Services access and growth
- Customer and patient service
- Clinical quality outcomes
- Physician-hospital relations
- Employee satisfaction and engagement
- Facilities access and optimization
- Information systems development
- Access to capital and operating funds
- Financial results

Organization-Specific Definition of Strategic Issues

The basic, macro-level information described above is useful as a starting point, but, for most boards, it is not a sufficient answer to the question of what is “strategic” for their organization. It is usually at the next level of detail where some boards become confused.

Strategic or Tactical Issues?

Market Position and Reputation:

- Determining the geographical areas that will be the primary and secondary service areas
- Deciding which consulting firm to use for a consumer awareness survey

Services Access and Growth:

- Deciding whether to acquire a physician-owned ambulatory business
- Determining how to recruit new physicians

CEOs who want to further clarify the distinction between strategic and tactical (or operational) issues can engage their boards in an educational session or retreat to discuss their past decisions. In this type of session, senior management presents real issues or challenges that the organization has faced (similar to those listed above) and they use a series of questions to help the board to determine which were “strategic” and which were “tactical.” A useful tool for this discussion is included in **Exhibit 3** on the next page.

Generally, a “yes” answer to any of the questions in Exhibit 3 indicates that the issue is “strategic.” The greater the number of “yeses” checked for an issue, the more likely it is that the board should be engaged in the discussions and decisions regarding that issue.

What becomes immediately apparent when engaging in this type of discussion is that there is no definitive test that can be applied to determine whether something is “strategic.” This dilemma was addressed in an article in the August 2006 issue of The Governance Institute’s *BoardRoom Press*, entitled “The Board’s Role in Strategic Planning: Eliminating the Confusion.”

“As always, the devil is in the details. For instance, deciding whether to acquire land for building an outpatient site at a cost of \$300,000 might be a ‘strategic’ decision for a 65-bed hospital in a rural area, and a ‘tactical’ decision for a 20-hospital system in a metropolitan area. Boards and CEOs must decide together which issues are strategic for their market and organization.”

And to further complicate things, occasionally an issue that would normally be tactical or operational gets elevated to the strategic level because it threatens the viability of the organization. For instance, a health system that is losing market share in a highly competitive environment might set a strategy to “decrease the gap between our cardiac services’ actual clinical outcomes and the consumers’ perception of our quality.” For other hospitals, this would just be a tactic under a broader communications and marketing strategy.

By agreeing ahead of time on which issues are “strategic,” and therefore, worthy of board consideration, boards and their senior management teams can head off those awkward and frustrating moments when senior managers think the board is micromanaging and the board thinks the CEO/management team does not want its advice.

The Distinction between Role and Responsibility

The board–CEO standoff described above is often partly due to another complicating factor. Board members and CEOs sometimes use the terms “strategic” and “governance” interchangeably. Both terms do refer to the need to elevate the board’s (and management’s) perspective above day-to-day operations. However, “governance” refers more broadly to the *role of the board* (oversight), as distinguished from the *role of management* (implementation).

Exhibit 3:
Strategic Issue Assessment Tool

Potential Strategic Issue			
Question	Yes	Maybe	No
Does it impact our ability to achieve our mission?			
Is it longer-term in nature—longer than 3 years—versus a shorter-term operational matter?			
Is it likely to have a profound impact (negative or positive) on the organization?			
Could it significantly increase or decrease the overall health of the communities served?			
Does it severely threaten our ability to provide safe, high-quality care?			
Will it have great impact on key stakeholders such as employees or physicians?			
Could it have significant financial ramifications (negative or positive)?			

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Role of Governance: Exercising accountability by setting goals, making major policy and strategy decisions, and overseeing implementation.

Role of Management: Delivering results by implementing policy and strategy as set forth by the governing body, managing operations, and reporting on performance.

“Strategic” work refers not to a *role*, but to a *responsibility*. And, as has been previously argued, the responsibility for strategic work can and should be shared by boards and CEOs. However, the board’s level of involvement in strategic work should be consistent with its oversight role. The board should be engaged in conversations about “what” will be accomplished (e.g., the mission, values, vision, and strategic goals), not “how” to achieve the results (e.g., the objectives and tactics). See **Exhibit 4** for a graphic depiction of this distinction.

Exhibit 4:
Board Role in Strategic Planning

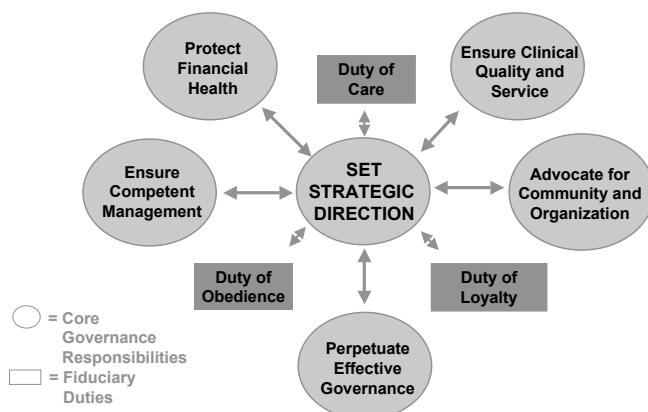


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There are governance responsibilities that are not necessarily “strategic.” For instance, improving the board’s committee structure and functionality is not usually a strategic issue for the entire organization unless the board committees have become so dysfunctional that they are hampering management’s ability to respond to critical issues in a timely way. If that were the case, then governance restructuring may need to be elevated to the status of a strategic issue.

Setting strategic direction is just one of the board’s six core responsibilities (see **Exhibit 5**). However, one could argue that it is the most important of the responsibilities. This assertion is supported by the results from a research poll conducted by The Governance Institute in April 2007, entitled *Board Involvement in Strategic Planning*.¹ According to this poll, 72 percent of the 105 respondents stated, “The board’s involvement in strategic plan development is *extremely helpful* for the board in performing its oversight responsibilities.” Another 25 percent of respondents stated that the board’s involvement in strategic plan development is *somewhat helpful*. Perhaps, if boards were more “appropriately” involved or engaged in strategy work, more CEOs would respond that mastering this strategic direction-setting responsibility is the key to effective board performance.

Exhibit 5:
Board Responsibilities and Duties



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In *Governance as Leadership*, authors Chait, Ryan, and Taylor draw a distinction between “strategic” work and “generative” work. These can be one and the same thing if strategic thinking and planning are done properly; that is, if boards and management have the courage to ask themselves the really tough questions as part of their strategic work. An example of this type of issue would be determining whether to merge with another hospital or system to better serve the community.

¹ Complete results from the research poll are available to members at www.governanceinstitute.com.

Appropriate Board Engagement in Strategic Planning

Significant Room for Improvement

“Appropriate” board engagement in strategic planning seems to be the key issue. Here are some telling results from the CEOs who responded to the April 2007 Governance Institute research poll:

- 49 percent said they were *very satisfied* with the manner in which their board is involved in developing the strategic plan.
- 52.4 percent, only a little more than half, stated that the board’s involvement *significantly enhances* the quality of the strategic plan.
- 55.3 percent responded that their board has a *very clear understanding of its role* regarding strategic plan development and 39.8 percent said their board understands its role in developing the strategic plan in general, but may have *difficulty translating that understanding into action or behavior*.
- A greater percentage of management has a *very clear understanding* of the board’s role in developing the strategic plan (76.5 percent), but that leaves 22.5 percent who understand the role in general but may have *difficulty translating that understanding into action or behavior*.

These statistics indicate great room for improvement in the way in which boards become engaged in strategic planning.

We use word “engage” instead of the word “involve” because engagement means to “entangle and bind.” Engaging the board in strategic planning requires a deeper level of inclusion for both management and the board. Boards that become truly engaged have walked beside management through the tough discussions and decisions, so they have a better understanding of the issues and they feel more committed to the resulting plan.

Clarification of the Board’s Role

As indicated in the data above, one of the main challenges associated with board engagement in strategic planning is the way board members view their role versus the way management views the role of the board. This is a key issue in its own right that may stem from a philosophical difference regarding the board’s level of involvement in general. If this is the case, it may be useful to devote part of a board meeting or retreat to an open and honest conversation with the CEO about the board’s role. Some boards and CEOs have used the Board Strategic Planning Engagement Continuum in Exhibit 1 as a springboard for that discussion. The following is a sample detailed agenda for this discussion.²

² This sample agenda is from ACCORD LIMITED, ©1990–2007, all rights reserved.

Board and Management Role Clarification Session Agenda

Participants:

- Voting board members and CEO only
- Outside facilitator, if necessary

Duration:

- A minimum of 2 hours

Detailed Agenda:

1. Create or review guidelines for behavior, including the importance of honesty and confidentiality.
2. Describe each point on the Board Strategic Planning Engagement Continuum (Exhibit 1) using examples from other organizations.
3. Ask each participant to take a few minutes to think about where their board is currently on the continuum, and why the board is functioning at that point.
4. Ask board members to share their responses and facilitate an open discussion about the board’s perception of the current reality. (Note: Have the CEO share his or her thoughts after at least three-quarters of the group has responded.)
5. Ask participants to indicate where along this continuum they would like the board to be in the future, and what they believe are the challenges to attaining that position.
6. Create an action plan for helping the board to move towards its desired goal.

Assuming the basic question of the board’s role has been agreed upon, the next task is to determine the appropriate role of the board in strategic planning. Admittedly, there are some inherent challenges to this venture. Most boards are comprised primarily of lay people who do not have expertise in healthcare, who have little time because of their demanding “day jobs,” and who are most likely volunteering (The Governance Institute’s 2007 Biennial Survey data show that 91.7 percent of hospital and health system board members are uncompensated).

However, it is possible (and necessary) to find ways for the board to be sufficiently engaged in strategic planning so they can confidently respond to questions from regulators, bond rating agencies, payers, and community members about decisions they have approved regarding the use of limited assets.

Board Strategic Planning Capabilities/Challenges Assessment

One way to start the conversation about the board's strategic planning role is to conduct an assessment of the board's strategic planning capabilities. **Exhibit 6** includes a tool CEOs and boards can use to assess the current knowledge, abilities, and preferences of the board. This tool is not meant to provide a definitive answer to the role a particular board should play in strategic planning. Rather, it is a mechanism to help define the potential challenges associated with engaging a specific board in a robust strategic planning effort. The tool helps to determine where the board is *now*—along key dimensions of strategic planning competence.

Process

Ask each board member and each member of the senior management team (e.g., direct reports to the CEO) to fill out this anonymous survey. Encourage them to be honest with their assessment of the board's current strategic planning capabilities. (*Note: It is most useful to survey senior managers who have had sufficient contact with the board so they can accurately assess the board's capabilities.*)

Scoring and Implications

Determine the scores for the board by multiplying the number of check marks in each box by the number associated with that box (e.g., "3" for "high"). Add up the scores and refer to the chart on the next page for the implications of the scores for the level of board engagement in strategic planning.

Exhibit 6:
Board Strategic Planning Capabilities/Challenges Assessment Tool

Current Capabilities Ranking				
Board Knowledge, Abilities, and Preferences	Low (1)	Medium (2)	High (3)	Don't Know
Knowledgeable about long-term healthcare industry trends and their ramifications for the hospital/health system (e.g., reimbursement, technology, care modalities)				
Knowledgeable about future demographic trends and other information about the service area				
Knowledgeable about current and potential competitors				
Knowledgeable about trends in competitors' market share in each service/product line over the last 3 years				
Knowledgeable about internal performance trending over the last 3 years (e.g., financial, quality and safety, operations)				
Proven ability to develop realistic financial forecasts for 3–5 years				
Proven ability to draw strategic-level conclusions regarding qualitative and quantitative data and information				
Proven ability to identify the critical strategic issues or questions facing the organization over the next 3–5 years				
Experienced in strategic planning that includes clear articulation of a concrete picture of the end result in the long term (e.g., 3–5 years) and decisions about a limited number of measurable strategic priorities for the next 1–2 years				
Ability to help set strategic direction (e.g., mission, values, vision, and strategic goals), while letting senior management develop the shorter-term objectives				
Willingness and ability to spend time in multiple strategy meetings				
Willingness and ability to attend day-long retreat(s)				
Willingness and ability to attend multiple educational sessions				
TOTALS				

Board's Score	Level of Challenge	Implications for Board Engagement
1–14	Significant	Engaging the board will take a significant amount of time and resources. In the meantime, they may want to participate in educational sessions and review drafts developed by management, versus being an active partner in creating the plan.
15–28	Moderate	The board may be ready to be actively engaged in some parts of the strategic planning process. In addition to the activities listed above, board members may want to provide their opinions about critical strategic issues and their vision before the plan is developed, and to provide feedback on draft documents. Some board members may want to serve on the steering committee or task force for educational purposes.
29–42	Minimal	The board is ready and willing to be engaged in meaningful discussions and decision making. They may want to participate in educational sessions, strategy meetings, and retreats throughout the entire strategic planning process.

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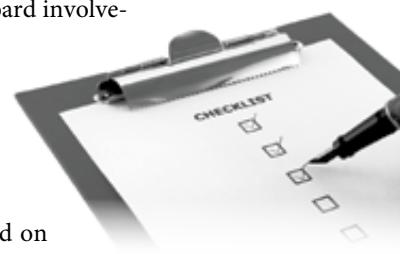
Summary of Recommendations

If the board's scores are low to medium, engaging the board in strategic planning will be more of a challenge than if the scores were in the medium to high range. The board and senior management will need to discuss how best to engage the board, given the challenges that were identified. For instance, a series of educational sessions on external and internal environmental issues may be required before the board members can be significant contributors to the strategic planning effort. There are many suggestions for these types of activities in the rest of this white paper.

If the board's scores are high, senior management may want to engage the board earlier and more frequently, so they can take advantage of the knowledge, skills, and experience of their board members. In addition, the board and senior management may need to have a robust discussion to clarify the board's expectations regarding its engagement in strategic planning. That conversation may need to include the following factors:

- The time available to create the plan before annual budgeting and capital planning must occur
- The time board members are willing and able to give to this effort at this time
- Whether this is a plan update or the development of a new strategic plan

- The urgency of the issues to be addressed (e.g., newly aggressive competition, medical staff unrest, poor quality outcomes)
- The desire to use the strategic planning process to help develop a more participative culture
- Expectations of the broader community for a high level of board involvement (e.g., a public hospital that must respond to a highly-publicized negative event)



Note: This tool is based on the assumption that senior management is willing and able to engage the board in strategic planning. This may not always be the case. For instance, a senior manager who has recently been promoted to the role of CEO may not have fully developed his or her strategic thinking abilities. And, in rare situations, the entire senior management team may be operationally excellent, but inexperienced at strategic planning. Each board and CEO team should "confront the brutal facts" and decide together how best to handle this dilemma.

Board Engagement Policy, Participants, and Methods

Board Strategic Planning Policy

The best way to formalize the decisions made as a result of the assessment of the board's strategic planning capabilities is to develop a written board strategic planning policy. And yet, according to The Governance Institute's 2007 Biennial Survey results, only 40 percent of the 718 respondents had "adopted policies and procedures that define how strategic plans are developed and updated." Almost 30 percent were *considering and/or working on* developing strategic planning policies and procedures. A surprisingly high 30 percent stated they *do not have a policy and they are not considering it*. Given that strategic planning sets the course for the entire organization for the long-term future, and given the increased demands for boards to prove they are effectively overseeing management, it seems irresponsible to declare that a board would not even consider creating a strategic planning policy.

Such a policy should articulate the board's expectations regarding how the strategic plan will be developed, who will be involved, and the conceptual framework, timing, and end products. An example of this type of policy is included in Appendix 1. This sample would probably apply to a board that was moderately skilled in strategic planning and thinking.

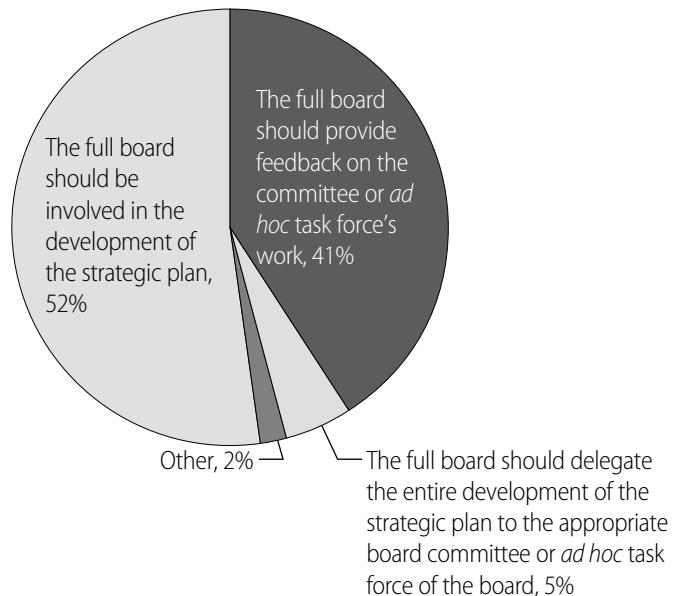
Strategic Planning Committee or Full Board Participation

One of the key decisions for a board to make before developing its policy on strategic planning is to determine which board members will be engaged in strategic planning. Historically, the most common approach has been to create a standing board committee that is dedicated to strategic planning. According to The Governance Institute's 2007 Biennial Survey results, 57 percent of respondents said they have a standing strategic planning committee of the board.

However, many boards have begun to question whether they should use a strategic planning committee or function as a committee of the whole regarding strategic issues. The research poll results seem to reflect this growing trend towards greater involvement of the full board in strategic planning. Over half (52 percent) of those respondents stated that the full board (versus a committee or *ad hoc* task force of the board) should be involved in the development of the strategic plan. (See **Exhibit 7**.)

This question was also raised in a recent Advisors' Corner article published in *BoardRoom Press*.³ The authors concluded:

Exhibit 7:
Full Board vs. Strategic Planning Committee or *Ad Hoc* Task Force



"It may be time to revisit the assumption that a standing strategic planning committee (SPC) is the best method for engaging the board in strategy. There can be a 'dark side' to relying on a committee to do the board's strategy work. All too often, it is *only* the members of the SPC who fully understand the strategic challenges and opportunities facing the organization over the next five to ten years. The rest of the board members may not have been included in the educational sessions on national healthcare trends, in-depth conversations about current and potential competitors in the market, and discussions of alternative strategies for the organization's future.

For example, a board member recently confided that because she had not served on the SPC, she did not feel confident that she could fully explain to the broader community the rationale for the new strategic plan she and her colleagues had approved. She was concerned that she might not be adequately fulfilling her fiduciary duty to make wise decisions about the allocation of community resources."

As a result of experiences like this, many boards are finding new ways to engage the full board as opposed to relying on a committee as the main vehicle for its engagement in strategic planning. That is one reason for this white paper's focus on practical tools and techniques for full board engagement.

³ Bader, Barry; Kazemek, Edward A.; Knecht, Pamela R.; and Witalis, Roger W. "Strategic Planning: Work for the Full Board or a Committee?" Vol. 18, No. 2, April 2007, The Governance Institute.

Yet another approach to this issue is to retain a strategic planning committee, but shift its role from developing the plan to overseeing the process. One CEO put it this way:

“We do have a strategic planning committee. It actually is charged with leading the process, updating the plan, [and] helping us to look at ways to gain input from not only the entire board but also the medical staff and the community. For example, we serve a very large geographic area and we’re looking at setting up community advisory groups within each of these communities to assess needs at a more micro level. In general, the committee probably meets three times in three consecutive months to plan a retreat, and then it meets thereafter quarterly. In total it’s about six times a year. The committee makes sure the retreat focuses on suggestions from the board *and* management. We have 15 board members—and sometimes 15 different opinions of where we should go—so through that mechanism we try to get everyone’s input to make sure we’re not going down the wrong path.”⁴

In this case, the strategic planning committee acts like a steering committee for the entire process, ensuring that the board and other key stakeholders are engaged in appropriate ways and at regular intervals. This approach probably results in fewer board members feeling that they were asked to approve a plan they did not fully understand.

This is yet another issue that must be discussed by each board and its senior management team. There is no “one size fits all” regarding the use of a standing strategic planning committee of the board. If a board decides to use a strategic planning committee, it should create a written charter that describes clearly the committee’s purpose, role, responsibilities, membership, and meeting frequency.

Strategic Planning Committee Meeting Frequency

Of those Biennial Survey respondents who said they have a strategic planning committee, meeting frequency is as follows:

- As needed – 31.4%
- Quarterly – 24%
- Monthly – 16.2%
- Annually – 14.2%
- Bimonthly – 9.9%
- Semiannually – 4.3%

Individual Board Member Participation

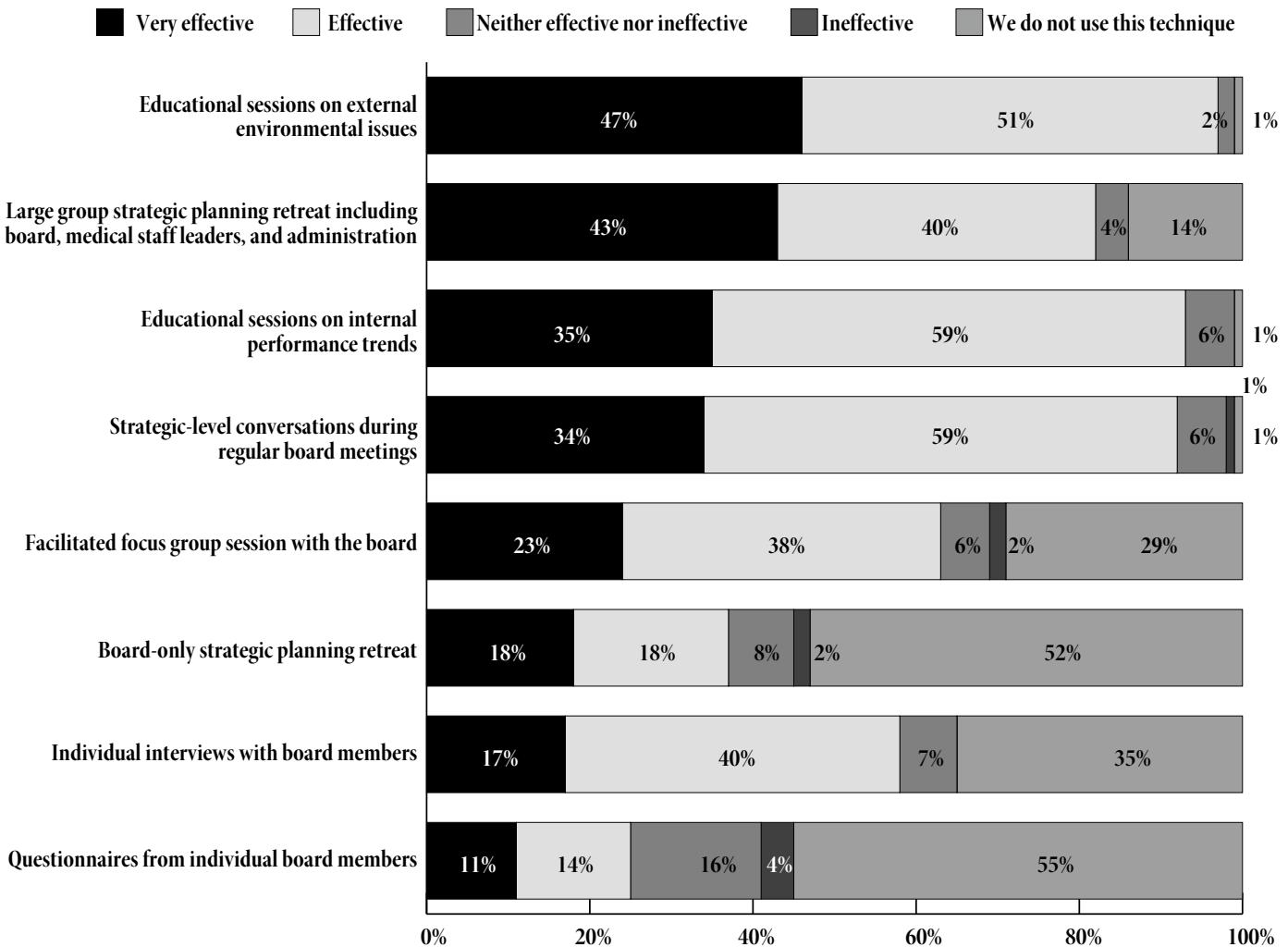
Whether or not there is a standing strategic planning committee of the board, some individual board members may choose to become more engaged than the rest of their colleagues. Perhaps they have specific expertise that is relevant to the strategic issues that need to be addressed (e.g., real estate development), so they are included on a special task force. Or, they may offer to serve on a planning work team along with administration and physician leaders. This can be a fulfilling educational experience, and often, it is the board member who asks the “dumb” question that makes everyone else see an issue from a different light. In these situations, it may be helpful to remind all involved that a board only has authority when it is meeting as a whole; no one trustee has the authority to speak for the entire board. Individual board participants are just that—individual participants.

Board Engagement Method Effectiveness

Once the board has determined which of its members will be engaged in strategic planning (e.g., individuals, small groups, or full group), then it must talk to senior management about its preferred methods of engagement. For instance, some board members might prefer to be individually interviewed whereas others would rather participate in large group retreats. **Exhibit 8** lists many methods that have been used by the research poll respondents. The graph also includes the perceived effectiveness of each method.

⁴ From *Appropriate Board Involvement in Strategic Planning—Part II*, CEO Breakfast Roundtable Transcript, The Governance Institute, May 22, 2007.

Exhibit 8:
Effectiveness of Specific Board Engagement Methods



The four most effective techniques, listed in order by the percentage of respondents who answered “very effective” were:

- Educational sessions on external environmental issues
- Large group strategic planning retreats including board, medical staff leaders, and administration
- Educational sessions on internal performance trends
- Strategic-level conversations during regular board meetings

The least effective techniques were providing questionnaires to board members and convening board-only strategic retreats (although over half of the respondents do not use either of these methods). Most likely, these are less effective methods because many board members need to hear and learn from others in

order to be valuable contributors. This would be especially true if the board were significantly or moderately challenged in its strategic planning capabilities.

One technique respondents rated as quite effective (23 percent *very effective* and 38 percent *effective*), but was only used by two-thirds of the respondents was a facilitated focus group session with the board. An external facilitator or consultant is often able to help the board identify and discuss strategic-level issues, even if the board’s knowledge and/or confidence levels are low. And board members will often respond more candidly to questions asked by a facilitator than to those posed by the CEO. A sample process that can be used for this type of session is in **Exhibit 9** on the next page.

Frequency and Duration of Engagement Techniques

Approximately 92–97 percent of the research poll respondents use the four “most effective” board engagement methods listed above.⁵ It is, however, useful to share a few key findings regarding the frequency with which some methods are used:

- Strategic-level conversations take place during regular board meetings more than three times a year at 82 percent of the respondents’ organizations (half stated that these conversations take place more than four times a year).
- Educational sessions on internal performance trends occur at least three times a year for 67 percent of the respondents.

- The frequency of external environmental educational sessions ranges broadly:
 - 41 percent hold annual sessions.
 - 24 percent convene sessions twice a year.
 - 20 percent participate three to four times a year.
 - 12 percent have more than four sessions per year.

The information above indicates that almost half of the boards surveyed are *only* hearing about external environmental issues in a structured way once a year. In fact, 2 percent responded that they did not hold this type of session at all. Since the argument has already been made that boards need to be educated in order to be productive contributors to strategic-

Exhibit 9: Facilitated Focus Group Session with the Board to Identify Critical Strategic Issues

Duration: approximately 1.5 hours

	Time	Activity
1	10 mins.	Welcome; introductions; description of planning process; discussion of this group’s role; answer questions (using PowerPoint slides)
2	15 mins.	Define critical strategic issues: <ul style="list-style-type: none">• Longer-term in nature (vs. short-term, operational matters)• Likely to have a profound impact on the organization• Points and takes the organization in a certain direction• Serves as an “organizing principle,” commanding resources to address• Focuses on “end results” (vs. the “means” to achieve them) Provide examples of critical strategic issues: <ul style="list-style-type: none">• Deciding who we are and what geographic areas we serve• Providing unmatched customer service and clinical quality• Growing service lines, market share, and brand• Partnering with physicians and other providers• Recruiting and retaining loyal staff, physicians, and patients• Building leadership and infrastructure• Achieving financial stability
3	60 mins.	1. Individuals reflect silently on the following question for a few minutes: <i>In your opinion, what are the three most critical strategic issues facing our hospital during the next five years?</i> 2. Brainstorm (going around the group). 3. Capture answers on flip chart labeled Critical Strategic Issues. 4. Discuss/combine issues. 5. Prioritize top 3–5 issues, using nominal group technique or any other voting process.
4	5 mins.	Remind the board that this information will be summarized and given to the planning work team. Thank everyone for attending.

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⁵ For detailed data on the frequency with which each of these techniques (and others) are used, refer to the complete research poll results (www.governanceinstitute.com).

level discussions, boards should probably spend more time in educational sessions about the external environment.⁶ Those boards that are using “best practices” in adult learning also make sure that after each educational session presentation, the board discusses the possible implications of the information for their hospital or health system.

The frequency data highlight another interesting phenomenon: almost half (43 percent) of the research poll respondents stated that strategic planning retreats involving the board, medical staff leaders, and administration are “very effective,” and yet about 15 percent said they do not use this technique. Boards and CEOs may want to consider offering more of this type of event.

Whether the organization is contemplating adding a large strategic planning retreat or is already convening one (75 percent

of those retreats occur annually, whereas 7 percent are held twice a year), the board should provide input into the decision about the duration of the event. **Exhibit 10** shows durations of respondents’ board retreats or meetings devoted to strategic planning.

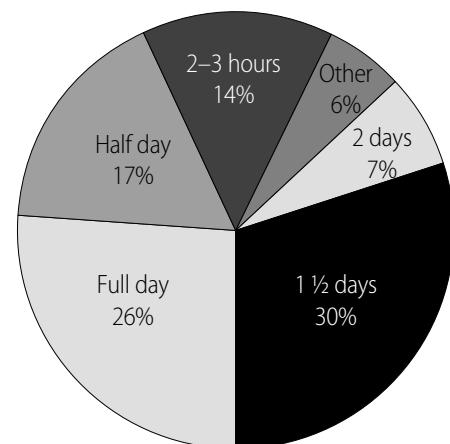
Over half (56 percent) of these board retreats or meetings are one to one-and-a-half days in duration, whereas one-third (31 percent) take place in four hours or less. Most likely, boards are using longer retreats to allow for the free-flow of discussion that is often needed regarding strategic issues.

The next section of this white paper provides specific agendas and other tools for discussions during board educational sessions, board retreats, and board meetings.

“Since the board members are in tune with healthcare trends, they are able to ask questions and understand the challenges; education is at the heart of strategic planning.”

—Larry Barton, President, Western Baptist Hospital, Paducah, KY

Exhibit 10:
Duration of Strategic Planning Board Retreat



⁶ A helpful resource for this type of session is *Futurescan™*, an annual healthcare trends publication published by Health Administration Press.

Sample Tools and Techniques

The previous sections of this white paper help boards lay the foundation for their engagement in strategic planning. We have addressed *why* boards should be engaged, *who* from the board should be involved, and *which general methods* various boards are using to engage their members in strategic planning.

This section is devoted to assisting boards at a much more practical level. It includes information on exactly *when* in the strategic planning process boards become engaged, and precisely *what* they do at each point. These are sample tools and techniques that boards and CEOs can use “as is” or as springboards for their own ideas. The information is divided by the stages of the strategic planning process in which boards should be engaged:

- Oversight of process and participants
- Situational assessment conclusions and strategic issue identification
- Mission and values development
- Vision creation
- Strategic goal determination
- Strategic plan alignment and monitoring

At the beginning of each of these sections we show the data from the research poll regarding the typical board’s engagement in that strategic planning component. Then, we include a few different tools boards can use at that particular stage of the strategic planning process. To help CEOs and boards determine which tool to use, we have indicated the amount of time that would be needed to effectively utilize that tool.

Oversight of Process and Participants

The first level of engagement for most boards is oversight of the management team’s strategic planning process. Research poll results indicate:

- 64 percent oversee the planning process, ensuring the correct steps are taken by management.
- 63 percent ensure that management involves key stakeholders such as medical staff (although only 14 percent help gather the input; this may be an opportunity for further involvement).
- 67 percent ensure that management has linked the strategic plan to the operating and capital plans.

However, we assert that these tasks are the minimum amount of oversight boards need to provide in today’s environment. *All*, not just two-thirds of boards, should be involved in this level of oversight.

Below is a brief agenda for the portion of a board meeting that is devoted to reviewing and providing input on the strategic

planning process. **Exhibit 11** is a slide one hospital leader used during this type of meeting to describe the overall strategic planning process to his organization’s board. This graphic helped the board members understand the overall timeframe as well as the points in the process at which they would become involved.

Agenda for Board Input on Strategic Planning Process

Duration: approximately 45 minutes

1. Clarify the board’s expectations regarding the strategic planning purpose and outcomes.
2. Review the overall strategic planning process and schedule, highlighting the points at which the board will become engaged.
3. Define the roles and responsibilities of the full board, the board steering committee, the core planning team, the hospital staff, and the consultants.
4. Finalize plans for securing input from key stakeholders.
5. Identify other data and information that should be assembled and analyzed.

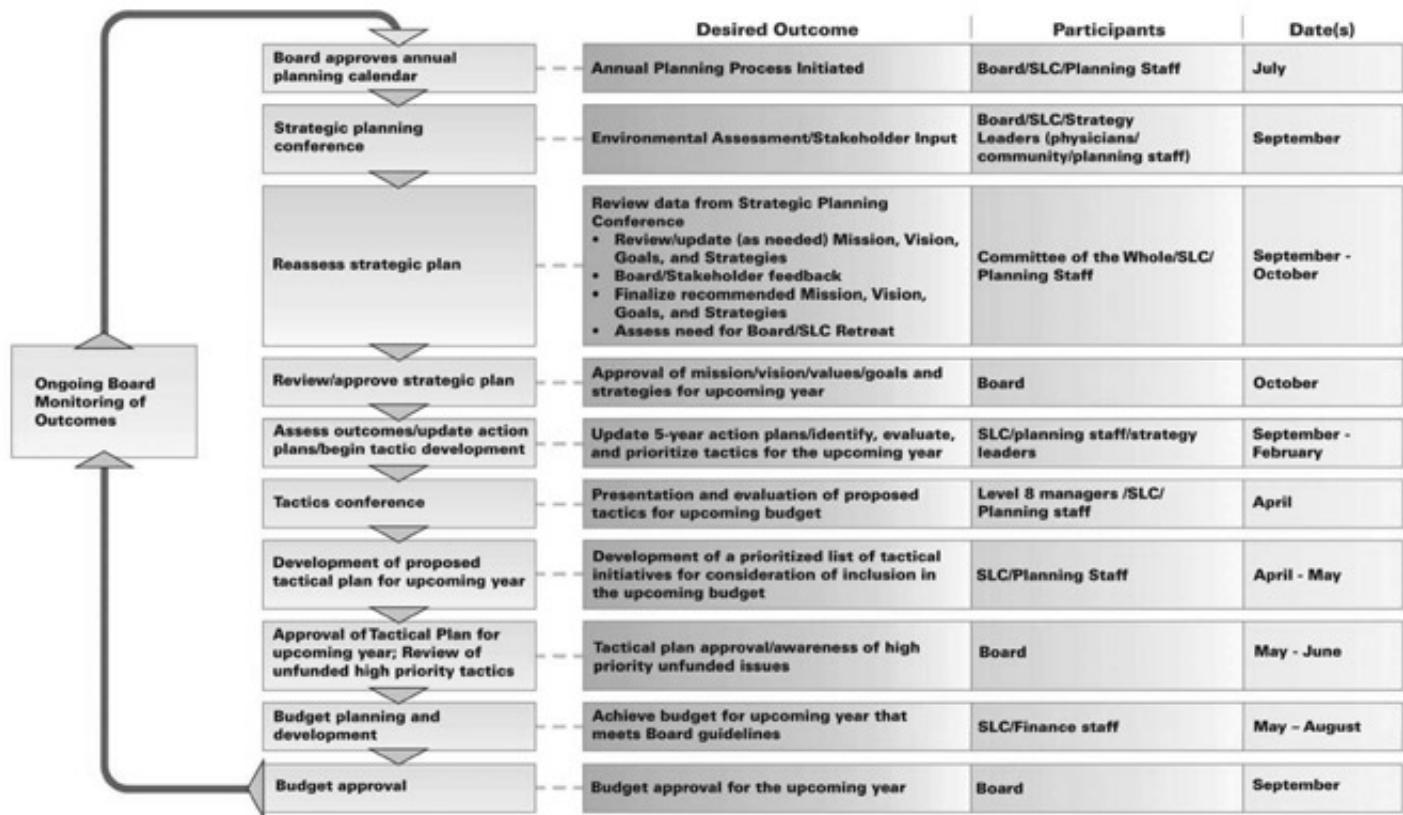
Situational Assessment Conclusions and Strategic Issue Identification

Long before any component of the final strategic plan has been developed, the organization must assess the internal and external environments, draw conclusions about the past and make assumptions about the future, develop alternative scenarios for consideration, and identify the critical strategic questions that must be addressed in the strategic plan. According to the research poll, boards become engaged in these tasks at varying levels:

- More than half (56 percent) work together with management to draw conclusions about the key assumptions or environmental data; but almost all (92 percent) challenge and/or affirm the conclusions drawn by management regarding those assumptions or data.
- Two-thirds (65 percent) actively help management to frame or identify the strategic issues facing the organization in the future (e.g., 3–5 years); but 83 percent provide feedback on the strategic issues that have been framed by management;
- Only 14 percent develop alternative future scenarios, but two-thirds (65 percent) discuss alternative future scenarios developed by management.

As the results indicate, almost all boards surveyed provide feedback to management on their conclusions about environmental data and key strategic questions. However, this may be one of the greatest areas of opportunity for increased board engagement. Many of the CEOs interviewed for this white paper commented that they were interested in assistance framing the strategic issues for their board’s discussions.

Exhibit 11:
Strategic Planning Cycle



Source: Lee Memorial Health System, Fort Myers, FL

To best determine the appropriate method for framing strategic questions for a particular board, it is helpful to refer to that board's results on the Strategic Planning Capabilities/Challenges Assessment (see page 12). The correct tool to use will be highly dependent on whether or not the board is "strategically challenged."

If the board is "significantly or moderately challenged," the CEO and board may prefer that management "frame up" the critical strategic issues or questions for the board's reaction. In this situation, the agenda in **Exhibit 12** might be most helpful.

A "moderately" to "minimally" strategically-challenged board might be able to use the exercise in **Exhibit 13** (on page 24) to engage in a meaty conversation with senior management to identify potential competitive threats to the hospital.

This exercise is best conducted in small groups that include board members, medical staff leaders, and senior management, because of their diverse perspectives.

"Our strategic planning steering committee included eight board members and 10 physicians. The heavy involvement of the medical staff helped the board better understand the clinical issues, so they could make more informed decisions about the use of scarce resources."

—Patrick Garrett, President & CEO,
Battle Creek Health System, Battle Creek, MI

Exhibit 12:
Board Meeting Discussion to Confirm the Critical Strategic Questions
Duration: approximately 2 hours

Activity	
1	<p>Review the strategic planning input/data analysis process and participants to date:</p> <p>Data/information analyzed:</p> <ol style="list-style-type: none"> 1. Healthcare environment 2. Consumer and community health needs 3. Medical staff assessment 4. Competitor/partner assessment 5. Quality assessment 6. Labor/employee assessment 7. Operational assessment 8. Financial analysis <p>Qualitative input secured:</p> <ol style="list-style-type: none"> 1. Planning work team interviews 2. Medical staff leadership session 3. Open medical staff sessions 4. Planning committee of the whole/board and foundation board session
2	Review and confirm mission and core values.
3	<p>Share consultant's preliminary observations regarding the hospital's progress implementing the vision 2010 and the key remaining challenges in each of the four priority areas:</p> <ol style="list-style-type: none"> 1. Growth 2. Quality 3. People 4. Foundation
4	<p>Present the critical strategic questions that need to be addressed to roll the vision forward to 2012:</p> <ol style="list-style-type: none"> 1. How can we fund facilities, information technology, and quality initiatives (e.g., merge, incur debt, grow revenues, reduce costs)? 2. What services will be at which facilities? 3. How will we improve our clinical quality leadership, processes, and outcomes? 4. How can we implement the electronic medical record quickly and effectively? 5. How will we ensure we have the sufficient amount of trained/skilled staff? 6. What do we need to do to recruit new physicians (especially PCPs)? 7. What leadership and management skills and processes need to be developed to ensure we can efficiently and effectively implement the vision without burning ourselves out (e.g., how can we work smarter)?
5	Secure the board's feedback on the proposed list of critical strategic issues/questions.
6	Discuss the next steps in the strategic planning process.

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Exhibit 13:
SWOT (Strengths, Weaknesses, Opportunities and Threats)
Identification Exercise

Duration: approximately 1 hour

Assignment

- Scenario: Your hospital, Community Hospital, has had one major competitor in its market.
- A for-profit hospital company has just acquired this major competitor and renamed it Excellent Healthcare.
- As an exercise to prepare Community Hospital for the potential actions of the newly for-profit Excellent Healthcare, you are now going to act as the Excellent Healthcare management team and board. You are meeting over the next two days to develop a strategy to win market share from Community Hospital. (By the way, your Excellent Healthcare team was given a copy of Community Hospital's 2012 Strategic Plan.)
- Discuss and answer these questions:
 1. What Community Hospital weaknesses can we at Excellent Healthcare exploit (Weaknesses)?
 2. Which Community Hospital strengths do we at Excellent Healthcare have to overcome (Strengths)?
 3. What market or service opportunities or community health needs has Community Hospital overlooked (Opportunities)?
 4. Who or what external threats do we need to create plans to address (Threats)?
- Work in small groups of 3–5 and put your answers a flip chart. Be sure to label the flip charts Weaknesses, Strengths, Opportunities, and Threats.

Facilitated Discussion

- Ask each group to report out its answers
- Facilitate a full group discussion that includes questions such as:
 1. What, if anything, surprised you?
 2. What are the similarities across the groups' work?
 3. What issues, if any, were only mentioned by one group?
 4. What are the implications of this information for our strategic plan?

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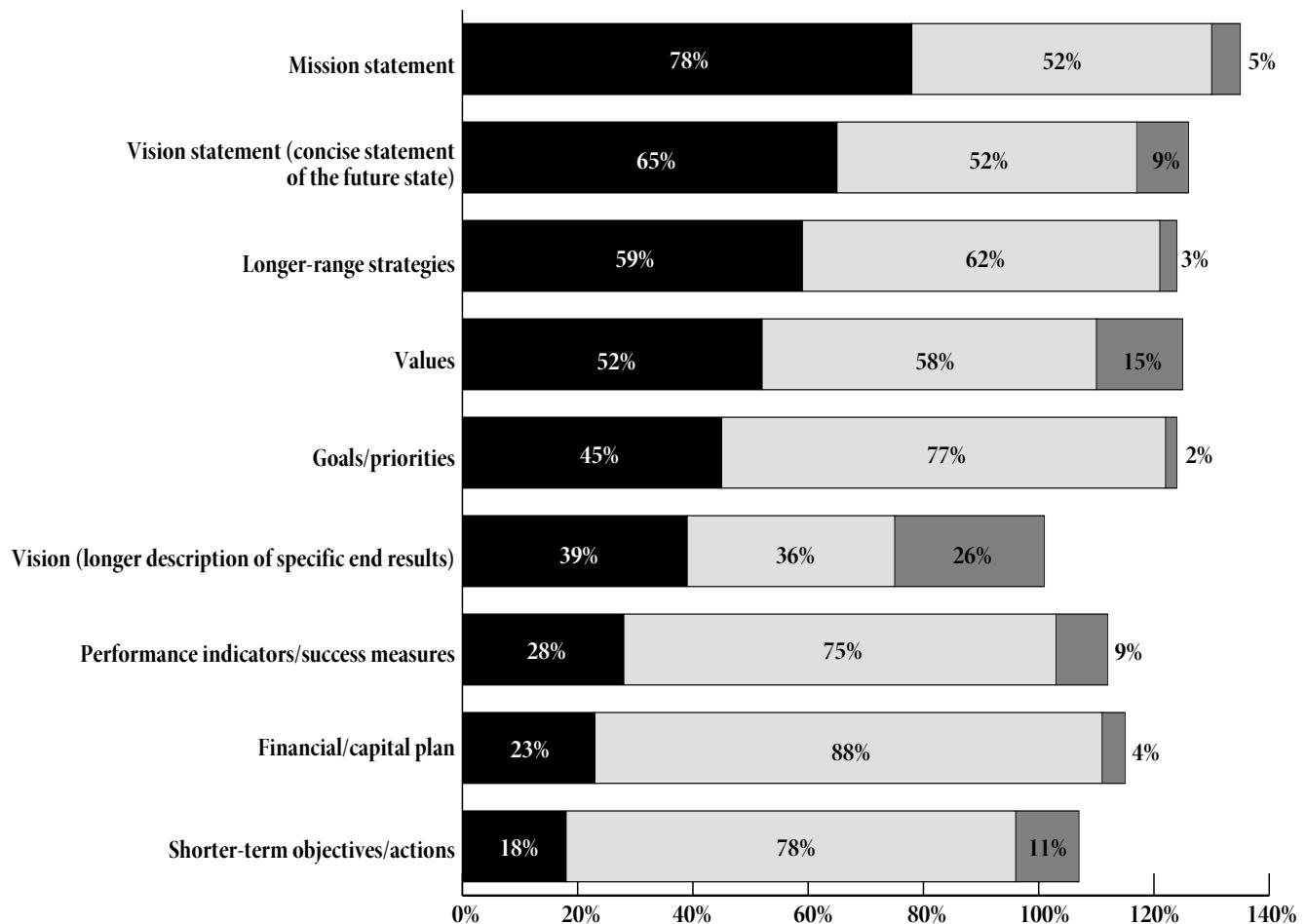
"When the board is really involved and goes through the traditional SWOT [strengths, weaknesses, opportunities, and threats] analysis and looks at the data, it serves a couple of purposes. It helps educate the board about what is happening in the hospital, and, in addition, by the time we're finished the board owns the plan, so it isn't second-guessing as we try to move things forward. And board members have a deeper appreciation for some of the challenges we might face as we try to implement the plan. It creates a little more flexibility as we try to navigate whatever dynamics are going on in our marketplace."

—Hospital CEO, CEO Breakfast Roundtable,
The Governance Institute Leadership Conference, April 3, 2007

After the critical strategic issues have been identified, the hospital or health system begins to draft the components of the strategic plan: the mission, values, vision, and strategic goals. **Exhibit 14** on the next page shows the level of board involvement in each of these activities from research poll respondents.

Exhibit 14:
Components of Final, Written Strategic Plan & Extent of Board Involvement in Developing Those Components

■ Board helps develop this component □ Board approves this component ■ This is not a key component in our final, written strategic plan



The components of the final, written strategic plan that boards help management develop most often are the mission statement, vision statement (concise statement of the future state), detailed vision (longer description of specific end results), values, longer-range strategies, and goals/priorities. There is a marked drop off in the percentage of boards that help develop shorter-term objectives/actions, the financial/capital plan, and plans for communicating, updating, and monitoring the strategic plan. These results indicate that most boards are appropriately involved at the governance level—helping to determine *what* will be accomplished, not *how* to achieve the plan.

Note: the percentages do not add up to 100 percent because some respondents answered that they both help to develop and approve a particular component.

Mission and Values Development

According to the research poll, 77 percent of boards help management to develop the mission statement, and 52 percent assist in the creation of the organization's core values. The remainder approve of the mission and values developed by management. (See **Exhibit 14**). (Some indicate that these are not key components of the final, written, strategic plan. However, these components should be included in that document because they provide the context for everything else.)

The mission, or articulation of the fundamental purpose of the organization, and the values, or guidelines for behavior for all stakeholders, are critical areas for board engagement. And, many legal and regulatory bodies (e.g., the IRS) are now requiring that boards become more actively engaged in developing and/or affirming the organization's mission. The tools in **Exhibits 15** and **16** can be used by CEOs and boards interested in working together to clarify their mission and values. Both tools can be utilized by any type of board. The major difference between the tools is that the first, the *Mission and Values Blog* (Exhibit 15), can be completed in less than one hour. It may be most appropriate if the board is being asked to confirm an existing mission and values. The second tool, an agenda for a *Mission and Values Development Retreat* (Exhibit 16), requires a full day because it assumes that the mission and values are being created from the beginning.

Exhibit 15:

Mission and Values Blog

Duration: approximately 30 minutes

In preparation for its upcoming session, the strategic planning task force would like your thoughts on what we should set as our mission and core values. Please log on to the secure board Web site and access the blog entitled "Mission and Values Blog." Add your comments to our ongoing discussion. The strategic planning task force will read all entries and take them into consideration as they attempt to write a new mission and set of core values.

Blog Questions:

1. What do you think should be our system's mission statement? (Remember, it should be one sentence that explains our fundamental reason for being, and it should be aspirational.)
2. How would you articulate our system's desired values? (These should be concise statements about the behaviors we expect of all our stakeholders. Ideally, we will have no more than four values, and each one will include a behavioral definition, so we will be able to judge whether or not an individual is living by this value.)

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"Strategic planning has become a much greater area of focus for our board over the last two years."

—**Christy Connolly, Vice President of Strategic Services, Fauquier Hospital, Warrenton, VA**

Exhibit 16:**Mission and Core Values Development Retreat**

Duration: approximately 8 hours

	Time	Activity
1	10 mins.	Welcome/introductions/objectives
2	15 mins.	Share examples of group guidelines and ask what guidelines should be set for this discussion. Capture the guidelines on a flip chart.
3	15 mins.	<p>Share the definition of a mission: Timeless, memorable, aspirational statement of the organization's fundamental purpose or reason for being.</p> <p>Share examples of a mission:</p> <ol style="list-style-type: none"> 1. People working together as one global enterprise for aerospace leadership (Boeing). 2. We make a positive difference in people's lives through exceptional medical care.
4	3 hours (includes a 15 min. break)	<p>Display the current mission and facilitate discussion regarding this question:</p> <ol style="list-style-type: none"> 1. What do you think should be the mission for the hospital? <ol style="list-style-type: none"> a. What, at the core, is our reason for existence? b. What would be missing if we did not exist? c. Who (populations or geographic areas) do we serve? d. How can we differentiate ourselves from other organizations that do similar things? <p>Capture ideas on a flip chart and facilitate decision making.</p>
5	1 hour	Lunch
6	15 mins.	<p>Share the definition of core values: Guiding principles for all stakeholders in the organization; 3 timeless values, each of which is behaviorally defined by a phrase.</p> <p>Share examples of core values:</p> <ol style="list-style-type: none"> 1. Empathy: We value compassionate understanding of others' needs, active kindness, and trusting relationships. 2. Innovation: We value the continuous search for new and better ways to improve our service, processes, and technical excellence. 3. Accountability: We value achieving outstanding results, ensuring safety, and acting with integrity.
7	3 hours (includes a 15 min. break)	<p>Display current core values slides and facilitate discussion regarding this question:</p> <ol style="list-style-type: none"> 1. What do you think should be the core values for this hospital? <ol style="list-style-type: none"> a. Which behaviors are "hanging offenses" (if they were not upheld, would they be grounds for termination)? b. What type of culture do we want or need to have? c. How do we want to be seen by our key stakeholders? <p>Capture ideas on a flip chart and facilitate decision making</p>
8	15 mins.	Review the next steps in the process, thank everyone for attending, and conduct a quick evaluation of the session.

Source: Harrison Medical Center, Bremerton, WA

Vision Creation

There are many ways to engage boards in the development of a Vision. **Exhibit 17** is a quick warm-up exercise that can be used with any board, regardless of its strategic planning skill level. It is not intended to result in a vision statement; it helps the board and senior management to begin discussion about what they hope the organization will have accomplished by a certain point in time (e.g., five years). These overall concepts would need to be “fleshed out” in the type of detailed vision described in the next two tools.

Exhibit 17: **Visioning Warm-up Exercise**

Duration: approximately 45 minutes

- Explain the assignment:
 - Work in groups of three or four.
 - Discuss the following:
 - ▷ It is September 15, 2012.
 - ▷ The headline of (*the local newspaper*) is about our hospital.
 - ▷ What do you hope it will say?
 - Put your group’s headline on a flip chart and be ready to explain to it the full group.
- Give the groups 15 minutes to develop their headlines.
- Ask a representative from each group to share and explain the rationale behind their headline.
- Facilitate a conversation about the themes across the headlines.

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Time Horizon for Strategic Plan’s Longest Component (Vision) According to Research Poll

40% – 5 years
31.4% – 3 years
11.4% – 10 or more years
7.6% – 4 years
6.7% – 6 to 9 years
1.9% – 2 years
1% – Other

The research poll results indicate that 65 percent of boards help management to develop the vision statement, or concise statement of the future state. Only 39 percent help the board develop a detailed vision, or a longer-term description of the specific end results. In fact, approximately 26 percent of boards responded that their hospital or health system’s strategic plan does not even include a detailed, concrete vision that articulates the desired future state in three to five years. Without that component, organizations may lack the context for the rest of the strategic plan. The kinds of questions that can be used to develop this type of vision are shown in **Exhibit 18**. The tool in Exhibit 18 can also be used by any board, although a knowledgeable facilitator may be helpful if the board is “significantly” or “moderately” challenged in its ability to think strategically.

Exhibit 18: **Five Year Vision Development Exercise**

Duration: either 4 or 8 hours, depending on the level of detail requested

- Explain to the board that the ideal vision is a “word picture” of the specific, end result after five years in seven to nine key components of the organization (e.g., services provided). Under each component, three to four bullets will describe the concrete, observable outcomes. This becomes the “target” that all stakeholders will work to achieve.
- Ask the board, “What is your vision of what the system should look like by the year 2012?” Areas to probe with the group include:
 - ▷ Reputation achieved
 - ▷ Services provided/service line focus
 - ▷ Markets served and market share
 - ▷ Facilities
 - ▷ Physician relations
 - ▷ Relations with other providers
 - ▷ Staffing
 - ▷ Organizational culture/morale
 - ▷ Quality and patient safety outcomes
 - ▷ Medical and information technology
 - ▷ Financial results
- Capture the group’s answers on a flip chart, after clarifying that the majority of the attendees agree with the vision recommended. Note “outlier” ideas too.
- Explain how this information will be used.

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Strategic Goal Determination

Strategic goals are the last part of the strategic plan that describes “what” will be achieved; therefore, assisting with the development of this component is also appropriate for boards. However, as this work is so dangerously close to management’s work of creating objectives/tactics, boards must be careful not to overstep their governance bounds.

The following is a basic definition of strategic goals:

- Three to five major areas of focus or priority for the entire organization
- One-year time frame
- Provide the greatest leverage in achieving the vision
- Statement of desired end result in this area of focus
- Include measurable indicators of success
- Categories under which objectives are written

The research poll included a few different questions on items that could be considered “strategic goals:”

- 60 percent of boards help management to develop longer-range strategies.
- 45 percent assist in the creation of goals or priorities.
- 27 percent are involved in developing performance indicators or success measures.

As the data on the effectiveness of various engagement methods indicates, one of the best ways to engage the board in strategic planning is to conduct a large-group strategic planning retreat including the board, medical staff leadership, and administration. At an event like this, the board can be engaged in helping to develop the multiple components of the strategic plan.

See Appendix 2 for a detailed agenda from a one-and-a-half-day retreat at which participants confirmed conclusions drawn at an earlier retreat regarding the situational assessment. Additionally, the event combined visioning with the initial development of strategic goals.

Exhibit 19 is a sample questionnaire that can be included in a board packet that is distributed prior to a board meeting at which the draft strategic goals will be discussed. This approach is effective with all types of boards because it enables them to provide feedback on work that has been drafted by the administrative team; the board does not need the same level of knowledge as they would if they were being asked to develop the goals from scratch.

Exhibit 19:

Questionnaire for Board Feedback on Goals FY 2007

Duration: approximately 1 hour

In preparation for the administrative team’s strategic planning session, please read the draft strategic plan contained in this preparation package and then answer the following questions.

1. Are the **assumptions** the administrative team made about FY 2005–FY 2009 accurate? If not, what changes are needed?
2. Do you agree that the six “bubbles” on the draft strategic model are the **correct areas of focus and priority for FY 2007**? If not, what changes would you make to the areas of focus?
3. What changes, if any, are needed to the **goals FY 2007**?
4. Are these the correct **success indicators** for each goal? Are the goals too aggressive or not aggressive enough?
5. **Are you willing to approve the additional resources** that would be required to implement this strategic plan? If not, what needs to be changed?
6. **What else, if anything, needs to be addressed** or resolved before the strategic planning session on July 27?

Please email or fax your responses to the Director of Strategic Planning by July 15, so there is time to compile your answers prior to the administrative team’s session.

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Strategic Plan Alignment and Monitoring

According to the research poll, half of the respondents are (only) *somewhat satisfied* with the manner in which their board is involved in monitoring the strategic plan. That leaves a lot of room for improvement.

The data provide some possible explanations for this problem:

- Only 11 percent set annual goals for the board itself based on the strategic plan.
- 15 percent do not have written plans embedded into the strategic planning document for monitoring the strategic plan's implementation (see **Exhibit 20**).
- 20 percent do not include in their strategic plan document an expectation regarding when the plan will be updated.
- 32 percent do not add a written communication plan to the strategic plan document (see **Exhibit 21**).
- Only 37 percent receive a verbal report from a committee. (Remember that 57 percent have a strategic planning committee).
- Only 52 percent receive a written status report for each plan component.
- Only 53 percent state that their quality improvement plan is totally aligned with the strategic plan.
- Only 58 percent say their departmental or entity plans are aligned with the strategic plan.
- Only 63 percent respond that the CEO's incentive compensation is based in part on the strategic plan.
- Only 65 percent say the capital plan is totally aligned with the strategic plan.
- Only 68 percent state that the annual budget is totally aligned with the strategic plan.
- Only 76 percent respond that the CEO's performance evaluation is based in part of the strategic plan.

There are just two areas related to strategic plan alignment and monitoring that score above 80 percent—the board receives verbal reports (83 percent) and dashboard reports (82 percent) from management (see **Exhibit 22**).

In essence, the above practices *are* the descriptions of the board's role in monitoring the strategic plan. It is the board's job to make sure all of the above are in place. Some of the tasks are management's and some are the boards. In any event, by providing appropriate oversight of each of these activities, the board will be helping to ensure that the strategic plan is implemented.

Therefore, boards and CEOs that would like to improve their ability to monitor (and ultimately, implement) their strategic plans might want to use **Exhibit 23** (on page 32) o ask themselves the same questions posed above.

Exhibit 20: Strategic Plan Monitoring

- Quarterly, the administrative council will monitor the strategic plan by:
 - Reviewing a written report of the status of each goal and objective (prior to the next step).
 - Discussing any barriers to the achievement of the goals and objectives during the administrative council meeting on the second Monday after the end of each quarter.
- Quarterly, the board will monitor the strategic plan through receipt and discussion of the strategic plan dashboard.
- Quarterly, the CEO will make presentations to the leadership group and the medical staff leadership using the strategic plan dashboard.
- Quarterly, employees and the Medical Staff will receive a written summary of the status of the strategic plan.

Source: Harrison Medical Center, Bremerton, WA

Duty of Care Mandates Monitoring

"The board regularly monitors organizational performance against both board-approved goals and industry benchmarks (where available) for finance, quality, customer service, and business strategy."

Given the heightened concerns over transparency in general, and the specific fiduciary duty to monitor the organization's performance, boards may want to insist that all of the practices above are followed.

Exhibit 21:
Strategic Plan Communication Plan

Who (Stakeholder Group)	Gets What (Highlights or Whole Plan)	When (Date)	How (Presentation or Written Document)
Board			
Management			
Employees			
Physicians			
Public Officials			
Employers			
Payers			
Other?			

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Exhibit 22:
Sample Board Dashboard Report

Strategic Plan Goals								
Community Confidence Goal			Quality and Health Management Goal			Financial Performance Goal		
Indicator	Target/Status		Indicator	Target/Status		Indicator	Target/Status	
Inpatient Out-migration	X%	Y%	Implement Clinical Pathways	X%	Y%	Operating Margin	X%	Y%

■ On course towards reaching target □ May not reach target ■ Not reaching target

Exhibit 23:
Strategic Plan Alignment and Monitoring Practices

	Practice used by the board currently?	Yes	No
1	Is there a written plan for the board's monitoring of the strategic plan?		
2	Is a comprehensive stakeholder communication plan a part of the strategic plan document?		
3	Does the strategic plan document include an expectation regarding when the plan will be updated?		
4	Does the board set annual goals for itself based on the strategic plan?		
5	(If there is a board strategic planning committee:) Does the board receive a regular, verbal report from the strategic planning committee on the progress toward implementation?		
6	Are all of the departmental/entity plans aligned with the strategic plan?		
7	Is the CEO's incentive compensation based in part on the achievement of the strategic plan?		
8	Is the capital plan totally aligned with the strategic plan?		
9	Is the annual budget totally aligned with the strategic plan?		
10	Is the CEO's performance based in part on the accomplishment of the strategic plan?		
11	Does the board receive verbal reports from management on the status of the key strategic goals?		
12	Does the board receive a dashboard-type report on the implementation of the strategic plan?		
13	Is more than 50% of the board meeting devoted to discussion of strategic issues, versus listening to reports?		

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"Strategic planning is a standing board agenda item for each monthly meeting. The board talks about hot items if necessary, or just discusses the plan in general based on written or oral reports from management."

—Ann L. Coleman-Hall, R.N.,
 CEO, White Mountain Regional Medical Center, Springerville, AZ

Conclusion

Strategic Board Meetings

In the end, boards are only boards when they are in meetings. Therefore, the way the board structures its meeting time can dramatically influence its ability to help set and monitor strategy. As mentioned above, the board meeting agenda should be revised so that at least 50–60 percent of the meeting time is spent discussing strategic level issues versus listening to reports (only 31.8 percent of the Biennial Survey respondents currently do so). Using a consent agenda can help free up time that is normally spent approving routine matters. And the strategic plan dashboard, which management should provide at least quarterly, should be focused on the components of the strategic plan that the board is asked to monitor (e.g. strategic goals), not on the shorter-term tactics that are management's job to create and implement.

Other techniques for “staying strategic” in board meetings include:

- Provide governance-level dashboards and data (not re-hashed management reports).
- Distribute board packets one week prior to the meeting.
- Forbid presentations of packet material in the meeting.
- Spend 30 minutes of each meeting in education on strategic issues.
- Make sure meetings are goal-driven and facilitated.

In addition, many boards have begun developing a master board calendar that indicates which strategic-level topic(s) will be addressed at each board and committee meeting, and what educational session(s) are needed prior to that discussion (see Appendix 3 for an example). This helps boards and management ensure that they are fully prepared to discuss each strategic issue.

Continuous Strategic Planning

This white paper has focused on engaging boards in the traditional, time-defined strategic planning process. Boards that are already highly engaged in strategic planning may want to consider an alternative method. In the article, “Stop Making Plans and Start Making Decisions,”⁷ authors Michael Mankins and Richard Steele propose a more fluid approach to strategic planning—continuous, decision-focused strategic planning. Here is how they describe it:

“Over the past several years, we have observed that many of the best-performing companies have abandoned the traditional approach [to strategic planning] and are focusing explicitly on reaching decisions through the continuous identification and systematic resolution of strategic issues.... They have thrown out their calendar-driven, business-unit-focused planning processes and replaced them with continuous, issues-focused decision making. These companies have stopped making plans and started making decisions.”

In this approach, the board and senior management are continually identifying and assessing strategic options. In other words, strategic decision making *becomes* the principal work of the board. Boards that continuously seek to improve their performance regarding their profound responsibility of setting strategic direction will lead the way for truly effective, accountable governance.

⁷ Harvard Business Review, January 2006.

Appendix 1

Sample Board Policy on Strategic Planning

BOARD OF DIRECTORS POLICY MANUAL

NO. 8.12A

Category: General Operations

Title: Strategic Planning Process

Original adoption: 10/04/2000

Revision date: 11/15/2006

Supersedes no. 8.12

PURPOSE:

To establish a perpetual 5-year plan that provides direction for both long and short-term decision-making for the board of directors and senior leadership in meeting the stated mission of the health system. The strategic plan will be a comprehensive, data-driven document written in a standardized format that will be an internally consistent tool for making choices between competing demands for capital, facilities, leadership, philanthropy, and human resources of the system.

POLICY:

The Strategic Planning Framework:

The strategic plan will be specific and measurable and will incorporate the following components:

- System mission and value statements
- Assessment of major internal and external environmental factors and their potential impact on the system
- Critical strategic issues to be addressed by the system
- The vision for the system in 5 years
- Major areas of focus for the next 2 years (goals)
- One-year objectives for reaching the goals, vision, and mission

Planning Cycles:

The strategic planning cycle will begin in March of each year. Annually, the 2-year goals and 1-year objectives will be updated based on a review of the previous year's accomplishments and a brief assessment of internal and external environmental changes. Every other year the entire strategic plan (5-year vision, 2-year goals and 1-year objectives) will be updated by repeating the initial plan development process of data gathering and analysis, gaining input from community leaders and physicians, and adopting appropriate plan amendments. The updated plan will be completed prior to the annual budgeting process that begins in September.

Role of the Board:

The board of directors will play an active role in the strategic planning process, while ensuring it does not usurp management's responsibilities. The board will:

- Initiate the strategic planning process
- Authorize the members of strategic planning task force or committee
- Participate in educational sessions about healthcare trends
- Share their opinions about the critical strategic issues facing the system
- Provide feedback on the draft strategic plan
- Approve the final strategic plan
- Help communicate the plan to key stakeholders
- Monitor progress toward the plan on a regular basis
- Authorize updating of the plan

Strategic Planning Process:

The board will initiate the planning process by approving the members of a planning task force (Task Force). The Task Force will include board members, physician leaders, and senior administration. Prior to drafting the strategic plan, the Task Force will secure input on the community's healthcare needs from key system stakeholders including the sponsoring congregation, board members, community leaders, physicians, managers, and employees.

The Task Force will also analyze relevant data and information about the system's external and internal environments. Once the Task Force has drafted the mission, values, vision, and goals, it will provide feedback opportunities for the board, physicians, and senior managers.

The Task Force will finalize the strategic plan and bring it to the board for its approval. Senior administration will then develop the tactical and financial plans and budget to support the overall strategic plan.

Plan Alignment:

All plans in the organization will be aligned with and supportive of the strategic plan:

- There will be one mission statement and vision for the future (not separate missions and visions for each department or entity).
- All plans throughout the organization (e.g., departmental plans) will be expected to support the "corporate" strategic plan.
- All financial plans (annual budgets and long-term capital plans) will be tied directly to the strategic plan.
- Individual managers' development plans and incentive compensation plans will be aligned with the strategic plan.

Plan Monitoring:

Senior management will review its implementation progress on the strategic plan monthly, at its regularly scheduled meetings.

Also, senior management will provide to the board, monthly, a one-page dashboard report on the key goals and measures in the strategic plan. The dashboard report will be included in the board packets sent out prior to the board meetings.

Time will be allotted on every board meeting agenda for discussion of strategic-level issues and plan implementation progress.

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Appendix 2

Sample Board Visioning Retreat Objectives and Agenda

(Duration: approximately 1½ days)

Overall Retreat Theme:

Vision 2017: Charting the Course

Retreat Objectives:

1. Clarify our assumptions/conclusions about the critical strategic issues for our future.
2. Draft the organization's 2017 10-year vision, aligned per pillar.
3. Draft the organization's 2017 3-year goals, per pillar.
4. Begin to identify possible 1-year strategic priorities.
5. Foster teamwork and alignment amongst key organizational leaders.
6. Confirm the next steps in the strategic planning process.

Retreat Agenda—Friday, September 29, 2006

12:00 pm	Buffet Lunch	
1:00 pm	<ul style="list-style-type: none">• Welcome/introductions/facilitator/staff roles• Invocation• Overall retreat theme/today's objectives and agenda/expectations• Overall strategic planning process and linkage	<p>CEO and Board Chair VP Mission Effectiveness Facilitator</p> <p>VP Business Development</p>
1:20 pm	Environmental assessment retreat review/definition of "burning platform"/critical strategic issues confirmation (full group discussion)	Facilitator/VP Business Development
1:50 pm	<ul style="list-style-type: none">• Vision 2017 definition and components confirmation with corporate integration (full group discussion)	Facilitator
2:05 pm	<ul style="list-style-type: none">• Educational video	
2:25 pm	Small group work on fleshing out the vision	Facilitator
4:00 pm	Small group report outs	Facilitator
4:45 pm	Summary/adjourn/prioritize for Saturday break-outs	VP Business Development
5:00–6:00 pm	Break	
6:00–6:30 pm	Reception	
6:30–8:30 pm	Dinner program/educational video	CEO/Board Chair

...continued

Sample Board Visioning Retreat Agenda (continued)—Saturday, September 30, 2006

7:00 am	Continental breakfast	
8:00 am	Welcome back/review of retreat theme, objectives, and agenda Invocation	CEO/Chief Medical Staff VP Mission Effectiveness
8:15 am	Vision 2017 review/confirmation	Facilitator
9:15 am	3-Year goal definition/educational video	Facilitator
9:45 am	Break	
10:00 am	Small group work on 3-year goals	Facilitator
11:00 am	Small group report out	Facilitator
12:00 pm	Lunch in a separate room/ Invocation	
1:00 pm	Summary and refining of goals	Facilitator
2:00 pm	Break	
2:30 pm	Discussion of 1-year priorities [Sampling of key issues]	Facilitator
3:30 pm	Summary/next steps	VP Business Development
3:50 pm	Adjourn/closing comments/evaluation	CEO/Board Chair/Chief Medical Staff
4:00–5:30 pm	Break	
5:30–6:00 pm	Reception	
6:00–8:00 pm	Dinner program/motivation videos	CEO
8:30 pm	Theatre	

Source: Advocate Christ Medical Center/Hope Children's Hospital, Oak Lawn, IL

Appendix 3

Sample Master Board Calendar

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
BOARD & COMMITTEE MEETING SCHEDULE & TOPICS	BOARD	BOARD	BOARD	BOARD: Audit Approval		BOARD: Strategic Plan Approval	BOARD		BOARD	BOARD	BOARD: Budget Approval	
	Finance Committee	Finance Committee	Finance Committee	Finance Committee	Finance Committee	Finance Committee	Finance Committee		Finance Committee: Budget		Finance Committee	
	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	Quality of Care Committee	
	Mission & Ministry Committee		Mission & Ministry Committee			Mission & Ministry Committee			Mission & Ministry Committee		Mission & Ministry Committee	
			Community Needs Committee			Community Needs Committee			Community Needs Committee			Community Needs Committee
	Audit & Compliance Committee		Audit & Compliance Committee: Audit									
EDUCATION SCHEDULE & TOPICS	Physician Competition	Audit & Compliance Update	Health Industry Trends	Internal Performance Trends	Board Strategic Planning Retreat			Financial Trends				

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